BUDGET STRATEGY PAPER

2016-17 to 2018-19

February 2016

FINANCE DEPARTMENT

GOVERNMENT OF SINDH

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ACKNOWLEDGMENT

Government of Sindh is pursuing governance reforms with the assistance of World Bank and European Union to address systematic weakness and missing links in the Public Financial Management such as credibility of the Budget, budget predictability, policy-based budgeting, transparency, predictability, accounting and reporting.

The Provincial Government, under Public Financial Management Support Progamme for Pakistan (European Union) and Sindh Public Sector Management Reform Program (World Bank), has for the second time, prepared Budget Strategy Paper 2016-17. The Budget Strategy Paper (BSP) is three year rolling plan that sets policies and priorities of the government in the medium term. The Paper offers insight into the fiscal performance of the government over the last two financial years and also of current financial year. It projects revenues and expenditures over the next three years, and sets out strategic resource allocations and lays down the underlying sub-national macro-economic assumptions.

With an aim to make budgetary process more transparent and participative and to engage elected public representative in budget formulation process well before actual budgetary proposals are firmed up, the Budget Strategy Paper is formulated and placed before the cabinet every year for its input and recommendations. After the approval by the cabinet, the document becomes the guiding policy for consolidation of budgetary proposals. The provincial government is fully committed to strengthen Public Financial Management reforms in the province to improve service delivery.

I must appreciate the hard work and dedication of the team comprising Mr. Shahmir Khan Bhutto, Reform Coordinator (ERU)/Deputy Secretary (B&E-I), Mr. Zulfiqar Mirza, PFM Expert (Budget), and Joris Endel, PFM Advisor in carrying out in depth research, compilation of data, formulation of proposals and drafting of Budget Strategy Paper 2016-17. I am also thankful to Syed Hassan Naqvi, Special Finance Secretary (B&E), for supervising the task and providing the guidance and facilitation to the team. I also take this opportunity to acknowledge the support extended by Ex-ACS, P&DD Mr. Ejaz Ali Khan, current ACS P&DD Mr. Muhammad Waseem, and Chief Coordinator P&DD, Mr.Abdul Fateh Tunio, , in finalizing the development portfolio for the BSP.

(MOHAMMAD SOHAIL RAJPUT)
Secretary to Government of Sindh
Finance Department

Karachi, dated: 13th May, 2016

EXECUTIVE SUMMARY

Finance Department, Government of Sindh, on 13.05.2016, presented Budget Strategy Paper–2016-17 to the provincial cabinet for its approval. The objectives of the paper are: to strengthen planning, budgeting and macro fiscal forecasting processes in the province that are responsive to the financial requirements of the departments/ government entities; to make budget making process participative; and to enhance transparency. The Budget Strategy Paper (BSP) is three year rolling plan that sets policies and priorities of the government. The paper outlines key macro-economic assumptions, socio-economic indicators, medium term fiscal framework, key sectorial plans, debt management, investments and financial management reforms in the province. The important section of the paper is Medium Term Fiscal Framework (MTFF), and its key elements include tax and non-tax revenues, current and development expenditure, financing and lending arrangements.

The process of preparation of Budget Strategy Paper starts with review of existing policies of government and determination of the future requirements of departments with focus on service delivery and development needs of the province. After the priorities are identified and proposals firmed up in a consultative process amongst the government departments, the Paper is drafted and presented to provincial cabinet for its input, recommendations and approval. The BSP, after its approval by the cabinet, becomes the guiding policy document for consolidation of budgetary proposals. This is a leap forward in the realism of transparency in the formulation of fiscal policy, embodying the spirit of participation and ownership of the stakeholders.

As per BSP, revenue of the province, comprising federal transfers, and provincial own tax and non-tax receipts, is expected to shrink by 6.23% during current financial year. The shortfall is mainly expected in revenue assignments and provincial non-tax receipts. Over the next three years, the revenues of the province are expected to grow at 15% per annum– with growth of 16% in Revenue Assignment, 10% in Straight Transfers, 34% in federal PSDP, and 15% in provincial tax revenues. Given the revenue mobilization efforts of the provincial government, the share of provincial own revenues in total revenues during the current financial year and also in next three years would rise to 21%, up from 17.2% in 2013-14.

The total expenditure of the province (excluding investments and repayment of loans) is expected to shrink by 5.6% against the budget estimates during the current financial year, with development expenditure diminishing by 19% and the Current Revenue Expenditure by a less than half a percentage point. Over the next three years, the total expenditure of the Province is projected to annually grow at 13% on the revised estimates of current financial year, with development expenditure growing at 20% and current revenue expenditure at 11%. The share of non-salary expenditure in total current revenue expenditure, has risen to 44% in current financial years, and it is further expected to rise to 45% during next three years, up from 35% in 2013-14. This indicates healthy paradigm shift in allocative efficiency of provincial finances with funds flowing towards deficient areas to improve service delivery.

The Budget Strategy Paper (BSP) highlights key challenges and the government's response through the budget, which articulates the government's spending priorities (Current, capital, and development), and determines measures to enhance fiscal space for new policies.

1 Introduction

The Budget Strategy Paper (BSP) is a three year rolling plan that sets policies and priorities of the government in the medium term. The Paper presents the fiscal performance of the government over the last two financial years and provides insight into the fiscal performance of current financial year. The BSP projects estimates of provincial receipts and estimates of development and non-development expenditures over the next three years. The paper also sets out strategic resource allocations and lays down the underlying sub-national macro-economic assumptions. Budget Strategy Paper is a vital document that gauges the extent of the ownership and participatory spirit in the realm of financial policy formulation.

The main elements of the Budget Strategy Paper are: the social and economic developments in Sindh including macro-economic assumptions, and socio-economic indicators; medium term fiscal framework providing forecasts of revenue, expenditure and the fiscal balance; short term financing arrangements and details of the current debt; performance on investments and fund management; presentation of the status of ongoing public financial management reforms. In brief, the paper presents government's policies, priorities, and strategic allocation of resources, in the medium term fiscal framework.

2 Social and Economic Developments in Sindh

2.1 Economic Developments

Home to 45.988[1] million inhabitants (2015), Sindh is the second largest province, with 24 percent of the total population and 17.7 percent of total land area of Pakistan. As an industrial, commercial and financial hub of Pakistan, Sindh plays a pivotal role in the national economic and development agenda. Endowed with coastal access, Sindh is a major center of economic activity in Pakistan and has a highly diversified economy, ranging from heavy industry, manufacturing, services sector and agriculture. The most of growth in the provincial economy can be attributed to the services sector, followed by the industry. The province has two seaports, handling bulk of country's exports and imports, and its vibrant stock exchange and the most resilient business community have been the driving force behind country's industrialization.

Gross Domestic Product

Sindh contributes 29.51% in national GDP, of which Rural Sindh contributes 35.9%2. The national Gross Domestic Product in 2015 is estimated at US$289.86 billion3, of which share of Sindh amounts to US$85.537 billion. Based on this, per capita income in Sindh is estimated at US$1,860 (US$2128 Urban; US$1451 Rural), that is much higher than national per capita income of US$1513. The contribution of Agriculture, Industry and Service sectors towards Gross Provincial Product (GPP) of the province stands 17%, 36% and 47% respectively4. Karachi itself generates 25 percent of the national GDP and about 42 percent of the value added in Large Scale Manufacturing. The province contributes 60 percent to the overall Federal Revenue – with 65 percent in the Sales Tax, 84 percent in the Custom Duties, 51% in Income Tax and 35 percent in Central Excise Duty.

Labour Force

The labor force in Sindh is estimated at 14 million including 11.84 million males and 2.15 million females: the labour force in rural and urban areas is estimated at 7.69 million and 6.3 million respectively[5]. The rate of unemployment in Sindh stood at 4.2% percent, which is lower than national average of 6%; the unemployment rate in rural areas is lower (2.3%) than urban areas (6.5%) and the same is lower for males (3.6%) than females (7.44%)[6]. Agriculture, despite its declining share, is the largest employer with 41% labour force in the province, while manufacturing sector employs 14%, wholesale and retail trade 16%, construction 7.4%, and transport and storage 5.68%[7].

Agriculture

Agriculture in Sindh faces high degree of fluctuations and variations in annual output because of dependence on water availability and climatic conditions. Being the lower riparian, the flows into the canals and distributaries are erratic and unpredictable. In the last few years, the province has also been hit by natural disasters such as floods. However, in the national context, 15-17 percent of Pakistan's Wheat, 33-45 percent

of Rice, 23 percent of Cotton and 25 percent of Sugarcane are produced in the province[8].

Natural Resources

Sindh's natural resources, such as oil, Gas and Coal have not yet been fully exploited. In a country, facing acute energy shortages, the substitution of country's own natural resources over imported fuel oil needs to take priority. The provincial Government has made significant investment and involving private sector to exploit the potential of Thar Coal; however, the fruits of such investments are yet to materialize.

Fiscal Position

Sindh's public finances have improved considerably since the 2009 NFC award. The General Provincial Revenue in FY 2014-15 stood at Rs.536.7 billion, of which 80% were transfers from the Federal Divisible pool, straight transfers and grants, and remaining 20% were collected as Provincial taxes and non-tax revenues. Total Expenditure in FY 2014-15 stood at Rs.529.6 billion –75% was non-development expenditure and 25% development expenditure.

2.2 Social Indicators

The province continues to grapple with low level of human development: low literacy level; poor health indicators; inadequate access to safe drinking water and sanitation; poverty and hunger; and regional, gender and income disparities, characterize our social underdevelopment. The table below shows comparison of social indicators in Pakistan and the four provinces:

Table 1: Human Development Index Indicators

	Pakistan	Punjab	Sindh	KPK	Baloch
Health					
Maternal mortality rate per lac live birth (2012-13) [9]	276	227	314	275	785
Infant mortality rate per 1000 live births, urban 45 & rural 74, (2012-13) [10]	74	88	74	58	97
Mortality rate for children under-five per thousand live births in 2012-13[11]	89	105	93	70	111
Water & Sanitation (percentage)					
Access to improved water resources 2011-12[12]	89	95	90	71	62
Access to sanitation facilities (2011-12)[13]	72	78	61	71	37
Education (percentage)					
Overall Literacy Rate **(**2014-15)[14]	58	61	56	53	42
Net Enrollment Rate at primary level (5-9 years) 2013-14[15] (%)	57	64	48	54	39
Population aged 10 and above ever attended school (2013-14)[16] (%)	60	64	56	54	43
Rate of completion of primary and secondary level 2013-14[17] (%)	49	53	48	42	33
Poverty (per thousand)					
The prevalence of underweight children under age five (2011-12)[18]	31.5	29.8	40.5	24.1	39.6

Health

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. Though Sindh's major health indicators have shown some improvement since 2006-07, they still remained short of MDG targets by 2015: Infant Mortality Rate stood at 74 per thousand lives in 2012-13, compared to MDG target of 40; Maternal Mortality Rate stood at 314 per lac live birth in the same year vis-à-vis the MDG target of 140. The rate of fully immunized children, aged between 12-24-months, in 2013-14, stood at 61% in Sindh (based on record and recall) – much less than Punjab and KPK, but only better than Baluchistan. Pre-natal and post-natal consultancy coverage rates in Sindh are slightly better than national coverage. The contraceptive prevalence is lowest in Sindh as compared to Pakistan, Punjab, and KPK: only 25% of married women in Sindh use contraceptives. While the rate of skilled birth attendance is highest in Sindh as compared to the other provinces.

Water and Sanitation

Inadequate availability of safe drinking water and sanitation facilities adversely affect the health of the population, especially mothers and children. In Sindh, the access to improved water resources was available to 90% population compared to 89% in Pakistan, 95% in Punjab, 71% in KPK and 62% in Baluchistan in 2011-12. In the same year, 61% population, in Sindh, had access to sanitation facilities, comparing 72% in Pakistan, 78% in Punjab, 71% in KPK and 37% in Baluchistan[19].

Education

As per Economic Survey of Pakistan 2014-15[20], Sindh's literacy rate strangely declined from 60% in year 2012-13 to 56% in 2013-14, which is less than national average (58%) and Punjab (61%). There exists regional and gender disparities in the level of attainment of education in populace. The literacy rate in urban population of 10 years and above is 72 percent compared to only 37 percent of their rural compatriots. The female literacy rate among urban population is 63 percent – almost three times higher than that of the rural households that is as low as 21 percent. The net primary enrollment rate (5-9 years) in 2013-14 stood at 48% in Sindh as compared to the national average of 57% and 64% for Punjab21. Likewise, our gross enrollment rate in 2013-14 stood at 76%, which again was much below national average (90%) and Punjab (100%)22. In 2013-14, 56% population aged 10 and above in Sindh had ever attended school as compared to 60% in Pakistan, 64% in Punjab, 54% in KPK and 43% in Baluchistan23. The rate of completion of primary and secondary level in Sindh stood at 48% in year 2013-14 as compared to 49% in Pakistan, 53% in Punjab, 42% in KPK and 33% in Baluchistan24. Besides, the issue of access, the quality of instruction particularly in government schools is less than satisfactory, the teachers' attendance is poor and their commitment to their profession is lacking. There is a dearth of basic facilities like science labs, library, play, electricity, toilets, boundary walls etc. in a large number of schools.

Female literacy rate in 2013-14 stood at 43% in Sindh, 4% less than the national average (47%) and 9% less than Punjab (52%), but 7% better than KPK (36%) and 18% better than Baluchistan (25%)[25]. The urban female literacy rate in Sindh is better than KPK and Baluchistan, while rural female literacy rate is only better than Baluchistan. The number of female students in Sindh in the same year at primary, secondary and college level was much less than male students in the respective cohorts. Gender Parity Index (GPI) in Sindh for primary, secondary and youth education in year 2013-14 stood at 0.81, 0.84 and 0.77 respectively as compared to national GPI of 0.88 for primary, 0.84 for secondary and 0.80 for college[26]. Only 44% of female population of Sindh aged 10 and above in 2013-14 had ever attended school as compared to 49% in Pakistan, 55% in Punjab, 37% in KPK and 25% in Baluchistan[27]. The female gross primary enrollment rate in the same year stood at 67% in Sindh, which is much less than 87% for male students[28]. Only 37% female students in Sindh completed primary or secondary level in 2013-14 compared to 40% in Pakistan, 46% in Punjab, 28% in KPK and 18% in Baluchistan; only 15% female students in rural areas completed primary or secondary level in the same year compared to 56% in urban Sindh[29]. The share of women in wage employment in non-agriculture sector in 2010-11 was lowest in Baluchistan (2.32%), followed by KPK (6.54%), Sindh (7.33%) and Punjab (13.25%)[30].

Poverty

The proportion of population below minimum level of dietary energy consumption in 2001-02 was highest in Baluchistan (49.7%), followed by Sindh (40%), Punjab (36.4%) and KPK (27.1%)[31]. In the same year, the proportion of population below the caloric based food plus non-food poverty line was also highest in Baluchistan (48%), followed by Sindh (31%), KPK (29%) and Punjab (26%); it may be mentioned that the proportion of population below the caloric based food plus non-food poverty line at the national level decreased from 34.5% in 2001-02 to 12.4% in 2010-11[32]. The prevalence of underweight children under age five in 2011-12 was highest in Sindh (40.5 per thousand in Sindh) followed by Baluchistan (39.6), Punjab (29.8), and KPK (24.1)[33]. The employment opportunities alleviate poverty. In year 2010-11, employment to population ratio in Sindh stood at 31% compared to 30.9% in Pakistan, 33.1% in Punjab, 24.3% in KPK and 24.5% in Baluchistan[34].

Inequality

Inequality is measured through Gini Coefficient; its value ranges from 0 to 1 i.e. from perfect inequality to perfect equality. Inequality in Sindh increased from 0.3082 in 1998/99 to 0.2825 in 2010-11, and inequality in rural areas (0.2371) is more pronounced than the urban areas (0.3124) in Pakistan[35]. Inequality manifests every sphere of life i.e. lack of access to health facilities, schools, drinking water, sanitation facilities, nutrition/food, job opportunities and justice. For instance, both males and female students' participation rate

in higher income groups is higher than lower income groups[36]. The urban areas have higher rate of school participation for both males and females and also higher rate of completion of primary or secondary level than rural areas. Only 30% students in rural Sindh completed primary or secondary level in year 2013-14 as compared to 64% compatriots in urban areas[37].

Disparities across Regions and Districts

There exist significant income disparities between rural and urban areas. Inequality among households in rural areas is also high[38]. According to SPDC, not only is the inequity very pronounced, especially in Baluchistan and Sindh, but it has shown an increasing tendency over the last two decades to move towards greater inequity[39]. As per head count index in 2010-11, the incidence of poverty in rural Sindh was 43.18%, which was higher than the national average of 39%[40]. Multidimensional poverty incidence is highest in Baluchistan province, where about 75 percent rural population is multi-dimensionally poor, followed by rural Sindh with an estimate of 57 percent as compared to 44% in Pakistan[41].

Also vast disparities exist across the districts in Sindh in provision of access to education, health services, clean drinking water and sanitation facilities. Social Indicators and provision of facilities in predominantly urban districts are far better than rural districts in Sindh. Details about the disparities across districts are presented in annex 1.

Natural Disasters

The lack of preparedness to cope with natural disasters has taken its toll further adding to the miseries of people of Sindh. The unprecedeted floods in 2010 wrought destruction to public and private property, displacing people, disrupting schools, spreading diseases and depriving thousands of people of their livelihood. As per preliminary estimates, 11 percent of public healthcare infrastructure and 5,655 primary schools in the province suffered partial or complete physical destruction[42]. Paksitan has witnessed spate of terrorism disturbing life in major urban centers especially Karachi since 9/11. Besides, political polarization i.e. urban-rural divide is more pronounced in Sindh, which is cause of political instability and violence.

Public Sector Reform to improve service delivery

In order to improve service delivery, Government of Sindh has embarked upon public sector reforms in public financial management, education and health sector to improve governance, access and quality of service delivery. Through public private partnership policy, private sector and non- governmental organizations have been involved in service delivery, especially in health and education sectors.

3 Medium Term Fiscal Framework

The Medium Term Fiscal Framework provides the details of receipts and expenditure in the multiyear perspective, including actual receipts and expenditures accrued in previous two years, budget and revised estimates for Current Financial Year and projections over next three years.

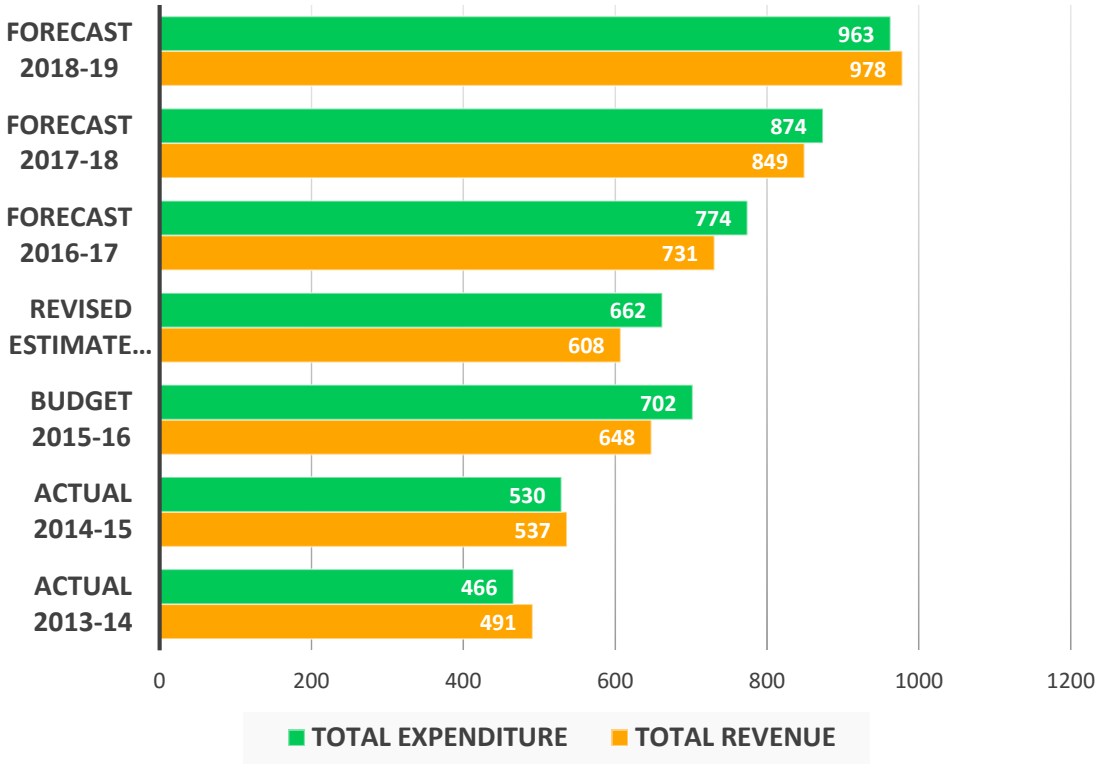
The previous trend, especially of the last two financial years, indicate total revenue of the province declining, against the budget estimates, by 8.4% in year 2013-14 and 13.7% in year 2014-15; more so of total expenditure dropping by even higher percentile of 20.4% in 2013-14 and 18.7% in 2014-15 – turning deficit budgets into surplus cash balances. Because of delayed execution of projects – partly for lack of project management capacity and partly for belated releases – this trend is likely to continue in near future, till the reforms initiated for improved planning, budgeting, forecasting techniques for cash flow management, and project management capacity, bear fruits. Therefore, in the medium term – except FY 2018-19 – an operational deficit, total revenue minus total expenditure, is forecasted since projected revenue fall short of the expenditure demand. The negative operating balance is reduced each year and turns positive in 2018-19. The net lending items (balances of the food account and the public account are slightly positive, but the fiscal balance (operating balance minus net lending items) shows the same trend as the operating balance is negative for the period 2016-18 but turns positive in 2018-19.

The following table (Table-2) shows the figures of Medium Terms Fiscal Framework.

Table 2: Sindh Medium Term Fiscal Framework *(Rs. in billion)*

Description	Actual 2013-14	Actual 2014-15	Budget 2015-16	Revised Estimate 2015-16	Forecast 2016-17	Forecast 2017-18	Forecast 2018-19
TOTAL REVENUE (A=B+C)	**491.3**	**536.7**	**647.8**	**607.5**	**730.8**	**849.1**	**978.4**
Federal Transfers (B)	**406.8**	**433.7**	**503.7**	**481.4**	**578.7**	**669.1**	**775.4**
Revenue Assignment	302.3	341.3	421.2	400.0	479.7	561.2	656.7
Straight Transfers	81.4	63.2	61.5	61.5	67.7	74.4	81.9
Development Grants (PSDP & Foreign)	14.9	20.0	9.7	9.7	20.0	21.1	23.2
Other Grants (OZT)	8.1	9.3	11.3	10.2	11.3	12.4	13.6
Provincial Revenue (C)	**84.6**	**103.0**	**144.1**	**126.1**	**152.1**	**180.0**	**203.0**
Sales Tax on Services	39.4	49.4	61.0	61.0	78.0	100.0	115.0
Other Tax Receipts	39.5	44.4	63.6	53.1	61.1	66.0	73.0
Non-Tax Revenue	5.6	9.2	19.5	12.0	13.0	14.0	15.0
TOTAL EXPENDITURE (D=E+F)	**466.3**	**529.6**	**702.0**	**662.3**	**774.5**	**873.8**	**962.9**
Current Revenue Expenditure (E)	**337.7**	**393.2**	**503.3**	**501.3**	**560.5**	**620.7**	**687.7**
Employee related expenses	181.7	192.9	232.2	222.0	252.1	277.4	305.1
Pension payments	37.4	42.3	46.0	49.0	56.0	61.6	67.8
Operating and Maintenance Expenses	43.2	60.7	105.9	108.2	119.0	130.9	144.0
Grants, Subsidies and write off loan	59.5	79.9	98.8	101.4	108.3	124.6	143.3
Interest	13.2	13.9	13.6	13.6	13.6	13.6	13.6
Physical Assets, Project Pre-Investment	2.7	3.4	6.9	7.0	0.4	0.4	0.5
Discretionary Space / SNE	-	-	-	-	11.0	12.2	13.5
Development Expenditure (F)	**128.6**	**136.4**	**198.7**	**161.0**	**214.0**	**253.1**	**275.2**
Provincial ADP	107.5	113.1	162.0	139.4	182.0	220.0	240.0
On-going	64.6	78.6	*106.2*	*90.7*	*125.5*	*154.0*	*168.0*
New Schemes	*23.2*	*19.6*	*35.8*	*28.7*	*31.5*	*38.5*	*42.0*
District ADP /[1]	*19.8*	*14.9*	*20.0*	*20.0*	*25.0*	*27.5*	*30.0*
Federal PSDP	13.0	16.5	9.7	9.7	20.0	21.1	23.2
Foreign Projects Assistance	8.1	6.8	27.0	12.0	12.0	12.0	12.0
OPERATING BALANCE (G)	**25.0**	**7.1**	**-54.2**	**-54.8**	**-43.7**	**-24.6**	**15.5**
NET LENDING ITEMS (H)	**7.7**	**13.1**	**6.9**	**13.1**	**7.0**	**2.0**	**2.0**
Net Food Account - State Trading	-9.4	-20.0	-5.8	-20.0	-20.0	-20.0	-20.0
Net Public Account	17.1	33.1	12.7	33.1	27.0	22.0	22.0
FISCAL BALANCE (I=G+H)	**32.7**	**20.2**	**-47.3**	**-41.7**	**-36.7**	**-22.6**	**17.5**
FINANCING (J=K+L+M)	**-24.4**	**7.2**	**28.7**	**26.4**	**17.8**	**20.1**	**22.7**
Net Capital Receipts and Expenditure (K)	**-9.9**	**-1.2**	**21.7**	**3.7**	**-2.2**	**0.1**	**2.7**
General Capital Receipts	9.3	13.7	32.0	21.0	23.1	25.4	28.0
Current Capital Expenditure	-22.5	-15.1	-22.3	-22.3	-22.3	-22.3	-22.3
Viability Gap Fund	-3.4	-6.0	-15.0	-7.0	-15.0	-15.0	-15.0
Foreign Projects Assistance	6.8	6.3	27.0	12.0	12.0	12.0	12.0
Carry Over Cash Balance (Opening) (L)	**-14.5**	**8.4**	**7.0**	**22.7**	**20.0**	**20.0**	**20.0**
CLOSING BALANCE (N=I+J)	**8.4**	**27.4**	**-18.6**	**-15.3**	**-18.9**	**-2.5**	**40.2**

Figure 1: Total Provincial Revenues & Expenditure (*Billion Rs.)*



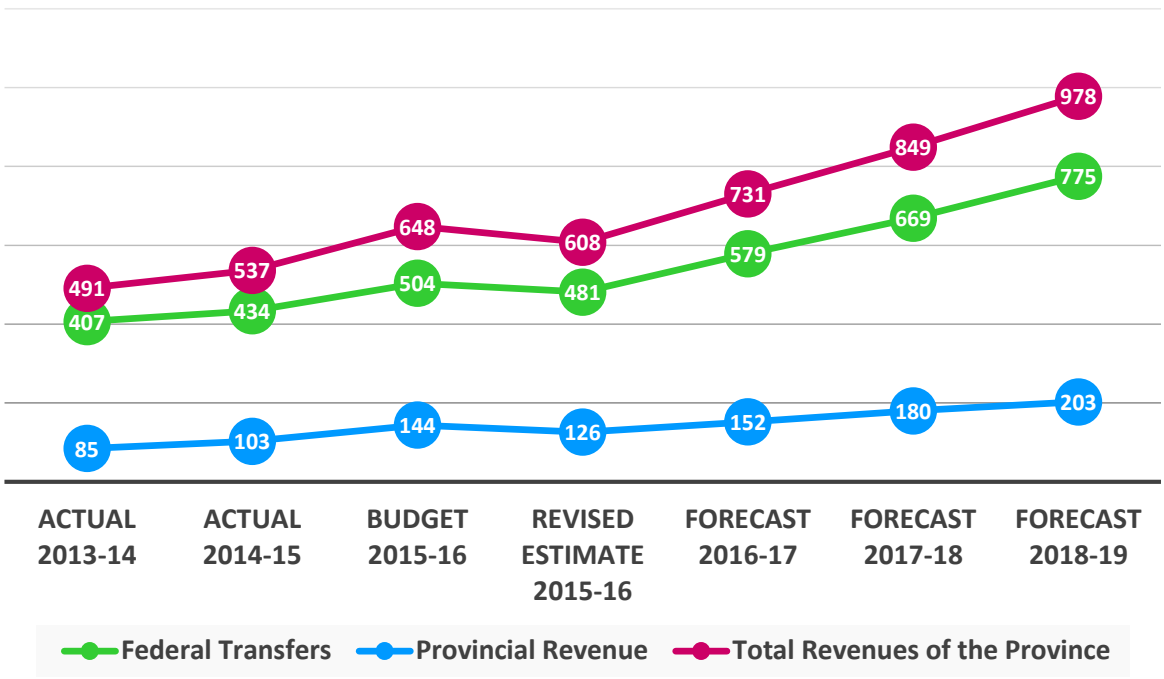
4 Revenues of the Province

Revenue of the province comprises federal transfers and provincial own tax and non-tax receipts. It witnessed shortfall of 8.4% in year 2013-14 and 13.7% in year 2014-15, against the budget estimates. The variation is mainly attributable to shortfall in federal transfers, provincial own tax and non-tax revenues, and federal developmental grants. Others factors contributing to shortfall in revenues include the sluggish economic growth rate, inefficiencies in tax administration and tax collection, and ban on disposal of government land.

In the Current Financial Year 2015-16, the revenue of the government is expected to witness decline of 6.23%, compared to the budget estimates. The over the next three years, the revenue of the province is expected to grow at the annual accumulated growth rate of 15% – with growth of 16% in Revenue Assignment, 10% in Straight Transfers, 34% in federal PSDP, and 12% in provincial revenues.

The graph below shows trend of gross provincial revenues (Federal transfers and provincial revenues) for actuals for FY 2013-14 and 2014-15, Budget and Revised Estimates of CFY and projections for the next three years.

Figure 2: Total Revenues of the Province (Rs. in Billion)



The revenue transfers from federal divisible pool, straight transfer and grants constituted 82.8% of total provincial revenues in year 2013-14 and 80% in year 2014-15. While in current financial year and over the period of next three years, share of federal transfers would be around 79% of total provincial revenue receipts. While the efforts are in place to reduce dependence on federal transfers with focus on own resource generation through Sindh Tax Revenue Mobilization Plan, the province would still largely depend on federal transfers given the limited scope of provincial taxes.

4.1 Federal Transfers

Federal Transfers comprises of the revenue assignment, straight transfers, PSDP related development grants and OZT grants. The table, below, provide insight in the Federal Transfers:

Table 3: Federal Transfers (Rs. Billion)

Description	Actual 2013-14	Actual 2014-15	Budget 2015-16	Revised Estimate 2015-16	Forecast 2016-17	Forecast 2017-18	Forecast 2018-19
Federal Transfers (B)	**406.8**	**433.7**	**503.7**	**481.4**	**578.7**	**669.1**	**775.4**
Revenue Assignment	302.3	341.3	421.2	400.0	479.7	561.2	656.7
Straight Transfers	81.4	63.2	61.5	61.5	67.7	74.4	81.9
Development Grants (PSDP & Foreign)	14.9	20.0	9.7	9.7	20.0	21.1	23.2
Other Grants (OZT)	8.1	9.3	11.3	10.2	11.3	12.4	13.6

Revenue Assignment

Revenue Assignments refers to those federal transfers to the provinces that form part of federal divisible pool taxes. The divisible pool taxes comprise of tax on income, sales tax, central excise, custom duties, wealth tax, and capital value tax. These taxes are collected by the Federal Government, and are distributed between Federal Government and Provincial Governments (vertical distribution),

and also among the provinces (horizontal distribution) as per formula determined by the National Finance Commission. Article 160 of the Constitution of Islamic Republic of Pakistan lays down the provision for the establishment of NFC at a regular interval of every five years. National Finance Commission comprises Federal and Provincial Finance Ministers and other persons appointed by the President.

The 7th NFC was an historical achievement, breaking the status quo of sole criterion of population for resource distribution among the provinces – that remained the case with all six NFC Awards under 1973 constitution. All the four provinces unanimously agreed on a multiple criteria, based on population, backwardness, geographic size, and revenue collection/generation. Another landmark achievement of the 7th NFC Award for Sindh was the right of collection of sales tax on services. The Provincial Government also managed to get the right to receive service taxes, which were till then collected by the Federal Government erroneously in the excise mode, thus depriving the provinces of their due shares of this tax. The Government of Sindh established a separate department, Sindh Revenue Board (SRB), for the collection of Sales Tax on Services during 2011-12. Besides, setting out multiple criteria for resource distribution amongst the provinces, the 7th NFC Award reduced collection charges to just 1 percent from the previous level of 5 percent, further boosting the real transfers to the provinces from the divisible pool.

The vertical distribution of federal divisible pool for the first year of the Award (2010-11) between Federation and Provinces was fixed at 44% for federation and 56% for provinces, and for the remaining period of award from 2011-12 to 2014-15, the share of the federation and provinces was fixed at 42.5% and 57.5% respectively. Horizontal distribution of the provincial allocable amount for the 7th NFC Award was determined as under:

Table 4: Provincial Share

Province	Relative Share
Punjab	51.74%
Sindh	24.55%
Khyber Pakhtunkhuwa	14.62%
Baluchistan	9.09%

The weightage assigned to multiple criteria in the 7th NFC Award for distribution of provincial allocable amount of divisible pool among the provinces, is as follows:

Table 5: NFC Award Formula

Criteria	Relative Share
Population	82.0%
Poverty	10.3%
Revenue Generation	5.0%
Inverse Density Population	2.7%

The life of the 7th NFC Award was to expire on 30th June 2015, but the same was extended by the Federal Government for financial year 2015-16; therefore, transfer from federal government of revenue assignment, are projected on the basis of the 7th NFC Award, keeping in view the historical trend.

The revenue assignment, the Federal Transfers out of federal divisible pool, is a single most important contributor towards provincial revenues, accounting for 75-85% of all the federal transfers to the province. The provincial government received Rs.302.3 billion in 2013-14, 9.2% less than budgeted allocations, and Rs. 341.3 billion in 2014-15, 10.5% less than budget estimates. In current financial year, Rs.400 billion is anticipated as per revised estimates, which is 5% less than budgeted allocation.

For next financial year 2015-16, revenues out of divisible pool taxes is projected at Rs.479.7 billion – that is 20% higher than revised estimates, or 14% higher than budget estimates of current financial year– and for the next two years, these receipts are expected to grow at the annual accumulated growth rate of 17%.

Straight Transfers

The straight transfers are the net proceeds of the Federal duty of excise on natural gas, development surcharge on gas and the royalties on natural gas/oil. Under the Article 161 of Islamic Republic of Pakistan, these duties and royalties are not part of the Federal Consolidated Fund, hence these are rights of the province where well-head of natural gas/oil is situated. These are provincial receipts, which are collected by the Federal Government and transferred to Sindh, after deduction of 2% collection charges.

Straight transfers from federal government – including net proceeds of federal excise on gas, development surcharge on gas, royalties on crude oil and natural gas – witnessed significant growth of 21% over budget estimates in years 2013-14, offsetting to some extent the shortfall in transfer of divisible pool taxes. Conversely, the straight transfers registered 23.5% decrease in financial year 2014-15, following the change in the pricing mechanism by the federal government. In current financial year, straight transfers are anticipated to remain at the budgeted level of Rs.61.5 billion, while for next three years they are projected to grow at annual accumulated growth of 10%.

Development Grants (PSDP & Foreign Grants)

Development Grants (PSDP & foreign Grants) consist of transfers from federal government on account of Federal funded projects and donor grants for development projects implemented by the provincial government. The allocations for development grants are kept in Federal Public Sector Development Program (PSDP). In years 2013-14 and 2014-15, Transfers on account of development grants (PSDP & Foreign Grants) remained at Rs.14.9 Billion and Rs.20.0 Billion indicating 2.85% decrease in 2013-14 and 11% decrease in 2014-15. In current financial year, allocations under development grant (PSDP & Foreign Grants) have been kept at Rs.9.7 billion indicating 57% decrease against previous allocation of Rs.22.5 billion. For the next financial year 2015-16, development grants are projected at Rs.20.0 billion growing at the rate of 10% annually over next two years.

Other Grants

Other grant from federal government is OZT grant received at the rate of 0.66% of Provincial allocable amount to offset the losses of the abolition of OZT Grant. Provincial government received Rs.8.1 billion in 2013-14 and Rs.9.3 in 2014-15 and in current financial year, the province is expected to receive Rs.10.2 billion, which if continued in the next NFC Award, are projected to increase at annual accumulated growth rate of 10%.

Figure 3: Federal Transfers

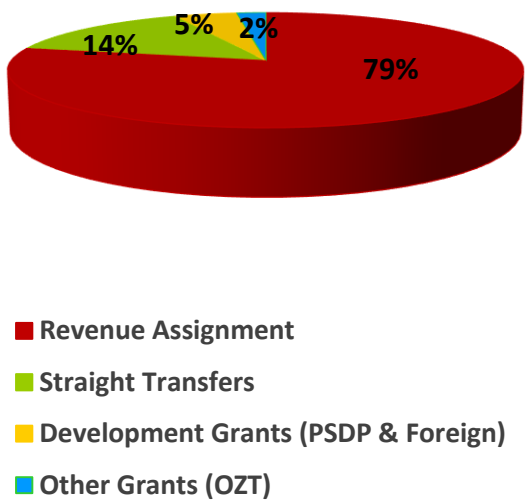
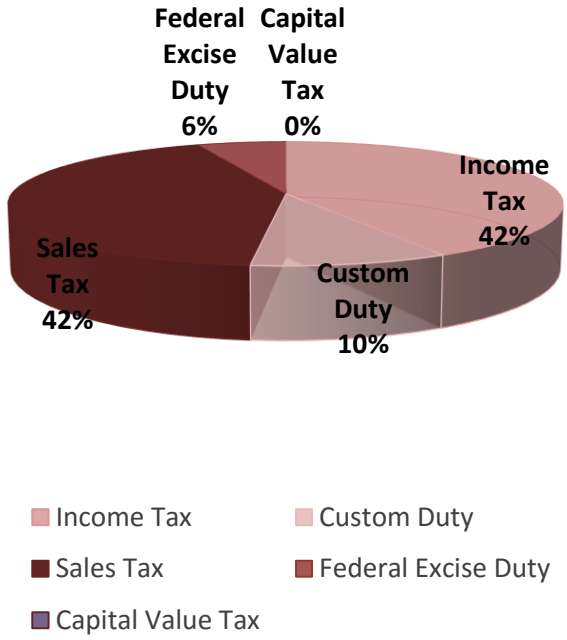


Figure 4: Revenue Assignment



4.2 Provincial Own Revenues

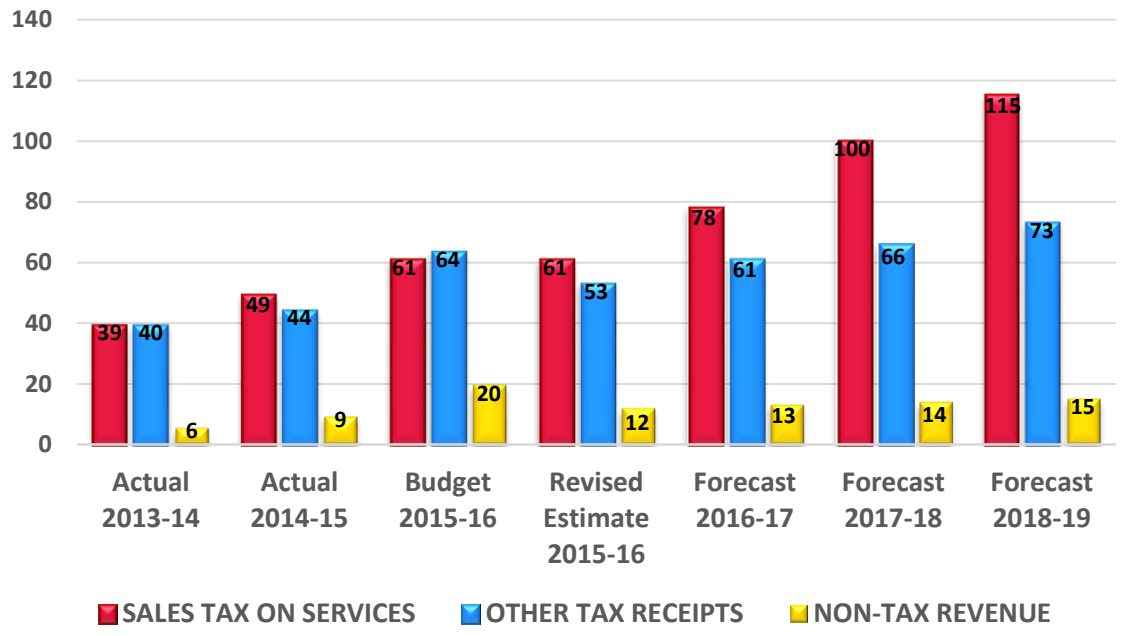
Provincial own revenues include tax and non-tax receipts. Major Provincial Tax receipts include sales tax on services, infrastructure development cess, stamp duty, registration, provincial excise, motor vehicle, capital value tax, agriculture income tax, cotton fee, and electricity duty. Major Non-Tax receipts include sale proceeds of government land, interest income, fees/charges from education, health, works, police, irrigation, mines and minerals, extraordinary and miscellaneous receipts.

The provincial government collected Rs.84.6 Billion from its own sources in year 2013-14, which was 25% less than budget estimates, while in year 2014-15, Rs.103 Billion was collected indicating increase of 22% over previous year collection, but 18% less than budget estimates. The provincial own source revenues are projected to grow at the annual accumulated growth rate of 17% on revised estimates this year - with sales tax growing at a 24%, other taxes' revenue at 11% and non-tax revenue at 8%.

Table 6 Provincial Revenue (Billion Rs.)

Description	Actual 2013-14	Actual 2014-15	Budget 2015-16	Revised Estimate 2015-16	Forecast 2016-17	Forecast 2017-18	Forecast 2018-19
Provincial Revenue	**84.6**	**103.0**	**144.1**	**126.1**	**152.1**	**180.0**	**203.0**
Sales Tax on Services	39.4	49.4	61.0	61.0	78.0	100.0	115.0
Other Tax Receipts	39.5	44.4	63.6	53.1	61.1	66.0	73.0
Non-Tax Revenue	5.6	9.2	19.5	12.0	13.0	14.0	15.0

Figure 5: Provincial own Revenues (Rs. in Billion)



Sales Tax on Services

Sales tax on services is the largest contributor to provincial own source revenues. In year 2013-14, sales tax on services collections amounted to Rs.39.4 billion that accounted for 46.6% of total provincial own source revenues, and in year 2014-15, the proportion of sales tax on services further increased to 48%, with collection of Rs.49.4 billion. In current financial year, it is expected that target of Rs.61 billion for collection of sales tax on services will be achieved; for next two years, the revenue from sales tax on services is projected to grow at the annual accumulated growth of 28%, as envisaged under Sindh Tax Revenue Mobilization plan, and for third year i.e. 2018-19, the growth rate is projected at 15%. The contribution of sales tax on services towards provincial own source revenue would increase to 56% in next three years. It is worth mention that the revenue from sales tax on services have witnessed robust growth rate of 30% ever since transfer of collection rights to the province government in year 2011-12.

Infrastructure Development Cess

Infrastructure Development Cess is the second largest contributor to provincial own source revenues. The Cess is levied and collected at 0.9% to 0.95% on cost and freight value of a consignment of goods entering the province from outside the country through air or sea and on its movement. In years 2013-14 and 2014-15, collections on account of Infrastructure Development Cess amounted to Rs.22.4 Billion and 25.0 Billion respectively, which on average accounted for 25% of total provincial own sources revenues. In current financial year, it is expected that the collection target of Rs.28 billion of Infrastructure Development Cess, will be surpassed, and for next three years, the revenue from Infrastructure Development Cess is anticipated to grow at the annual accumulated growth of 12%.

Agriculture Income Tax

The collections of Agriculture Income Tax and Land revenue remained at Rs.469.5 million in year 2013-14, and Rs.518.7 million in year 2014-15 – accounting for only 0.5% of total provincial own revenue sources. Given the structure of Sindh economy, 17% of Gross Provincial Product is contributed by Agriculture Sector, of which share of Livestock and Fisheries amounts to 55%. The contribution of crops production towards Gross Provincial Product is only 7.65%, amounting to US$6.5 billion. Sindh's 43% population depends on agriculture income – with per capita crop income amounting to US$315.0. This combined with income from livestock and fisheries, average per capita income of population dependent on agriculture, in Sindh, amounts to US$700 – this is much less than national per capita income of US$1,513. Thus, Sindh's Agriculture Income Tax potential is relatively

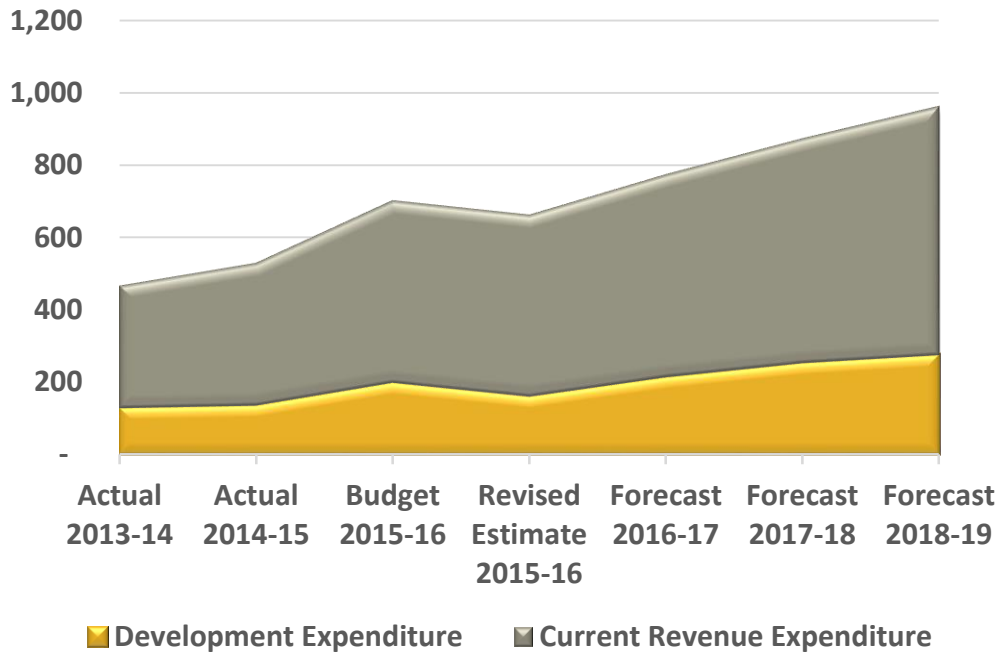
low. A proposal for better utilizing the potential of agriculture income tax is presented in the annexes.

Other Provincial Own Revenue
Stamp duty, motor vehicle tax, provincial excise, capital value tax and property tax contribute another 18% to provincial own source revenues, and remaining 9% of provincial own source revenue come from sale proceeds of government land (extraordinary receipts of BOR), tax on agriculture income, land revenue, professional tax, cotton fee, electricity duty, other tax receipts and non-tax receipts.

5 Expenditure of the Province

The total expenditure of the province, excluding debt repayment and investments, registered decline of 20.4% in 2013-14 – with actual expenditure of Rs.466.3 billion against budget estimates of Rs.586 billion. Almost similar trend followed in 2014-15, when the expenditure dropped by 18.7%, actualizing at Rs.529.6 billion against budget estimates of Rs.651.4 billion. The major variation was seen in development expenditure, with actual expenditure recording (-) variance of 44% in 2013-14 and 36.6% in 2014-15, vis-à-vis the budget estimates. The actual Current Revenue Expenditure witnessed (-) variance of 5% and 10% against budget estimates of 2013-14 and 2014-15 respectively.

Figure 6: Total Expenditure of the Province (*Rs. in Billion)*



The total expenditure of current financial year, excluding current capital expenditure, is anticipated to slide by 5.6% to Rs.662.3 billion from budget estimates of Rs.702 billion. Continuing the previous trajectory, the development expenditure is anticipated to shrink by 19% during current financial year from budgeted amount of Rs.198.7 billion to Rs.161 billion. However, the Current Revenue Expenditure is expected to remain within the budgeted limits of Rs.503.3 billion – at Rs.501.3 billion in the revised estimates.

The shortfall in provincial revenues mainly upset provincial development expenditure and investments; whereas the current revenue expenditure, mainly comprising salaries, pension, grants and operating expenses, remains inflexible in spite of volatility of or fluctuations in revenues.

Over the next three years, the total expenditure of the Province, excluding current capital expenditure, is projected to grow at annual accumulated growth rate of 13% on the revised estimates of current

financial year – with development expenditure and current revenue expenditure growing at 20% and 11% respectively. The graph above shows trend of total provincial expenditure, current revenue expenditure, and development expenditure of the province of previous two years, budget and revised estimates of CFY and projections for the next three years.

5.1 Current Revenue Expenditure

Current Revenue Expenditure – non-development expenditure – comprises employees related expenses (salaries), employees retirement benefits (pension and gratuity), operating expenses, grants and subsidies, interest payments, transfer payments, physical assets, civil works, and repair maintenance expenses. It accounts for 71% of total expenditure of the province (revenue and development). Table-8 below shows major object wise details of Current Revenue Expenditure of FY 2013-14 and FY 2014-15 (actual), budget and revised estimates for CFY 2015-16 and projections for next three years (2016-17 to 2018-19):

Table 7: Major Object wise – Current Revenue Expenditure (*Rs. in Billion)*

Description	Actual 2013-14	Actual 2014-15	Budget 2015-16	Revised Estimate 2015-16	Forecast 2016-17	Forecast 2017-18	Forecast 2018-19
Total	**337.7**	**393.2**	**503.3**	**501.3**	**560.5**	**620.7**	**687.7**
Employees Related Expenses	181.7	192.9	232.2	222.0	252.1	277.4	305.1
Operation Expenses	36.0	49.7	85.8	87.9	96.7	106.3	117.0
Employees Retirement Benefits	37.4	42.3	46.0	49.0	56.0	61.6	67.8
Grants, Subsidies and write off Loan	54.0	73.8	91.1	93.4	99.9	114.8	132.1
Transfer Payment	5.5	6.1	7.7	8.0	8.5	9.8	11.2
Interest Payment	13.2	13.9	13.6	13.6	13.6	13.6	13.6
Physical Assets	2.6	3.4	6.6	6.8	0.0	0.0	0.0
Civil Works	0.0	0.0	0.2	0.2	0.3	0.3	0.3
Repair & Maintenance	7.3	11.0	20.0	20.3	22.3	24.5	27.0
Discretionary Space / SNE	**-**	**-**	**-**	**-**	**11.0**	**12.2**	**13.5**

Employees Related Expenses

The employees' related expenses accounted for 54% and 49% of total current revenue expenditure in year 2013-14 and 2014-15 respectively, while the proportion of employees related expenditure during current financial year and over next three years is estimated to be at 45% on average. In current financial year, allocations for Employees' Related Expenses have been revised downward by 4% from Rs.232.2 billion to Rs.222.0 billion. The employees' related expenses are projected to grow at the annual growth rate of 11% over the next three years.

Employees' Retirement Benefits

Employees' Retirement Benefits, comprising pension and gratuity amount paid to retired employees, is a liability of the government, growing increasingly fast with fresh retirements and increase in pension emoluments. In the last two financial years, the expenditure on employees' retirement benefits accounted for 11% of total current revenue expenditure, while the share of employees retirement benefits during current financial year and over next three years is estimated to remain at 10% on average. Because of revision of pension emoluments and restoration of commutation amount in July 2015, allocations for employees' retirement benefits are revised upward by 7% from Rs.46 billion to Rs.49 billion during current financial year, soaring by16% over actual expenditure of the preceding financial year. During the next three years (2016-17 to 2018-19), expenditure under employees' retirement benefits is projected to grow at annual accumulated growth rate of 11% on revised estimates of CFY 2015-16.

Operating & Maintenance Expenses

Expenditure on operating and maintenance heads is crucial to gear up the official structure/machinery for smooth functioning. The major expenses under this head include communication, utilities, transportation, maintenance of physical assets, and general expenses including medicines and lump sum provision for specific purposes. The operating and maintenance expenses accounted for 13% and 15% of total current revenue expenditure in FY 2013-14 and 2014-15 respectively, while in current financial year and next three years, the proportion of operating and maintenance expenses in the CRE have been purposefully enhanced to 22% of total current revenue expenditure due to increased allocations for electricity payments, purchase of medicines, POL, repair & maintenance, etc. In the current financial year, allocations for operating and maintenance expenses has been slightly revised upward by 2% to Rs.108.2 billion that is 78% higher than actual expenditure of the last financial year. This is mainly because of substantial increase in allocations for drugs and medicine, electricity, repair and maintenance and lump sum provisions kept for specific purposes in health, education and security.

With an objective to improve service delivery, allocations for repair and maintenance budgets has been substantially enhanced for repair and maintenance of existing infrastructure of roads and buildings and also for plants and machinery in hospitals. During CFY 2015-16, an amount of Rs.20 billion has been earmarked for repair and maintenance of infrastructures, machinery & equipment, vehicles and furniture fixture, which is 173% more than actual expenditure of the last financial year. During the next three years (2016-17 to 2018-19), expenditure on operating and maintenance heads is projected to grow at annual accumulated growth rate of 10% on revised estimates of CFY 2015-16.

Grants & Transfer Payments

Grant constitute grants to local bodies and non-financial institutions, subsidies and write-off loan; transfer payments include payments of financial assistance to the families of government servants, who die while in service, contribution to reserve funds for sugar cane cess and entertainment and gifts. Grants & Transfer Payments constitute 20% of CRE. In current financial year, allocations for grants and transfers have been revised upward by 2% from Rs.105.9 billion to Rs.108.2 billion, which is 36% higher than actual expenditure in FY 2014-15: grants to local bodies alone amount to Rs.48.7 billion in current financial year. In the next three years (2016-17 to 2018-19) projections, expenditure on the grants and transfer payments is projected to grow at annual accumulated growth rate of 12% on revised estimates of CFY 2015-16.

Interest Payment

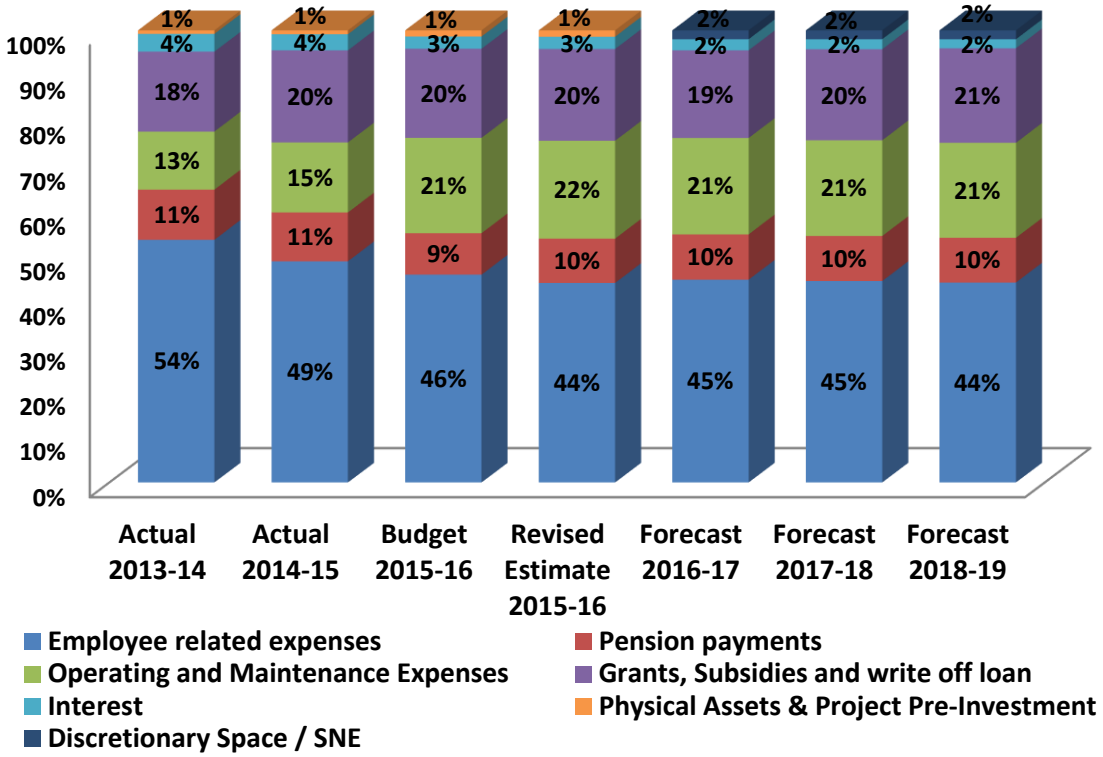
Interest Payment includes interest payment on foreign loans and Federal government loans, but does not include interest payment made on commercial/floating loans, which are disbursed from food account. In CFY, an allocation of Rs.13.6 billion is kept for Interest Payment, which is slightly less than actual expenditure of Rs.13.9 billion in FY 2014-15. Expenditure of interest payments in the current financial year and also for next three years (2016-17 to 2018-19) is expected to remain at the current level of Rs.13.6 billion.

Physical Assets

For purchase of physical assets, such as computers, I.T equipment, vehicles, plant & machinery, furniture & fixture, an allocation of Rs.6.6 billion is kept in CFY 2015-16, which is 94% more than actual expenditure in FY 2014-15. While an increase of 2% in R.E is anticipated over B.E 2015-16 due to significant release of funds outside budget to Sindh Police for procurement of physical assets. However, for next three years, lump sum provision has kept in the projection.

Diagram below shows the trend and share of major objects of current revenue expenditure of previous two years, budget and revised estimates of CFY and projection for next three years:

Figure 7: Major Object wise – Current Revenue Expenditure



Department Wise Current Revenue Expenditure

In terms of resource allocation, Education and Literacy Department is the single largest department accounting for 26% of total Current Revenue Expenditure (CRE) – followed by Finance Department (15%), Home Department (14%), Health Department (13%) and Local Government (12%) – and all other departments together accounting for remaining 20% of CRE. Annex-2 presents further details of Current Revenue Expenditure for each Administrative Department.

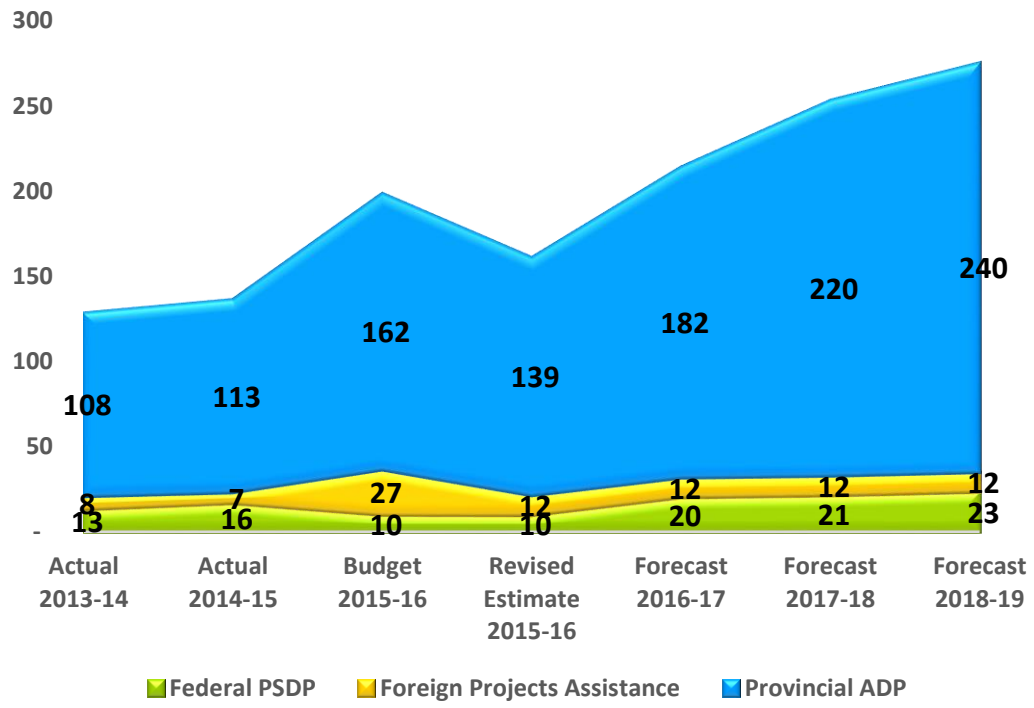
5.2 Development Expenditure

Development Expenditure comprises provincial ADP, Federal Public Sector Development Program (PSDP), and foreign project assistance (project loans & grants). The actual development expenditure remains much less than budgeted expenditure – partly because of shortfall in federal transfers and provincial own source revenues revenue, and partly for the lack of project implementation capacity of executive agencies, especially with regard to foreign funded projects. The actual development expenditure remained at Rs.129.0 billion in year 2013-14, diminishing by 44%, and Rs.136.4 billion in year 2014-15, shrinking by 36.7%, from the budget estimates in each year. During the current financial year, allocations for development expenditure have been revised downward to Rs.161.0 billion against the budget estimates of Rs.198.7 billion (excluding VGF). In the next three years projections, development expenditure is expected to grow at the annual accumulated growth rate of 20% on revised estimates of CFY. The table and figure below shows trend of total development expenditure of the province *(excluding VGF)*, provincial ADP, federal PSDP and foreign funded projects for the actual of last two years, budget and revised estimates of current financial year and projections of next three years:

Table 9: Total Development Expenditure (Rs. Billion)

Description	Actual 2013-14	Actual 2014-15	Budget 2015-16	Revised Estimate 2015-16	Forecast 2016-17	Forecast 2017-18	Forecast 2018-19
TOTAL DEVELOPMENT	**128.6**	**136.4**	**198.7**	**161.0**	**214.0**	**253.1**	**275.3**
Provincial and District	107.5	113.1	162.0	139.4	182.0	220.0	240.0
Foreign Project Assistance	8.1	6.8	27.0	12.0	12.0	12.0	12.0
Federal PSDP / Grant	13.0	16.5	9.7	9.7	20.0	21.1	23.2
PROVINCIAL & DISTRICT	**107.5**	**113.1**	**162.0**	**139.4**	**182.0**	**220.0**	**240.1**
Provincial ADP	**87.7**	**98.2**	**142.0**	**119.4**	**157.0**	**192.5**	**210.1**
Ongoing schemes (Baseline)	64.6	78.6	106.2	90.7	125.5	154.0	168.1
New Schemes	23.2	19.6	35.9	28.7	31.5	38.5	42.0
Districts ADP	**19.8**	**15.0**	**20.0**	**20.0**	**25.0**	**27.5**	**30.0**
Ongoing schemes (Baseline)	14.9	15.0	15.0	15.0	20.0	22.0	24.0
New schemes	5.0	-	5.0	5.0	5.0	5.5	6.0

Figure 8: Development Outlay (Rs. Billion)



Provincial ADP

During 2013-14, the actual expenditure of provincial ADP remained at Rs.107.5 billion falling from Budget Estimates of Rs.185 billion; in a similar vein, in FY 2013-14, the same remained at Rs.115.3 billion against Budget Estimates of Rs.168.0 Billion. For the CFY 2015-16, size of provincial ADP has been kept at Rs.177.00 billion *(including District ADP but excluding VGF)*, 53% more than actual expenditure in the previous year, but it is revised downward to Rs.139.4 billion. This decline is attributable to slow pace of execution of development schemes and a significant number of unproved schemes included in the provincial ADP. As a matter of fact the timing of federal transfers and also their shortfall are main reasons for late releases or non-release of funds against the new ADP schemes. However, Finance Department has managed to release 100% of allocated amount against those on-going schemes that are likely to be completed by the close the current financial year.

The fact that every year the actual development expenditure remains significantly lower than the budget estimates, it keeps piling up the throw forward amount of uncompleted schemes. The throw forward amount is the total amount required to complete all projects in the ADP, including the unreleased and unspent amount of allocation for development schemes in a year, which is transferred

to the subsequent year, leaving a little space of new initiatives, policies and programs.

The Planning & Development Department through its concerted effort was successful in reducing the throw forward amount from Rs.703.77 billion (as on 01.07.2014) to Rs.552 billion (as on 1.07.2015). This was achieved by reducing the size of new schemes in the ADP, shelving a number of new schemes and completion of on-going schemes. In current financial year weightage of new schemes was kept at 25% of provincial ADP, while utmost priority have been accorded to release of funds for on-going schemes. During Current Year, Rs.106 billion have been kept for 1762 on-going schemes as compared to Rs.90 billion for 1658 ongoing schemes in the previous year; whereas Rs.35.8 billion have been earmarked for 590 new schemes as compared to Rs.52.96 billion for 1279 new schemes in the previous year. In terms of allocations, 75% amount has been earmarked for ongoing schemes as compared to 63% in the previous year.

Table 10: Development outlay of the Provincial ADP by broad sector (Rs. in Billion)

	Actual 2013-14	Actual 2014-15	Budget 2015-16	Revised Estimate 2015-16	Forecast 2016-17	Forecast 2017-18	Forecast 2018-19
TOTAL	**87.7**	**98.2**	**142.0**	**119.4**	**157.0**	**192.5**	**210.0**
Social Sector	39.3	45.9	69.2	58.4	74.1	95.7	109.0
Production Sector	4.7	3.3	9.8	8.3	10.4	13.6	15.6
Infrastructure Sector	37.8	50.7	62.9	52.6	72.5	83.1	85.3

For the next three years, Provincial ADP is projected to grow at the accumulated growth rate of 23% on the revised estimates of CFY 2015-16. The Planning & Development Department's policy of allocating 75-80% funds to on-going schemes would significantly, if not completely, eliminate the throw forward amount of provincial ADP in next three years. The forecast for the medium term is developed on the following assumptions and policies:

- Priority will be given to completion of ongoing schemes and non-performing schemes may be terminated.
- 20% of the available resources for the ADP will be allocated to new schemes.
- 12% to 14% of the available resources for the ADP will be allocated to schemes at district level and the remaining amount is allocated for schemes at Provincial Level.

Government of Sindh has planned to build infrastructure in urban transport & communication, starting with introducing new BRTS lines, like Orange line and Yellow line in Karachi. The ongoing efforts are underway in implementation of major projects in Education, Health, Nutrition, Food security, Water supply and Sanitation sectors with the assistance of multibillion rupees projects. It is believed that people of the province will benefit from the outcome of these major projects being initiated and will complete in near future.

Federal PSDP

The expenditure on federal funded projects in year 2013-14 remained at Rs.13 billion, diminishing by 15% from the budget estimates of Rs.15.4 billion; similarly in year 2014-15, the actual expenditure stood at Rs.16.5 billion, with 26% drop from the allocated amount of Rs.22.5 billion. During current financial year, it is expected that expenditure on federal funded projects will remain close to budgeted amount of Rs.9.7 billion; over the next three years, funding and expenditure for federal funded projects/grants has been optimally projected to remain on average at Rs.21 billion per annum.

Foreign Funded Projects

Sindh Government has gained the trust of International Development Partners, which could be seen from their investment in 16 major projects relating to Education, Health, Nutrition, Agriculture growth, poverty reduction, infrastructure of irrigation & roads networks and municipal service delivery. In order to ensure commitment for provision of counterpart funds for foreign aided projects, which are 90% financed by World Bank (WB), Asian Development Bank (ADB), United Nation (UN)

& Japan International Cooperation Agency (JICA) the local funds have not only been allocated as per agreed terms but are released biannually. Besides, ADB has recently signed an agreement to provide US$ 200 Million for construction of 300 km roads in various districts of the province.

The actual expenditure on foreign funded projects dwindled by 73% from Rs.29.55 billion to Rs.8.1 billion in 2013-14; and exactly in the same proportion, it shrank from Rs.24.9 billion to Rs.6.8 billion in 2014-15. Almost similar trend is expected in current financial year – with the expenditure approximating to Rs.12 billion vis-à-vis budget estimates of Rs.27 billion. Abysmally low level of expenditure on foreign funded projects vis-à-vis commitments of donors may be attributed to the low pace of execution of foreign funded projects due to lack of capacity of executive agencies. Therefore, over the next three years, keeping in view the expenditure trend in recent years, projected expenditure under foreign funded projects is premised at 12 billion per annum.

5.3 Sectorial Developments and Budget Priorities

A Long-term development strategy is essential for allocating limited resources to the highest priorities of society and to support effective service delivery. In this regard, Government of Sindh has developed Vision 2025. And medium to long term provincial development plans presenting high level government priorities and long term ambitions about socio economic development of province, will also be developed under Public Financial Management Strategy, recently approved by the provincial cabinet.

Planning and Development Department, in collaboration with Administrative Departments, has developed strategic plans for key departments of Government of Sindh. These include Education, Health, Agriculture, Irrigation, Energy and communication & mass transit. These plans take stock of existing situation, state goals and objectives to achieve and lay out policies, priorities, programs, projects and schemes to be implemented in medium term framework. Efforts will be concentrated to integrate these plans into long-term provincial developmental strategy, setting unambiguous policies, priorities and programs in synchronization with resource availability to attain socio economic goals and improve service delivery.

Brief overview of key sectoral priorities is presented here:

Energy

To augment the national efforts to enhance production of electricity, Government of Sindh has heavily invested on development of infrastructure to exploit Thar Coal Reserve and tap alternative energy sources, such as wind and solar power. To attract foreign direct investment in Thar Coal, the Government is creating conducive environment through development of physical infrastructure for power generation and mining and institutional infrastructure necessary for setting tariff, pricing and other concessions.

The Government of Sindh is also focusing on alternative resources including wind, solar, gas, oil, and shale gas for power generation to meet energy needs of the country. Huge reserves of shale gas / oil available in Sindh and the wind corridor at Keti Bander and Jhampir will be exploited for power generation. The wind corridor is 80 km long along the coast and 170 km deep towards land with potential wind power generation capacity of 60,000MW.

Government of Sindh has already spent billions of rupees to build infrastructure at Thar coalfield. At present, road access, water supply, airport, Reverse Osmosis plants, and other facilities have either been completed or are near completion. However, further works on ‘installing transmission line for power evacuation from the Thar field’, ‘constructing railway track for transportation of coal to different power plants and for exporting coal’, ‘exploring indigenous resources at Thar and other fields’, and ‘prioritizing the Thar coal for use in local coal based power plants’ are in the pipeline and would require federal Government’s support.

In terms of resource allocation, this financial year, Rs.19.5 billion have been reserved for development

of infrastructure in energy sector, including road infrastructure and water schemes for Thar coal. For the next three years, allocations for energy sector are projected at Rs.46.4 billion for development expenditure, including water schemes and road infrastructure for Thar coal.

Communication & Mass Transit

Government of Sindh aims to develop safe and faster transportation infrastructure to enhances inter and intra district/division mobility, increase farm to market access, improve farm income, reduce poverty, diminish rural-urban migration and alleviate phenomena of rapid urbanization. At present, Sindh has road infrastructure of 47000 Kilometers.

The construction of new road network with asphalt surface, rehabilitation/ reconstruction/ improvement of existing inter and intra city road network and development of mass transit system in Karachi to ensure safe comfortable and efficient public transport service at affordable fare on sustainable basis, are the important priority areas for government. In the context of mass transit system in Karachi, the work on Green Line BRT – 17.80 km (funded by Federal Government), Yellow Line BRT-26.0 Km (financed through Public Private Partnership mode) and Orange Line BRT-4.77 Km long (funded under ADP scheme) has already started in current financial year, while proposals are on cards for other BRTs, such as Red Line BRT-21.5 km and BRT Blue Line from Bahria Town.

In terms of resource allocation, this financial year, communication and mass transport sector, except the road infrastructure for Thar coal, receives Rs.36.3 billion covering current revenue expenditure of Rs.6.68 billion and development expenditure of Rs.19.7 billion that includes Rs.1.21 billion under foreign funded projects. The communication and transport sector – involving various departments/agencies of the government including Works & Services Department, Transport & Mass Transit Department, and Local Government Department – counts in a total of 643 development schemes, 493-on-going and 150-new schemes: Works & Services Department's 602-schemes of Rs.9.75 billion, 536-on-going and 66-new schemes; Transport & Mass Transit Department's 5-schemes of Rs.3.0 billion, 3-on-going and 2-new; and Local Government Department's 189-schemes of Rs.6.94 billion, 104-on-going and 85-new schemes. During the next three years, allocations for communication and transport sector, except the road infrastructure for Thar Coal, are projected at Rs.106.1 billion involving current revenue expenditure of Rs.24.32 billion and development expenditure of Rs.81.8 billion excluding foreign project assistance.

Agriculture and Irrigation

Agriculture contributes 17% to gross provincial product in Sindh, of which Livestock and Fisheries contributes 55%. Economy of Sindh has historically been based on a well-developed agriculture supported by an effective irrigation network on the River Indus. The economic development of Sindh is therefore largely dependent on the growth of agriculture sector.

Government of Sindh accords top priority to development of agriculture and livestock sector to enhance dairy, farm and fisheries' production. Priority areas include enhancement of meat, milk and dairy farm production, research and extension to enhance agricultural productivity and quality, certified seed production, water resources management, farm mechanization and agro-based industrial processing for value addition to meet the challenges of food and nutrition security.

In terms of fiscal commitment, this financial year, Rs.19.6 billion have been allocated for agriculture sector, including animal husbandry and fisheries: Rs.8.77 billion for current revenue expenditure, and Rs.10.8 billion for a total of 59 development schemes, 37 on-going and 22 new schemes. The development allocation includes Rs.4.91 billion under foreign funded projects. For the next three years, allocations for agriculture sector are projected at Rs.55.3 billion: Rs.31.2 billion for current revenue expenditure, and Rs.23.84 billion for development expenditure excluding foreign project assistance.

Sindh Province, a lower riparian, is facing acute water shortage. Sindh's irrigation system comprises three barrages (Guddu, Sukkur and Kotri) and fourteen major canals with total command area of 13.2 million acres and designed capacity of 134,000 cusecs. The total length of irrigation canals, including

distributaries and minors, is approximately 13,235 miles. There are 109 branch canals, 1400 distributaries and minors, and 42000 watercourses/outlets. In addition, the department owns and operates more than 6200 tube wells to utilize ground water, supplementing the irrigation water for enhanced agricultural production. Besides, the Irrigation department is responsible for flood protection, drainage and salinity control, rainwater harvesting, and maintenance of ground water table to an optimum level.

At present, all the barrages and downstream irrigation systems having completed their useful life - more than half century old - require significant rehabilitation. Therefore, the government attaches importance to rehabilitation of all the three barrages, Guddu, Sukkur & Kotri, and old irrigation systems and, to this end, is pursuing partnership with donor agencies. In the wake of energy crisis, government is pursuing conversion of diesel operated tube wells to solar/wind-power to bring the arable land under cultivation. Further, the government plans to develop high efficiency irrigation systems, conserving water to cultivate additional 30,000 acres of land. Initiatives have also been taken to revive the freshwater bodies, affected by salts or eutrophication, provide water for Thar Coal Projects for generation of electricity, improve water supply to urban cities, and strengthen flood mitigation measures.

Irrigation Department's short term & long term development plans include: Rehabilitation of Barrages, beginning with Guddu Barrage; Rehabilitation, Protection & Capacity Enhancement of Irrigation and Drainage Network; Restoration / Rehabilitation of Irrigation & Drainage Network affected by Flood 2010 & 2011; Rehabilitation / Restoration of LBOD System; Reduce Water-logging & Salinity; Land Reclamation through lowering the Water table; Improve Water Sector Reforms through Sindh Water Sector Improvement Project (WSIP); Control on Sea Water Intrusion; Conservation of Water through Lining of Channels & building Small Dams.

Sindh Province has geographical area of about 34 million acres, out of which 20 million acres are culture able. Through Indus river source, only 13 million acres can be irrigated due to feasible levels, which have already been brought under command of surface irrigation system. For irrigating the remaining balance of 7 million acres, innovative means need to be explored. Irrigation department has worked on the sub sector and proposed rainwater harvesting to bring the un-irrigated land under cultivation. Small Dam Organization, under the department, has taken up feasibility study of 140 Small Dams and Detention Weir sites, out of which 80 sites has been found feasible for execution. These schemes will contribute to ground water recharge, from rainwater, and render the ground water level feasible for tube well irrigation. Another avenue for development is water conservation, which can be achieved by Rehabilitation and Lining of Channels. The department proposes to line at least 50 Channels every year, which will prevent irrigation water from going waste and conserve it for additional cultivation.

In terms of fiscal commitment, this financial year, irrigation sector has been allocated Rs.39.1 billion, covering current revenue expenditure of Rs.17.7 billion and development expenditure of Rs.21.5 billion – with a total of 324 development schemes, 261 on-going and 63 new schemes. The development expenditure also includes Rs.9.5 billion under foreign funded projects. For the next three years, allocations for irrigation sector are projected at Rs.112 billion – with current revenue expenditure of Rs.63.51 billion and development expenditure of Rs.48.5 billion, disregarding foreign project assistance.

Education

Education is one of the priority areas of the Government which aims to provide quality education to all children to realize their full potential and contribute to the development of society and economy thus creating sense of nationhood and inculcating values of tolerance, social justice and democracy. Government of Sindh despite its reform efforts missed MDG target of 88% literacy rate by 2015. Instead overall literacy rate in Sindh in year 2013-14 declined to 56% from 60% in 2012-13. This was mainly because of destruction and displacement unleashed by unprecedented floods in 2010 and torrential rains in 2011, which the province is still grappling with by rehabilitating the devastated

school infrastructure. The literacy rate in rural areas and in female population is low indicating prevalence of regional and gender disparity.

Sindh's education system faces three basic challenges i.e. access, quality and governance. In order to address these challenges, the Government of Sindh is implementing Sindh Education Sector Plan 2014-18 approved by Chief Minister Sindh. The objectives of the plan are: (i) to increase equitable access to quality ECE (early childhood education), primary and secondary education with focus on eliminating social exclusion of marginalized segments of society, especially the girls, increasing primary and secondary and higher secondary enrollment, expanding provision of secondary and higher secondary education, increasing retention rate; (ii) to improve quality of education through merit based recruitment, teachers' training, professional development, adoption of contextually relevant and broad based curriculum and quality standards for improved quality of learning outcomes; and (iii) to strengthen the governance and service delivery through increase in resource allocation, effectiveness of monitoring and control mechanism to eliminate high absenteeism, effectiveness of educational expenditure and enhanced credibility, transparency and accountability in use of public resources.

The Government of Sindh (GoS) is also implementing the Sindh Education Reform Programme (SERP) at the cost of US $2600 million including World Bank Loan of US $400 million. The key activities of the program include effectiveness of educational expenditure, rehabilitation of schools, provision of SMC funds and school specific funds, distribution of free text books, stipend for girls, consolidation of schools, conduct of student achievement tests, merit based recruitment of teachers and teachers' training. In addition, construction of 120 schools – including reconstruction of 75 flood-affected schools and construction of 45 schools under consolidation, merger & up-gradation policy – is under progress across the province under Sindh Basic Education Reform Program funded by USAID. The Government of Sindh is also putting in place a comprehensive Sindh Education Information and Management System based on Geographic Information System (GIS) to streamline the department on modern lines. Other initiatives to improve service delivery include consolidation / up-gradation / merger of schools for proper management and better access, community mobilization to increase enrolment, merit based teachers' recruitment, construction of building for shelter less schools, public private partnership for operation and management of schools and uniform curriculum.

In terms of fiscal commitment, this financial year, Rs.160 billion have been allocated for education sector – including higher education (universities & boards), medical education, special education, and STEVTA – of which Rs.143.8 billion are earmarked for current revenue expenditure, and Rs.15.73 billion for 229 development schemes, 150-on-going and 79-new schemes. The allocations for development projects also include funding of Rs.2.53 billion from foreign funded projects. For the next three years, allocations for education sector are projected at Rs.574 billion, involving current revenue expenditure of Rs.520.7 billion, and development expenditure of Rs.53.3 billion excluding foreign project assistance.

Health

Human Development is largely determined by provision/availability of quality of health care system in a country. Our health indicators such as life expectancy, immunization, and mortality rates for infants, children and mothers, portray dismal outlook. In spite of having considerable public sector infrastructure in primary, secondary and tertiary as well as preventive health care systems, province of Sindh ranks the lowest in public sector healthcare facilities in comparison with other provinces as only 22 per cent of the population in Sindh benefits from these facilities, juxtaposed to 29 per cent in Pakistan.

The key challenges to Health system include: (i) system challenges such as high out-of-pocket expenditure (78% including 53% on medicine); (ii) governance challenges such as weak monitoring and evaluation, shortage of specialists and female staff in rural areas, transitional issues of devolution function and lack of transparency and accountability; (iii) service delivery challenges such as low skill birth attendance (60.5% vis-à-vis MDG target of more than 90%), high rate of child under-nutrition (40%), low contraceptive prevalence rate (29% vis-à-vis MDG target of 55%), low rate of immunization (71% vis-à-vis MDG target of more than 90%), the availability of drugs and equipment

(61-71% and 31-60% respectively), low lady health workers coverage (45-40%) and shortage of nurses, paramedic and pharmacists; and (iv) financial constraints such as capping on releases of vertical programs to the level of releases in 2011.

In order provide access to quality health care services and extend the outreach, Government of Sindh has made significant investment on strengthening, upgrading, and rehabilitation of Teaching Hospitals, District and Taluka Hospitals and establishment of new health facilities. With an aim to improve service delivery at basic health units and rural health centers, Government of Sindh has increased the participation of the private sectors for operation and management of health facilities. In this context management and operation of the most of Dispensaries, Basic Health Units, Rural Health Centers and Mother and Child Health Care Centers have been entrusted to the PPHI and other non-governmental organizations. Other initiatives to improve health indicators include: deployment of trained community midwives (CMWs); provision of additional resources for mobilization of vaccinators for EPI program; initiation of nutrition support program with donor assistance to improve nutritional status of mothers and children; establishment of modern blood banks and a trauma center in each district; and development of Health Sector Strategy with its operational plan.

Under the Health Sector Strategy 2012-20, Monitoring & Evaluation Cell at DGHSS and Essential Health Service Packages for primary health, have already been established; Nutrition Support Program has been launched, in 9 Districts with the support of the World Bank, in addition to 3 Districts where European Union is supporting and flood affected areas where WHO and UNICEF/UNFPA are supporting. However, establishment of Human Resource Management, Logistic Management System, Health Regulatory Authority, Provincial Health Services Academy, Health Management Information System, an Institute of Neurosurgery in JPMC Karachi, Non-communicable Diseases Centers, Integration and Scaling up of Communicable Diseases Control Programs (TB, Malaria, Dengue, HIV/AIDS, Hepatitis), Functional linkages of primary health care facilities with preventive health services including outreach workers for improved immunization converge, and Strengthening and Up-gradation of Nursing Schools and Paramedical Institutes, are in the process of formulation: at conceptual stage.

The Government of Sindh, in recent years, has significantly increased resource allocation for development and non-development expenditure of health sector, and has also made significant investment on construction, strengthening, upgrading and rehabilitation of health facilities. In current financial year, Rs.73 billion have been allocated for health sector, involving the current revenue expenditure of Rs.57.37 billion and development expenditure of Rs.15.68 billion covering 122 schemes, 87-on-going and 35-new. The allocations for development expenditure include funding of Rs.2.385 billion from foreign funded projects. For the next three years, allocations for health sector are projected at Rs.268.75 billion, with non-development expenditure at Rs.215 billion, and development expenditure, except the foreign project assistance, at Rs.53.75 billion.

6 Net Lending

In addition to receipts and expenditures of provincial consolidated funds, the Provincial Government also maintains receipts and expenditures of Public Account and Food Account. The Public Account of the province is a sort of trust fund of which the provincial government is custodian. The transactions in Public Account include: the receipts and expenditures of court deposits, GP Fund, Benevolent Fund, Group Insurance, Income Tax Deductions, Foreign Assignment Accounts for donor funded projects, personal deposits, PWD deposits, revenue deposits, forest deposits, wage and cheque clearing accounts, adjustment accounts, food departments remittances which includes all the food account receipts and some of food account payments, etc. The net public account balance remained positive at Rs.17.1 billion in 2013-14 and Rs.33.1 billion in 2014-15. The figure of last financial year has been repeated in current financial year; however over next three years, it is expected that net public account balance would remain between Rs.27 billion and Rs.22.0 billion. The detailed examination of transactions of public account shows that positive balance in public account is mostly because of food account.

Table 12: Net Lending Items (Rs. Billion)

Description	Actual 2013-14	Actual 2014-15	Budget 2015-16	Revised Estimate 2015-16	Forecast 2016-17	Forecast 2017-18	Forecast 2018-19
NET LENDING ITEMS (H)	**7.7**	**13.1**	**6.9**	**13.1**	**7.0**	**2.0**	**2.0**
Net Food Account - State Trading	-9.4	-20.0	-5.8	-20.0	-20.0	-20.0	-20.0
Net Public Account	17.1	33.1	12.7	33.1	27.0	22.0	22.0

Net Food Account- state trading refers to yearly operational deficit of cash payments and receipts (other than floating commercial loans) of the food account. Since, unlike food account receipts, all disbursements/payments of food account are not reflected in the Public Account, the remaining payments made from food account have been accounted for and impact of net state trading has been indicated. The positive impact of public account is largely offset by negative impact of state trading on net lending items. However net lending items reflect somewhat positive financing impact on overall resource position of the province.

7 Financing

Financing refers to raising of loans, recovery of loans extended by the government to institutions and individuals, and savings of the province (carryover cash balances), to provide funds for the specific programs, the development projects, investments, and repayment of outstanding loans. The receipts from domestic loans, budgetary support loans (foreign) and recoveries of outstanding loans, are categorized as current capital receipts; the receipts for foreign project assistance (loans for development projects) may be categorized as capital receipts. The repayment of outstanding loans (domestic & foreign) and investments are categorized as current capital expenditure; the expenditure on viability gap fund may be classified as capital expenditure or current capital expenditure, depending on the nature of expenditure. The net financing remained negative by Rs.24.4 billion in year 2013-14, and turned positive by Rs.8.0 billion in year 2014-15. The net financing in current financial year is expected to remain positive, which is estimated at Rs.26.4 billion and for the next three years, the same is projected at Rs.20.0 billion on an average.

Table 13: Financing (Rs. Billion)

Description	Actual 2013-14	Actual 2014-15	Budget 2015-16	Revised Estimate 2015-16	Forecast 2016-17	Forecast 2017-18	Forecast 2018-19
FISCAL BALANCE	**32.7**	**20.2**	**-47.3**	**-41.7**	**-36.7**	**-22.6**	**17.5**
FINANCING (J=K+L+M)	**-24.4**	**7.2**	**28.7**	**26.4**	**17.8**	**20.1**	**22.7**
Net Capital Receipts and Expenditure (K)	**-9.9**	**-1.2**	**21.7**	**3.7**	**-2.2**	**0.1**	**2.7**
General Capital Receipts	9.3	13.7	32.0	21.0	23.1	25.4	28.0
Current Capital Expenditure	-22.5	-15.1	-22.3	-22.3	-22.3	-22.3	-22.3
Viability Gap Fund	-3.4	-6.0	-15.0	-7.0	-15	-15.0	-15.0
Foreign Projects Assistance	6.8	6.3	27.0	12.0	12.0	12.0	12.0
Carry Over Cash Balance (Opening) (L)	**-14.5**	**8.4**	**7.0**	**22.7**	**20.0**	**20.0**	**20.0**
CLOSING BALANCE (N=I+J)	**8.4**	**27.4**	**-18.6**	**-15.3**	**-18.9**	**-2.5**	**40.2**

Current Capital Receipts

The current capital receipts of the province comprise of budgetary support loans provided by the foreign donor agencies, domestic loans raised and recoveries of outstanding domestic loans extended to non-financial institutions and government servants. In year 2013-14 and 2014-15, substantial portion of current capital receipts came under budgetary support loans and grants and the same is expected in current financial year. Over the next three years, in addition to budgetary support loans and grants and recoveries of loans, provincial government also intends to raise funds/loans from domestic market on the average of Rs.10.0 billion a year.

Foreign Project Assistance
Another source of financing for the province is Foreign Project Assistance (FPA), which includes foreign loans for development projects. In years 2013-14 and 2014-15, PFA receipts witnessed on an average 76% decrease against budget estimates because of slow implementation of development projects by the executive agencies. In current financial year, it is estimated that Rs.12.0 billion will be received under FPA, indicating 56% decrease compared to budget estimates. In view of previous trend, funding under FPA for next three years has been kept at Rs.12.0 billion a year.

Current Capital Expenditure
The current capital expenditure mainly includes repayment of principal amount of foreign and domestic loans and investments in capital market. In year 2013-14 and 2014-14, current capital expenditure remained at Rs.22.5 billion and Rs.15.1 billion respectively, in current financial year and over next three years, the expenditure is expected to remain at Rs.22.3 billion each year.

Viability Gap Fund
Viability Gap Fund (VGF) is meant to finance development projects undertaken under Public Private Partnership. As the private investors of public projects in PPP mode are guaranteed a fixed return on their investment, VGF is utilized to compensate them for shortfall in returns. In FY 2013-14 and 2014-15, the expenditure on VGF remained at Rs.3.45 billion and Rs.6.0 billion respectively, while in the current financial year, the same has been revised downward from Rs.15.0 billion to Rs.7.0 billion. In the next three years projection, VGF related expenditure is expected to remain at Rs.15.0 billion a year.

Carryover Cash
Carryover cash balance is another source of financing. It represents the net savings of province as on 30th June of previous financial year. The cash balance of the is reflected in Non-Food Account No.1 maintained with State Bank of Pakistan as on 30th June of the Fiscal Year.

8 Debt and Contingent Liabilities

The public debt portfolio of the Government of Sindh comprises of domestic debt and foreign debt. The domestic debt portfolio comprises Cash Development Loans (CDLs) namely as CDLs-Normal and CDLs-SCARP. Its external debt portfolio includes soft-term and commercial loans. The major donors are World Bank (IDA-Credit), Asian Development Bank (ADB) Loans and it also procures foreign loans from other international agencies. Currently, the Government of Sindh is not taking normal CDLs however, the SCARP is automatically shifted from the Federal Government once a SCARP is completed and handed over to the Provincial Government. All foreign loans are procured under the guarantee of the Federal Government however the exchange rate risk is borne by the respective Provincial Government.

The total debt liability of the Government of Sindh as on 30 June 2015 comprising of foreign and domestic loans and GPF liability is given below:

Table 14: Debt Liability as on 30 June 2015 (Rs. Billion)

Category	Total Debt Liability Amount	Percentage
TOTAL	**252.6**	**100.0 %**
Foreign Loans	**148.5**	**58.8%**
Domestic Loans	**104.1**	**41.2%**
Cash Development Loans (CDL)	16.4	6.5%
Accumulated GPF Liability	87.7	34.7%

8.1 Domestic Loans

The Normal CDLs are development loans extended by Federal Government to provincial government for financing its Annual Development Programme (ADP). In case of SCARP CDLs, the situation is different as new loans for SCARP are routine feature, which directly channeled from Federal Government to WAPDA for the execution of these projects for Sindh. The interest rates on CDLs range from 7.42% to 17.71% per annum. These loans include a total amortization period of twenty-five years including a five-year grace period. During the grace period the borrower is required to pay interest on original loan only and thereafter the payment of principal amount is started. The table below shows the total outstanding loans on account of domestic debt as on 30th June 2015.

Table 15: Domestic Debt as on 30 June 2015 (Rs. Billion)

Category	Total Debt Liability Amount	Percentage
Total	**16.4**	**100.0%**
Normal CDLs	2.0	12.2%
SCARP CDLs	14.4	87.8%

8.2 Foreign Loans

The external funding mostly comprises of loans obtained from World Bank (WB) and Asian Development Bank (ADB), which constitute 63.38% and 30.06% respectively of the total foreign loan. The third major source of funding comes through Japan indicating a share of 2.75%. Rest of the loans hold almost negligible share. The details of foreign loans are as under:

Table 16: Foreign Loans as on 30 June 2015 (Rs. Billion)

Type of Loan	Interest Rate	Outstanding Loan
Total		**148.5**
World Bank/IDA	0.75% & 1.25%	89.7
Asian Development Bank	1.00%, 1.25% & 6M Libor +0.4	53.5
Japanese Loans	2.60%	4.1
IBRD	0.57%	0.3
IFAD	1.00%	0.3
OPEC	1.50%	0.6

In addition to above outstanding loans, amount of Rs.76.688 billion under active loans is in the process of disbursement, which will be included in outstanding loans on their closing dates. Besides domestic and foreign debts, the General Provident Fund is another big component of Sindh Government's liabilities, which is the second biggest component.

8.3 Debt Sustainability

External debt and debt servicing obligations are monitored in relation to of GDP, exports, and fiscal revenue. In most of countries, the need for such analysis arises at national level as external borrowing and its servicing rest at federal/central level. Pakistan also comes under this category, as the Federation is also a sovereign guarantor. The 18th Constitutional Amendment authorizes federating units to opt for external borrowing through the forum of National Economic Council (NEC). Provincial Government has been discharging its domestic as well as foreign debt servicing obligations through source adjustment against its monthly share of divisible pool taxes. Actually, the Federal Government makes payments on account of servicing of all foreign debt of the province to the Donors.

The Sindh Government uses Current Revenue Expenditure (CRE) ratio and the General Revenue Receipts (GRR) ratio to monitor debt sustainability. The CRE includes all operational expenses of the Provincial Government and GRR includes divisible pool taxes, straight transfers and provincial own tax and non-tax revenues. Table 6 depicts the position of the debt sustainability rations.

Table 17: Debt Sustainability Ratio (Amounts in Rs. Billion)

Description	Actual 2013-14	Actual 2014-15	BE 2015-16	Revised Forecast 2015-16	Forecast 2016-17	Forecast 2017-18	Forecast 2018-19
Current Revenue Expenditure	337.2	393.2	503.3	501.3	560.5	620.7	687.7
General Revenue Receipts	491.3	537.8	647.9	607.5	730.8	849.1	978.4
Debt Servicing (Principal+ Interest)	11.9	13.2	14.5	14.2	12.3	12.9	13.0
Debt servicing as % of current revenue expenditure	**3.5**	**3.3**	**2.9**	**2.9**	**2.2**	**2.1**	**1.9**
Debt servicing as percentage of General Revenue Receipts	**2.4**	**2.4**	**2.2**	**2.8**	**1.6**	**1.5**	**1.3**

The trend shows that in percentage term during 2013-2014 and 2014-15 and in growth term estimation for revised forecast 2014-15 and forecast 2015-18, the debt sustainability of GoS does not pose any threat in near future.

9 Investments & Fund Management

The Government of Sindh, through its Fund Management House, has made considerable growth in the investment portfolio during the year ending 30th June 2015. The year 2014-15 witnessed increase of Rs.36.0 billion in the financial assets of the province, of which 12.25 billion came from new investments and the remaining amount came from the profit earned on the investments. By virtue of the diligent investment policies adopted by the management team, the amount of financial assets aggregates to Rs.149.8 billion at year-end. This is despite sizeable expenses from Viability Gap Fund amounting to Rs.4.4 billion for different government projects. The major increase in assets was in the Sindh Province Pension Fund of Rs.19.0 billion, which was mainly on account of capital gains that accrued from the Pakistan Investment Bonds (PIBs) portfolio. Further those funds were invested in the National Savings Schemes, another safe investment avenue and offering higher than market rate of return, to further increase the profitability of the fund. The future expected sizes are projected keeping in view the annual rate of return, new investments and expenditure trends.

Table 18: Sindh Investment Funds (Rs. Billion)

Description	Actual 30 June 2014	Actual 30 Jun 2015	Forecast 30 Jun 2016	Forecast 30 Jun 2017	Forecast 30 Jun 2018
Total Government Funds	**144.1**	**149.8**	**174.0**	**204.9**	**242.4**
Sindh Pension Fund	73.5	75.5	90.6	108.7	130.5
SASO Pensioners Fund	0.2	0.2	0.2	0.2	0.2
Sindh Government Employee Group Insurance Fund	1.4	1.5	1.7	2.1	2.5
Sindh Social Relief Fund	13.6	14.2	15.6	17.2	18.9
Peoples Housing Cell	1.1	1.1	1.2	1.2	1.2
Sindh GP Investment Fund	36.3	37.6	45.2	54.2	65.0
Viability Gap Fund	6.1	7.2	15.0	15.0	15.0
Sindh Coal Development Fund	9.2	9.3	-	-	-
Sindh Project Development Facility	0.3	0.3	0.3	0.4	0.4
Endowment Fund for PPHI	0.4	0.4	0.5	0.5	0.5
Investment Fund for SCSHF	1.8	2.4	3.5	5.3	8.0
Other Funds[43]	0.2	0.1	0.1	0.1	0.1

10 Governance

Sindh Government is implementing Sindh Public Sector Reform Management Program with the support of the World Bank and Public Financial Management Support Program for Pakistan with technical assistance of European Union. The objectives of these programs are mobilization of revenues and expenditure Management. Under these programs, Sindh Tax Revenue Mobilization Plan, as discussed before, has been developed and approved by the Chief Minister Sindh and Public Financial Management Strategy has also been approved by the provincial cabinet. As part of Sindh Public Sector Reform Management Program, the Tax Reform Unit has been established in Finance Department to coordinate with all the revenue collecting agencies and to engage academia in evidence based tax policy formulation and conduct studies for tax analysis for informed decision making. Similarly Debt Management Unit has also been established in Finance Department.

Government of Sindh is implementing **Public Financial Management Strategy (PFMS) and PFM Action Plan** with the assistance of donor agencies. The PFM Strategy will address systematic weakness and missing links in the Public Financial Management such as credibility of the Budget, budget predictability, policy-based budgeting, transparency, predictability, accounting and reporting. The objectives of Public Financial Management Strategy are to improve financial management, improve efficiency, and enhance transparency and accountability.

The identified core areas for reforms include: (i) Medium Term Budgetary Framework; (ii) Output Based Budgeting; (iii) Integration between Current and Development budgets; (iv) Participative Budgeting involving all the stakeholders; (v) user-friendly Budget Execution Reports for the policy makers to make strategic decisions; (vi) Revenue Mobilization (vii) the system based audit of pay and pension and introduction of Direct Credit System for pension payment; (viii) Advancement in Procurement Practices for harmonization of procurement laws and procedures and updating the rules and procedures in conformity with best practices and capacity building of SPPRA and procuring entities; (ix) Strengthening of Monitoring and Evaluation to provide feedback to the decision makers for better management for taking corrective actions, in time, to improve service delivery to the masses (x) Instituting Internal Audit Function (operational audit, managerial audit, performance audit, systemic audit); (xi) An Effective Public Accounts Committee (PAC) to keep watch on Government's performance.

Government of Sindh believes that there exist significant potential to enhance resources, which can be utilized for improvement in service delivery. At present, Own Source of Revenue of Sindh comprises roughly 20 per cent of total gross revenues of the province. Therefore, the Government of Sindh (GoS) attaches great importance to resource mobilization to pursue developmental goals through investment in human capacity and public infrastructure for improved economic growth and human development.

The Sindh Tax Revenue Mobilization Plan (STRMP) has been formulated to undertake wide-ranging tax reforms in the province. It is designed as a set of feasible actions to generate higher revenues for the Government of Sindh while lowering the costs of compliance for taxpayers and enhancing equity and efficiency of taxation. With the implementation of STRMP, tax collection is expected to increase from Rs.91.37 billion in FY2013-14 to Rs.200 billion in next three years.

The Key Reform Components include: (i) Institutionalizing evidence-led tax policy and administration and coordination mechanism; (ii) Institutionalization of IT-based business processes for efficient tax administration; (iii) Strengthening of tax facilitation and enhancement of taxpayer education for higher compliance and (iv) Generation of a policy dialogue to create and sustain impetus for tax reforms seeking revenue adequacy, efficiency and equity in taxation.

The tax agencies have executed impressive and meaningful IT initiatives through indigenous resources; these will form a foundation of further reforms and SRMP implementation. SRB has very effectively deployed the FBR system for sales tax automation during the transition from federal to provincial collection. At present, it has sales tax collection automated through e-filing, invoice cross-

matching and payment reconciliation. The E&T Department has had a system for Motor Vehicle Registration since the early 1990s. This system has a province-wide footprint and no motor vehicle transaction is done outside of the system. Recently in Karachi the property register has been computerized and computer generated demand notices (challans) will be served as a first step towards automating the Urban Property Tax System. BOR has made progress to ensure that land records since October 2010 are digitally scanned, indexed and stored securely. A system of land transaction registers (patwari registers) with elaborate SOPs on ensuring integrity and completeness of records has been put in place. BOR is executing an ambitious Land Administration and Revenue Management Information System (LARMIS) project, as part of which all the historical land records of Sindh have been digitized; the data entry of these records has started and is expected to be completed within one year. The Registration and Stamps Wing of BOR has also initiated a scheme for automation of registration of documents.

11 Risks to Budgetary Projections and Mitigation Strategies

The Key risks to budget and their mitigation strategies are indicated hereunder.

Federal Transfers

Federal transfers have always remained uneven in past and mostly fall short of targets; however projections of receipts from government have been made keeping in view historical trend in federal transfer, which is a realistic basis of projections. The probability of actual receipts from federal transfers is more than 95%. Besides, Government of Sindh has started implementation of Sindh Tax Revenue Mobilization to generate own resources to ensure timely availability of resources for service delivery and development needs.

Pay and Allowances increase by Federal Government

The Government of Sindh has built in provision of 10% on gross salary bills in the projections for next three years, which is enough to absorb the impact of annual increments, pay increase and creation of new posts.

Ways and Means clearance

The release of funds by Finance Department is made in accordance with policy approved by the Finance Secretary. Such policy is adopted keeping in view ways and means position of the Province. Past trends of transfers from federal Government and provincial own receipts are also kept in view and different scenarios for cash flows are discussed and weighted. However, Finance Department cannot make proper estimations of expenditure incurred out of the released funds for development schemes.

Change of budget priorities during the year

Significant in-year changes in budget priorities occasionally take place on account of exterior circumstances beyond the control of provincial government such as natural calamities - torrential rains, floods and drought, sluggish economic growth and law and order situation; these unfortunately have been frequent in at least last five years. Special care has been taken for making provision for specific needs of the departments. However, for emergent and unforeseen expenditure of the departments, lumps sum provisions have also been built in the projections.

Release management and project implementation capacity

In addition to a revenue shortfall on an annual basis, in-year delays in receipts may jeopardize the in-year release and expenditure pattern. Weaknesses in project implementation capacity in administrative departments may result in underutilization of allocated ADP resources.

Annex 1 Social Indicators

The province continues to grapple with low level of human development. Low literacy level; poor health indicators; inadequate access to safe drinking water and sanitation; poverty and hunger; and regional, gender and income disparities characterize our social underdevelopment. The table below shows comparison of social indicators in Pakistan and the four provinces:

Table 2: Human Development Index social indicators

	Pakistan	Punjab	Sindh	KPK	Baloch
Health					
Maternal mortality rate per lac live birth (2012-13) [44]	276	227	314	275	785
Infant mortality rate per 1000 live births, urban 45 & rural 74, (2012-13) [45]	74	88	74	58	97
Mortality rate for children under-five per thousand live births in 2012-13[46]	89	105	93	70	111
Total Fertility Rate per women (4.2 rural, 3.2 urban) in 2012-13[47]	3.8	3.8	3.9	3.9	4.2
Rate of fully immunized children aged between 12-24-months (based on record and recall) 2013-14[48]	76	86	61	75	41
Pre-natal consultancy coverage 2013-14[49]	72	75	76	63	52
Post-natal consultancy coverage 2013-14[50]	29	29	35	22	17
Contraceptive Prevalence Rate (2012-13)[51]	32	38	25	28	13
Rate of skilled birth attendance (2012-13) [52]	52	53	61	48	18
Water & Sanitation			***Percentage***		
Access to improved water resources 2011-12[53]	89	95	90	71	62
Access to sanitation facilities (2011-12)[54]	72	78	61	71	37
Literacy Rates (2014-15)[55]			***Percentage***		
Overall Literacy Rate	58	61	56	53	42
Urban Literacy Rate	74	76	72	68	59
Rural Literacy Rate	49	53	37	49	36
Male Literacy Rate	70	71	67	72	59
Female Literacy Rate	47	52	43	36	25
Urban Male Literacy Rate	81	82	80	81	74
Urban Female Literacy Rate	66	71	63	55	45
Rural Male Literacy Rate	63	65	53	70	54
Rural Female Literacy Rate	36	43	21	32	17
Net Enrollment Rate at primary level (5-9 years) 2013-14[56] (%)	57	64	48	54	39
Male Net Enrollment Rate at primary level	60	66	53	62	46
Female Net Enrollment Rate at primary level	53	63	43	46	30
Gross Enrollment Rate 2013-14[57] (%)	90	100	76	89	67
Male Gross Enrollment Rate	98	106	85	102	83
Female Gross Enrollment Rate	81	94	67	76	49
Population aged 10 and above ever attended school (2013-14)[58] (%)	60	64	56	54	43
Rate of completion of primary and secondary level 2013-14[59] (%)	49	53	48	42	33
Poverty			***Per thousand***		
The prevalence of underweight children under age five (2011-12)[60]	31.5	29.8	40.5	24.1	39.6

Disparities Across the Districts

There exist vast disparities across the districts in Sindh in provision of access to education, health services, clean drinking water and sanitation facilities. Social Indicators and provision of facilities in predominantly urban districts are far better than rural districts in Sindh. As per Pakistan MDG Report 201361, some social indicators for year 2010-11 in respect of three highest and three lowest performing districts in Sindh, indicating the magnitude of disparities across the districts are given in following Box-1:

Box 1: Social Disparity Index

- The net enrollment ratio in Hyderabad (67.1%), Karachi (60%) and Khairpur (59.7%) was highest, and lowest in Tando Muhammad Khan (29.6%), Thatta (34.4%) and Badin (40%).
- Primary or higher level completion rate was highest in Karachi (72%), Hyderabad (61%) and Dadu (53%), and lowest in Thatta (28%), Jacobabad (29%) and Tando Muhammad Khan (30%).
- Literacy rate (10 years and above) was highest in Karachi (79.3%), Hyderabad (68.8%) and Dadu (64.8%), and lowest in Thatta (36%), Tando Muhammad Khan (36.2%) and Jacobabad (37.4%).
- Gender Parity Index for primary education was highest in Karachi (1.02), Hyderabad (1.01) and Dadu (0.99), and lowest in Tando Muhammad Khan (0.49), Kashmore (0.53) and Jacobabad (0.64).
- Gender Parity Index for secondary education was highest in Karachi (1.17), Hyderabad (1.14) and Mirpurkhas (0.97), and lowest in Ghotki (0.24), Shaheed Benazeerabad (0.39) and Sukkur (0.45).
- Gender Parity Index for youth literacy was highest in Hyderabad (1.02), Karachi (1.01) and Mirpurkhas (0.81), and lowest in Jacobabad (0.30), Ghotki (0.34) and Tharparkar (0.38).
- The rate of fully immunized children 12-23 months was highest in Karachi (91.1%), Jamshoro (91%), and Larkana (85.1%) and lowest in Tando Muhammad Khan (42.7%), Tharparkar (45%) and Jacobabad (57.1%).
- Proportion of under-one year children immunized against measles was highest in Dadu (96.5%), Karachi (92%), and Jamshoro (91%) and lowest in Tando Muhammad Khan (42.7%), Jacobabad (57.1%) and Sanghar (59.6%).
- Proportion of children under-five who suffered from diarrhea was highest in Sanghar (33.5%), Tando Allahyar (28.7%) and Matiari (18.5%), and lowest in Kashmore (2.5%), Shikarpur (5.6%) and Jacobabad (6.5%).
- The proportion births attended by skilled birth attendants was highest in Karachi (87.8%), Hyderabad (77%) and Mirpurkhas (54.6%) and lowest in Tharparkar (13.6%), Jacobabad (18.3%) and Thatta (27%).
- Access to improved drinking water was highest in Larkana (100%), Ghotki (100%) and Shikarpur (99.8%), and lowest in Tharparkar (7.2%), Umarkot (53.2%) and Jamshoro (64%).
- Access to improved sanitation facility was highest in Karachi (97%), Hyderabad (84%) and Larkana (72%) and lowest in Tharparkar (7%), Thatta (20%) and Tando Muhammad Khan (21%).

Annex 2 Medium Term Current Revenue Expenditure Forecast

(Rs. Billion)

Description	Actual 2013-14	Actual 2014-15	Budget 2015-16	Revised Estimate 2015-16	Forecast 2016-17	Forecast 2017-18	Forecast 2018-19
TOTAL	**337.74**	**393.16**	**503.34**	**501.28**	**560.50**	**620.67**	**687.68**
Agriculture Supplies and Prices Dept.	4.43	8.48	5.92	5.30	6.35	7.00	7.72
Auqaf, Religious Affaris, Zakat & Ushr Dept.	0.33	0.34	0.41	0.36	0.45	0.51	0.57
Board of Revenue	2.09	1.57	2.13	2.09	2.30	2.55	2.84
Chief Minister's Secretariat	3.48	3.53	5.07	5.37	5.51	6.18	6.94
Cooperation Dept.	0.24	0.25	0.33	0.27	0.35	0.38	0.42
Culture, Tourism & Antiquities Dept.	1.21	0.91	1.39	1.46	1.56	1.75	1.95
Discretionary Space	0.00	0.00	0.00	0.00	10.99	12.17	13.48
Education & Literacy Dept.	91.84	101.73	134.90	128.81	148.42	163.86	180.94
Energy Dept.	2.44	11.89	25.90	25.82	28.48	31.34	34.48
Excise, Taxation and Narcotics Dept.	1.22	1.44	1.77	1.97	1.85	2.04	2.24
Finance Dept.	56.06	67.90	74.85	77.70	86.11	94.03	102.85
Forest, Environment and Wildlife Dept.	1.30	1.25	1.63	1.56	1.79	1.96	2.16
Governors Secretariat / House	0.33	0.38	0.41	0.39	0.50	0.55	0.61
Health Dept.	38.85	43.46	57.92	58.53	64.47	71.88	80.18
Home Dept.	49.20	55.25	70.83	73.67	70.87	78.00	85.84
Industries & Commerce Dept.	0.87	0.72	0.66	0.61	0.72	0.80	0.88
Information and Archives Dept.	3.99	4.96	4.54	4.45	4.95	5.44	5.99
Information, Science & Technology Dept.	0.04	0.28	0.05	0.04	0.05	0.06	0.06
Irrigation Dept.	13.82	14.44	17.69	17.69	19.18	21.11	23.23
Katchi Abadi Dept.	0.07	0.10	0.04	0.05	0.05	0.05	0.06
Labour & Human Resources Dept.	0.31	0.34	0.46	0.38	0.49	0.54	0.59
Law, Parliamentary Affairs and Human Rights Dept.	6.22	6.30	8.08	7.28	8.16	8.97	9.87
Livestock & Fisheries Dept.	2.29	2.41	2.85	2.64	3.07	3.37	3.71
Local Government, RD, PHE & HTP Dept.	42.38	46.48	52.41	52.67	57.67	66.10	75.78
Mines & Mineral Dev. Dept.	0.14	0.15	0.21	0.16	0.22	0.24	0.27
Minorities Affairs Dept.	0.12	0.15	0.16	0.16	0.17	0.19	0.22
Ombudsman (Woman) Harassment at workplace	0.028	0.034	0.044	0.028	0.047	0.052	0.057
Planning, Development & Special Initiative Dept.	0.75	0.68	1.05	1.04	1.08	1.20	1.32
Population Welfare Dept.	0.00	0.00	3.40	3.76	4.08	4.49	4.94
Provincial Assembly of Sindh	1.08	1.12	1.47	1.52	1.54	1.69	1.86
Provincial Ombudsman (Mohtasib) Sindh	0.17	0.18	0.31	0.31	0.34	0.39	0.45
Rehabilitation Dept.	0.41	0.76	2.27	2.54	2.48	2.85	3.28
Services, General Administration and Coordination Dept.	5.40	6.27	8.50	7.43	9.12	10.06	11.11
Social Welfare Dept.	0.73	0.80	0.85	0.89	0.93	1.02	1.12
Special Education	0.43	0.55	0.61	0.65	0.68	0.75	0.82
Sports & Youth Affairs Dept.	0.19	0.25	0.57	0.60	0.63	0.71	0.80
Transport & Mass Transit Dept.	0.11	0.12	0.16	0.13	0.18	0.20	0.22
Woman Development Dept.	0.06	0.06	0.09	0.09	0.10	0.11	0.12
Works & Services Dept.	5.11	7.62	13.40	12.87	14.59	16.05	17.66
Discretionary Space / SNE	0.00	0.00	0.00	0.00	10.99	12.17	13.48

Annex 3 Medium Term Development Expenditure Forecast

(Rs. Billion)

Description	Actual 2013-14	Actual 2014-15	Budget 2015-16	Revised Estimate 2015-16	Forecast 2016-17	Forecast 2017-18	Forecast 2018-19
TOTAL	**86.29**	**100.37**	**142.00**	**119.37**	**157.00**	**192.50**	**210.00**
Social Sector	**39.30**	**45.91**	**69.25**	**58.43**	**74.10**	**95.7**	**109.0**
Auqaf, Religious Affaris, Zakat & Ushr Dept.	0.12	0.11	0.26	0.21	0.28	0.36	0.41
Culture, Tourism & Antiquities Dept.	0.67	0.80	1.45	1.26	1.54	2.01	2.31
Education & Literacy Dept.	5.53	6.50	10.00	8.26	10.65	13.85	15.92
Health Dept.	8.25	7.46	13.00	11.20	13.85	18.00	20.70
Information and Archives Dept.	0.25	0.10	0.24	0.22	0.26	0.33	0.38
Information, Science & Technology Dept.	0.15	0.19	0.50	0.42	0.53	0.69	0.80
Labour & Human Resources Dept.	0.05	0.02	0.10	0.09	0.11	0.14	0.16
Local Government, RD, PHE & HTP Dept.	8.97	14.51	14.86	12.92	15.89	20.65	23.75
Matching Allocation	0.27	1.05	4.00	3.20	5.00	8.00	9.20
Minorities Affairs Dept.	0.18	0.16	0.57	0.46	0.60	0.79	0.90
PDP / CDP for SDGs	7.69	0.00	7.00	5.60	7.00	7.00	7.00
Planning, Development & Special Initiative Dept.	1.19	1.02	3.73	3.04	3.97	5.16	5.94
Population Welfare Dept.	1.01	0.91	0.30	0.24	0.32	0.42	0.48
Public Health Eng.	1.92	3.86	2.90	2.44	3.09	4.02	4.62
Rural Development	0.85	0.42	1.00	0.82	1.07	1.38	1.59
Social Welfare Dept.	0.10	0.07	0.20	0.17	0.21	0.28	0.32
Special Education	0.00	0.00	0.20	0.16	0.21	0.28	0.32
Special Initiatives	1.04	7.78	4.54	4.05	4.84	6.29	7.23
Sports & Youth Affairs Dept.	0.70	0.57	1.00	0.85	1.07	1.38	1.59
STEVTA	0.29	0.31	1.00	0.81	1.07	1.38	1.59
Universities & Boards	0.00	0.00	2.00	1.66	2.13	2.77	3.18
Woman Development Dept.	0.08	0.07	0.40	0.35	0.43	0.55	0.64
Infrastructure Sector	**37.80**	**50.74**	**62.94**	**52.62**	**72.46**	**83.19**	**85.34**
Board of Revenue	3.30	1.43	3.50	3.07	3.73	4.85	5.57
Chief Minister's Secretariat	0.00	0.00	0.35	0.30	0.37	0.48	0.56
Cooperation Dept.	0.02	0.01	0.02	0.01	0.02	0.02	0.03
Energy Dept.	7.13	16.95	16.50	13.49	9.60	12.48	14.35
Excise, Taxation and Narcotics Dept.	0.04	0.08	0.15	0.12	0.16	0.21	0.24
Finance Dept.	0.00	0.01	0.04	0.03	0.04	0.05	0.06
Governors Secretariat / House	0.00	0.04	0.20	0.17	0.21	0.28	0.32
Home Dept.	0.69	1.04	1.00	0.85	1.07	1.38	1.59
Irrigation Dept.	11.48	14.17	12.00	9.78	12.78	16.61	19.11
Katchi Abadi Dept.	0.09	0.03	0.09	0.08	0.09	0.12	0.14
Law, Parliamentary Affairs & Human Rights Dept.	0.30	0.19	0.52	0.43	0.55	0.71	0.82
Mega Projects/ Flagship Schemes	0.00	0.10	0.00	0.00	0.00	0.00	0.00
New Development Initiatives	0.00	2.57	5.00	4.00	5.00	5.00	5.00
Provincial Assembly of Sindh	1.00	1.31	1.00	0.90	1.07	1.38	1.59
Provincial Ombudsman (Mohtasib) Sindh	0.00	0.00	0.01	0.01	0.01	0.01	0.02
Rehabilitation Dept.	0.14	0.00	0.65	0.55	0.69	0.90	1.03
Services, General Administration & Coordination	0.48	0.43	6.67	5.91	7.10	9.23	10.61
Sindh Board of Investment	2.47	2.31	0.26	0.21	0.28	0.36	0.41
Sindh Revenue Board	0.10	0.00	0.00	0.00	0.00	0.00	0.00
Transport & Mass Transit Dept.	0.08	0.04	3.00	2.46	3.20	4.15	4.78
Water schemes for Thar Coal	0.00	0.00	3.00	2.40	10.00	0.00	0.00
Works & Services Dept.	10.47	10.00	9.00	7.85	11.50	14.95	17.19
Production Sector	4.69	3.25	9.81	8.32	10.45	13.6	15.6
Agriculture Supplies and Prices Dept.	3.06	2.31	4.50	3.61	4.79	6.23	7.16
Food	0.50	0.15	0.36	0.33	0.38	0.50	0.57
Forest, Environment and Wildlife Dept.	0.43	0.36	0.90	0.72	0.96	1.25	1.43
Industries & Commerce Dept.	0.08	0.05	2.50	2.31	2.66	3.46	3.98
Livestock & Fisheries Dept.	0.59	0.36	1.40	1.23	1.49	1.94	2.23
Mines & Mineral Dev. Dept.	0.03	0.02	0.15	0.12	0.16	0.21	0.24

Annex 4 Agricultural Income Tax Policy Proposal

Collections on account of Agriculture Income Tax and Land revenue remained at Rs.469.5 million in year 2013-14 and Rs.518.7 million in year 2014-15, which is only 0.5% of total provincial own revenue sources. Given the structure of Sindh economy, 17% of Gross Provincial Product is contributed by Agriculture Sector, of which share of Livestock and Fisheries amounts to 55%. The contribution of crops production towards Gross Provincial Product is only 7.65%, which amounts to US$6.5 Billion. In Sindh 43% of population depends on agriculture income and per capita crop income amounts to US$315.0. This combined with income from livestock and fisheries, average per capita income of population dependent on agriculture in Sindh amounts to US$700, which is far less than national per capita income of US$1,513. Hence, the tax potential of Agriculture Income Tax in Sindh is quite low.

At present, land revenue is being collected at fixed rate per acre. The land revenue is charged on uniform rate of Rs.200 per acre for all farm sizes/ landholdings and Rs.500 per Acre for orchards; however there is exemption from land revenue on landholdings unto 12.5 Acres for irrigated land or 25 Acres for un-irrigated land other than orchards.

Based on details of number of landowners, farm size, total cultivated area as per Pakistan Agriculture Census conducted in 2010[62], potential of agriculture income tax on the basis of proposed fixed land revenue is estimated as under:

Table 3: Potential in Agriculture Income Tax

Farm Size (In Acres)	No. of Farms/ Landowners	Cultivated Area (Acres)	Current Rate Land Revenue	Estimated Land Revenue at current rates	Proposed Rate of Land Revenue/ Advance AIT	Land Revenue/ Advanced AIT at proposed rates
Upto 1	41,640	12,401	-	-	-	-
1 - 2.5	305,589	467,685	-	-	-	-
2.5 - 5	282,248	909,990	-	-	-	-
5 - 7.5	159,335	810,302	-	-	-	-
7.5 - 12.5	138,060	1,113,030	-	-	-	-
12.5 - 25	97,700	1,380,684	200	276,136,800	2,000	2,761,368,000
25 - 50	64,040	1,516,144	200	303,228,800	2,500	3,790,360,000
50 - 100	21,102	917,310	200	183,462,000	3,000	2,751,930,000
100 - 150	3,182	227,548	200	45,509,600	3,500	796,418,000
150 above	2,393	288,437	200	57,687,400	4,000	1,153,748,000
Total	**1,115,289**	**7,643,531**		**866,024,600**		**11,253,824,000**

The figures on number of farms as per farm size/landowners may have changed because of fragmentation of land on account of law of inheritance and also for sale/purchase of land. However, given available data on farm size, number of farm owners and cultivated area, potential of land revenue as per existing rates amounts to Rs.866 million against which Board of Revenue collected Rs.200 million in 2013-14 and 176 million in 2014-15. If land revenue were to be collected in advance agriculture income tax mode at the progressively upward revised rates per acre in accordance with farm size/landholding as indicated in the table above and made adjustable in agriculture income tax returns, the potential revenue from agriculture income tax would be Rs.11.25 billion. The above-indicated fixed rate of advanced AIT per acre can be further modified for type of land (irrigated or irrigated), type of crop and type of land tenure to make the rates more equitable and equivalent to other types of incomes liable to income tax under Income Tax Ordinance 2001 as amended from time to time.

Annex 5 Draft Guidelines for Formulation of Provincial ADP 2016-17

The Annual Development Program 2016-17 will be prepared in line with prevalent economic policies, strategies of the Government and broad guidelines given by the Federal Government on preparation of PSDP 2016-17 and by abiding the following specific guidelines, which would be submitted for approval of the Senior Minister for Finance and Planning & Development.

i. All Administrative Departments may scrutinize their projects in the approved portfolio and determine whether these fall within the parameters of economic agenda of the Government. While undertaking this exercise, all departments may also identify those new projects, which could be implemented under Public Private Partnership (PPP) mode.

ii. Total size of the Provincial ADP 2016-17 is proposed to be Rs.157.0 billion. 1st Edition of the ADP may be prepared at 10% increase on the current year's size of each department. However, the size of ADP of each department would be decided depending on the future demand, priority, and impact on socio-economic and implementation capacity of the department.

iii. All Administrative Departments to ensure that the ratio of allocation of ongoing and new un-approved schemes be maintained at 80:20 in Provincial and Districts ADPs.

iv. Protect on-going schemes, which have reached at advance level for completion and provide allocations as per financial phasing given in PC-1s to complete more numbers of schemes.

v. In order to decrease throw-forward little space will be available for including fresh/ new schemes in ADP 2016-17. Only those new schemes will be considered which have been inducted under the C.M. Directives, high priority and emergent nature. Those new schemes should be arranged in order of priority within each sector/sub- sector so that if resources fall short of requirements, least priority schemes may be dropped.

vi. The allocation for new schemes included in Provincial and Districts ADPs must not be less than 25% of the total cost. Cost and scope of new schemes included in ADP should not be changed at the time of preparation of PC-I; only variation up to 10% will be accepted.

vii. Allocation of new schemes be kept in view of the completion period of maximum 3 years.

viii. PC-1s of new schemes included in ADP 2015-16 are required to be furnished before 31st January 2016. No new scheme will be continued in next year's ADP if not approved as per given timeline. The departments will have to bring it as fresh scheme for ADP 2016-17 in case of its priority.

ix. Schemes likely to be completed by June 2016, as per commitment of the Departments during ADP review meetings, should not be continued in next year's ADP.

x. Schemes carrying token allocation, zero utilization and or un-approved for the last two consecutive years shall not be proposed in the ADP 2016-17.

xi. All Administrative Departments have to ensure furnishing Sindh Public Sector Development Framework, which will indicates goals and targets of each department and accommodate targets of Sustainable Development Goals (SDGs) and actions proposed in Climate Change Policy Framework.

xii. The amount for the projects to be financed through foreign assistance should separately be mentioned in rupees, indicating the expenditure on import of goods and services. This is necessary because under certain aid agreements, the Government of Pakistan / Sindh is required to first incur the expenditure in local currency and thereafter the amount is reimbursed by the Development Partner / Foreign Donors.

xiii. The counter-part funds required for Foreign Assisted Projects must be ensured to be kept in each year's ADP as per commitments made with International Development Partners.

xiv. All Administrative Departments / concerned agencies will formulate their programs after full deliberations with all concerned stakeholders so that request for re-appropriation, immediately after the commencement of the fiscal year, can be avoided. As a policy, the Planning and Development Department would not entertain any request for re-appropriation during the period from July to December 2016.

xv. In order to improve the Socio-economic indicators, special emphasis may be placed on completion of ongoing projects / programs of social sector and infrastructure sector leading to poverty alleviation. While forwarding the demand for ADP 2016-17, the department should also observe the 18th Amendment i.e., Division of subject between the provinces and the federation.

xvi. A brief project profile and core objectives of the mega projects with total cost exceeding Rs.500 million may be given separately.

xvii. The requirement of feasibility studies for schemes costing Rs.500.00 million must be fulfilled before including any such new scheme in ADP 2016-17.

xviii. No block allocation will be allowed in next year's ADP, all departments will have to bring such development initiatives in scheme mode.

xix. The nomenclature of the schemes / projects has to be correctly given along with date of approval and completion in order to avoid discrepancies.

xx. Location of the schemes falling in more than one District or Sindh-based schemes may be avoided. Name of districts be given in the location column against each scheme.

xxi. Realistic estimated cost be mentioned and proper allocation for Revenue and Capital components may be given for each scheme.

xxii. Any instructions or policy guidelines to be issued from time to time will be adhered.

Acronyms

ACGR	Annual Compound Growth Rate
ADB	Asian Development Bank
BHU	Basic Health Unit
BOR	Board of Revenue
CDL	Cash Development Loan
CE	Current Expenditure
CFY	Current Fiscal Year
CMW	Community Midwifes
CRE	Commercial Real Estate / Corporate Real Estate
CRG	Core Reform Group
CVT	Capital Value Tax
DeMPA	Debt Management Performance Assessment
DS	Debt Servicing
ECE	Early Childhood Education
EFA	Education for All
ET&N	Excise Taxation and Narcotics
EU	European Union
FMH	Fund Management House
FY	Fiscal Year
GDP	Gross Domestic Product
GDS	Gas Development Surcharge
GPF	General Provident Fund
GPP	Gross Provincial Product
GRR	General Revenue Receipt
GST	General Sales Tax
MCHC	Mother and Child Healthcare Centres
MCHS	Maternal Child Health Services
MDG	Millennium Development Goal
MNCH	Maternal, Newborn and Child Health
NEC	National Economic Council
NFC	National Finance Commission
ORG	Operational Reform Group
OSR	Own Source Revenue
OZT	Octroi Zillah Tax
PAC	Public Accounts Committee
PEFA	Public Expenditure and Financial Accountability (Assessment)
PFC	Provincial Finance Commission
PFMAA	Public Financial Management and Accountability Assessment
PFMAP	Public Financial Management Action Plan
PIB	Pakistan Investment Bond
PIFRA	Project for Improvement of Financial Reporting and Auditing
RHC	Rural Health Centres
SCARP	Salinity Control and Reclamation Program
SDM&I	Sindh Development Maintenance of Infrastructure Cess
SPPRA	Sindh Public Procurement Regulatory Authority
SRB	Sindh Revenue Board
SRG	Strategic Reform Group
STRMP	Sindh Tax Revenue Mobilization Plan
THQ	Taluka Headquarters
WB	World Bank

Endnote

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[3] Economic Survey of Pakistan 2014-15, VI.
[4] Economy of Sindh by Dr. Ishrat Hussain.
[5] Labour Force Survey 2013-14, Pakistan Bureau of Statistics, Table 11.
[6] Labour Force Survey 2013-14, Pakistan Bureau of Statistics, Table 11 & 12.
[7] Economic Survey of Pakistan 2014-15, Table 12.12.
[8] Ibid
[9] Pakistan Demography and Health Survey 2012-13, 129.
[10] Ibid, Table-8.2, 121.
[11] Ibid.
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[13] Ibid, Table 28, 94.
[14] Government of Pakistan, Ministry of Finance, Economic Survey of Pakistan 2014-15,Table 10.5, 175.
[15] Ibid, Table 10.7, 176
[16] Pakistan Social and Living Standards Measurement Survey 2013-14), Tables-2.1, 23.
[17] Ibid, Tables 24, 26.
[18] Pakistan Millennium Development Goals, Report 2013, Table 1, 17.
[19] Ibid, Table 28, 94.
[20] Government of Pakistan, Ministry of Finance, Economic Survey of Pakistan 2014-15,Table 10.5, 175.
[21] Ibid, Table 10.7, 176
[22] Ibid, Table 10.6, 176
[23] Pakistan Social and Living Standards Measurement Survey 2013-14), Tables-2.1, 23.
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[25] Economic Survey of Pakistan 2014-15, Table-10.7, 176
[26] Ibid, Table-10.4, 173
[27] Pakistan Social and Living Standards Measurement Survey 2013-14, Tables-2.1, 23.
[28] Ibid, Table-2.6 (b), 29.
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[30] Pakistan Millennium Development Goals, Report 2013, Table-12, 44.
[31] Pakistan Millennium Development Goals, Report 2013, Table 1, 18.
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[35] Ibid, Table-4, 19.
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[37] Pakistan Social and Living Standards Measurement Survey 2013-14, Table-24, 26.
[38] SPDC, The State of Social Development in Rural Pakistan (Annual Review 2012-13), 27.
[39] Ibid, Table 2.14, 25.
[40] Ibid, Table 6.1, 89.
[41] Ibid, Table 6.8, 102.
[42] Government of Sindh, Report on Status of Millennium Development Goals Sindh, 2012, 31 & 54.
[43] *Other Funds comprise of Education City Fund, Sindh Flood Relief Fund, Provincial Disaster Management Fund, SPPRA Investment Fund and Sindh Alternative Energy Fund.*
[44] Pakistan Demography and Health Survey 2012-13, 129.
[45] Ibid, Table-8.2, 121.
[46] Ibid.
[47] Ibid, Table 5.2, 71.
[48] Pakistan Social and Living Standards Measurement Survey 2013-14), xvi.
[49] Ibid, Tables -3.16, 96.
[50] Ibid, Tables - 3.19, 99.
[51] Ibid, 122.
[52] Pakistan Millennium Development Goals, Report 2013), Table 22, 71.
[53] Ibid, Table 28, 94.
[54] Ibid, Table 28, 94.
[55] Government of Pakistan, Ministry of Finance, Economic Survey of Pakistan 2014-15,Table 10.5, 175.
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