



Progress Report on Tranche Release

Program Number: 34337
Loan Number: 2047/48
July 2007

Pakistan: Sindh Devolved Social Services Program

CURRENCY EQUIVALENTS

(as of 19 June 2007)

Currency Unit	–	Pakistan rupee (PRe/PRs)
PRs1.00	=	\$0.01649
\$1.00	=	PRs60.61

ABBREVIATIONS

ADB	–	Asian Development Bank
ASP	–	annual sector plan
CBO	–	community-based organization
DCO	–	district coordination officer
DG	–	district government
DOH	–	Department of Health
DSSP	–	Devolved Social Services Program
DSU	–	district support unit
EDO	–	executive district officer
GRAP	–	Gender Reform Action Plan
HMC	–	health management committee
LGC	–	Local Government Commission
LGD	–	Local Government Department
LSU	–	local support unit
MDG	–	millennium development goal
MOU	–	memorandum of understanding
NGO	–	nongovernment organization
PFC	–	Provincial Finance Commission
PHE	–	public health and engineering
PLD	–	provincial line department
PRSP	–	Poverty Reduction Strategy and Program
PSU	–	program support unit
RSU	–	reforms support unit
SDR	–	Special Drawing Rights
SDSSP	–	Sindh Devolved Social Services Program
SEMIS	–	Sindh Education Management Information System
SHP	–	Sindh health policy
SLGO	–	Sindh Local Government Ordinance
SPG	–	Sindh provincial government
TA	–	technical assistance
TMA	–	taluka municipal administration
TO	–	taluka officer
TPV	–	third party validation
UC	–	union council
VDA	–	village development association
WSS	–	water supply and sanitation

NOTES

- (i) The fiscal year (FY) of the Government ends on 30 June. FY before a calendar year denotes the year in which the fiscal year ends.
- (ii) In this report, "\$" refers to US dollars.

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I. INTRODUCTION

1. The Asian Development Bank (ADB) approved the Sindh Devolved Social Services Program (SDSSP) for \$220 million on 12 December 2003 to support the Sindh provincial government (SPG) in undertaking and sustaining wide-ranging reforms in the social sectors. The SDSSP provides a framework for pursuing critical policy reforms at the provincial level and provides fiscal and technical support for local governments in the devolved social sectors: education and health in district governments (DGs), and water supply and sanitation in taluka¹ municipal administrations (TMAs). The support to local governments is through formula-based conditional grants, based on annual plans prepared for the entire sector and showing all sources and proposed uses of funds. The SDSSP is pursuing a significant policy reform agenda, covering the following areas: (i) further devolving social services to local governments; (ii) improving social sector financing; (iii) improving participation, linkages, and public accountability; (iv) rationalizing services and standard setting; and (v) promoting public-private partnership to improve service delivery. There are presently 23 DGs and 119 TMAs in Sindh.²

2. The SDSSP, which became effective on 29 April 2004, is being implemented over 3 years. The first tranche of ¥7,289,935,000 (Yen 1.0 = \$.0080713507) and SDR23,048,000 was released on 6 May 2004. The second tranche of ¥4,025,785,000 and SDR23,048,000 was released on 14 July 2005.³ This progress report provides an overview of key policy reforms, along with specific details of achievements in support of compliance with third tranche conditions. The closing date for the program loan is August 1, 2007.

3. The Central West Social Sectors Division (CWSS) has closely monitored the Program's implementation, and has fielded seven missions since the release of the second tranche.⁴ Regular communication is maintained with stakeholders through periodic progress reports from SPG.

II. MACROECONOMIC AND SECTOR DEVELOPMENTS

4. **Pakistan.** Despite the earthquake of October 2005 and the continued surge in international oil prices, the economy maintained a high growth rate of 6.6% in FY2006. That figure represents a rising trend stemming from the Government's far-reaching macroeconomic and structural reforms initiated in 2001, which subsequently propelled the economy to an annual expansion of about 7% over 4 years. High economic growth in recent years and a significant increase in pro-poor public expenditure have had a positive impact on poverty reduction in both rural and urban areas.

5. **Sindh.** As Pakistan's second largest province in terms of population, Sindh is a significant contributor to the national economy. Sindh's share of Pakistan's gross domestic product (GDP) is 33.3%, and it contributes 64% of the federal divisible pool of tax revenue. However, fiscal space continues to be limited due to a narrow tax base and federalization of the more buoyant taxes such as the Octroi and Zila taxes,⁵ reliance on fiscal transfers, and the fact

¹ Administrative unit of government, below the district and the province.

² This includes the new DGs and TMAs created since the end of 2004 and early 2005. There were 16 DGs and 102 TMAs at the outset of the Program.

³ ADB. 2003. *Report and Recommendation of the President to the Board of Directors on Proposed Program and TA Loans to the Islamic Republic of Pakistan for the Sindh Devolved Social Services Program*. Manila.

⁴ January/June 2006 review missions; October/November/March 2007 consultation missions; February 2007 Midterm Review Mission.

⁵ Federalized local taxes.

that 70% of current expenditures are committed for debt servicing, salaries, and pensions. Revenue receipts (including federal transfers) amounted to PRs126.9 billion in FY2006, against PRs98.5 billion in FY2005, representing an increase of 28.8%.⁶ In addition, fiscal space created by increased receipts and accelerated debt retirement, facilitated by the SDSSP, has enabled SPG to increase social sector expenditures. SPG's expenditures in education, health, and water and sanitation have increased from PRs14.5 billion in FY2005 to PRs20.9 billion in FY 2006.

6. Despite increased expenditures, social indicators in Sindh are poor, with high levels of illiteracy, malnutrition, and mortality, especially among women. Facilities for public social services, education, health, nutrition, and water and sanitation are run-down, primarily because of poor governance, weak capacity, and financing problems. SPG has made several efforts in the past to improve services, but results have lagged behind targets due to weak institutional and policy frameworks. To address these challenges, SPG embarked on an extensive reform agenda encompassing the Poverty Reduction Strategy and Program (PRSP), which reaffirms SPG's commitment to reducing poverty and achieving the Millennium Development Goals (MDGs), the Sindh Local Government Ordinance (SLGO) 2001, as the legal framework for devolution, and various sector-specific reform policies and programs. ADB, through SDSSP, is supporting SPG reform objectives in the social sectors, and is optimizing opportunities for devolution to improve social services.

7. The institutions established under SLGO, such as the Provincial Finance Commission (PFC), the Local Government Commission (LGC), and local council committees are functioning but require further resources and capacity to strengthen their operational capabilities. The DSSP and the Decentralization Support Program (DSP) continue to support these institutions in an effort to make the reform process sustainable. SPG has demonstrated its own commitment to supporting the devolved social sectors by providing local governments with an enabling institutional and legal environment, providing funds for the delegation of administrative and financial powers, and adopting fiscal management strategies that prioritize spending in the social sectors.

8. SPG has devolved administrative and financial powers, and has committed to strengthen the legal and institutional framework to support devolution. SLGO focuses on enhancing public accountability and promotes active engagement between communities, the private sector, and local governments to find new solutions for improving service delivery. ADB's support of these developments will continue to improve basic social service delivery and overall social sector indicators.

III. IMPLEMENTATION IN POLICY OUTCOME AREAS

9. As a multisector program dealing with three tiers of government, the SDSSP aims to improve social service delivery and create fiscal space for social sectors. To realize these objectives, the SDSSP focuses on governance and finance reforms that are implemented at the provincial level and transmitted to the local government level. The SDSSP provides a technical assistance (TA) loan to support and strengthen the capacity of all tiers of government, particularly local governments, for improving service delivery in a sustainable manner. The following section describes implementation progress in the policy outcome areas.

10. **Policy Outcome 1: Further Devolve Social Services to Districts and TMAs.** The SLGO, introduced in 2001, provides the political and administrative framework for the

⁶ Government of Sindh. 2006. Annual Budget Statements, 2006-07, Karachi, Pakistan.

Government's policy of devolution and created 16 DGs, 102 TMAs, and 1,044 union administrations (UAs). Subsequent to bifurcation of certain districts in 2004/5, there are now 23 DGs and 119 TMAs. DGs are responsible for schools, colleges, and district health services, and TMAs for water supply and waste disposal, in coordination with UAs. DGs are independent local governments, while TMAs and UAs have been designated as autonomous corporate bodies. Devolution required changes in the provincial structures for services and entailed a process of transfer of human and financial resources from the province to local governments, as well as a series of amendments to laws, rules, systems, procedures, and processes.

11. The Chief Secretary and the DGs have approved a delegation plan, which provides a strategic and analytical framework to identify critical areas for further devolution of powers. To review the administrative and financial powers devolved to local governments, in terms of adequacy of powers to enable effective functioning of local governments, LGC constituted a Monitoring and Evaluation Committee and two working groups. The committee and its working groups have met three times, and a record and report of their deliberations have been submitted in support of this policy outcome.

12. **Policy Outcome 2: Improve Social Sector Financing.** Given the constrained fiscal space available to SPG, the related issues of enhancing social sector financing and institutionalizing more transparent, regular, and predictable funds flow to the local governments are significant. SPG is using the \$110 million in ordinary capital resources (OCR) funds provided under the SDSSP to implement its debt management strategy, and in so doing has prepaid expensive debt. The savings generated from these prepayments are directed back into the social sectors. In addition, for the first time since its establishment, PFC introduced a conditional grant mechanism for social sectors and the Asian Development Fund (ADF) component of SDSSP was earmarked for formula-based transfers to the local governments, subject to compliance with eligibility and access criteria. At the time of submission of this progress report, conditional grant funds had been transferred to 119 TMAs and 14 DGs.

13. Historically, one of the key areas of concern in Sindh has been low allocations and releases of nonsalary expenditures. In the third year of the DSSP, SPG made large up-front transfers, followed by regular and predictable monthly transfers to support local governments in maintaining services and meeting nonsalary commitments.

14. **Policy Outcome 3: Improve Participation, Linkages, and Public Accountability.** SLGO emphasizes the importance of improving the level of public participation and accountability, and proposes several ways by which that can be achieved, including planning through consultation with communities, council committees, citizen community boards and LGC. The SDSSP supports and strengthens these institutional mechanisms by providing them lead roles in planning, monitoring, and evaluation.

15. To promote transparency in the relationship between the provincial line departments (PLDs) and local governments, a Memorandum of Understanding (MOU) was developed, which local governments were required to execute to become eligible for SDSSP conditional grants. The MOU requires public participation and involvement of council committees, with significant gender participation in the decision-making process. SPG has undertaken a third-party validation (TPV) study, which provides valuable insight into the implementation of MOUs.

16. The conditional grant system was introduced under DSSP to provide incentives for local governments to improve sector planning for social services, which would in turn improve access to basic social services of improved quality that are efficient, affordable, and sustainable. While

the latter improvements will become evident and measurable over the medium to long term, improvements in the planning process have been evident during the course of the Program and are documented in the TPV and Midterm Review reports.

17. **Policy Outcome 4: Rationalize Services and Set Minimum Standards.** The SDSSP seeks to ensure more efficient use of public finances and provision of a minimum package of services in a more effective and equitable manner. The SDSSP conditional grants require local governments to undertake situation analyses to identify problems, details of ongoing schemes, availability and sources of funds, and investment plans for improving services. To address the chronic issues of poor prioritization, overcommitment of financial resources to new initiatives, and low investments in operation and maintenance, local governments were required to operationalize existing services where possible. The annual sector plans (ASPs) demonstrate that these conditions and guidelines were followed within a process led by the local councils. Investments were made mainly to strengthen existing services and operationalize closed services, thus improving access to basic services.

18. **Policy Outcome 5: Encourage Public-Private Partnerships for Improved Service Delivery.** Building on progress from the previous year of the SDSSP, in which the program support unit (PSU), local governments, and leading nongovernment organizations (NGOs) framed a policy for involving the community in service delivery and facilitating development of public-private partnerships to improve social service delivery, the SDSSP has strengthened linkages between local governments, communities, and civil society. Although SPG has committed to increasing social sector expenditures, it is still unlikely that the increase would be sufficient for delivering social services to all vulnerable groups, especially the rural poor and urban slum dwellers. Encouraging public-private partnerships is, therefore, an important strategy for widening access to social services, as evident in the health sector, where health boards have been established in all districts. Sixteen districts have district-level civil hospitals in which they have established hospital management committee (HMCs)⁷. The remaining districts do not have district-level hospitals, so HMCs have been established in Taluka-level hospitals. This has been a major achievement under the Program, and is an important step toward autonomy of hospital management and encourages a community role in improving service delivery mechanisms and accountability for public funds.

IV. IMPLEMENTATION OF TA LOAN

19. Under the SDSSP, a TA loan of \$10 million was also approved by ADB to assist SPG in establishing the PSU and local support units (LSU) at district level, and in performing capacity-building initiatives in line with the policy reform agenda of the Program. Initial delay with the TA loan was due to delayed approval of the Planning Commission Performa I (PC-1). Since then, disbursements have gained pace but overall utilization is still low. During the Midterm Review Mission, it was decided that committed funds to support SDSSP activities over the next year should be retained, and the remaining funds should be earmarked to support capacity building at the provincial and local government levels within a proposed program that merges aspects of DSSP and ADB's public resource management programs.

⁷ During the ADB Review Mission of January 2006, it was agreed that the establishment of both health boards and hospital management committees would be acceptable for this tranche condition.

V. STATUS OF DEFERRED SECOND TRANCHE CONDITIONS

20. The progress report for release of the second tranche indicated that compliance with three tranche conditions should be deferred until the third tranche, to which the Board agreed. SPG has since made progress with meeting all three conditions, two of which are fully complied with and one is substantially complied with.

Condition B(i): **Sindh, the DGs and the TMAs shall have agreed to maintain the level of social sector expenditures as a proportion of total revenues in the fiscal year 2003-2004 and shall have allocated thirty-three million dollars (\$33 million) as an additionality.**

Status: **Complied with**

21. This condition was initially assessed as substantially complied. SPG, DGs, and the majority of TMAs maintained social sector allocations as a proportion of total revenue in FY2004 and allocated \$33 million as an additionality to their regular budgets for FY2005. Out of 102 TMAs, 91 had fully complied; however, data from the remaining 11 TMAs required verification. PFC has now submitted clean data for the 11 TMAs, which verifies the required level of social sector allocations and the additionality (see Appendix 1).

Condition B(iii): **Within 1 month of the start of fiscal year 2005, Sindh shall have transferred 25% of total non-salary allocations for the DGs and the TMAs through Account No. IV and shall have agreed to transfer seventy-five percent (75%) of total non-salary allocations on a monthly basis.**

Status: **Substantially complied with**

22. This condition was initially assessed under the progress report of the second tranche as substantially complied. SPG was not able to make the up-front transfer of 25% of federal receipts to local governments as this provision was dependent upon the schedule of transfers from the federal government to SPG, which needed to occur first. Nevertheless, monthly transfers were made to the local governments by SPG throughout the year in a predictable and timely manner, which demonstrated SPG's commitment to improve the capacity of local governments to consistently meet nonsalary expenditures.

Condition D(i): **The DGs and the TMAs shall have utilized the conditional grants in accordance with the agreed eligibility criteria.**

Status: **Complied with**

23. This condition was initially assessed as substantially complied. At the time of the second tranche release, some TMAs that had signed the MOU were still in the process of preparing ASPs; hence it was not possible to report on their allocations or actual utilization of the conditional grants. The TMAs' utilization data has since been compiled by the PSU and was submitted to ADB in April 2007 submitted by the PSU. From December 2004 to February 2005, 25 TMAs were bifurcated, creating 17 new TMAs, and taking the total from 102 to 119. The TMA accounts became fully functional in July 2005. Funds from the first conditional grants have

been transferred into the accounts of 109 TMAs in two phases, i.e. 63 in FY2005 and the remaining in FY2006 onwards, hence all of the TMAs that were not able to utilize the first conditional grants have now done so. Of the newly created TMAs, 10 did not receive conditional grants because their parent TMAs had already accessed funds in FY2005.⁸ Utilization of funds among the 109 TMAs shows that drainage schemes received the bulk of funds at 46%, followed by water supply schemes at 34%, and solid waste management at 20%. The overall utilization of the first round of conditional grants in the water supply and sanitation (WSS) sector is very satisfactory, at 87% of total transfers. Table 1 indicates the subsector priorities and utilization rates.

**Table 1: Water Supply and Sanitation Sector
Utilization of First Round of Conditional Grants**

Subsector	Allocation (Rs in millions)	Utilization (Rs. In millions)	Utilization (%)	Subsector Prioritization (%)
Drainage	178.16	161.11	90.43	45.84
Water Supply	130.98	101.79	77.71	33.70
Solid Waste Management	79.55	74.48	93.63	20.47
Total	388.69	337.38	86.80	100.00

Source: 2006 Local Government Department, Government of Sindh

VI. STATUS OF THIRD TRANCHE CONDITIONS

A. Overview

24. SPG has fully complied with 12 conditions, substantially complied with 3 conditions, partially complied with 1 condition, and requests a waiver for 1 condition. The following section highlights implementation progress with each of the third tranche conditions.

25. Policy Outcome 1: Further Devolve Social Services to Districts and TMAs.

Condition A(i): Sindh shall monitor the implementation of delegation of administrative and financial powers to the DG and the TMAs.

Status: Complied with

26. In support of the tranche condition, SPG issued a report (August 31, 2006), approved by the Secretary of the Local Government Department (LGD), detailing the various mechanisms developed for monitoring powers at the local government level. Foremost among them is LGC, constituted under SLGO as the institutional body responsible for oversight and external monitoring of local governments, including inspections, inquiries, audits, performance assessment, etc. SPG reports that LGC has met 32 times between 2001 and 2006, and has

⁸ Naseerabad (Warah); Sujawal Shah Junejo (Miro Khan); Saeedabad (Matiari); Jhudo (Digri); Daur (Nawabshah); Chamber (Tando Allah Yar); Jhando Mari (Tando Allah Yar); Bulri Shah Karim (Tando Mohammad Khan); Tando Ghulam Hyder (Matli); Mehrab Pur (Kandiaro)

conducted inspections of DGs, TMAs, and UAs. Moreover, LGC has received and is in various stages of processing 996 complaints. Although LGC is undertaking roles and responsibilities as envisaged under SLGO, it is still constrained in its efforts by inadequate staff and office space.

27. Internal monitoring of local governments is performed by the elected monitoring committees, many of which were not functioning properly due to lack of established rules. To address this situation, LGC has persisted in its recommendation that the Government frame monitoring rules under the Decentralization Support Program (DSP).⁹ Similarly, internal audit offices had not been established for lack of established rules. SPG has now responded to LGC's recommendation to frame and notify internal audit rules. The rules have been submitted and are posted on the Program website. The report suggests that the establishment of internal audit offices and appointment of experienced personnel will greatly assist in removing impediments to effective functioning of local governments.

28. Two review teams/working groups have subsequently been formed by the LGC¹⁰ to address ways of improving monitoring of devolved functions. Working group I (WG I) was given responsibility for conducting a detailed review of administrative powers devolved to the local governments. The review called for a uniform monitoring framework at the provincial, regional, and district levels, and reduction in the number of monitoring agents, such that all monitoring activities would be carried out under one or two departments, possibly LGC and Planning and Development (P&D). WG I has also recommended establishing a research seat at the Civil Services and Local Government Academy, Tando Jam, Hyderabad, to identify, assess, strengthen, and review devolution issues, and assist the government in formulating rules, regulations, and policies. In addition, WG I has recommended that all vacant posts in district departments, such as Revenue, Finance & Planning, Education and Health, should be filled, thereby necessitating easing of the ban on essential staff recruitments for health, education, and municipal services.

29. WG II addresses issues related to financial powers under devolution. In its first meeting it deliberated on increasing budgeting powers transferred to DGs and TMAs; delegation of drawing and disbursing powers for TMAs; and transferring increased tax share in proportion to incremental receipts from the federal Government. Minutes of WG meetings have been submitted to ADB and are posted on the Program website, www.sdssp.gov.pk.

Condition A(ii): Majority of the DGs shall have implemented the Delegation Plan.

Status: Complied with

30. Under devolution, reassignment of responsibilities and functions necessitated decentralization and delegation of powers from the provincial government to local governments. To review the administrative and financial powers devolved to local governments in terms of adequacy of powers to enable effective functioning of local governments and identification of major issues in implementing and exercising devolved powers, the Chief Secretary, DGs, and the Program Monitoring Committee reviewed and approved the delegation plan.

31. In support of the tranche condition, all districts, except Kambar, have submitted documentation substantiating implementation of powers as described in the delegation plan,

⁹ ADB. 2003. *Report and Recommendation of the President to the Board of Directors on Proposed Program and TA Loans to the Islamic Republic of Pakistan for the Decentralization Support Program*. Manila.

¹⁰ Government of Sindh, Local Government Commission. 2006. NO.RO/SLGC/83(V)/SDSSP/M&EC/2006. Karachi.

including establishment of monitoring committees, transfer and posting orders, issuance of contractual appointments, cost estimates of schemes in DGs and TMAs, administrative approvals, and budget books.

Condition A(iii): **Sindh shall continue implementation of the new role and responsibilities of the PLDs and shall review progress made in this regard.**

Status: **Substantially complied with**

32. The devolution plan has considerable implications for the function of PLDs. For the second tranche, the PLDs were required to initiate implementation of their new roles and responsibilities. PLDs have continued with implementation of these roles and have submitted reports detailing implementation progress.¹¹ While LGD report indicates progress in this respect, it still retains technical sanction power within its technical wing, Public Health and Engineering. The third tranche condition assumes substantial progress on devolution of technical sanction powers to TMAs, which LGD has not fully achieved. The health and education departments have achieved comparatively faster implementation, although it is worth noting that the midterm review report points to political and bureaucratic ambivalence toward decentralization as an impediment to substantive reform at the provincial level. The report suggests that the health department was most progressive, but more could have been done with education and LGD by using the Program Steering Committee and Technical Working Group as entry points, and that this opportunity may have been missed due to an overriding focus on conditional grants and development of ASPs. The PSU played a major role in guiding and assisting the local governments with the development of ASPs, but to achieve sustainability, the PLDs will have to assume this role in the future. Having stated this, each of the PLDs has made progress with the tranche action, albeit in different degrees. The following is a summary of key developments in each of the three sectors.

B. Education

33. **Reforms Support Unit (RSU).** To institutionalize reform activities and strengthen capacity of the department, the RSU has assumed an important role in progressing with much-needed education reforms. One critical focus is to strengthen the Sindh Education Management Information System (SEMIS) by upgrading its equipment, software, and staff skills, and to integrate its functions with the RSU. This exercise will also extend to offices of SEMIS in districts (DEMIS), along with plans to integrate DEMIS with the offices of the Executive District Officer (EDO), Education. The RSU is also improving monitoring and evaluation through direct and TPVs, using credible baseline data from an improved management information system and school census. Also, the RSU has taken the lead in implementing recommendations from the Sindh Education Roundtable in 2004, with efforts to coordinate aid agency programs and TA, which should assist in the larger effort to adopt a medium-term sector policy framework and financing plan.

34. **Support to Districts.** Taking the lead from SDSSP's initiatives at the district level, the RSU is supporting conditional grant funding for districts through Terms of Partnership, which operate on the same premise as the SDSSP conditional grants, and aim to achieve certain outcome and performance benchmarks. The RSU is also building the managerial capacity of local governments by merit-based recruitment of managerial staff from UA to district level. New

¹¹ Education report submitted 20 September 2006, health report submitted 26 June 2006, LGD report submitted 11 November 2006.

recruits will be required to undertake and pass rigorous training modules, and mandatory in-service training will be linked to assessment to promote improved performance.

C. Health

35. **Health Policy.** The Department of Health (DOH) has published the Sindh Health Policy (SHP), in accordance with areas identified as priorities in the National Health Policy, 2001. The overall direction of the SHP is in accordance with the objectives of the health-related MDGs and the PRSP. The SHP addresses five key areas: priority health care interventions, managerial reorganization, regulation within the health sector, reforms in medical education, and sector financing. To ensure that the policy leads to substantial improvements in health care at the grassroots level, an implementation plan was developed after consultation with stakeholders. In support of the third tranche condition, DOH has submitted a comprehensive report on implementation of the SHP. The report covers 22 key areas of activity, including control of communicable and noncommunicable diseases, maternal and child health, environmental health, emergency preparedness, etc. The report also covers important institutional reforms, which is an indication that DOH is committed to and engaged in its postdevolution responsibilities, such as regulating the private health sector, reforming medical education, ensuring transparency in procurement, sector finance reform, and strengthening the health management information system.

36. **Merit-Based Recruitment.** Of particular note is DOH's work at the district level, where it plans to ensure EDOs are recruited on merit-based criteria, with a master's degree in public health or its equivalent as the minimum qualification. To support this reform, DOH has floated a summary to establish its own public health academy for postgraduate training of health managers. DOH is also forging effective linkages between the Human Resource Development Department of DOH, district development centers, and medical universities with a view to train district managers in public health disciplines. DOH has been very proactive throughout the tenor of DSSP on critical reforms at the provincial and district levels, which should lead to substantial improvements in health service delivery.

D. Local Government

37. LGD continues to implement roles and responsibilities as articulated in the concept paper developed in the initial year of the SDSSP. The paper also outlined issues and challenges facing devolution, along with LGD's vision for achieving progress in key areas. In this regard, LGD has undertaken key activities in human resource mapping and capacity building. In its commitment to ensure that TMAs have adequate technical capacity to carry out their devolved functions, LGD has provided a mapping of taluka municipal officers and taluka officers infrastructure and services (TO I&S), along with their respective levels. The mapping exercise will enable LGD to make informed decisions about postings and transfers. Also, to provide further technical assistance for TMAs, LGD has created district support units (DSUs), headed by grade 18 officers in each district, and by grade 19 officers at Hyderabad, Sukkur, Mirpurkhas, and Larkana. The DSUs are to provide support to TMAs in planning and executing water and sanitation schemes.

38. LGD is also planning to initiate capacity-building programs with Program support for water, sanitation, solid waste management, and environmental management. A two-pronged strategy has been developed. First, a series of workshops is planned to identify the problems, analyze the existing situation, and sensitize the TMAs to the issues involved in related technical fields, such as safe water supply, scientific disposal of liquid and solid waste, identification and

development of landfill sites, garbage transfer stations, etc. Second, LGD plans to invite local educational institutions in Karachi, Hyderabad, and Nawabshah to conduct 3- to 4-week short courses in water, sanitation, solid waste, and the environment. The courses will train TMA staff in planning, design, operation, and maintenance of schemes. LGD expects this strategy to significantly improve the capacity of TMAs to handle basic services and improve master plans for water supply and sanitation.

39. **Status of PHED.** The role of PHE vis-à-vis the TMAs has been the subject of disagreement, both with the DSSP and the Sindh Basic Urban Services (SBUS) Project. In January 2006, PHE was notified as the technical wing of LGD¹². The notification also placed the TO I&S under the command of PHE and limited the financial powers of TMAs to schemes of up to PRs10 million. While ADB appreciated the government's effort to rationalize the relationship between the Office of the Director General (Technical) and the TMAs, it expressed concern that the notification curtailed the powers of TMAs. After requests from DSSP, the Chief Secretary directed that the notification be amended as follows: (i) TMAs will plan and execute the water and sanitation schemes to any amount from their own sources, and PHE will provide technical sanction for these schemes through regional directorates and district-based support units; (ii) TO I&S will work in coordination with PHE on all schemes beyond the scope of TMAs (schemes worth more than PRs10 million under the district annual development plan, interdistrict, provincial, and federal-funded schemes); and (iii) TO I&S will remain under the administration and financial authority of their concerned TMAs. These amendments have been issued and circulated to all TMAs and other stakeholders.¹³

40. SPG has indicated that water and sanitation schemes are planned, financed, and executed by the TMAs independently. The TMA council approves the funds for the schemes and the TO I&S prepares the scheme document including design and cost estimates. Under the Pakistan Works Department Rules and the Financial Rules, the officers are assigned financial powers according to their grades or basic pay scales. After devolution, the government moved to amend these rules suitably to allow more powers to the local governments. Approval powers of the EDO (Works & Services) have been raised to PRs20 million, which is also the limit for approval of schemes by district development committees, headed by the District Coordination Officer (DCO) and consisting of the concerned EDOs. Local governments have demanded a similar forum at the TMA level, and an increase in the financial powers of the TMA officers. WGI (devolution) is looking at these issues through its appropriate subgroup. Presently, technical officers (engineers) of grade 18 and above have the power to approve the cost estimates of technical design of schemes prepared by grade 17 officers. Officers of grade 18 have powers of approval for schemes up to PRs6 million, grade 19 up to PRs3 million, and grade 20 officers have unlimited powers of technical approval.

41. TMAs have technical sanction powers depending on the grade of the officer posted as TO I&S. Karachi and some larger towns have TOs (I&S) in grade 18 or 19. Smaller towns have TOs (I&S) in grade 16 or 17. TOs (I&S) in lower grades are required to obtain technical sanction, depending on the estimated cost of the scheme, from the grade 18 Public Health and Engineering officers in DSUs, grade 19 officers in regional offices, or grade 20 officers at provincial level.

42. Although SLGO devolves the function of the water supply and sanitation (WSS) sector to the TMAs, it does not provide any revision of technical sanction powers; hence, the Powers of Reappropriation Rules (1962) are still in force. While the need for informed technical advice is

¹² Government of Sindh, Local Government Department, 2006, NO.SO.II(LGD)2(45)/90.

¹³ Government of Sindh, Finance Department, 2007, No-FD/SDSSP/PSU/WSS-272(3)/2007.

appreciated, the Mission indicated that the requirement for technical sanction should not impinge on the TMA's powers to plan and execute schemes. In all districts with level 17 TO (I&S), the scope for planning and executing schemes is severely limited by their lack of technical sanction power. ADB had previously expressed concern that PHE-executed schemes were frequently supply-driven, financially unsustainable, and often not accepted by the local communities. Examples of such abandoned or inoperable infrastructure schemes were evident during the Mission's visit to Dadu. The challenge for designing urban services improvement at the TMA level is to draw on the technical expertise of PHE while ensuring that, consistent with SLGO, TMAs maintain authority over design and execution of municipal services schemes, with appropriate participation of the community. As mentioned earlier, LGD is undertaking measures to strengthen the positions of TO (I&S) and fill vacant positions, so that technical sanction powers for TMAs may be increased over time, in a move toward full devolution of the WSS sector to TMAs. Although LGD is moving toward further devolution, at present, technical sanction and financial powers have not been fully devolved; therefore, the tranche condition is substantially complied with.

43. Policy Outcome 2: Improve Social Sector Financing.

Condition B(i): Sindh, the DGs and the TMAs shall have agreed to maintain the level of social sector expenditures as a proportion of total revenues in the fiscal year 2003-2004 and shall have allocated Thirty-four Million Dollars (\$34 million) as an additionality.

Status: Waiver requested.

44. In 2004/5, the boundaries of 6 districts and 25 TMAs were changed, creating 7 new districts and 17 TMAs. Unaffected and bifurcated districts are listed in Tables 2 and 3. Since baseline data from FY2004 are not available for the newly created districts and TMAs, it is not possible to demonstrate compliance; hence a waiver is requested. It is important to note, however, that unaffected districts and TMAs, of which there are 10 and 77, respectively, all complied with the condition in raising the level of their social sector expenditures as a proportion of total revenues from FY2006 in relation to the baseline year of FY2004. Expenditure data for SPG and unaffected districts and TMAs have been submitted to ADB and are posted on the website.

Table 2: List of Unchanged Districts

No.	District
1	Ghotki
2	Karachi
3	Khairpur
4	Naushero Feroze
5	Nawabshah
6	Sanghar
7	Shikarpur
8	Sukkur
9	Tharparkar
10	Thatta

Table 3: List of Changed Districts

No.	Old District	New District	Remarks
1	Hyderabad	Hyderabad Matari Tando Allahyar Tando Muhammad Khan	(This district was created, taking some parts of district Badin also.)
2	Badin	Badin Tando Muhammad Khan	
3	Dadu	Dadu Jamhoro	
4	Larkana	Larkana Shahdadt Kot Kambar	
5	Mirpurkhas	Mirpurkhas Umerkot	
6	Jacobabad	Jacobabad Kashmor	

45. An important lesson learned from interacting with local governments with regard to their own budgets is that accounting capacity and procedures require substantial improvement to ensure that adequate data is available to make the budget process responsive to social service needs at the local level. The PSU worked intensively with local governments in collecting data for this condition, and in so doing built the capacity of local governments for separating salary, nonsalary, and development expenditures, which were previously being maintained together. Thus, the local governments learned more about financial rules, budget rules, and accounting procedures through SDSSP pro formas, workshops, and meetings.

Condition B(ii): **Sindh shall have ensured smooth implementation of the PFC Grant distribution mechanism.**

Status: **Complied with**

46. The first PFC in Sindh was constituted in 2002 under the chairmanship of the finance minister, and has been empowered to determine formula-based distribution of revenues and fiscal transfers from provincial to local governments. The SDSSP has worked with the PFC and provided TA for the design of performance grants. For funds transferred in FY2006, the PFC decided grants would be distributed with the following weighting: 50% population, 30% backwardness, 10% equal share, and 10% performance. For FY2007, the equal share criterion will be phased out and backwardness will be increased to 40%. The PFC decided that utilization would be the indicator for determining performance for conditional grants in FY2006, and has set the eligibility threshold for accessing the performance portion of the grant at 67%. Performance shares have been calculated for districts and TMAs, and are given in the implementation report for performance grants.

47. The PSU and Finance Department have engaged with local governments to ascertain their assessment of the conditional grant mechanism. Efforts were also made to increase understanding of the mechanism and to minimize procedural bottlenecks to facilitate efficient sanctioning and utilization of the grant. Feedback from the Nazims¹⁴ was very positive, with

¹⁴ Chief elected official of a local government.

repeated suggestions that the mechanism should be adopted for other grants, as well as the SDDSSP grant. The PSU also met with all EDOs, Finance and Planning to discuss various aspects of the conditional grants. All districts in receipt of funds confirmed that releases were according to the share set by the PFC, and that releases were timely after submission of approved ASPs. Districts requested that the weighting for backwardness should be increased, and this has been addressed in the formula for funds released in FY2007. Some districts have also recommended that inverse population should factor into the distribution formula, because it is much more expensive to fund service delivery in districts with a large area but sparse population. On the TMA side, returned pro formas confirm satisfactory implementation of the grant mechanism, based on correct distribution by formula and timely release. Overall, SPG reports that the conditional grant mechanism is improving the flow of funds to local governments and has provided flexibility for financing social sector schemes according to need.

Condition B(iii): **Within 1 month of the start of fiscal year 2006, Sindh shall have transferred twenty-five percent (25%) of total non-salary allocations for the DGs and the TMAs through Account No. IV and shall have agreed to transfer seventy-five percent (75%) of total non-salary allocations on a monthly basis.**

Status: **Substantially complied with**

48. Due to a narrow tax base, Sindh is dependent on fiscal transfers from the federal Government for 75% of its revenues. These transfers are often irregular, incomplete, or both, causing considerable problems with cash flow management. Onward transfers from the province to the local governments have in turn been unpredictable, thereby preventing local governments from effectively planning and implementing development initiatives.

49. To give local governments more predictability of revenues when developing budgets, and in accordance with the tranche condition, SPG made large up-front transfers in FY2006, followed by regular monthly transfers. The allocated amount of non-salary transfers to districts was PRs6,804.898 million. As indicated in Table 4, within the first month of the budget year, SPG released PRs1,616.31 million, or 24% of the allocated amount. Table 5 shows that SPG has transferred more than the budgeted amount due to higher receipts than anticipated. District-wise releases in FY2006 show actual releases of PRs38,990 million against a budgeted amount of PRs37,160 million.

Table 4: Non-salary Releases to Districts in Fiscal Year 2006

Month	Release Amount (PRs million)	Date of Release
July	1,616.31	14-Jul-2005
August	549.43	27-Aug-2005
September	544.62	26-Sept-2005
October	544.62	25-Oct-2005
November	544.62	2-Dec-2005
December	544.62	2-Jan-2006
January	544.62	1-Feb-2006
February	724.62	1-Mar-2006
March	724.62	30-Mar-2006
April	724.62	2-May-2006
May	724.62	12-May-2006
Total	7,787.28	

Source: 2006 Finance Department, Government of Sindh.

Table 5: Releases to Districts in Fiscal Year 2006

Serial Number	District	Allocation According to PFC* Award 2005-06	Total Releases to Districts
1	Badin	1,545.51	1,701.38
2	Dadu	2,040.67	2,138.64
3	Ghotki	1,252.93	1,369.94
4	Hyderabad	3,199.23	3,343.23
5	Jacobabad	1,499.44	1,528.33
6	Jamshoro	276.96	293.70
7	Karachi	8,377.93	8,699.43
8	Kashmore	287.54	312.10
9	Khairpur	2,278.56	2,379.39
10	Larkana	2,025.91	2,079.18
11	Matiali	237.14	212.71
12	Mirpurkas	1,756.04	1,848.92
13	Naushero Feroze	1,572.97	1,732.49
14	Nawabshah	1,488.99	1,576.77
15	Qamber	334.64	381.09
16	Sanghar	2,043.80	2,125.56
17	Shikarpur	1,556.16	1,646.89
18	Sukkur	1,660.02	1,744.07
19	Tando Allayar	233.74	203.01
20	Tando Md.Khan	240.68	195.92
21	Tharparker	1,164.11	1,283.77
22	Thatta	1,793.61	1,921.72
23	Umerkot	294.12	271.87
	Total	37,160.69	38,990.11

Amounts are in PRs millions

*Provincial Finance Commission

Source: 2006 Finance Department, Government of Sindh.

50. For TMAs, the budgeted amount of nonsalary transfers was PRs 6,143.08 million. Releases with the first month of the fiscal year amounted to PRs948.87 million, which is approximately 15.5% of the budgeted amount. Since SPG did not achieve the full 25% transfer in the first month, the condition is substantially complied with; however, SPG has demonstrated its commitment to the objective of the tranche condition by achieving more than the 25% over the first 2 months and thereafter making regular and timely releases. The details of monthly non-salary releases to TMAs in fiscal year 2006 are given in Table 6.

Table 6: Non-salary Releases to TMAs in Fiscal Year 2006

Month	Amount (PRs million)	Date of Release
July	948.87	14-Jul-05
August	511.92	6-Sep-05
September	511.92	4-Oct-05
October	511.92	25-Oct-05
November	511.49	3-Dec-05
December	511.49	19-Dec-05
January	511.42	7-Feb-06
February	511.42	6-Mar-06
March	511.42	29-Mar-06
April	511.42	2-May-06
May	511.42	13-May-06
Total	6,064.72	

Source: 2006 Finance Department, Government of Sindh.

51. Policy Outcome 3: Improve Participation, Linkages, and Public Accountability.

Condition C(i): The DGs have increased female representation in budget and social sector committees to at least twenty percent (20%).

Status: Complied with

52. In 2004 the provincial cabinet approved the recommendations of the ministerial committee for the Gender Reform Action Plan (GRAP). The key reform areas of the GRAP are political participation, institutional restructuring, women's employment in the public sector; and policy making and budgetary processing. In support of the GRAP, the SDSSP requires local governments to implement gender mainstreaming, giving priority to gender issues in ASPs and involving women in decision making by including women councilors on the budget, accounts, and sector committees.

53. The TPV report indicates that 100% of districts have at least 20% female representation on their budget and social sector committees. In fact, the majority of the districts have a much higher percentage than the 20% benchmark. Furthermore, the TPV notes that, although not required by the SDSSP, the majority of TMAs have constituted sector committees with female representation.

Condition C(ii): At least fifty percent (50%) of DGs and twenty-five percent (25%) of the TMAs shall have implemented a transparent and participatory planning procedure.

Status: Complied with

54. SPG has commissioned a TPV to assess planning processes at the local government level. TPV findings are informed by a review of relevant documentation and field visits to 14 districts and 78 TMAs, which included in-depth interviews with district coordination officers (DCOs); EDOs (Education, Health, Finance and Planning, Works and Services); group

discussion with district Nazims, Naib Nazims¹⁵, sector committee members, TOs (I&S) and Taluka Nazims. The participatory process under SLGO and supported by the SDSSP envisaged a consultative process whereby elected representatives and government officers would work together for the development of their districts. The TPV reports that this has been a definite outcome in six districts: Dadu, Hyderabad, Karachi, Matiari, Mirpurkhas, and Thatta. In another five districts—TM Khan, Sanghar, Nawbshah, Naushero Feroze, and Jocababad—the elected representatives have remained dominant. In Umerkot, Thar, Tando Allahyar, Sukkur, and Kaber-Sahdadkot and Kamber, the Nazim emerged as the key figure, with district councils and monitoring committees appearing to play a low key role in deciding priorities. In Badin, Ghotki, and Jamshoro, the DCO and EDOs took the lead in setting priorities, with the approval of the Nazim in every instance. Appendix 3 gives details of 20 DGs and 109 TMAs that have met the participatory planning requirement.

55. The TPV reports that the planning process for development of ASPs begins with consultations with grassroots stakeholders for developing a situation analysis and needs assessment. This is done in conjunction with sector committees for identification of specific schemes for funding in light of sectoral allocations set by the Nazim. The draft ASP is then submitted to the PSU for assessment against the guidelines, and then to the PLDs for assessment against the MOU conditions. The district and TMA officers, in consultation with sector committees, finalize the ASP and the budget and development committees approve the allocations. The ASP is then presented to the district council for discussion and debate. After council resolution, the ASP is submitted for release of funds.

56. TPV data from field visits indicate that devolved planning has provided an opportunity for greater participation at the grassroots level, and that the DSSP MOU and ASP guidelines require identification and approval of schemes and facilities by Nazims and councilors, who are better informed of the needs of their communities. In the specific sectors, background information for ASPs was compiled from the respective management information systems. The needs analysis was informed by consultations with school staff, school management committee members, and Union Council (UC) councilors in the education sector; officers in charge of health facilities, and UC councilors in the health sector; and Taluka Nazims and communities in the WSS sector.

57. The TPV also observed that at district level, schemes and facilities proposed within ASPs are debated at least once in the council, where councilors have the opportunity to present the needs of their areas. Sector committees actively review which schemes are to be funded and the meetings are recorded. Although the TPV indicates that records are not always readily available, the minutes that were obtained were found to be in order regarding references to directives from the Nazim or council. Similarly, the taluka council minutes show discussion on ASP plans took place, and minutes from meetings of monitoring committees refer to directives of the council and Nazims.

Condition C(iii): **SPG shall have reviewed the conditional grants system and shall have published a report with suggestions for improvement and institutionalization.**

Status: **Complied with**

¹⁵ Vice Nazim

58. As part of the overall PFC award, a well-designed system of conditional grants can improve local government performance and achieve better service delivery. The PFC has reviewed the conditional grants system and has submitted a report with suggestions for its improvement and institutionalization.¹⁶ At the request of ADB, a peer review of the report by the DSP and the PFC secretariat has also been undertaken and the suggestions have been incorporated in the report.

59. The report suggests that the conditional grants could be tied more directly to targets set in the Sindh PRSP or the MDGs. For example, the scope of grants could be limited to primary education or maternal and child health. Recognizing the dilemma of reducing local governments' autonomy with over-prescriptive grants, the report suggests that performance-based transfers could be used to give local governments an incentive toward enhanced pro-poor expenditures. One of the difficulties with implementing performance grants, however, is the requirement for reliable information from local governments, which is often not available. This progress report flags this issue and indicates that the PFC is carrying out studies for improving data collection in local governments.

60. Another suggestion is that conditional grants for particular types of services should be linked to appropriate measures of need. For example, the distribution formula for DSSPs relied on a backwardness index that considers data from a range of sectors, some unrelated to DSSP. There is a need to develop more targeted indices in line with specific objectives of conditional grants.

61. Institutionalizing the conditional grant system requires appropriately designed and maintained data systems, both for fiscal and service delivery data. The PFC itself also requires strengthening in terms of adequate tools and resources to assist in its function of developing an appropriate revenue-sharing award for local governments. The report also notes a communication gap between the PFC and other government departments, such as LGC, Bureau of Statistics, and the Accountant General, Sindh. Lack of interdepartmental communication hampers efforts to institutionalize and monitor the conditional grants system. To make the system more public and transparent, SPG and the PFC are considering options for developing conditional grant rules. In Balochistan, ADB's Balochistan Resource Management Program provided a TA to develop the Performance Grant Rules. These rules may serve as reference for a similar development in Sindh.

62. Policy Outcome 4: Rationalize Services and Set Minimum Standards.

Condition D(i): **The DGs and the TMAs shall have utilized the conditional grants in accordance with the agreed eligibility criteria.**

Status: **Substantially complied with**

63. A key challenge in a devolved system is developing a transparent, objective, and rule-based mechanism for intergovernmental fiscal transfers, thereby strengthening local planning, budgeting, and fiscal management processes. Under the SDSSP, a system of conditional grants was designed to encourage local governments to exercise new roles and responsibilities in providing social services, and to strengthen the role of the PFC in determining formula-based fiscal transfers from provincial to local governments. To ensure that conditional grant funds were used according to the expressed purposes of SDSSP, the MOU, signed by each of the local

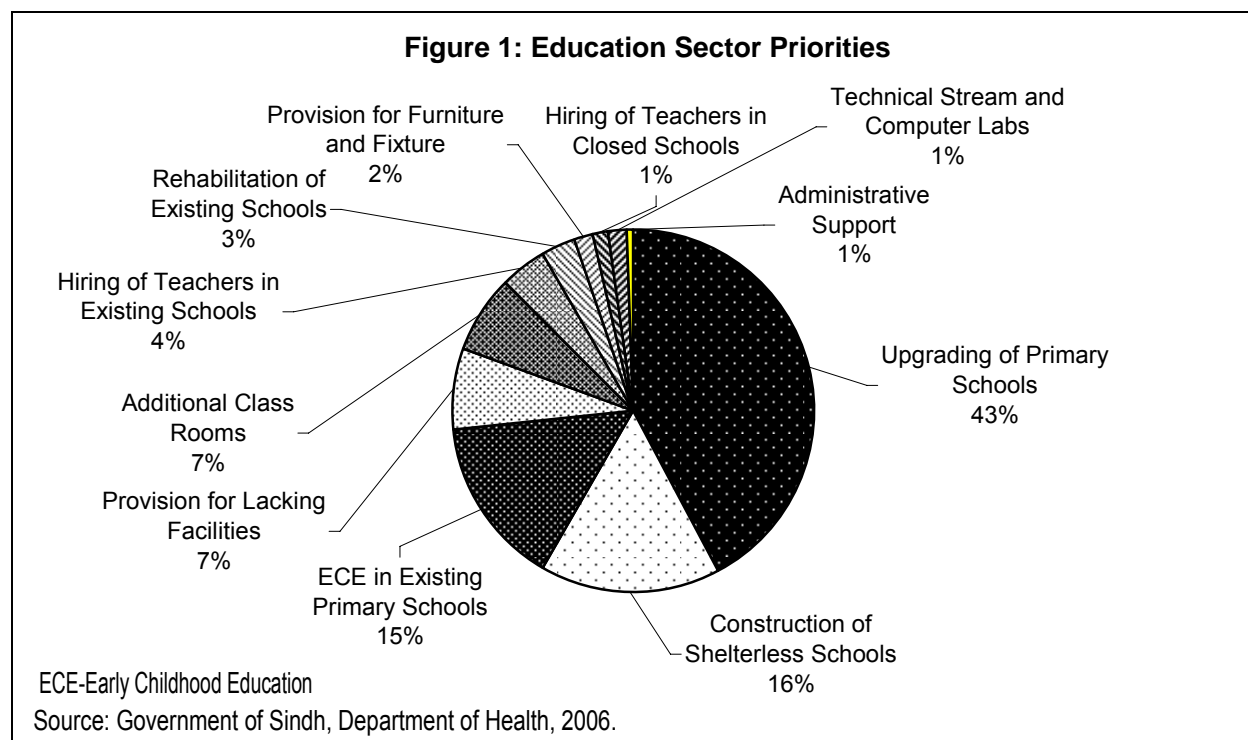
¹⁶ This report was presented in the PFC meeting of 26 May 2007.

governments and SPG, defines the eligibility and access requirements for the grants. The PSU analyses of approved ASPs show that the MOU has been effective in setting broad utilization parameters for scope, process, and performance, while encouraging the local governments to define their investment priorities according to need.

64. Although use of the conditional grants is subject to brief positive and negative lists, the intention is to afford local governments sufficient flexibility to support devolved planning and local prioritization of needs. Conditional grants are used for education and health at the district level, and for WSS at the TMA level. Reports submitted in support of the tranche condition show that utilization of conditional grant funds is according to the agreed-upon eligibility criteria. At the time of writing, conditional grants had been transferred to 119 TMAs and 17 districts, with physical utilization in all TMAs and 6 districts; hence the condition is substantially complied with. Physical utilization continues to gain pace and will have commenced in all districts over the next quarter. The PSU has submitted analyses of conditional grant allocations under the ASPs and the following is a synopsis of investment patterns within the three sectors. A list indicating district transfers and utilization is in Appendix 4.

1. Education

- (i) The district government investment profile for education shows that major funding areas for conditional grants are upgrading of schools, construction of structures for shelterless schools, early childhood education, and provision of missing facilities (Figure 1).
- (ii) One of the major challenges for education in Sindh is increasing access to secondary schools. The ratio of primary schools to secondary schools is 17:1, creating a natural dropout ratio, especially for girls. Upgrading of primary schools is, therefore, a top priority in the sector and accounts for 42% of conditional grant investments.
- (iii) According to the latest SEMIS census report, there are 13,000 shelterless schools in Sindh. Providing a structure for these schools is a sector priority and districts have allocated significant funding for this purpose in their annual development plans. Shelterless schools have also been prioritized within conditional grant investments, accounting for 18% of funding.
- (iv) Conditional grants have been directed to early childhood education, for which the Government has introduced an initiative to formalize *katchi (kindergarten)* class education and provide to poor and disadvantaged children the same opportunities that are available to urban students. Provision of basic facilities and rationalization of teaching staff have also been funded by the conditional grants, in line with the focus areas of the DGs.

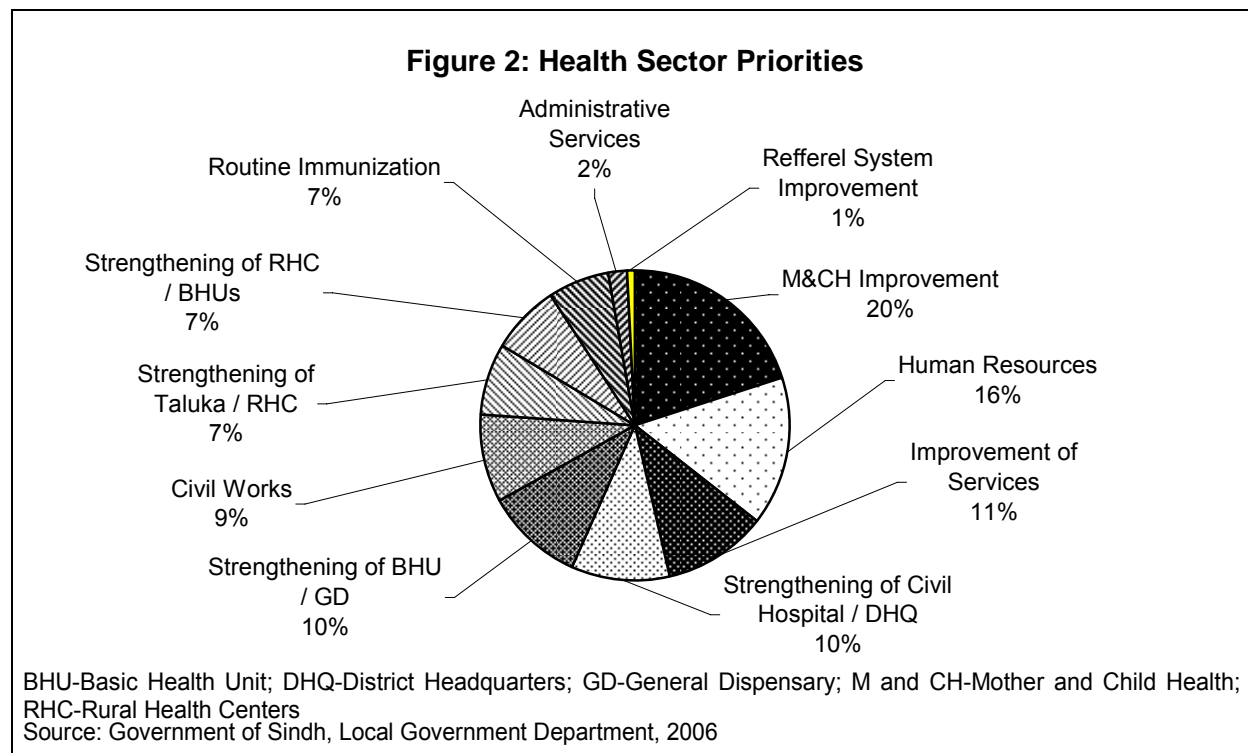


2. Health

65. The incidence of maternal and infant mortality in Sindh is high at 345 per 100,000 and 71 per 1,000, respectively. Addressing these issues requires a multidimensional approach, including establishing labor rooms, hiring qualified staff, purchasing equipment, providing basic diagnostic facilities at health care establishments, and acquiring emergency ambulances. Analysis of ASPs for the health sector shows that reducing maternal and infant mortality receives the largest share of conditional grants, in line with the government's commitment to achieving MDGs for health (Figure 2).

66. Broader awareness of health issues and increased capital investment in the health sector have significantly augmented the demand for qualified and trained health staff, especially females. This issue has become a concern for policy makers at the provincial level and DGs. SDSSP resources have provided flexibility and space for DGs to plan for hiring staff on a contractual basis to reopen closed health units and improve service delivery. Staff hiring and training account for 16% of conditional grants for districts.

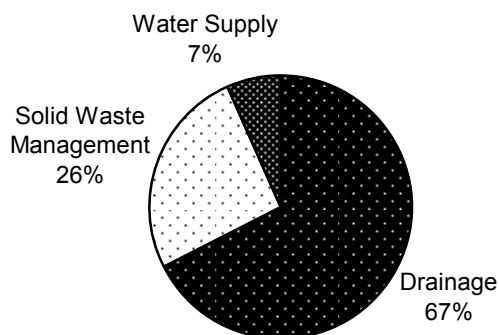
67. The third priority area for the health sector is improving overall services by upgrading and enhancing the scope of service already provided at district headquarters, taluka hospitals, and rural health centers, including blood banks and laboratories, chest pain clinics, cardiac centers, trauma units, etc. In rural health care centers, small investments in improving overall services are particularly important as they greatly expand the scope and coverage of existing health care for the poor.



3. Water Supply and Sanitation

68. The TMAs have invested in drainage as their top priority for the second round of conditional grants. Traditionally, the emphasis in the sector has been on water supply schemes but with inadequate emphasis on the required drainage. Moreover, the availability of sweet groundwater and extensive irrigation in Sindh results in an inflow of water to households without a concomitant disposal system. Moving away from the traditional sector investments indicates a change in the approach to planning, and use of needs assessments. The WSS officer in the PSU predicts needs assessments will increasingly show the importance of water quality and conservation, and the need for increasing public awareness in these areas. Figure 3 shows the breakdown of investments for the second round of conditional grants.

Figure 3: Water Supply and Sanitation Sector Priorities



Source: Government of Sindh, Local government Department, 2006.

Condition D(ii): Majority of the TMAs shall have completed surveys and master plans for drinking water supply and sanitation in accordance with their administrative and technical capacity.

Status: Partially complied with

69. The TMAs were assigned the weighty task of undertaking surveys and master plans (otherwise known as spatial plans in SLGO) to cover the period up to 2030. Given that the administrative and technical capacity of the majority of TMAs is quite low, the undertaking was seen as the initial step in a phased approach. While by no means final or comprehensive, the master plans, in their present state, offer an important indication of data requirements and capacity-building needs in the sector.

70. To support the TMAs in preparing master plans, the PSU, in conjunction with the director of the Town Planning Department (TPD), prepared guidelines and training manuals, which assisted TMAs by taking them through the methods used by TPD in preparing its overall master plan for TMAs. The guidelines contain a pro forma, which required TMAs to give information about the present situation, as well as projections of TMA needs over a time horizon of 23 years. Using the guidelines and pro forma, 92 out of 119 TMAs submitted plans; however, the PSU review of the master plans indicates that some of the pro formas lack some information and that master plans were not based on surveys. Hence the condition is partially complied with.

71. To fully achieve the objectives of the tranche condition, SPG will establish a Master Planning Unit (MPU) within LGD, to review the existing master plans and suggest appropriate strategies/methodologies for further collecting data through surveys and technical firms. The MPU will also guide the TMAs in conducting comprehensive geographical information systems (GIS) mapping for the sector. A high-level technical committee, with multidepartmental and civil society representation, will provide oversight to the work of the PMU. Further support to TMAs in developing master plans will come from DSUs, headed by a grade 18 officer in every district,

and a grade 19 officer in Hyderabad, Sukkur, Mirpurkhas, and Larkana. In addition, grade 18 officers will be posted in all major towns of Sindh. Finally, LGD and the SDSSP plan to initiate capacity-building programs for TMAs in the WSS sector, consisting of workshops and development of TA materials and training modules. The PSU has proposed to use SDSSP TA funds over the next fiscal year for recruiting technical firms to spearhead improvement of master plans and provide capacity building for TMAs.

Condition D(iii): **SPG shall have, in consultation with the TMAs, prepared the interim water and sanitation policy.**

Status: **Complied with**

72. With support from ADB's Environmental Management TA,¹⁷ the Government has developed comprehensive policies for WSS and SWM. The documents were drafted following extensive consultation meetings with the Executing Agency (Finance Department), Implementing Agency (LGD), and TMAs (41), and were further discussed and reviewed in an intensive and comprehensive meeting to build consensus that included government representatives, NGOs and civil society representatives, academic and research institutions, and private sector representatives. In close alignment with draft Federal Policies for Drinking Water Supply and Sanitation, the Sindh WSS policy incorporates critical elements relating to (i) gender, (ii) institutional and technical aspects, (iii) operation and maintenance, (iv) community participation, (v) public-private partnerships, and (vi) monitoring and evaluation. SPG printed the interim WSS in the Dawn Newspaper on 24 May 2006, requesting comments from civil society. The comments have been sent to LGD for incorporation in the draft policy, before adoption and its consequent implementation.

73. Policy Outcome 5. Encourage Public-Private Partnerships for Improved Service Delivery.

Condition E(i): **Sindh shall have authorized the health boards to collect, retain and use fees and user charges.**

Status: **Complied with**

74. SLGO supports greater involvement of community-based organizations (CBOs), NGOs, and the private sector. These have become important forces in extending social services, and devolution provides a unique opportunity for local governments to work with communities in improving service delivery mechanisms and accountability for public funds. To improve the efficiency and cost-effectiveness of health service delivery, and foster community participation in improving health services, SPG has issued a notification for the establishment of hospital management committees (HMCs) in all districts and taluka headquarter hospitals of Sindh. Members of the district headquarter HMC consist of the district nazim as chairman, EDO Health, EDO Finance and Planning, health profession representatives, district councilors, and various community representatives. Establishing HMCs in Taluka hospitals was an initiative of the DGs, wherein the HMCs are headed by the respective Taluka (TMA) Nazim.

75. This initiative is the result of consultation between the health department and local governments. HMCs have now been established in all districts. To institutionalize this reform,

¹⁷ ADB. 2004. *Technical Assistance Paper on Capacity Building for Environmental Management in Sindh* ADTA. Manila.

the health department has developed a framework for devolution of user charges and guidelines to assist DGs with implementation.

76. In consultations with DGs, it emerged that even after devolution, user fees collected at various health facilities were still being deposited to the provincial government account, and the remaining fees were retained by hospital administration. In support of health financing reforms promoted under the DSSP framework, the PSU consulted with the Finance Department on the issue of devolving user charges from the province to districts in line with the provision of SLGO. In this regard, instructions were issued to the relevant line departments allowing them to devolve user fees. Moreover, the DOH conveyed the direction to all districts and the Finance Department notified the devolution of user charges from Provincial Account I to Account IV. To provide legal authorization for utilization of user fees, the Finance Department issued a notification allowing all DCOs to authorize HMCs to collect, retain, and utilize user fees collected in Account IV.¹⁸

Condition E(ii): Majority of the DGs shall have provided financial assistance to the health boards on a pilot basis.

Status: Complied with

77. As mentioned, the establishment of HMCs has been a major accomplishment under the SDSSP with all 23 districts having established health boards and providing financial assistance. Financial statements from all districts have been submitted in support of the tranche condition. HMCs have been established in 16 district-level hospitals. In districts without district-level hospitals, HMCs have been established in their taluka-level hospitals. Although still in a nascent stage of development, establishing HMCs is an important step toward autonomy of hospital management and encourages the community to play a role in improving service delivery mechanisms and accountability for public funds. Certain aspects of HMCs, however, will require careful attention, including: sustainability of fund flow, proper accounting and auditing, and capacity of committee members in terms of managerial and financial skills. As HMCs become fully operational, they should realize significant improvement in the dire condition of Sindh's public hospitals, including availability of staff and necessary logistics for service delivery.

Condition E(iii): Majority of TMAs shall have supported the VDAs to manage water supply schemes on self-sustaining basis.

Status: Complied with

78. The village development associations (VDAs) were originally established to take over water schemes in rural areas and operate them, but this initiative led to withdrawal of government support. SPG, through SDSSP, aims to revive VDAs on a sustainable basis and build capacity in identifying and maintaining viable schemes. In support of the tranche condition, the PSU has provided responses from 64 TMAs showing transfer of funds to VDAs for managing water supply schemes. A list of TMAs is in Appendix 5.

79. To further support VDAs, LGD is working in conjunction with DSSP to gain a clearer understanding of the operational capacity of VDAs. A pro forma was developed for initial circulation to finance and governance officers from 23 LSUs, requiring them to personally visit water supply schemes being managed by VDAs, and to meet the members of the VDAs and

¹⁸ Government of Sindh, Finance Department, February 2006. No.FD-SO(RES-11)Misc(04)/2006.

selected local residents to obtain required data. In addition to information about the actual schemes, LSU officers were asked for public opinion of the schemes and for their own assessment of the capacity of the VDAs. Analysis from the pilot survey indicates that VDAs require capacity building in record keeping, accounting, and maintenance and monitoring of schemes. Moreover, improved coordination between the VDA and TMA officials is required for improving and monitoring the performance of VDAs.

80. The future strategy for improving VDAs' capacity to improve service delivery requires an accurate survey of functional and nonfunctional schemes managed by VDAs. LGD, in conjunction with SDSSP, intends to carry out a survey for this purpose, which would also ascertain the efficiency of VDAs and their respective schemes. On the basis of an analysis of survey results, comprehensive guidelines will be prepared to make both schemes and VDAs functional.

Condition E(iv): The DGs shall have allocated at least twenty-five percent (25%) of the conditional grants to the CBOs.

Status: Complied with

81. In support of the tranche condition, the PFC has specified the amount to be allocated to CBOs from each district's share of the conditional grants. The districts have in turn, made the appropriate allocation of 25% for CBOs and have submitted budget letters to substantiate the allocations.

82. To facilitate partnerships with CBOs, a CBO Integration Strategy was developed by the PSU in consultation with the local governments and approved by the PSC. The strategy describes the various types of CBOs in Sindh and outlines the types of activities CBOs are engaged in, including capacity building, managing and providing social services, and monitoring and evaluation. The strategy also describes an accessible and transparent process for awarding funds to CBOs, beginning with a public announcement for concept papers, notification of district project appraisal committees, and short-listing of proposals. CBOs will be assisted in preparing their proposals through workshops organized at the district level. The workshops should result in the development of meaningful and viable proposals, and active participation of public sector officials.

Condition E(v): The TMAs shall have allocated at least ten percent (10%) of the conditional grants to the CBOs.

Status: Complied with

83. As with districts, the PFC has also indicated the amount to be earmarked for CBOs from each TMA's share of the conditional grants. In accordance with the tranche condition, the TMAs have made the appropriate allocations. These allocations are substantiated through budget letters. CBOs in TMAs will also participate in the integration strategy as outlined above under Condition E(iv).

VII. CONCLUSION

84. SPG has maintained its commitment to program implementation. In pursuing compliance with third tranche conditions, it has made significant gains in supporting and institutionalizing

reforms for improved delivery of social services. Measurable improvements in social indicators may not be apparent during the life of the SDSSP; however, improvements in the process are very much in evidence, and should in turn deliver much-needed results in Pakistan's social indicators over the medium to long term. To deepen its partnership with SPG and to develop sustainability of program reforms, ADB is designing a follow-on program that blends elements of the public resource management program and devolved social services program, with the aim to continue supporting the social sectors in Sindh in strengthening governance and fiscal reform for improved service delivery.

VIII. THE PRESIDENT'S RECOMMENDATION

85. In view of the substantial progress made in implementing the Sindh Devolved Social Services Program, as evident by the compliance with two deferred second tranche conditions and 12 third tranche conditions; substantial compliance with one deferred second tranche condition and three third tranche conditions; and partial compliance with one third tranche condition, the President recommends that the Board approve, on a no objection basis: (a) the waiver of third tranche condition B(i) due to the reasons set forth in paragraph 44; (b) the waiver of full compliance for the partially complied third tranche condition D(ii); and (c) the release of the third tranche in the amount of ¥592,987,250 for Loan 2047—PAK and SDR23,747,000 for Loan 2048—PAK[SF] of the Sindh Devolved Social Services Program.

STATUS OF COMPLIANCE WITH THIRD TRANCHE CONDITIONS

Condition	Status of Compliance	Remarks
A.i. Sindh shall monitor the implementation of administrative and financial powers by the DGs and the TMAs.	Complied with	Report on implementation of the M&E framework submitted.
A.ii. Majority of the DGs shall have implemented the Delegation Plan.	Complied with	Report on the implementation of the Delegation Plan by majority of districts submitted. The Monitoring Committee and its working groups will continue to meet regularly.
A.iii. Sindh shall continue implementation of the new role and responsibilities of the PLDs and shall review progress made in this regard.	Substantially complied with	Review reports on Sindh Health Policy, Education Sector Reform Plan, and LGD submitted.
B.i. Sindh, the DGs and the TMAs shall have agreed to maintain the level of social sector expenditures as a proportion of total revenues in fiscal year 2003–2004 and shall have allocated thirty-four million dollars (\$34,000,000) as an additionality.	Waiver requested	Expenditure data for all local governments unaffected by the bifurcation has been compiled and submitted.
B.ii. Sindh shall have ensured smooth implementation of the PFC Grant distribution mechanism.	Complied with	Reports from district governments and TMAs compiled and submitted.
B.iii. Within one (1) month of the start of fiscal year 2006, Sindh shall have transferred twenty-five (25%) of total non-salary allocations for the DGs and the TMAs through Account No. IV and shall have agreed to transfer seventy-five percent (75%) of total non-salary allocations on a monthly basis.	Substantially complied with	Finance Department report submitted. Up-front transfers of 25% implemented for districts. TMAs received 25% within the first 2 months. Transfers for the duration of the year have been predictable and timely.
C.i. The DGs shall have increased female representation in budget and social sector committees to at least twenty percent (20%).	Complied with	TPV report indicating 100% of districts have 20% or higher female composition on social sector committees.
C.ii. At least fifty percent (50%) of the DGs and twenty-five percent (25%) of the TMAs shall have implemented a transparent and participatory planning procedure.	Complied with	TPV reports from 14 districts and 78 TMAs, verifying a transparent and participatory planning procedure.
C.iii. Sindh shall have reviewed the conditional grants system and shall have published a report with suggestions for improvement and institutionalization.	Complied with	PFC review of the conditional grants system submitted.

D.i. The DGs and the TMAs shall have utilized the conditional grants in accordance with the agreed-upon eligibility criteria.	Substantially complied with	Conditional grants have been transferred to 13 districts and 119 TMAs, and physical expenditure has been reported from 6 districts and all TMAs. ASPs have been analyzed and sector priorities have been determined and reported according to allocations.
D.ii. Majority of the TMAs shall have completed surveys and master plans for drinking water supply and sanitation in accordance with their administrative and technical capacity.	Partially complied with	List of 92 TMA master plans and a review report have been submitted. Improvement of master plans and development of surveys will be undertaken by TMAs in conjunction with the Master Plan Unit and DSUs.
D.iii. Sindh shall have, in consultation with the TMAs, prepared the interim water and sanitation policy.	Complied with	Interim policies have been prepared and submitted. SPG to plan for their adoption and eventual implementation.
E.i. Sindh shall have authorized the health boards to collect and retain fees and user charges.	Complied with	PSU report submitted, with Finance Department notification on fees and user charges.
E.ii. Majority of the DGs shall have provided financial assistance to the health boards on a pilot basis.	Complied with	Summary of district government reports showing financial assistance has been submitted.
E.iii. Majority of the TMAs shall have supported the VDAs to manage water supply schemes on self-sustaining basis.	Complied with	Report showing TMA transfers to VDA accounts has been submitted.
E.iv. The DGs shall have allocated at least twenty-five percent (25%) of the conditional grants to the CBOs.	Complied with	Report on district government allocations for CBOs has been submitted.
E.v. The TMAs shall have allocated at least ten percent (10%) of the conditional grants to the CBOs.	Complied with	Report on TMA allocations for CBOs has been submitted.

CBO- community-based organization; DG-district government; DSU-district support unit; LGD- Local Government Department; ME-monitoring and evaluation; PFC- Provincial Finance Commission; PLD- provincial line department; TMA- taluka municipal administration; TPV-third party validation; VDA- village development association

EXPENDITURES-TO-RECEIPTS RATIO OF 11 UNCHANGED TMAs (Second Tranche Condition Bi)

(Rs Million)

Serial Number	District	Town / Taluka	Receipts		WSS Expenditure		Expenditure to Receipts Ratio		Compliance
			2003-2004 (Actual)	2004-2005 (Actual)	2003-2004 (Actual)	2004-2005 (Actual)	2003-2004 (Actual) (%)	2004-2005 (Actual) (%)	
1	Hyderabad	Latifabad	84.98	109.54	37.2	48.1	43.8%	43.9%	Yes
2	Karachi	Bin Qasim	273.85	489.55	94.1	195.3	34.4%	39.9%	Yes
3		Lyari	31.40	42.89	10.4	26.7	33.0%	62.2%	Yes
4		North Nazimabad	216.22	223.34	77.7	83.9	35.9%	37.6%	Yes
5		Faiz Gunj	1.96	9.19	0.4	6.9	18.6%	74.6%	Yes
6		Khairpur	Kingri	9.00	25.88	5.9	20.4	65.5%	79.0%
7		Nara	0.96	7.35	0.5	6.9	48.6%	94.4%	Yes
8	Sukkur	Saleh Pat	2.27	6.53	0.2	2.8	10.7%	43.2%	Yes
9	Tharparkar	Diplo	4.74	24.78	1.5	8.8	31.7%	35.7%	Yes
10		Nagarparker	8.52	25.19	6.2	20.3	72.9%	80.6%	Yes
11	Thatta	Ghorabari	0.67	15.74	0.3	12.6	39.7%	79.9%	Yes

TMA- taluka municipal administration; WSS-water supply and sanitation

Source: Finance Department, Sindh Provincial Government, 2007

**DISTRICTS AND TMAs HAVING IMPLEMENTED A TRANSPARENT AND PARTICIPATORY
PLANNING PROCEDURE (FY2006)
Third Tranche Condition Cii)^a**

District(s)	TMAs		District(s)	TMAs		
1. Badin	1	Badin	8. Karachi	34	Baldia Town	
	2	Matli		35	Bin Qasim Town	
	3	Shaheed Fazal Rahu		36	Gadap Town	
	4	Talhar		37	Gulberg Town	
	5	Tando Bago		38	Gulshan-e-Iqbal Town	
2. Dadu	6	Dadu		39	Jamshed Town	
	7	Johi		40	Kemari Town	
	8	Khairpur Nathan Shah		41	Korangi Town	
	9	Mehar		42	Landhi Town	
3. Ghotki	10	Ghotki		43	Liaquatabad Town	
	11	Dharki		44	Lyari Town	
	12	Khengarh		45	Malir Town	
	13	Mirpur Mathelo		46	New Karachi Town	
	14	Ubauro		47	North Nazimabad Town	
4. Hyderabad	15	Latifabad		48	Orangi Town	
	16	Hyderabad City		49	Saddar Town	
	17	Hyderabad Rural		50	Shah Faisal Town	
	18	Qasimabad		51	SITE	
5. Jacobabad	19	Garhi Khairo		9. Kashmore	52	Kandhkot
	20	Jacobabad			53	Kashmore
	21	Thull			54	Tangwani
	22	Garhi Khairo, Jacobabad, Thull)			55	Faiz Gunj
6. Jamshoro	23	Thano Bula Khan		10. Khairpur	56	Gambat
	24	Kotri			57	Khairpur
	25	Manjhand			58	Kingri
	26	Sehwan Sharif			59	Kot Deji
7. Kamber	27	Kambar			60	Nara
	28	Miro Khan			61	Sobhodero
	29	Naseerabad			62	Thari Mirwah
	30	Q. S. Khan		11. Matiari	63	Matiari
	31	Sujawal Junejo			64	Saeedabad
	32	Shahdadkot			65	Hala
33	Warah					

^a As indicated in the TPV report, the following districts and TMAs have fulfilled the participatory planning process, as per the SLGO-2001, and as explained in detail at Section 2.1 of the TPV report.

District(s)	TMAs		District(s)	TMAs	
8. Mirpurkhas	66	Digri	16. Sukkur	91	Pano Akil
	67	Hussain Bux Muree		92	Old Sukkur
	68	Jhudo		93	Salehpat
	69	K. G. Mohammad	17. Tando Allahyar	94	Chambar
	70	Mirpurkhas		95	Jhando Mari
	71	Sindhri		96	Tando Allahyar
9. N. Feroze	72	Moro	18. Tando M. Khan	97	Bulri Shah Karim
	73	Kandiari		98	T. M. Khan
	74	Mehrabpur	19 Tharparkar	99	Chachro
	75	Bhiria		100	Diplo
	76	Naushero Feroze		101	Mithi
10. Nawabshah	77	Daur	20. Thatta	102	Nangarparker
	78	Sakrand		103	Ghorabari
	79	Daulatpur		104	Jati
	80	Nawabshah		105	Mirpur Bathero
11. Sanghar	81	Jam Nawaz Ali	20. Thatta	106	Mirpur Sakro
	82	Khipro		107	Sajawal
	83	Sanghar		108	Shah Bunder
	84	Shahdadpur		109	Thatta
	85	Sinjhero			
	86	Tando Adam			
	87	Garhi Yasin (Distt: Shikarpur)			
	88	Khanpur (Distt: Shikarpur)			
	89	Lakhi (Distt: Shikarpur)			
	90	Shikarpur (Distt: Shikarpur)			

TMA- taluka municipal administration

Source: Finance Department, Sindh Provincial Government, 2007

**DISTRICT-WISE REPORTS OF CONDITIONAL GRANTS UTILIZATION
(Third Tranche Condition Di)**

Serial Number	District(s)	Share As Per PFC (100%) in million	Released of PFC Share (50%) in million	Date of Release	Utilization
1	Dadu	37.32	11.20	06-Apr-07	100.00
2	Ghotki	45.69	11.50	25-May-07	
3	Hyderabad	37.01	18.51	04-Dec-06	
4	Jacobabad	29.16	4.18	19-May-07	
5	Jamshoro	27.63	13.81	04-Dec-06	7.28
6	Kambar	29.86	18.46	25-Apr-07	
7	Karachi	190.78	95.39	04-Dec-06	12.95
8	Kashmore	28.09	14.03	25-Apr-07	
9	Khairpur	57.09	11.79	25-May-07	
10	Matiali	19.56	9.78	06-Apr-07	
11	Sanghar	52.36	26.18	04-Dec-06	0.48
12	Shikarpur	40.60	20.30	06-Apr-07	
13	Sukkur	39.65	8.51	19-May-07	
14	Tando Allahyar	18.98	9.49	03-Feb-07	2.02
15	Tando M. Khan	19.41	4.85	25-May-07	
16	Tharparkar	49.45	14.73	25-Apr-07	
17	Umerkot	28.93	14.47	04-Dec-06	5.93

Source: Finance Department, Sindh Provincial Government, 2007

**TMAS HAVING SUPPORTED VDAS TO MANAGE WATER SUPPLY SCHEMES
ON A SELF-SUSTAINING BASIS (THIRD TRANCHE CONDITION Eiii)**

District	Serial Number	TMA	No. of VDAs Supported
Badin			
	1	Badin	17
	2	Matli	19
	3	S F Rahu	7
	4	Talhar	4
	5	Tando Bago	15
Dadu			
	6	Dadu	13
	7	Johi	12
	8	K N Shah	22
	9	Mehar	5
Ghotki			
	10	Daharki	5
	11	Ghotki	7
	12	Khangarh	4
Hyderabad			
	13	Hyderabad Rural	31
Jacobabad			
	14	Jacobabad	3
	15	Thull	11
Jamshoro			
	16	Kotri	8
	17	Sehwan Sharif	12
	18	Thano Bula Khan	2
Kashmore			
	19	Kandhkot	4
	20	Kashmore	1
Khairpur			
	21	Faiz Gunj	3
	22	Gambat	3
	23	Khairpur	11
	24	Kingri	4
	25	Kotdiji	9
	26	Sobhodero	5
Larkana			
	27	Dokri	7
	28	Larkana	1
	29	Ratodero	3

District	Serial Number	TMA	No. of VDAs supported
Matari			
	30	Hala	9
	31	Matari	13
Mirpurkhas			
	32	Digri	22
	33	K.G.Muhammad	21
	34	Mirpurkhas	11
Nausheroferoze			
	35	Kandiaro	1
	36	Moro	7
Nawabshah			
	37	Doulatpur	21
	38	Nawabshah	11
	39	Sakrand	33
Sanghar			
	40	Jam Nawaz Ali	6
	41	Khipro	11
	42	Sanghar	10
	43	Shahdadpur	13
	44	Sinjhero	20
	45	Tando Adam	11
Shahdadkot			
	46	Shahdadkot	8
	47	Warah	20
Shikarpur			
	48	Ghari Yasin	5
	49	Lakhi	3
	50	Shikarpur	5
Sukkur			
	51	Rohri	5
	52	Sukkur City	1
Tando Allahyar			
	53	Jando Mari	15
	54	Tando Allahyar	5
Tharparkar			
	55	Diplo	1
	56	Nagarparker	5
Thatta			
	57	Mirpur Bathoro	1
	58	Mirpur Sakro	6
	59	Sujawal	10
	60	Thatta	26
Umerkot			
	61	Kunri	11
	62	Pithoro	6
	63	Samaro	6
	64	Umerkot	25