



Report and Recommendation of the President to the Board of Directors

Project Number: 41545
November 2008

Proposed Program Cluster and Loan for Subprogram 1 Islamic Republic of Pakistan: Sindh Growth and Rural Revitalization Program

CURRENCY EQUIVALENTS

(as of 11 November 2008)

Currency Unit	–	Pakistan rupee/s (PRe/PRs)
PRe1.00	=	\$0.0124
\$1.00	=	PRs80.7500

ABBREVIATIONS

ADB	–	Asian Development Bank
ADP	–	annual development plan
ADTA	–	advisory technical assistance
AGS	–	Accountant General of Sindh
BHU	–	basic health unit
BOR	–	Board of Revenue
CPA	–	core policy area
DAC	–	departmental accounts committee
FMH	–	Fund Management House
FY	–	fiscal year
GDP	–	gross domestic product
GoS	–	government of Sindh
GPF	–	general provident fund
IA	–	implementing agency
M&E	–	monitoring and evaluation
NGO	–	nongovernment organization
P&DD	–	Planning and Development Department
PFMAA	–	Public Financial Management and Accountability Assessment
PIFRA	–	Project for Improvement in Financial Reporting and Auditing
PMU	–	program management unit
PPHI	–	People's Primary Health Initiative
PPP	–	public–private partnership
PPRA	–	Public Procurement Regulatory Authority
PRSP	–	poverty reduction strategy paper
PSE	–	Public sector enterprise
RRP	–	report and recommendation of the President
RRTF	–	Rural Revitalization Task Force
SAFWCO	–	Sindh Agricultural and Forestry Workers Coordinating Organization
SAP	–	standard accounting procedure
SDSSP	–	Sindh Devolved Social Services Program
SGARRP	–	Sindh Growth and Rural Revitalization Program
SGPIF	–	Sindh General Provident Investment Fund
SITE	–	Sindh Industrial Trading Estates
SLIC	–	State Life Insurance Company
SPF	–	Sindh Pension Fund
SPMU	–	subprogram management unit
SRSO	–	Sindh Rural Support Organization
SSIC	–	Sindh Small Industries Corporation
TA	–	technical assistance
USAID	–	United States Agency for International Development
VGf	–	viability gap fund

NOTES

- (i) The fiscal year (FY) of the Government and its agencies ends on 30 June. FY before a calendar year denotes the year in which the fiscal year ends, e.g., FY2008 ends on 30 June 2008.
- (ii) In this report, "\$" refers to US dollars.

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LOAN AND PROGRAM SUMMARY

Borrower	Islamic Republic of Pakistan
Proposal	<p>This proposal comprises the following:</p> <ul style="list-style-type: none">(i) a program cluster for the Sindh Growth and Rural Revitalization Program (SGARRP), comprising three subprograms over 2007–2011 covering reforms to promote private sector participation, improve public expenditure management, and revitalize the rural economy in the indicative aggregate amount of \$380 million equivalent;(ii) a proposed loan of \$100 million equivalent for subprogram 1 of the SGARRP from the Special Funds resources and Asian Development Fund of the Asian Development Bank (ADB); and(iii) a technical assistance (TA) grant of \$800,000 equivalent for the effective implementation of the SGARRP.
Classification	<p>Targeting Classification: General intervention Sector: Law, economic management, and public policy Subsector: Economic management Themes: Governance, private sector development Subthemes: Public governance, policy/institutional/legal/regulatory reforms</p>
Environment Assessment	Category C
Program Rationale	<p>Sindh is Pakistan's second largest provincial economy and second most populous province after Punjab. Large and long-standing differences between rural and urban economic and social structures in Sindh have created a dual economy: (i) an industry- and service-dominated economy in Karachi and to a lesser extent in Hyderabad and Sukkur, and (ii) an agrarian economy in the rest of the province, generally referred to as rural Sindh. The urban–rural divide is so striking in Sindh that it should be taken into account in any evaluation of constraints, opportunities, and development strategies for the province.</p> <p>Economic growth in Sindh in recent decades has been characterized by large fluctuations. As a consequence, long-term growth has been moderate, which has had several implications. First, living standards have improved rather slowly; from fiscal year 1995 to fiscal year 2005, per capita income grew by only 0.9% annually. Second, poverty has remained widespread, with more than 20% of the population living below the national poverty line. Third, there is general disenchantment with government policies and economic prospects, with over 80% of provincial residents perceiving no improvement in their lives in recent years. Fourth, without faster growth, Sindh faces high unemployment. Having a dynamic economy that generates income and jobs is essential for ensuring prosperity and social cohesion.</p>

Rural Sindh has over 50% of the province's population and accounts for about 30% of the gross domestic product. Slow rural growth means widespread rural poverty with the poverty head count ratio at 30%, double that of urban areas. The large rural–urban divide is a serious concern for the welfare of the rural population. Accelerating growth and improving the income of the rural poor are essential for economic and social stability in Sindh.

The government of Sindh (GoS) is committed to improving living standards and particularly welfare and services in rural areas. The draft *Sindh Vision 2030* envisages “a united, just, resilient, productive, innovative, industrialized, and prosperous Sindh with a disciplined, caring society comprising of healthy, happy, and educated people.” To achieve this vision, Sindh needs to embark upon an accelerated, inclusive, and sustainable development path. Revitalizing the rural economy is particularly important in this regard.

Program Description

The proposed SGARRP will promote broad-based growth. Its outcomes include greater private sector participation across the economy, more efficient public expenditure management, and increased investment and service delivery in rural areas.

These outcomes will be achieved through reforms in three core policy areas (CPAs):

- (i) **CPA 1: Promote private sector participation** by (a) establishing an institutional basis for public–private partnerships (PPPs) in infrastructure and social service provision, and (b) withdrawing the Government's direct involvement in commercial activities.
- (ii) **CPA 2: Strengthen public expenditure management** by improving (a) the efficiency of public investment; (b) monitoring and evaluation (M&E); (c) internal controls, audit compliance, and legislative oversight; and (d) the policy, financing, administration, and delivery of employee benefits.
- (iii) **CPA 3: Revitalize the rural economy** by (a) increasing and sustaining public investment in rural areas, (b) creating an enabling environment for private investment by clarifying land titling and reducing barriers to entry, and (c) facilitating PPP in service delivery.

The SGARRP will undertake a combination of actions in the short term (1–2 years), medium term (3–4 years), and long term (5–6 years) period. Accordingly, it is structured as a cluster that includes three single-tranche subprograms. The single-tranche modality is adopted to provide flexibility to meet emerging reform needs and build program lending as a platform for the evolving policy dialogue.

Financing Plan

Subprogram 1 of the SGARRP will comprise a loan of \$100 million equivalent from ADB's Asian Development Fund. The loan will have a

term of 24 years including a grace period of 8 years, an interest rate of 1.0% per annum during the grace period and 1.5% thereafter, and other terms and conditions as set forth in the draft loan and program agreements.

The Islamic Republic of Pakistan will be the borrower. It will relend the local currency generated from the loan proceeds to GoS. The terms and conditions will be the same as those extended by ADB to Pakistan. GoS will assume foreign exchange and interest rate risks.

Based on the current resource envelope, subprogram 2 is provisionally included at \$80 million and subprogram 3 at \$120 million. GoS has requested \$140 million each for subprograms 2 and 3. The specific loan size and composition will be confirmed during the processing of subprograms 2 and 3, on the basis of reform progress, requirements and availability of resources.

Counterpart Funds	GoS will ensure that the local currency counterpart funds generated by the loan will be used to increase rural investment and improve rural service delivery; support projects to improve land records and computerized M&E of development projects; finance seed capital for the viability gap fund and the project development fund of PPP; and fund restructuring and adjustment costs related to public sector enterprises divestment or restructuring.
Program Period and Tranching	The subprogram 1 implementation period is from April 2007 to October 2008. The proceeds of the \$100 million equivalent Special Funds resources loan will be available for withdrawal in a single tranche following satisfactory completion of all subprogram 1 policy actions, loan effectiveness, and no action that materially reverses the objectives of SGARRP having occurred. The report and recommendation of the President for the subprogram 2 loan will be submitted for ADB Board of Directors consideration about 18–24 months after the subprogram 1 loan becomes effective, subject to GoS's readiness to continue with its reform agenda. Similarly, the report and recommendation of the President for subprogram 3 will be submitted for Board consideration about 18–24 months after the subprogram 2 loan becomes effective, again subject to GoS's readiness to continue with the reform agenda.
Executing Agency	The Planning and Development Department (P&DD) of GoS will be the executing agency.
Implementation Arrangements	The executing agency will be responsible for the overall implementation of subprogram 1, including coordinating the implementation of policy actions by various departments, program administration, disbursements, and maintenance of program records. P&DD will set up a program management unit. To ensure line department ownership and implementation effectiveness, an economic reform unit will be set up in the Finance Department and a project management unit for the computerization of land records will be set up in the Board of Revenue. These two units will act as subprogram management units of the

SGARRP and coordinate with the project management unit on implementation.

A steering committee, chaired by the additional chief secretary for development, will guide SGARRP implementation. The committee will meet quarterly to monitor progress and oversee the implementation of the program and will post its major decisions and recommendations on the SGARRP website, to be established shortly after the program loan becomes effective. The major implementing agencies are Pⅅ Board of Revenue; and the Finance, Agriculture, and Industries departments.

Procurement and Disbursement

The loan proceeds will finance the costs, excluding local duties and taxes, of items produced in and procured from ADB's member countries, excluding ineligible items and imports financed by other bilateral and multilateral sources. ADB will have the right to audit the use of the loan proceeds and verify the accuracy of the Borrower's certification. The loan proceeds will be disbursed to the Borrower according to ADB's *Simplification of Disbursement Procedures and Related Requirements for Program Loans* (1998).

Program Benefits and Beneficiaries

The SGARRP is expected to provide substantial benefits to the people of Sindh in rural and urban areas, including the following:

- (i) **Streamlined role of the government and increased private sector participation.** The restructuring and divestment of poorly performing public corporations, including industrial estates and agricultural markets, will reduce fiscal costs and promote the private sector. The establishment of policy, institutional, financial, and risk-management mechanisms for PPPs will enable Sindh to augment more resources for investment and growth.
- (ii) **More efficient public investment.** The budget, planning, and project-implementation process for public investments will be improved in part by reducing the number of underfunded projects and directing scarce resources into priority projects to bring greater focus and integrity to the annual development plan. Project M&E will be strengthened to ensure results. Tightening internal control mechanisms and external auditing will improve efficiency and accountability in the use of public funds.
- (iii) **Improved financial sustainability of pension and other employee benefits.** Unifying investment functions, developing better policy frameworks, and strengthening governance for pension and other employee benefits will free up fiscal resources and reduce contingent liabilities. Improved employee benefits will boost morale. Secondary benefits in the longer term include increased savings and asset accumulation, both contributing to economic growth.
- (iv) **Improved rural growth and service delivery.** GoS wants to address the imbalances between urban and rural areas. The

major changes planned include improving land records and amending the outdated and inappropriate agricultural market law. These reforms seek to change conditions that have persisted for decades if not centuries. The expected benefits from successfully implementing these reforms are tremendous. These changes, together with the prioritization of government investment in rural areas and contracting out of services such as basic health care, will spur rural growth and improve living standards in rural Sindh.

Overall, the changes will improve growth, employment, income generation, service delivery, and poverty alleviation particularly in rural areas.

Risks and Mitigating Measures

Political Risks. GoS is run by a coalition of parties, and reforms are subject to agreements being reached. There is clearly a certain amount of tenuousness in this regard. Yet, ownership of the reform program cuts across political affiliations, which provides greater assurance that the program is durable. The cluster modality provides for flexibility on specific actions as well as timing.

Governance Risks. SGARRP will introduce greater transparency and accountability in both the public and private sector, which may affect those who benefit from existing opaque systems. Land titling and, agricultural market reforms, a disciplined management of the annual development program are examples. Senior leadership in GoS is aware of these risks, but it requested that reforms be comprehensive. Internal controls are weak and so are external audit mechanisms. SGARRP has measures to deal with both. Concomitant procurement reforms implemented will reduce leakage of public funds.

Macroeconomic Risks. Pakistan's macroeconomic situation has worsened significantly in recent months. The fiscal pressure on the federal Government exerted by these factors is expected to flow down to provincial governments. The fiscal year 2009 budget of Sindh has factored in this effect and reflects expectations of a higher deficit. The commitment of the GoS to pushing through structural reforms by means of the SGARRP remains unfettered, despite the heightened macroeconomic risks. The SGARRP measures to tackle institutional and policy impediments to growth in Sindh, particularly in rural areas, are timely, and will help to improve the economic resilience of Sindh and Pakistan in the medium term.

Institutional and Implementation Risks. SGARRP is orientated toward increased private sector participation in economic activity and service delivery. This focus will reduce implementation risks that would normally be caused by a bureaucracy with weak capacity. However, reform actions will be spearheaded by government departments and agencies. Institutional and operational risks are arguably the most important risks threatening the SGARRP day to day, but these are also risks that GoS and ADB can work together to mitigate.

**Technical
Assistance Grant**

Advisory TA of \$800,000 equivalent from the TA funding program will improve private sector participation and public expenditure management, supporting the effective implementation of the SGARRP. Major TA activities include capacity building for PPP; proposing options for introducing private management or divesting a number of public sector entities, introducing a computer-based M&E system for public investment; analysis of employee benefits; designing a road map for implementing the computerization of the land records in the province; and supporting a survey of citizens' satisfaction with public service delivery. The TA will also support the stakeholder consultation and interagency coordination required by the SGARRP.

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on (i) a proposed program cluster to the Islamic Republic of Pakistan for the Sindh Growth and Rural Revitalization Program (SGARRP), comprising three subprograms, and (ii) a proposed loan for subprogram 1 of the SGARRP.¹ This report also describes proposed technical assistance (TA) for improving private sector participation and public expenditure management and, if the Board approves the proposed program cluster and loan, I, acting under the authority delegated to me by the Board, will approve the TA.

II. MACROECONOMIC CONTEXT

A. The National Economy

2. The economy of Pakistan expanded strongly from fiscal year (FY) 2003 to FY2007. Annual gross domestic product (GDP) growth averaged about 7.0%. This robust growth has lifted per capita income, generated employment, and reduced poverty. From FY2003 to FY2007, per capita income grew at an average annual rate of above 13.0%, about 8.6 million new jobs were created, and the poverty rate declined by 15 percentage points from 35.3% to 20.0%.²

3. Growth momentum moderated, however, in FY2008. The GDP grew by 5.6%, compared with 6.8% in the previous year. Agriculture grew by only 1.5% because of adverse weather and policy constraints such as the delayed announcement of the wheat support price in FY2007. Manufacturing has been affected by a series of shocks including international oil price hikes, severe energy shortages, a slowdown in international economic activity, political uncertainty, and social disruption in late 2007. The sector grew by a modest 5.4%, as compared with 8.2% the previous year. Pakistan's growth in recent years has been led by consumption. Enhancing the role of investment in propelling sustainable growth remains a key challenge for Pakistan.

4. Macroeconomic conditions in Pakistan have especially deteriorated significantly since early 2008, aggravated by the rising global food and fuel prices. The slowdown in economic growth has coincided with rising fiscal and current account deficits and inflation. Foreign exchange reserves have declined to historic low levels and the rupee has depreciated. Security concerns are impacting on investor and consumer confidence. The global financial market turmoil has also compounded domestic economic woes. Restoring macroeconomic stability and growth momentum is urgently required in Pakistan. In this direction, the Government of Pakistan has signed a Letter of Intent on 20 November 2008 seeking a \$7.6 billion stand-by arrangement from the International Monetary Fund, as part of which broad-ranging macroeconomic reforms have been agreed upon.

B. The Sindh Economy

5. Sindh is Pakistan's second largest economy and second most populous province after Punjab. Its estimated provincial GDP (PGDP) is about \$34 billion, and its estimated population is about 38 million. The Sindh economy grew strongly from FY2002 to FY2007 with provincial

¹ Appendix 1 presents the design and monitoring framework of the SGARRP.

² Economic Affairs Wing, Finance Division, Government of Pakistan. 2008. *Pakistan Economic Survey 2007-08*. Islamabad.

GDP growth averaged about 7.0%.³ The poverty ratio declined from 35.3%⁴ in FY2002 to 22.4% in FY2005.

6. Sindh's recent economic performance closely tracks the performance of Pakistan. While the latest provincial growth data are not available, Sindh's economy has been affected by the same adverse international and domestic factors affecting the national economy. It is likely that the provincial economy has significantly slowed during the past fiscal year. Fiscal conditions have already deteriorated. The FY2009 budget estimates that the fiscal deficit will reach PRs14.1 billion (about \$175 million, or about 0.6% of provincial GDP), 72% higher than the previous year. Total provincial development expenditure grew at a staggering rate of 68.7% from FY2003 to FY2008. This rate is expected to decline to 24.2% in FY2009, with net provincial development outlay expected to be PRs77.3 billion.⁵ The budgeted size of the annual development plan (ADP) reflects efforts by the government of Sindh (GoS) to maintain relatively strong growth in development spending. The rate of increase of recurrent expenditure has been kept at 14.1%, which is low real growth given the current high rate of inflation.

III. THE SECTOR: PERFORMANCE, ISSUES, AND OPPORTUNITIES

A. Long-Term Economic Performance, Challenges, and Emerging Opportunities⁶

7. **Social and Economic Landscape.** Sindh is an ethnically diverse province that has attracted many migrants from neighboring regions. Large differences between rural and urban economic and social structures have created a dual economy: (i) an industry- and service-dominated economy in Karachi and to a lesser extent in Hyderabad and Sukkur and (ii) an agrarian economy in the rest of the province, generally referred to as rural Sindh. Large-scale migration to Karachi has given Sindh Pakistan's most urbanized population at nearly 50%, compared with 33% for the nation as a whole. Any evaluation of Sindh's constraints, opportunities, and development strategies needs to take into account the urban–rural divide.

8. **Subdued Long-Term Economic Performance.** Sindh enjoys the advantages of having a strategic coastal location, high levels of industrialization, and a rich endowment of labor and natural resources. Yet, despite the recent economic recovery, the province has not been able to fully capitalize on these advantages in recent decades. There has been major fluctuation in the growth trajectory. Figure 1 shows that the degree of economic fluctuation in Sindh is more pronounced. Consequently, while GDP growth averaged 4.8% from FY1992 to FY2005 in Pakistan as a whole, the corresponding growth rate for Sindh was 4.3%. Many factors have contributed to the inconsistent economic performance. The social unrest and ethnic conflict of the 1970s, late 1980s, and late 1990s took a particular toll on Sindh's economy.

9. Moderate long-term growth has a number of consequences. First, the pace of improvement in overall living standards in Sindh has been slow. From FY1995 to FY2005, per

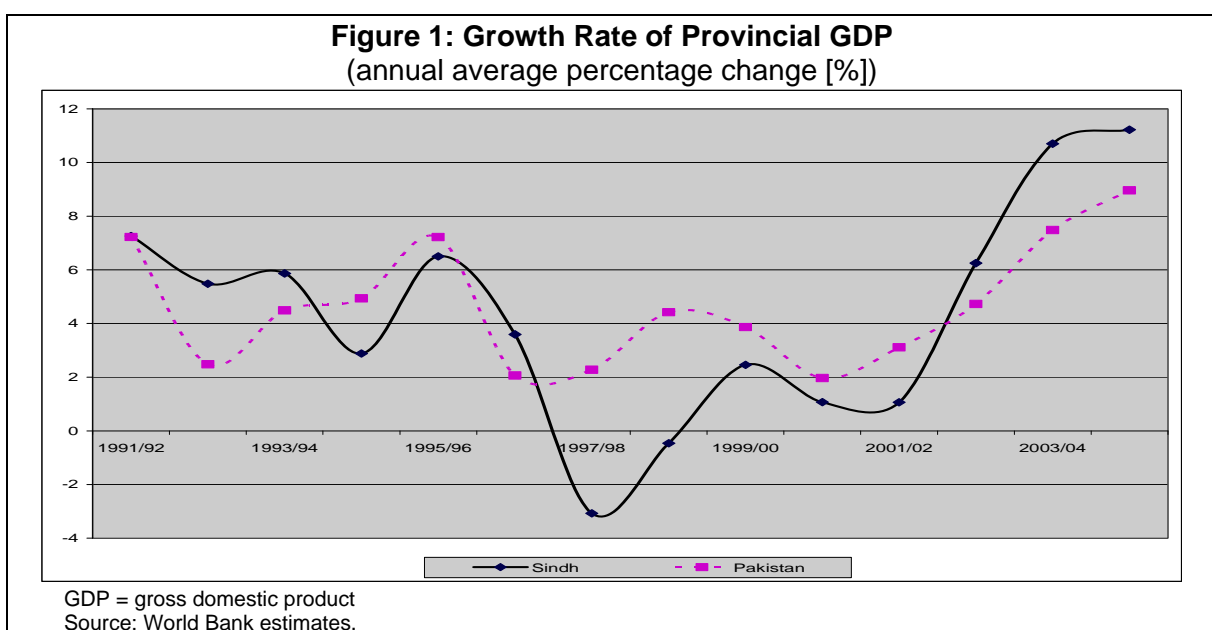
³ As official national income accounts for the provinces are not prepared in Pakistan, the PGDP data used in this report are from preliminary estimates of the Sindh PGDP by the World Bank.

⁴ The poverty data is from Anwar, Talat. 2006. Trends in Absolute Poverty and Governance in Pakistan: 1998/99 and 2004/05, *Pakistan Development Review* 45:4 Part II (Winter 2006) pages 777–793. The GoS believes that the figures underestimate the true incidence of poverty in the province. The current paucity in data, however, prevents the verification of this view.

⁵ This excludes the district government development expenditure of PRs12 billion in FY2009.

⁶ This section draws from World Bank and ADB. 2006. *Sindh Economic Report - Pakistan: Securing Sindh's Future - The Prospects and Challenges Ahead*. Islamabad (Report No. 35001, draft).

capita income in Sindh grew by only 0.9% annually, compared with 2.1% for Pakistan as a whole. Second, slower growth pushed up Sindh's poverty headcount ratio from 23.4% to 35.3% between FY1996 and FY2002. While the poverty ratio has declined in recent years, over 20% of the population still lives below the poverty line. Third, Sindh's population is becoming disenchanted. Over 80% of Sindh residents perceived no improvement in their lives in recent years. Fourth, without increasing investments and faster growth, Sindh faces a serious unemployment problem. The State Bank of Pakistan⁷ estimated that the unemployment rate increased from 5.2% in FY2002 to nearly 6.0% in FY2004. Sindh's population has been increasing at a faster pace than that of Pakistan because of the large number of migrants. Having a dynamic economy that generates income and employment is essential for ensuring economic prosperity and maintaining social harmony.



10. **Stagnant Rural Economy.** Rural Sindh has over 50% of the province's population and about 30% of the provincial economy. More than 70% of rural residents derive their livelihood from agriculture, livestock, forestry, or fishing. This contrasts dramatically with urban Sindh, especially Karachi, where about 95% of the population is employed in manufacturing and services. While the manufacturing sector grew by about 6.4% from FY1992 to FY2005, the comparable figure for agriculture was 3.5%. The slow growth of the rural economy has created a large and widening income gap between urban and rural Sindh. The poverty headcount ratio of around 30% in rural areas is double that of urban areas. The large rural-urban divide is a serious concern for the welfare of the rural population and is potentially destabilizing. Accelerating rural growth is urgently needed to lift the well-being of the rural poor and for the benefit of overall economic growth and social cohesion.

11. **Emerging Opportunities.** A number of positive developments have emerged in recent years. First, Sindh has led other provinces in poverty reduction since FY2001. Second, the annual population growth rate in Sindh has declined from 4% in the early 1980s to 2% in the late 1990s and is expected to fall below 1.5% by 2010. The transformation in the composition of the population away from "very young" to "young and mature" is expected to lead to greater private saving and less pressure on public finances. Third, there has been a general

⁷ State Bank of Pakistan. 2005. *Annual Report 2004/05*. Karachi.

convergence between the economic policies of different governments towards greater acceptance of the role of the private sector. These conditions provide a helpful setting for GoS to embark upon reform programs to put the economy on a firm and sustainable footing.

B. The Government of Sindh's Vision and Strategy and ADB's Strategy

12. **The Vision.** The draft *Sindh Vision 2030*⁸ of GoS envisages by 2030 “a united, just, resilient, productive, innovative, industrialized, and prosperous Sindh with a disciplined, caring society comprising of healthy, happy, and educated people.” It further states that the realization of this vision requires “enabling competitiveness in agriculture, business, and industry.” To support the realization of the vision through concrete steps, GoS is in the process of updating its Medium Term Fiscal Framework, FY2009–FY2011 and preparing a medium term rural investment plan.

13. **The Strategy.** Sindh's recent development has been marred by social and ethnic divisions that have periodically dampened growth. Consequent low growth and high inequality have prevented social convergence. To break out of this vicious cycle, Sindh needs to embark upon an accelerated, inclusive, and sustainable development path. The basic development strategy rests on the following aspects.

14. First, Sindh must not develop in isolated urban or rural pockets but must rather grow in a cohesive province-wide manner. Dynamic urban areas serve as powerful engines that pull the rural economy up with them, and urban Sindh's development is far from satisfactory. Second, attention must be paid to stimulating rural growth. Third, rural growth needs to be supported by strong agricultural growth. However, growth in the agricultural sector alone will not be sufficient. Strengthening rural and urban linkages and diversifying the rural economy into off-farm activities are needed to generate income and reduce the risks related to fluctuations in agricultural output. Fourth, attaining strong growth requires that the private sector play a critical role in generating wealth. Sindh's development expenditure budget per capita was less than \$25 in FY2008. Dramatically increasing public finance is not possible in the short term. It is critical that an enabling environment be created to attract private investment to build the province's social and physical infrastructure. Fifth, private sector development will not completely replace public investment. To improve development impacts, Sindh needs to significantly enhance the efficiency of public expenditure.

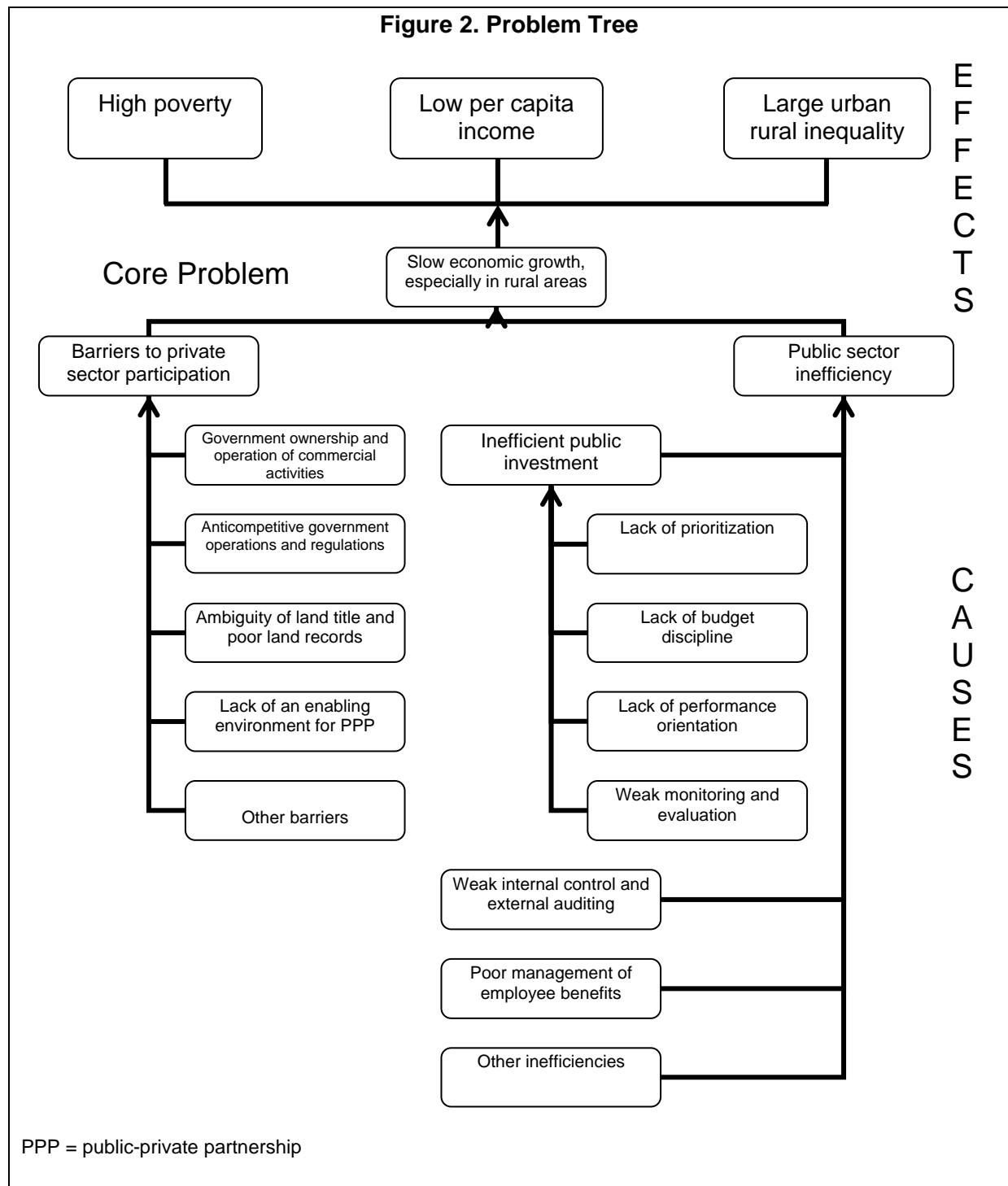
15. **ADB's Strategy.** The emphasis on promoting growth in general, and particularly rural growth, is in line with ADB's long-term strategic framework 2008-2020 (Strategy 2020),⁹ which stresses that poverty reduction can be sustained only if more people are economically productive. Strategy 2020 identifies poverty and widening disparity in well-being within and between developing member countries as two of the central challenges facing the Asia and Pacific region. The draft country program and strategy for Pakistan (2007–2011) emphasizes the need to build up a resilient economy based on increased private sector participation and supporting the balanced development of urban and rural economies.

⁸ Planning and Development Department, Government of Sindh. 2007. *Sindh Vision 2030: Aspiring Towards a Healthy, Productive & Prosperous Nation*. Karachi.

⁹ ADB. 2008. Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank 2008–2020. Manila.

C. Issues and Opportunities with Reference to the Proposed SGARRP¹⁰

16. The next section discusses major challenges to enhancing economic growth in Sindh, particularly in rural areas. A problem tree summarizing the core development problem, major causes leading to the problem, and effects deriving from the problem is summarized in Figure 2.



¹⁰ More details on issues can be found in Appendix 2.

17. Essentially, the proposed SGARRP looks at the need in Sindh for

- (i) the public sector doing less, but acting strategically to attract greater private sector participation;
- (ii) the public sector doing things better, such as managing resources effectively and with greater accountability; and
- (iii) revitalizing rural growth in a strategic manner by facilitating the unfettered operation of agricultural markets, among other reforms.

1. Need for More Private Sector Participation

18. **Background.** Sindh's private sector plays a very important role in Pakistan. In FY2005, its share of national large-scale manufacturing was 48.7%, mining and quarrying 66.6%, and finance and administration 38.2%. Yet, the development of the private sector in Sindh faces a number of constraints.

a. Need to Reduce the Inefficiency of Public Enterprises

19. The strong growth of an economy requires a sound demarcation of the respective roles of the private and public sectors. Early experience of heavy and direct public sector involvement in commerce created a bloated public sector and large budget deficits. Recognizing this, GoS has divested itself of most of its commercial entities. However, it still operates a number of public enterprises that are unable to cover their operating costs. Examples of such entities include the Sindh Small Industries Corporation, the Sindh Industrial Trading Estates, and the 71 agricultural markets currently administered by government-appointed officials. There is an opportunity for GoS to reexamine its investment in and management of public corporations and to rid itself of the resulting fiscal drain by allowing the private sector to participate in their ownership and administration, or by divesting them completely.

b. Need to Create an Enabling Environment for Public–Private Partnerships

20. Public–private partnerships (PPPs)¹¹ can improve the availability of resources and enhance the efficiency of public goods and service delivery. The implementation of PPP in infrastructure and social services will be particularly beneficial for Sindh, as underinvestment over many decades has created bottlenecks that undermine economic growth and poverty reduction. To take advantage of the potential created by PPP, Sindh needs to put in place policy, institutional, financial, and risk-sharing mechanisms that it currently lacks.

21. Projects need to be bankable before they can attract private sector investment. Even in stable political and macroeconomic environments, a project for public purpose may face serious viability gaps. Such risks may be mitigated by the public sector's sharing risks and providing

¹¹ PPPs are contractual arrangements between the public sector and a private sector party for the private delivery of public services, in particular infrastructure services. They range across service contracts; management contracts; leases; and concessions such as build-own-operate-transfer contracts, divestiture, and build-own-operate contracts. They frequently involve complementary investments and/or services. Examples that are under provincial jurisdiction include the private sector management and operation of water utilities and sanitation and waste management facilities, private investments in urban transport that are complemented by upfront public investments through capital grants for large projects, and the implementation of a network of feeder roads or provision of land by the public sector to supplement a privately financed and operated toll road. At the federal level, the power and transport sectors have major potential for PPP.

upfront viability gap funding. But the fiscal authority needs to carefully evaluate the costs and benefits to properly set the extent of public investment in, or support for, a project. The Government can consider initial capital grants or partial operational support if a stable revenue stream or significant benefits to the public can be demonstrated. Given acute capacity and financial constraints on the province, GoS needs to examine its role in projects for public purposes and the potential for private delivery of them. Establishing a sound policy and institutional environment, allocating resources for project development, putting in place the viability gap fund (VGF) mechanism, and carrying out intensive capacity building for PPP are needed in the province.

2. Need for Better Public Expenditure Management

22. Like any large province, Sindh has its share of major issues in public resource management. The proposed SGARRP concentrates on two principal issues. The first is the need for managing public funds well by investing them prudently and monitoring their utilization effectively. The second is the need for managing the province's contingent liabilities, specifically pension and other employee benefits, prudently to create fiscal space and reduce fiscal risks.

a. Need for Efficient Public Investment Management

23. **Background.** Public investment in Sindh is implemented through ADPs. The Sindh ADP ballooned from PRs5.7 billion in FY2003 to PRs54 billion in FY2008. The tenfold increase in resources has stretched implementation capacity and brought to the fore many systematic problems in ADP management.

24. **Too Many Projects, Too Little Funding.** The ADP for FY2009 contains about 1,890 projects. Of these, 70% suffer serious delays in implementation. The recently completed Public Financial Management and Accountability Assessment (PFMAA)¹² of Sindh concluded that expenditure effectiveness in the province is undermined by a lack of realism in budget preparation. During planning, departments submit a list of projects without being explicitly informed of the resources available. While it is commonly understood that annual budgets rise incrementally, departments compile proposals without considering budgetary constraints. Little prioritization is undertaken, and many schemes are included in the ADP. As a result, available resources are thinly spread and implementation is delayed. In many cases, newly approved schemes receive only a symbolic or token allocation far below the initially estimated amount. The large number of schemes in the ADP and relatively small allocation per scheme builds up throw forward in the development portfolio, stretches the implementing capacity of departments, and results in under spending of budget allocations. The consequent two seemingly contradictory phenomena—throw forward and under spending—seriously undermine the benefits of public investment.

25. **Bypassing Procedures.** Regular procedures are bypassed in response to pressure to ensure that projects continue to be funded, irrespective of resource availability or prioritization. It is a common practice to include unapproved new schemes in the ADP. Worse, the unapproved schemes are sometimes carried forward as ongoing schemes from one ADP to the next. In other words, the ADP contains schemes that have never been sanctioned by a competent authority, never undertaken before, and perhaps never evaluated on the basis of their feasibility or viability.

¹² Government of Sindh and development partners. 2008. *Public Financial Management and Accountability Assessment*. Sindh (March). A summary of the assessment is provided in Appendix 3.

26. **Weak Monitoring and Evaluation.** The Directorate General of Monitoring and Evaluation in P&DD is responsible for monitoring development schemes. Review of the ADP portfolio can result in the issuance of reprimands to those departments with nonperforming schemes, but corrective measures are not undertaken and bad performance is not taken into account when deciding the next year's budgetary allocations. The Directorate General of Monitoring and Evaluation is currently understaffed, with only five officials assigned to the task of monitoring the entire ADP portfolio of 976 ongoing projects, 723 new projects, and about 200 special projects. There is thus minimal monitoring of development project execution. It is not clear that merely increasing the number of staff would be sufficient to strengthen monitoring. More fundamental action may be required, including a disciplined approach to restructuring or the termination of nonperforming projects.

27. **Weak External Auditing and Internal Control Mechanisms.** The Office of the Auditor General of Sindh conducts fairly regular external audits of all GoS spending units. The audit reports contain many audit observations (commonly referred to as 'paras' in Pakistan) addressed to the departments, which remain unsettled due to lack of discipline in holding regular departmental accounts committee (DAC) meetings, which act as a prelude to eventual settlement by the provincial accounts committee. In many cases, DACs are systematically neglected. In some departments, the backlog is as long as 5 years. The internal control process suffers from a lack of control mechanisms, institutions, and practices. One major issue is the poor system of managing movable assets. Inventory controls on movable assets in all departments are not carried out, potentially allowing losses to the exchequer. The standard operating procedures for asset disposal are archaic, involving numerous approvals. Departments are supposed to record any asset worth PRs100,000 or more in a dead stock register and establish a maintenance record, but the practice is seldom followed.

b. Need for Better Employee Benefit Management

28. **Background.** GoS is the largest employer in the province, with more than 421,000 employees. It pays monthly pensions to an estimated 108,000 pensioners and their surviving dependants. It provides to its civil servants a two-layered old-age protection system consisting of a pension scheme with an unfunded defined benefit and a general provident fund (GPF) with a notional defined contribution. GoS provides additional employee benefits: a benevolent fund to help defray the costs of life events; group life insurance provided through the State Life Insurance Company; an additional in-service death benefit paid from a self-funded pool; and health care coverage and leave salary in case of sickness. Establishing an efficient system for managing employee benefits is essential for creating fiscal space, reducing contingent liability, and improving public sector employee welfare.

29. **Growing Liabilities of Employee Benefits.** Employee benefits are paid from the GoS budget on a pay-as-you-go basis. Life insurance death benefits are paid from the State Life Insurance Company as the underwriter of the policies. Expenditures for employee benefits are growing rapidly. Pensions grew by 13.0% from FY2007 to FY2008, reaching PRs7.54 billion.¹³ Expenditures for GPF are expected to exceed PRs2 billion in FY2008, while expenditures for the benevolent fund and group insurance approach PRs500 million each.

30. In recognition of the need to better manage its growing benefit liabilities, GoS established the Sindh Pension Fund (SPF) in August 2002 with seed money of PRs1.2 billion supplemented by an annual government allocation of PRs3 billion. The current value of the SPF

¹³ Finance Department, Government of Sindh. 2008. *Brief about Sindh Pension Investment Fund*. Sindh.

stands at PRs12.888 billion. Simultaneously, annual expenditure from the GoS budget for pensions has increased to PRs6.782 billion.¹⁴ In May 2007, GoS approved the creation of the Sindh General Provident Investment Fund (SGPIF) and transferred seed money of PRs2 billion from the FY2008 budget. The SGPIF will be supplemented annually by a budget transfer of PRs2 billion and the net receipts of GPF contributions from civil servants.¹⁵ GoS's intention is to continue budget transfers to overcome GPF liabilities in the next 10–15 years. The management of the funds and investment decisions are undertaken by a high-powered committee that includes the chief secretary, secretary general of administration, and secretary of finance. The private sector has just one representative on the SGPIF board.

31. Lack of Accuracy and Timeliness in Record Keeping, Administration, and Service Delivery. The process of record keeping, benefit calculation, and benefit payment is still largely manual and on paper but is being replaced by an automated system under the Project for Improvement in Financial Reporting and Auditing (PIFRA)¹⁶ using SAP/R3 software (named for “standard accounting procedures”). Currently, neither the Finance Department nor the Accountant General of Sindh (AGS) can utilize the pension and GPF modules because of the backlog in transferring pension information and wage history data from paper records to an online format. This information gathering is time-consuming, adding burden to the daily tasks of AGS clerks.

32. The present process of GPF payment is onerous, requiring the claimant to go through a lengthy process to generate a pension payment order that needs to be cleared by the claimant's final employing department and approved by the district accounts office. Leakage in the system in the form of “ghost” employees and pensioners is believed to be significant. Another weakness in the disbursement of pension and GPF benefits occurs when the retirement benefits are actually being paid out. The benefits are paid through the local branches of the National Bank of Pakistan. Fraud is countered by requiring the beneficiary to appear in person, though in practice this is not required on a monthly basis. Further procedures require that a local district official make a life certification of a pensioner, but this too is not routinely enforced, resulting in fraudulent benefit claims continued past death. Moreover, there is no mechanism for triggering an action when questionable transactions occur. The identification of claims for the employee benefits can be considerably improved. The claim process, managed by the drawing and disbursement officer for each department, is flawed by administrative inefficiencies and malpractices.

33. Weak Employee Benefit Structure. The Federal and provincial governments share virtually the same federally designed pension and GPF benefits. Certain features of the current pension scheme have led to inequitable and arbitrary outcomes. For instance, the employee's final monthly payroll is used as the basis for calculating the pension. This creates an incentive for employees to secure a pay raise or promotion immediately before retirement. Most of the workers who joined the government after 2004 are not entitled to pensions or GPF benefits because of the contractual nature of employment. Concerns have been expressed that the current policy restricts GoS's ability to attract and retain qualified staff and that morale is damaged as employees with different benefits work side by side. There is a lot of dissatisfaction. GoS, as the employer, is dissatisfied over escalating costs. Employees are dissatisfied with the claims process and inadequate payment amounts. Furthermore, there is a considerable overlap

¹⁴ Shaikh, Khalid Mehmood. 2008. *Pension Privatization in Pakistan*. Sindh. Finance Department, Government of Sindh.

¹⁵ Finance Department, Government of Sindh. 2007. *Budget Analysis 2007–2008*. Sindh.

¹⁶ PIFRA is a multiyear, multi-phased project designed to automate, standardize, link, and improve all aspects of financial reporting and analysis related to all agencies of the national, provincial, and district governments.

in benefit payments for the death of a civil servant, as the pension, group life insurance, and financial assistance program each provide a benefit payment for the same event. Streamlining these programs is highly desirable.

3. Need to Revitalize the Rural Economy

34. About 50% of the province's population resides in rural areas, and about 30%, or 5.5 million people, live below the official poverty line. More than 70% of rural residents derive their livelihood from agriculture. However, over the period from FY1999 to FY2005, the growth rate of agricultural added value was only 2.3% per year and, in per capita terms, only 0.2% per year. The landless ratio in Sindh is 62%, the highest among Pakistan's four provinces, making off-farm income important. A number of impediments to rural growth are discussed below.

35. **Neglect of Rural Investments.** Historically, ADPs have neglected rural areas in favor of investment in urban areas. There is a need to translate the redefined provincial priority into a rural investment plan that addresses critical constraints in the rural economy. Infusing a medium term perspective by carrying out multiple year (e.g., 3-year) forward planning and ensuring that rural investment plans are integrated into the provincial Medium Term Fiscal Framework will contribute to sustained rural development.

36. **Need for a Computerized Land Titling and Record-Keeping System.** Land markets in Sindh are thin, with less than 0.5% of land sold or bought each year. One key impediment to creating a flexible land market is the ambiguity of the agrarian law regarding title to land. The entries on the land and revenue records provide only presumptive status of rights, and these rights have been challenged in various courts.¹⁷ Furthermore, there are serious defects in the Board of Revenue (BOR) system of preparing, maintaining, and updating land records. An archaic, paper-based regime for maintaining land records, which disproportionately empowers the *tapedar* (the lowest-level revenue functionary) to maintain exclusive custody of the land record, lends itself to making fraudulent entries accompanied by bribes, further putting into dispute an already presumptive title. Such insecurity in land titling acts as a disincentive to investment and land transactions. The low frequency of land transactions perpetuates the highly unequal distribution of land. The lack of clear land title also impedes access to credit, as banks are reluctant to lend money using land as collateral because they do not trust the current recording system.

37. **Poorly Functioning Agricultural Markets.** An important piece of legislation in Sindh that affects farmers is the Agricultural Produce Markets Act (1939) (Supplementary Appendix A), which restricts wholesale transactions for agricultural commodities such as fruit and vegetables to regulated markets run exclusively by government-appointed registered commission agents. This system favors intermediaries, locally referred to as *arhti*, at the expense of farmers. Under Section 4 (2) of the legislation, a license is required from the provincial government to establish a market within a notified area, which is to be managed by a market committee that issues licenses to dealers and brokers to operate in the market and allots shops in the market. The committee has monopolistic power and control over the bulk and wholesale purchase process and sale of farmer produce in the area. This monopolistic role played by the Government and its direct engagement in the operations of the markets have made the governing body less accountable and increased the possibility of collusion between intermediaries and management, to the disadvantage of farmers, especially small and marginal ones. There is evidence that rent

¹⁷ World Bank and ADB. 2006. *Sindh Economic Report - Pakistan: Securing Sindh's Future -The Prospects and Challenges Ahead*. Islamabad (Report No. 35001, draft).

seeking and corruption are common in the collection of market fees, issuance of trader licenses, and allotment of shops.¹⁸ There are currently 71 markets in Sindh, yet only six are operated by committees, with the remainder administered by Agriculture Department officials. The appointment of a government official to administer a market further weakens the accountability and administrative oversight of the market.

38. Lack and Poor Quality of Social Service Delivery. Social service delivery in Sindh is tainted by high absenteeism and the low quality of service delivery. Progress in social indicators has been slow. In recent years, several large nongovernment organization (NGO) programs supported by the federal and provincial governments and international donors have undertaken rural development efforts. In Sindh, the most notable of these are the National Rural Support Program, Sindh Rural Support Organization (SRSO), Sindh Agricultural and Forestry Workers Coordinating Organization (SAFWCO), and Thardeep Rural Development Program. These programs have achieved substantial success in organizing rural communities,¹⁹ building local infrastructure, and delivering services. The People's Primary Health Initiative (PPHI) has achieved through enhanced accountability and incentives for service providers significant improvement in primary health service in 10 districts of Sindh. The vertical nature of the program has, however, raised questions about its sustainability. This has been a common problem with other rural support organizations. Attention needs to be paid to ensuring that alternative models of service delivery by NGOs are financially viable, have sound governance structures, and are sustainable.

D. External Assistance

39. ADB has supported GoS in governance reforms and infrastructure improvements. ADB's first program loan to Sindh was through the Sindh Devolved Social Services Program (SDSSP). It was implemented between 2002 and 2008 and was part of a concerted effort by ADB to support improved social services from local governments. SDSSP was the first such provincial program, and its design has served as a blueprint for Devolved Social Services Programs in Punjab and Balochistan. The SDSSP aims to improve local government capacity and improve service delivery in health, education, and water supply and sanitation. As SDSSP drew to a close, GoS expressed a desire to implement a two-pronged strategy to engage with development partners on policy-based lending to (i) deepen social sector reforms through implementing single sector programs and (ii) tackle institutional and policy impediments to growth and revitalize the rural economy. The SGARRP is a response to the governments' second desired strategy. Building on the SDSSP, the SGARRP pays particular attention to introducing PPPs for better service delivery. GoS has also requested ADB to explore the prospects for designing a Millennium Development Goal program, of the type that has been pursued in the Punjab, with the objective of reducing infant and maternal mortality.

¹⁸ See, for example, Sustainable and Development Unit, South Asia Region, World Bank. 2007. *Pakistan Promoting Rural Growth and Poverty Reduction*. Washington, DC (30 March, Report No. 39303-PK); and Smith, L. E. D, A. M. Khushk, and M. Stockbridge. 1999. Case Studies of Corruption in Agricultural Markets in Sindh Province, Pakistan, and Implications for Market Liberalization. *Journal of International Agribusiness and Marketing*, vol. 11(1), pages 19–42.

¹⁹ See, for example, World Bank and International Monetary Fund. 2004. *Pakistan, Joint Staff Assessment of the Poverty Reduction Strategy Paper*. Washington, DC (February 12, 2004); World Bank. 2007. *Partnering with NGO's to Strengthen Management: An External Evaluation of the Chief Minister's Initiative on Primary Health Care in Rahim Yar Khan District*, Punjab. Islamabad (March 2006); and Sustainable and Development Unit, South Asia Region, World Bank. *Pakistan Promoting Rural Growth and Poverty Reduction*. Washington, DC. (March 30 2007, Report No. 39303-PK).

40. ADB approved the TA cluster Support for Governance Reforms in Pakistan²⁰ in March 2007. A subproject entitled Supporting Fiscal and Public Financial Management Reforms in Sindh was approved by the TA cluster steering committee in December 2007. This TA subproject has provided domestic and international expertise to help GoS improve its public financial management. Efforts have been made to coordinate the work under this TA and the SGARRP, with TA findings reflected in program design. This complementary relationship between the TA and the SGARRP will continue into the design and implementation phases of subprogram 2 of the SGARRP.

41. ADB has processed the Sindh Cities Improvement Program to improve water supply and waste water and solid waste management services in clusters of secondary cities through an integrated program of institutional reforms and priority investments, with focus on improving service delivery. The processing of the Karachi Urban Transport Program (tentative title) is also underway. This will help improve the quality of life for urban residents including the poor. Thus SGARRP, the Sindh Cities Improvement Investment Program, and the Karachi Urban Transport Program are complementary in reform and investment areas, as well as address the urban-rural imbalances.

42. The World Bank is an active development partner in Sindh. It is introducing reforms in irrigation through its Sindh Water Sector Improvement Project (2007–2013).²¹ This project aims to expand community involvement in the management and maintenance of distal irrigation infrastructure to improve efficiencies in three major canal command areas. Similarly, the World Bank's On-Farm Water Management Project (2004–2008)²² supports improvements in the efficiency and equity of irrigation water distribution by strengthening the role of farmers' organizations and supporting complementary technologies in land levelling, tillage, sprinkler and drip systems, and integrated pest management.

43. There has been substantial donor interest in the social sectors, with education and health in particular receiving considerable attention. The World Bank's Education Sector Development Policy Credit aims to improve participation and retention, reduce gender and regional disparities, and improve quality in elementary and secondary education. Its first phase was implemented in 2007 and 2008 at a cost of \$100 million. The European Union is complementing the World Bank program through TA (2007–2011) directed toward improved district management for better educational outcomes. ADB supported SDSSP focused on introducing a well-regarded conditional grant mechanism to increase the quality and quantity of health, education and sanitation services at the local government levels.

44. An important World Bank initiative in the area of public financial management is the PIFRA. The first phase of the PIFRA was implemented between 1996 and 2005. The second phase started in October 2005 and will be completed in 2010. The PIFRA encompasses federal, provincial, and district government actions aiming to improve the accuracy, comprehensiveness, reliability, and timeliness of accounting, auditing, and reporting. Improving pension and wage records is an important component of the PIFRA. ADB and World Bank assistance are fully complementary. In public financial management, for example, the World Bank's PIFRA focuses

²⁰ ADB. 2007. *Technical Assistance to the Islamic Republic of Pakistan for Support to Governance Reforms in Pakistan*. Manila (TA 4922-PAK, approved on 7 March).

²¹ Agriculture and Rural Development Unit, South Asia Region, World Bank. 2007. *Sindh Water Sector Improvement Project Phase 1* (Project ID: P084302, Approved on 18 Sept. 2007).

²² Agriculture and Rural Development Unit, South Asia Region, World Bank. 2004. *Sindh On-Farm Water Management Project* (Project ID: P078997, Approved on 20 May 2004).

on improving financial reporting and accounting by introducing information technology and standard accounting procedures, while ADB focuses on institutional and policy reforms. In pension reform, the PIFRA has worked to improve records, while ADB has worked to improve pension administration, service delivery, and policy.

45. The United States Agency for International Development (USAID) is another major donor. Through its \$47 million project, Widening Harmonized Access to Microfinance, USAID has supported microfinance loans and is providing training and technology support to the conduit banks, enabling them to cater better to the needs of Sindh's micro, small, and medium-sized enterprises. USAID has helped establish a competitiveness support fund to accelerate the adoption of practices that enhance competitiveness and will spur economic growth and poverty alleviation in Pakistan. In Sindh, this fund developed an action plan for rehabilitating and improving the management of the Karachi Fish Harbor and provided \$8 million for implementing the plan, with GoS funding another \$2 million. More information on donor coordination is included in the development coordination matrix (Appendix 4).

E. Lessons

46. The experience of ADB in policy-based lending over the past decades offers useful examples of how to improve program design and implementation. Key lessons that have emerged are outlined below.

47. **Strong Government Ownership.** A prerequisite for successful program implementation is strong ownership by the government. This encompasses ownership by both the bureaucracy and political leaders. Thus, active dialogue with both the bureaucracy and political leaders is important for the success of a program. Because reform programs are long term, identifying reform areas that cut across political differences and have wide support is critical.

48. **Policy Conditions Should Be Flexible.** Changing circumstances will require policy adjustments during implementation. Policy conditions should be geared to respond to evolving circumstances and structured around open and informed debate to nurture desired changes.

49. **Realistic Program Design.** Program designs that are too complex are likely to fail. This lesson is highlighted by ADB's country assistance program evaluation for Pakistan (2007).²³ Identifying feasible and significant actions toward reform goals is essential. This suggests an incremental, evolutionary, and sustainable approach to reform.

50. **Institutional Development.** The success of a program depends on its ability to nurture institutional development. Building capacity in executing and implementing agencies is important for both program implementation and the sustainability of reforms. TA can play an important role in this regard.

51. The country assistance program evaluation for Pakistan (2007) of ADB identified lessons specific to Pakistan that are broadly consistent with these lessons. Overly complex design, lack of government ownership, and rigid implementation mechanisms are cited as reasons for project failure. The ADB's Evaluation on Policy-Based Lending (2007)²⁴ outlines a number of strategies for enhancing program lending. These include (i) making available enough staff to

²³ Operations Evaluation Department, ADB. 2007. *Country Assistance Program Evaluation for Pakistan*. Manila.

²⁴ Operations Evaluation Department, ADB. 2007. *Evaluation of Policy-Based Lending: Emerging Practices in Supporting Reforms in Developing Member Countries*. Manila.

design strategies and programs and effectively engage in policy dialogue; (ii) conducting rigorous analytical work;²⁵ (iii) willingness to innovate (with tolerance for a higher degree of risk that is still within acceptable bounds to accommodate this) in ways that take into account political economy factors and incentive structures; (iv) balancing lending; (v) economic, sector, and thematic work and continuous policy dialogue; and (vi) ensuring that judicious use is made of conditions to help reformers manage the process but not to control it.

52. Experiences in implementing program loans such as the Financial Markets and Governance Program; Pakistan Access to Justice Program; Pakistan Decentralization Support Program; Small and Medium Enterprise Development Program; Provincial Public Resource Management Program in Punjab and Baluchistan; and provincial Devolved Social Services Programs in Sindh, Punjab, and Balochistan; Second Generation Capital Market Program; Private Participation in Infrastructure Program; Agriculture Sector Programs; and Accelerating Economic Transformation Program are all generally consistent with the lessons outlined above. These programs highlight two specific lessons in addition to those mentioned above. First, including large TA loans in programs has generally not worked because of low utilization and the ad hoc nature of the outputs produced. Many factors have led to this result, including the lack of ownership by, and implementation capacity of, the government; excessive pre-auditing and the rigidities of ADB rules and procedures; the lack of systematic identification and a participatory approach to TA activities; and the lack of monitoring and evaluation (M&E) of outputs. Second, just having a centralized program implementation unit, without an adequate mechanism to secure line department ownership, can weaken the participation of line departments.

53. The proposed SGARRP incorporates these general and country-specific lessons. In particular, it adopts a single-tranche, program cluster approach to provide a platform for developing a long-term partnership between ADB and GoS. The areas in the SGARRP have been selected after carefully assessing institutional capacity and commitment to reforms in each case. The design of the program was significantly changed in response to GoS's strong request for ADB assistance in the areas finally included. Spurred by its strong ownership, GoS is strengthening provincial capacity to implement the actions. The Finance Department expressed a strong desire to improve pension and other employee benefit systems. Basic fund-management capacity has been established in the department, and GoS is in the process of establishing a professional fund management house (FMH). BOR has initiated work on improving land titles and records. A project management unit will be set up and the budgets allocated for three Planning Commission pro-forma applications,²⁶ specifically for computerization of land records, preservation of old land records, and geographic information system, have been approved. Drawing on past lessons, the SGARRP will include subprogram management units in key implementing agencies (IAs) and focal persons in other IAs.

IV. THE PROPOSED SINDH GROWTH AND RURAL REVITALIZATION PROGRAM

A. Impact and Outcome

54. The proposed SGARRP aims to promote broad-based growth across the province and spur growth in the depressed rural economy. The impacts of the SGARRP will be higher and sustained economic growth, reduced poverty, and lower rural-urban inequality in Sindh. The

²⁵ The World Bank and ADB's Sindh Economic Report - *Pakistan: Securing Sindh's Future-The Prospects and Challenges Ahead*. Islamabad (Report no. 35001) (draft, 2006) has provided much analytical backing for the design of the SGARRP.

²⁶ This refers to project proposals.

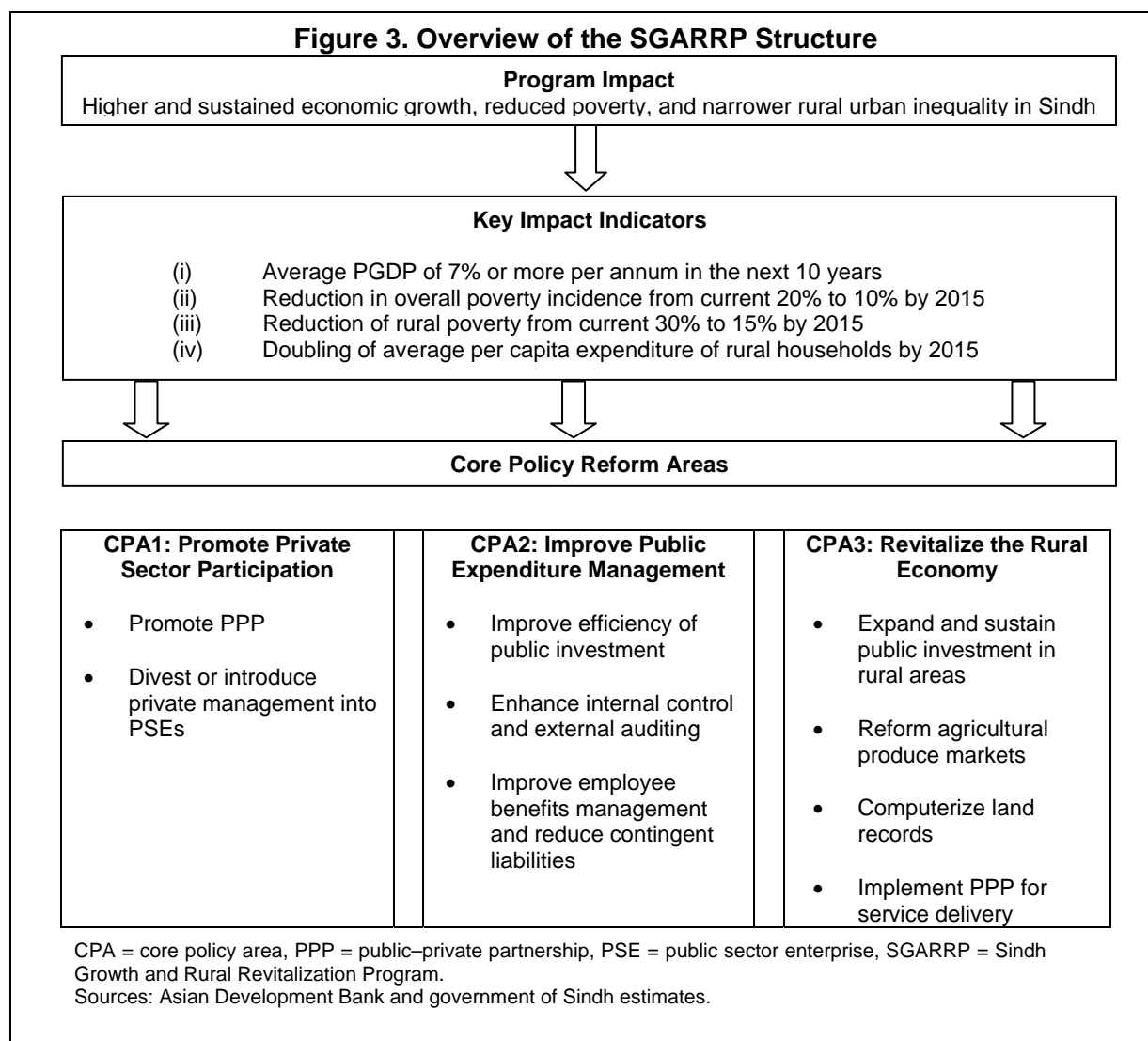
outcomes of the SGARRP include greater private sector participation across the economy, more efficient public expenditure management, and increased investment and improved service delivery in rural areas.

B. Outputs and Activities

55. The SGARRP supports policy actions in three core policy areas (CPAs):

- (i) **CPA 1: Promote private sector participation** by (a) promoting PPPs in infrastructure and social service provision, and (b) reducing the government's direct involvement in commercial activities.
- (ii) **CPA 2: Strengthen public expenditure management** by improving the (a) efficiency of public investment; (b) M&E; (c) audit compliance, legislative oversight, and internal control; and (d) policy, financing, administration, and delivery of employee benefits.
- (iii) **CPA 3: Revitalize the rural economy** by (a) increasing and sustaining rural investments, (b) creating an enabling investment environment in rural areas by clarifying land titling and reducing market distortions and barriers to entry, and (c) facilitating PPP in rural service delivery and empowerment.

56. The SGARRP will undertake a combination of actions in the short term (1–2 years), medium term (3–4 years), and long term (4–5 years) period. Accordingly, it is designed as a cluster with three subprograms. The design and monitoring framework is in Appendix 1. The development policy letter is in Appendix 5. The policy matrix is in Appendix 6. An action plan for achieving subprogram 1 actions is in Supplementary Appendix B. The program structure of the SGARRP is presented in Figure 3, and the reform actions under each CPA are described below. Section C below summarizes the areas where substantial progress has been made as part of subprogram 1 of SGARRP.



1. Core Policy Area 1: Promote Private Sector Participation

a. Promote Public-Private Partnerships

57. The objective of this subcomponent is to enhance the role of PPP in augmenting resources, improving efficiency, and mitigating risks. Subprogram 1 will support the implementation of key steps towards introducing PPP policy, institutional, regulatory, financial, and concession-management frameworks in Sindh. It includes the preparation of a concept paper outlining a key steps for the province to develop comprehensive PPP frameworks. The PPP Unit, housed in the Finance Department, will have the mandate to develop PPP policies and support project development. The PPP Unit has drafted a PPP guidance document that is being discussed with line departments and agencies. It will be strengthened further with ADB TA support, resulting in two key documents: a PPP policy and regulatory framework and detailed implementation guidelines. The PPP Unit will ensure that PPP projects in the province are undertaken through open, transparent, and competitive procurement procedures and clearly defined concession agreements.

58. During subprogram 2, the PPP policy and regulatory framework will be adopted and a project development fund and a VGF will be established to prepare PPP projects and provide targeted and properly budgeted capital grants and subsidies for PPP projects that are economically and socially justified but fall short of financial viability. At least two PPP projects will be launched through competitive bidding and governed by clearly defined concession agreements between GoS and private sector participants. The implementation of PPP projects will offer valuable experiences through learning by doing and regulating through well-defined contracts, and will facilitate policy development. Drawing on the experience of countries such as Singapore and Canada, the PPP Unit will analyze the applicability of establishing rules that require public investment exceeding a certain threshold to use PPP modalities. In subprogram 3, GoS will commission an independent review of PPP projects to date to assess their commercial rigor and the appropriateness of the risk-sharing arrangements. The lessons drawn from it will serve as inputs for designing further reforms.

b. Improve the Efficiency of Public Sector Enterprises

59. The objective of this component is to improve efficiency and reduce fiscal losses stemming from government ownership of commercial entities. Under subprogram 1, the Finance Department will carry out a stocktaking exercise to ascertain the number of public sector corporations and gather information on their financial performance. The data and analysis will serve as an important instrument for monitoring public sector enterprise (PSE) performance. One weak area identified by the PFMAA is inadequate oversight of PSEs by GoS. It is difficult even to gauge the number of PSEs in the province (Appendix 3). GoS will identify options to privatize or introduce private management to a number of public sector corporations, including the Sindh Small Industries Corporation, Sindh Industrial Trading Estates, Sindh Seed Corporation, and Sindh agricultural market committees. These entities have been shielded from market discipline and suffer ongoing losses. They are inefficient and crowd out or prohibit private sector entry. GoS will develop detailed divestment or contract management plans for these corporations that will be implemented in subprogram 2. The plans will incorporate measures to address adjustment costs, particularly the welfare issues faced by workers.

2. Core Policy Area 2: Improve Public Expenditure Management

a. Improve the Efficiency of Public Investment

60. The objective of this subcomponent is to improve the quality and value for money of public investment. One major factor that has caused the accumulation of projects and throw forward is the lack of budget discipline. An important requirement for making the budget process more rigorous is to clearly convey the budget constraints of each department at the outset of each budget and planning year. This will help to improve transparency and predictability in ADP management and subject planning agencies to hard budget constraints. Under subprogram 1, GoS will form a budget ceiling committee, which will determine the funding limit of the ADP for each department to be introduced in the next budget cycle. To reduce the excessive number of development projects, P&DD will advise departments that projects will be considered only within the allocated budget limit. This will ensure that departments undertake expenditure prioritization.

61. Another factor which has caused the excessive number of projects is token allocation. Under subprogram 1, P&DD will cancel all projects that have received token allocations for 2 consecutive years and institutionalize this discipline. Any such projects that departments still wish to pursue will need to be resubmitted. Other measures to be introduced include discontinuing the practice of carrying forward the previous years' unapproved schemes into the

new ADP. These measures will reduce project overhang and the accumulation of projects. Subprogram 2 will support the introduction of budgeting based on medium term development planning and performance.

62. The M&E capacity of P&DD will be strengthened by adopting a computerized, results-based M&E framework. Project M&E system software has been developed by the federal P&DD with support from ADB TA.²⁷ The planning commission pro-forma approval template was modified in 2006 to include performance indicators used by the Government of Pakistan, and Sindh has adopted this new template. The introduction of the computer-based project M&E system can effectively support the implementation of the new planning commission pro-forma approval requirement. In subprograms 2 and 3, an integrated database and system linking P&DD with line departments will be put in place to allow regular tracking of portfolio performance. To identify systematic blockages to timely project implementation, P&DD will carry out in subprogram 1 a thorough study of five projects that suffered delays and, in subprogram 2, take measures to address the causes. To improve accountability, P&DD will carry out third party evaluations for about 20 randomly-selected projects and institutionalize third party evaluation in subprogram 2.

63. To ensure the prudent use of public resources and accountability, a schedule for convening regular DAC meetings will be observed in subprogram 1 by selected line departments, including Agriculture, Livestock and Fisheries, Irrigation and Power, and Works and Services. The purpose of regular DAC meetings is to ensure progressive reduction in the backlog of audit observations. To enhance internal control, a management system for movable assets will be established in subprogram 2 to safeguard public assets and reduce leakage.

b. Improve Employee Benefit Management

64. The objective of the proposed intervention is to improve the policy framework and administration of pensions and other employee benefits to increase fiscal space, reduce contingent liability, and provide adequate income security for the civil service.

i. Improve Financing of Employee Benefit Liabilities

65. This subcomponent will support the establishment of professionally managed investment funds to finance pension and GPF liabilities. GoS has committed to the annual transfer of PRs3 billion to the SPF and PRs2 billion to the SGPIF to address the growing contingent liability for pensions and the GPF. The funds are currently managed by separate boards, with the investment function based in the Finance Department. GoS is preparing to establish FMH, through which the SPF and the SGPIF will be managed in a professional manner by a single Sindh Fund Management Board and an investment committee with expert advice from the private sector. During subprogram 1, the Finance Department will review the adequacy of investment policy, structure, and governance; and explore possible improvements toward conformity with international best practice. Based on the options identified, the Finance Department will prepare an action plan with milestones for establishing FMH.

66. Subprogram 2 will support the establishment of FMH. The design of arrangements for asset custody, investment management, and governance oversight will require review and

²⁷ ADB. 2002. *Technical Assistance to the Islamic Republic of Pakistan for Strengthening Portfolio Performance and Monitoring*. Manila (TA 3982-PAK); and ADB. 2005. *Technical Assistance to the Islamic Republic of Pakistan for Results-Based Monitoring of Projects*. Manila (TA 4749-PAK).

verification within the existing legislative framework. The conformity of the investment policy to international best practice will combine securing opportunities for competitive investment returns with maintaining an acceptable level of risk. FMH will be fully operational under subprogram 3.

ii. Improve Record Keeping, Administration, and Delivery of Employee Benefits

67. The aim of this subcomponent is to provide accurate and timely benefit payments to pensioners and improve benefit delivery. A reliable record-keeping system in AGS is required, as well as a streamlined process for benefit calculation and processing. A major improvement in record keeping is expected to occur with the transition from a paper-based system to an automated one using the SAP/R3 software for registering payroll, pension, and GPF data. Virtually all district account offices in Sindh now use the SAP/R3 payroll module.²⁸ In January 2008, AGS initiated a pilot to have the Karachi district account office enter the data of around 100,000 employees and 50,000 pensioners. By 31 August 2008, the records of 24,000 pensioners and the wage history records, as registered in the ledgers, of more than 156,000 employees had been entered into the system. Under subprogram 1, GoS created the Employee Benefit Administration Task Force to monitor the data collection and entry process, as well as the reconciliation and accuracy verification of the data.

68. Under subprogram 2, the Finance Department will look into options to create a Sindh provincial government employee benefit house. The department intends to set up employee benefit house to improve service delivery, enhance government employees' understanding of their benefit entitlements, and simplify the claim process. Under subprograms 2 and 3, alternative designs and cost estimates for employee benefit house will be prepared before the most appropriate design is selected and implemented. Under subprogram 2, claim procedures and business processes will be revised in line with the automated system, discontinuing reliance on manual wage history reviews and approvals. Improvements in this area will allow GoS to reduce the time needed for processing claims and diminish the discretion of the different authorizing offices while, in the process, addressing rent seeking and other leakage. The full transformation of the process can be initiated only once all line departments are linked to the SAP/R3 system and business processes are adjusted to the automated system. Under subprogram 3, revisions to the claim, payment, and business processes will be implemented as line departments become automated.

iii. Improve Pension and Employee Benefit Policy

69. The aim of this subcomponent is to support GoS's review of reform options for the system of pensions and other employee benefits. The system is outdated and needs comprehensive revision. Pension and employee benefit reform is part of a broader effort to rationalize public sector compensation. The actuarial valuation of these costs is a key element in the debate. The Office of the Chief Actuary in the Ministry of Finance of Pakistan is mandated to measure the accrued liabilities of civil service pension schemes, both for pension and GPF benefits, and to advise on any proposed changes to them. Under subprogram 2, an actuarial cell will be created in the Finance Department to facilitate interaction with the federal actuarial office, monitor the quality of the data, and carry out modeling of the pension and GPF reforms. Under subprogram 2, the Finance Department will undertake a diagnostic study of existing employee benefits to prepare recommendations for reform toward an integrated system of

²⁸ Out of 23 district offices, 22 use the payroll module. Out of those 22 district offices, most make payroll payments using the module. Not one utilizing office uses it at a rate of less than 70%, but five offices still have not yet passed the 90% mark.

employee benefits. Based on the review, reform options will be proposed and discussed. Under subprogram 3, the Finance Department will present the proposed systematic employee benefit reforms to the Provincial Assembly for those issues that fall under the provincial ambit and to the federal Government for reform areas that are under its jurisdiction.

3. Core Policy Area 3: Revitalize the Rural Economy

a. Institutionalize GoS Commitment to Rural Revitalization

70. The chief minister announced various interventions to address rural economic priorities in his budget speech to the Provincial Assembly on 16 June 2008. To spearhead rural reforms, GoS will establish under subprogram 1 an executive committee chaired by the chief secretary to define and guide the rural revitalization program. The committee will comprise key departmental secretaries and nongovernmental representatives involved in rural development and meet periodically to review the progress of the rural revitalization program. The committee may, from time to time, convene working groups of officials and experts on a particular sector or aspect to advise the committee or perform specified tasks as required.

b. Increase and Sustain Rural Investments

71. The renewed emphasis of GoS on revitalizing the rural economy has seen it commit to developing under subprogram 1 a draft rural investment plan that will lay out government priorities for rural investment. The plan will be approved by the executive committee. Under subprogram 2 the rural investment plan will be converted into a medium-term rural development framework, to be embedded in the province's Medium Term Fiscal Framework, and the ADP will be implemented in line with the redevelopment framework and the Medium Term Fiscal Framework. GoS has decided that under subprogram 1 it will realign its investment portfolio by increasing ADP allocations for the rural economy by at least 15% per annum over the new Medium Term Fiscal Framework period (FY2009–FY2011). This commitment has been reflected in increased annual allocations in the ADP of FY2009 for the rural economy by 28% over the previous year. Under subprograms 2 and 3, GoS will ensure that the rural investment plan and rural investment targets continue to be implemented and achieved.

c. Improve Land Records

72. There are serious shortcomings in the preparation, maintenance, and updating of land records by functionaries in BOR. Whereas clear and undisputed land titles may be a distant goal, computerizing land records is one way of moving toward the eventual establishment of clearer land titles. Successfully accomplished, this process will bring more transparency, improve public access to land records, and reduce the possibility of errors and fraud. Under subprogram 1, GoS has adopted a policy framework and approved budget to implement a computerized land record and titling regime throughout the province based on surveys. It has approved the planning commission pro-forma approval for a land administration and revenue management information system project with a total value of PRs922 million. Under subprogram 2 a pilot is to be completed in 14 selected revenue estates by mid-2009. The result will be evaluated, and the process and software fine-tuned and finalized before the end of FY2009. Under subprogram 3, the computerization will be implemented throughout the province, leading in the longer run to a database of all revenue and land records: ownership, utilization information, tax assessment, and so forth. The database will be connected with information kiosks set up in the 121 talukas (towns), 23 districts, and the main servers at BOR.

73. Under subprogram 1, BOR will obtain the opinion of the Law Department regarding the legal status of computer-generated title deeds and other forms, e-passbooks, and the necessary record-keeping changes in light of the provisions of the Land Revenue Act (1967) and related rules. Necessary changes to the Land Revenue Act (1967) and related rules will be introduced under subprograms 2 and 3. A separate complementary planning commission pro-forma approval with a budget allocation of PRs649 million has been approved for the creation of a geographic information system for land administration and revenue management to assist in delineating the ownership of properties and lands. A third planning commission pro-forma approval with the budget allocation of PRs364 million has been approved for preserving old revenue records; revamping of BOR's Survey, Settlement, and Land Records Directorate; ascertaining the record of rights; and demarcating state lands and properties as required under the Sindh City Survey Act (1987), the Sindh City Survey Rules (1988), and the *City Survey Manual*. Under subprogram 2, BOR will (i) complete the city survey and mapping in 11 rural towns (as distinct from rural agricultural land) and (ii) prepare a planning commission pro-forma approval of survey and map preparation using satellite imagery and digitization. It will then embark on the city survey and mapping of the remaining 75 rural towns, completing work in at least 15 towns under subprogram 3. The survey and mapping will be expanded to include urban areas over time.

74. To ensure better coordination among these three parallel and complementary projects, a combined project advisory committee has been notified, and BOR has started recruiting staff and management consultants for the combined program management unit (PMU) of the projects for land administration and revenue management information system, preservation of revenue records, and geographic information system. The PMU will be fully staffed, equipped, and operational in early 2009. Under subprogram 2, BOR's Goth Abad Directorate will prepare a work plan and budget, and GoS will provide funds for regularizing villages and issuing *sanads* (title deeds) in all village settlements with more than 50 households. The directorate will implement the work plan, complete surveys and the issuance of *sanads* in at least six districts, and then complete work in four districts each subsequent year until the entire province has been covered.

d. Remove Regulatory Impediments to Market Access

75. The Sindh Agricultural Produce Markets Act (1939) prohibits the establishment of private wholesale markets. To counter the anticompetitive nature of the act, GoS will submit under subprogram 1 a summary to the chief minister proposing the amendment or repeal of this act to enable the private sector to establish and manage wholesale and bulk markets.²⁹ Subprogram 2 will implement the amendment or repeal of the Agricultural Produce Markets Act. GoS will identify options for private sector management or divestment of government-owned agriculture markets. These actions will ultimately bring the private sector in to replace government operation of agricultural markets. Under subprogram 3, GoS will continue to expand the role of the private sector in the agricultural sector by reducing regulatory barriers in other areas which fall under the provincial government mandate to enhance competition, efficiency, and market access.

²⁹ GoS is considering various options and a decision will be made in the next 2 months.

e. Promote Private Sector and Civil Society Participation in Service Delivery and Rural Empowerment

76. The objective of this subcomponent is to improve social service delivery, which is vital for building up human capital and improving the welfare of rural people. While public sector service delivery infrastructure such as the number of basic health units (BHUs) has expanded in recent years, actual service delivery has not improved visibly in rural Sindh (footnote 17). One reason is that the public sector has been hampered by high absenteeism and a lack of accountability. While this is a problem common to the whole province and Pakistan in general, the consequences are more acutely felt in rural areas because private sector alternatives are lacking. The unsatisfactory performance and slow progress by the public sector have prompted the Government to search for alternative models of service delivery. In this regard, partnerships between GoS and NGOs have been fruitful.

77. In the basic health area, GoS entered into a partnership agreement with PPHI, a subsidiary of SRSO. PPHI has managed BHUs in 10 districts since 2007. Through enhancing incentives, accountability, and community participation, PPHI has been able to significantly improve basic health service delivery in these 10 districts. Subprogram 1 will support the expansion of this partnership to 16 districts, and subprogram 2 will support expansion to all 23 districts of Sindh. To ensure quality services, subprogram 1 will support the adoption of minimum service standards under PPHI and ensure that sufficient funding is provided to attain them.

78. In addition to primary health, GoS has entered into partnership with a number of rural support programs including National Rural Support Program, SRSO, SAFWCO, and TDRP, for promoting holistic rural development. The fiduciary assessments of National Rural Support Program, SRSO, SAFWCO, and TDRP are in Supplementary Appendix C. The activities of these organizations include providing productive assets through in-kind grants, micro-financing, micro-insurance, skills development, and other activities. Subprogram 2 will introduce regular citizens' satisfaction surveys on social services and publish the results to ensure consistently high quality of service delivery and improved accountability. Subprogram 2 will support the institutionalization of a PPP mechanism in public service delivery by adopting a policy and regulatory framework on contract management. The development of the PPP policy framework to institutionalize contract management will help to address the sustainability problem faced by NGO-managed public service delivery programs. The citizens' satisfaction surveys will help to sustain the good performance of NGOs through increased accountability, informed decision making, and consideration of citizens' preferences.

C. Major Recent Achievements

79. This section summarizes the areas where GoS has made substantive progress as part of subprogram 1 of SGARRP.

1. Promote Private Sector Participation

80. **Sound Delineation of Private and Public Sector Roles.** GoS is unequivocal about the important role of the private sector in boosting growth, generating wealth, and reducing poverty; as well as of the facilitating role of government in laying down an enabling environment for the private sector. This point was emphasized in the chief minister's budget speech on 16 June 2008. This thinking marks a sea change from the interventionalist approach of earlier years and lays a sound foundation for getting the policy direction right.

81. **Streamlining the Role of the Government.** GoS has started to identify options for withdrawing from the ownership and management of such commercial activities as agricultural markets.³⁰

82. **Promoting PPP.** The PPP policy board, which is chaired by the chief minister and is comprised of members from both the public and private sectors, has been notified to guide PPP development in the province. The Finance Department has developed a draft concept paper outlining the Government's decision to develop PPP in a holistic manner. Draft PPP policy guidelines have been prepared. A focal person in the Finance Department has been appointed and the establishment of a PPP Unit is underway. Line departments have identified a list of projects as potential candidates for PPP. This list will be reviewed by technical experts supported by ADB TA, and tender documents will be developed for selected projects to procure transaction advisory services from the domestic and international markets. GoS has published requests for expressions of interest to select transaction advisory services and identify PPP partners for a road project from Hyderabad to Mirpur-Khas. It is also developing VGF and project development fund operational guidelines, and the initial capital injection into these two funds will be carried out in the next few months.

2. Improve Public Expenditure Management

83. **Enhancing the Efficiency of Public Investment.** GoS has carried out a spring cleaning exercise and cancelled about 200 unapproved schemes that were carried forward from past years as ongoing schemes. The new organogram of the M&E wing with significantly enhanced staffing has been approved, and a planning commission pro-forma approval for improving M&E has been drafted. AGS and the Finance Department have installed a unified server based on SAP/R3 that will provide real-time expenditure data. These steps will streamline fund-flow processes and assist in monitoring the expenditure pattern of the departments for improved internal controls.

84. **Building Up Pension and General Provident Funds.** GoS is leading the way in Pakistan in taking steps to reduce pension and general provident contingent liability. It created a pension fund in 2002 and the GPF in 2007 and transferred resources to them annually. The combined size of the two funds is over PRs15 billion. A further PRs5 billion will be transferred in F2009. GoS is preparing to establish a professionally managed FMH. A major improvement in record keeping is expected as a result of the transition, which started in early 2008, from a paper-based system toward an automated one. A large number of wage and pension data have been input into the SAP/R3 module. GoS has created the Employee Benefit Administration Task Force to monitor the timeliness and accuracy of data entry.

3. Revitalizing the Rural Economy

85. **Enhancing Public Investment.** GoS has translated its commitment to rural revitalization into increased budget allocations. In the FY2009 budget, the investment in rural development projects increased by 28% relative to the previous year.

86. **Implementing Institutional and Policy Reforms.** GoS has started to confront the difficult issues surrounding land-titling reform. Three planning commission pro-forma approvals with a combined budget allocation of PRs1.89 billion have been approved to carry out land administration and revenue management information system, preserve revenue records, and

³⁰ The number of public enterprises is relatively small in Sindh at about 14.

establish a geographic information system. GoS has shown strong resolve to deal with the outdated and anticompetitive Agricultural Produce Markets Act (1939). It has identified reform operation and began a process of consultation to amend or repeal the act to allow private entities to set up and manage wholesale markets.

87. Improving Service Delivery and Empowering the Rural Poor. An alternative service delivery module has been introduced through a partnership with PPHI in 10 districts. PPHI has introduced higher remuneration for doctors, improved basic facilities in BHUs, and strengthened the accountability of doctors. GoS is expanding PPHI service delivery to 16 districts and will expand this initiative to all 23 districts in Sindh.

D. Important Features

88. Strong Government Ownership. The new GoS has strong ownership of the policy actions in the program cluster. The overarching theme of the chief minister's 16 June 2008 budget speech was the need to introduce growth and pro-poor orientation in the budget. Particular priority has been placed on the revitalization of the rural economy that includes managing land titling records and creating partnerships with NGOs and the private sector to deliver rural services. To achieve these objectives, GoS is committed to ensuring that public spending is prudent, effective, and makes a difference to people's lives. It is committed to improving the policy environment for the private sector. Extensive dialogue with the government has ensured that all the three core policy areas are in close alignment with GoS's policy directions.

89. Rural Revitalization. GoS is committed to addressing the issue of rural poverty and rural–urban inequality. The factors that have created this inequality are complex and present formidable challenges to GoS's achieving its stated objectives. The SGARRP actions, particularly in CPA 3, are designed to support GoS's rural revitalization program. The reforms, such as computerizing land records, seek to change conditions that have persisted for decades, if not centuries, and will take years to introduce successfully. The expected benefits from successfully implementing the program are tremendous.

90. A More Focused Approach. The program design recognizes the complexity of rural development and focuses on a subset of carefully selected measures to promote rural growth and reduce urban–rural inequality. This selectivity has necessitated leaving out many other important causes of rural poverty, such as the tenant–landlord relationship and irrigation issues.³¹ The benefit of this approach is that it makes program implementation more focused and feasible, thereby improving the prospects of successful SGARRP implementation.

91. Facilitation of Private Sector Participation in Service Delivery. GoS has traditionally seen its role as that of a service provider, regulator, and policy formulator. However, it has not had the institutional or financial capacity to undertake these multiple roles. Recognizing this limitation, GoS intends to transform itself by contracting out essential service-delivery functions and divesting itself of functions that are better filled by the private sector. Examples of this new approach include the growing role of NGOs in providing basic health services, promoting banks' and rural support programs' provision of much-needed microfinance in rural areas, and supporting the growing presence of private operators in the dairy sector. The SGARRP's first CPA supports the transition to removing government from inefficient operations.

³¹ Two factors underpin this choice. First, the issues are complex and require dedicated programs and projects. Second, the World Bank has two projects on irrigation, and GoS is in the process of implementing the amended Sindh Tenancy Act (2002), which supports a more balanced tenant–landlord relationship.

92. **Lending Modality.** The use of the proposed single-tranche modality promotes ongoing policy dialogue between the parties concerned and leads to a more robust program that is both flexible and sustainable. The provision that short-term actions must be completed prior to the processing of succeeding subprograms allows GoS to proceed at a reform pace that is appropriate to its circumstances and augments the accountability of both GoS and its development partners.

E. Financing Plan

93. **Loan Size, Terms, and Conditions.** A loan of \$100 million equivalent from ADB's Special Funds resources will be provided to finance subprogram 1 of the SGARRP. The loan will have a term of 24 years including a grace period of 8 years, an interest rate of 1.0% per annum during the grace period and 1.5% thereafter, and other terms and conditions set forth in the draft loan and program agreements. Based on the current resource envelope, subprogram 2 is provisionally included in ADB's budget framework at \$80 million and subprogram 3 at \$120 million. GoS has requested \$140 million each for subprograms 2 and 3. The specific loan size and composition will be confirmed during the processing of subprograms 2 and 3, on the basis of reform progress, requirements and availability of resources. Pakistan will be the borrower.

Table 1. Major Reform Requirements under the SGARRP
(PRs billion unless otherwise specified)

Item	FY2009	FY2010	FY2011
Pension fund capitalization	5.0	5.0	5.0
Scaling up rural investment ^a	5.0	3.5	4.0
Land titling	0.2	0.5	1.2
Infrastructure viability gap funding		1.0	2.0
Reforming public sector enterprises		0.5	1.0
Other costs	0.1	0.4	0.8
Total	10.3	10.9	14.0
\$ Million^b	147.1	155.7	200.0

^a The rural investment budget allocation increased by 28% from fiscal year (FY) 2008 to FY2009. GoS is committed to increasing rural investment by at least 15% from FY2009 to FY2011. The rates for FY2010 and FY2011 are assumed to be 15%.

^b The conversion from the Pakistan rupees into US dollars uses an estimated average exchange rate between FY2006 and FY2009 with \$1 = PRs70.0.

Sources: Government of Sindh Annual Budget 2008/09 and Asian Development Bank estimates.

94. The primary reason for the Government's decision to seek ADB's policy and financial support is to promote growth and reduce rural–urban inequality. The financing requirements for implementing major reform actions are outlined in the Table 1. The size of the loan is determined according to (i) the strength of the SGARRP and its development impact; (ii) the costs associated with the implementation of reform and expenditure measures under SGARRP; and (iii) and the financing gap of GoS. The use of the subprogram 1 loan proceeds is described in greater detail in para.101 below.

95. While there are short-term costs associated with reforms, the economic benefits will greatly outweigh the costs in the long run. Increased investment in rural Sindh is essential to spur growth, reduce poverty, and improve social indicators in one of the neediest areas of Pakistan. Computerizing land records will help remove one of the key barriers to investment.

Reducing market distortion and enhancing competition will benefit the rural poor. Improving management of employee benefits will reduce contingent liability and enhance morale. The institutional reforms in the Finance Department, P&DD, and line departments will help improve the quality of expenditure management. Measures to support PPP and reduce direct government involvement in commercial activities will spur private investment and improve efficiency. All these are important for good governance and improving value for money in public finance.

96. **Relending to GoS.** The Government of Pakistan will relend local currency generated from the loan proceeds to GoS. The terms and conditions will be the same as those extended by ADB to Pakistan. GoS will assume foreign exchange and interest rate risks.

F. Implementation Arrangements

1. Program Management

97. Sindh P&DD will be the executing agency. It will be responsible for the overall implementation of subprogram 1, including coordinating the implementation of policy actions by various departments, program administration, disbursements, and the maintenance of program records. P&DD will set up a PMU. To ensure line department ownership and implementation effectiveness, an economic reform unit will be set up in the Finance Department and a project management unit for the computerization of land records will be set up in BOR. These two units will act as subprogram management units (SPMUs) of the SGARRP and coordinate with the PMU on implementation. The major IAs are BOR and the Finance, Agriculture, Livestock and Fisheries, Industries, Works and Services, and Irrigation and Power departments. A focal person will be appointed in all IAs except the Finance Department and BOR (The program implementation arrangement is described in detail in Supplementary Appendix D).

98. An executive committee chaired by the chief secretary will be formed to provide overall policy guidance and oversight to the rural revitalization program. A steering committee, chaired by the additional chief secretary (Development) and comprising secretaries from all of the IAs, will oversee SGARRP implementation. The committee will meet quarterly and post its major decisions on the SGARRP website that will be established shortly after the program loan becomes effective. ADB may be invited to participate in meetings as an observer.

2. Implementation Period

99. The subprogram 1 implementation period is from April 2007 to October 2008. ADB has been continuously involved in policy dialogue with GoS throughout this period. The implementation period for subprogram 2 is November 2009–April 2010 and for subprogram 3 May 2010–October 2011. A detailed action plan for subprogram 1 has been developed by GoS and ADB. Similar plans will be prepared for subprograms 2 and 3. The action plans will be adjusted through coordination between ADB and GoS.

3. Tranching and Counterpart Financing

100. The loan proceeds will be available for withdrawal in a single tranche in the amount of \$100 million equivalent for subprogram 1, to be released subject to satisfactory completion of all subprogram 1 policy actions, loan effectiveness, and no action that materially reverses the objectives of SGARRP having occurred.

101. **Counterpart Funds.** GoS will ensure that the local currency counterpart funds generated by the loan for subprogram 1 are used to support investment and reforms in line with the SGARRP. The indicative allocations are (i) \$65 million equivalent for increasing rural investment and improving rural service delivery; (ii) \$1 million equivalent for GoS-managed, demand-driven TA-related activities; and (iii) \$34 million equivalent for computerizing land records, computerized performance-based M&E, seed capital for the VGF and the project development fund, and restructuring and adjustment costs related to PSE divestment or restructuring. GoS will certify the use of counterpart funds in line with the loan agreement through audited statements acceptable to ADB.

4 Procurement and Disbursement

102. The proceeds of the program loan will be used to finance the full foreign exchange costs, excluding local duties and taxes, of items produced and procured in ADB member countries, excluding the items specified in the list of ineligible items (Appendix 7) and imports financed by other bilateral and multilateral sources. The proceeds of the program loan will be disbursed to Pakistan as the Borrower, in accordance with the provisions of ADB's *Simplification of Disbursement Procedures and Related Requirements for Program Loans* (1998).

5. Anticorruption and Fiduciary Issues

103. ADB's *Anticorruption Policy* (1998, as amended to date) was explained to and discussed with the Government. Consistent with its commitment to good governance, accountability, and transparency, ADB reserves the right to investigate, directly or through its agents, any alleged corrupt, fraudulent, collusive, or coercive practices relating to the SGARRP. To support these efforts, relevant provisions of ADB's *Anticorruption Policy* are included in the applicable loan regulations.

104. The draft Sindh PFMAA identified external auditing and internal control as key weaknesses of public financial management in Sindh. A core component of the SGARRP is improving internal control, external auditing, and legislative oversight of public expenditure. The SGARRP includes reforms to improve public investment management, M&E, employee benefit management, and budget planning and execution. Furthermore, the SGARRP supports the withdrawal of GoS's direct involvement in commercial activities, such as establishing and managing the agricultural markets and industrial sites whose weak governance structure has induced rent seeking by public officials. The SGARRP promotes the conduct of regular citizens' satisfaction surveys on public services. All these actions are expected to reduce leakage and improve accountability in public expenditure management and service delivery.

6. Accounting and Auditing

105. ADB retains the right to audit the use of loan proceeds and to verify the accuracy of the Government's certification for withdrawal applications. Before withdrawal, the Government will open a deposit account at the State Bank of Pakistan to receive all loan proceeds. The account will be managed, operated, and liquidated in accordance with terms satisfactory to ADB.

7. Performance Monitoring, Evaluation, and Program Review

106. ADB and GoS will carry out periodic reviews of the progress of implementation and assess the impact of the SGARRP. The PMU and SPMUs will submit quarterly progress reports to ADB as well as a final report. GoS will keep ADB informed of the outcome of policy

discussions with other multilateral and bilateral agencies that have implications for SGARRP implementation, and will provide ADB with the opportunity to comment on any resulting policy proposals. ADB will regularly carry out review missions to review progress and, based on the result, prepare subprogram 2.

V. TECHNICAL ASSISTANCE

107. The proposed TA will help Pⅅ BOR; and the Finance, Industries, and Agriculture departments to undertake diagnostic studies, identify and evaluate reform options, support implementation, and monitor results. In addition, intensive interagency coordination and stakeholder consultation is required. Major TA activities include designing a road map for PPP in the province, identifying options for introducing private management or divestiture of a number of public sector entities, introducing a computer-assisted M&E system, carrying out employee benefit analysis, and assisting in the implementation of computerizing land records.

108. The total cost of TA is estimated at \$1 million equivalent. ADB will provide \$800,000 equivalent as a grant from the TA funding program. GoS's contribution in kind of \$200,000 equivalent will cover office accommodation, transport, counterpart staff support, and facilities for seminars and meetings. A team of international and national consultants will be recruited through a firm or as individuals in accordance with ADB's *Guidelines on the Use of Consultants* (2007, as amended from time to time). The TA purpose, outputs, methodology, implementation arrangements, and budget are set out in Appendix 8. This TA will be supplemented by a subproject from ADB's ongoing Strengthening Fiscal and Public Financial Management in Sindh, which is financed by the Department for International Development of the United Kingdom.

VI. PROGRAM BENEFITS, IMPACTS, ASSUMPTIONS, AND RISKS

A. Program Benefits

109. The SGARRP is expected to provide substantial benefits to the people of Sindh, especially people in rural areas, including the following:

- (i) **Streamlined role of the government and enhanced private sector participation.** GoS currently owns and manages several public enterprises that are at best a drain on fiscal resources and, at worst, crowd out the private sector and distort the market. The restructuring or divestment of poorly performing public sector corporations will bring fiscal savings for GoS and promote a more robust and efficient private sector in Sindh. The establishment of policy, institutional, financial, and risk-management mechanisms for PPP in the province will enable Sindh to augment resources and strengths from both the private and public sector for higher investment and growth.
- (ii) **More efficient allocation of public resources.** Budget, planning, and project implementation processes will be improved, in part by reducing the large number of highly underfunded projects, which divert scarce resources from priority projects, and thereby bring greater focus and integrity to the ADP process. M&E will be strengthened to ensure that intended project results are delivered to beneficiaries. Tightening internal control mechanisms and improving external auditing will enhance the efficiency and effectiveness of the use of public funds and reduce leakage.
- (iii) **Improved financial sustainability of pension and other employee benefits.** Increases in the contingent liabilities of pension, GPF, and other employee

benefits impose a growing and unsustainable burden on the GoS budget. GoS seeks to manage employee benefits better by unifying investment functions, improving service delivery, enhancing the policy framework, and strengthening governance. These actions are designed to free up finances and reduce contingent liabilities. The improved delivery of employee benefits will boost employee morale. Secondary benefits in the longer term include increased savings and asset accumulation, which can contribute to economic growth.

- (iv) **Improved rural economic growth and service delivery.** GoS is addressing the imbalance in economic growth and income gaps between urban and rural areas. It will reform longstanding regulatory distortions that have impeded the entry of the rural population into the market economy, including the archaic land-titling system and the outdated and inappropriate agricultural market law. These outcomes, together with the prioritization of government investment in rural areas and contracting out of services that the government has been unable to deliver effectively, such as basic health care, will spur rural growth and contribute to improved living standards in rural Sindh.

110. These benefits will collectively result in higher growth, greater employment, more income generation, better service delivery, and poverty alleviation in Sindh, particularly in rural areas.

B. Program Impact

111. **Economic and Poverty Reduction Impact.** The reform measures in the program, if effectively implemented, will engender substantial improvements in the hitherto relatively low rates of long-term economic growth. Promoting PPPs will generate more resources for productive investments, while reducing GoS's direct engagement in commercial activities and allowing the private sector to manage assets efficiently will contribute to economic growth. Improved public expenditure management will bring greater efficiency and higher returns on public investment. The savings that will be achieved in the medium and long term from employee benefit reform will free funds for use in financing development investments. Interventions to revitalize the rural economy will increase public investment and remove market distortions that have constrained economic development in rural areas for decades. Overall, the program will directly benefit the rural poor while contributing to poverty reduction through economic growth.

112. **Institutional Impact.** The SGARRP will alter the institutional quality of the public sector in Sindh. Reforms that reduce direct government involvement in commercial activities and encourage PPP will help to streamline the role of government and remove it from inefficient and wasteful operations. Improved ADP management will significantly enhance the effectiveness and focus of GoS's development efforts, improving development results. The establishment of the PPP Unit and FMH will directly strengthen provincial institutions. Land titling and agricultural market reforms are landmark institutional changes that have the potential to alter longstanding inequalities and will lead to other institutional developments such as the spread of microfinance in Sindh as collateral provided by land titles is secured.

113. **Social Impact.** Several major positive social impacts will flow from the SGARRP. Agricultural market reforms will improve market access for farmers, particularly smallholders. PPP in service delivery, community mobilization, and the improvement of social services will significantly improve the social environment in rural areas. Pension and other employee benefit improvements will provide a social safety net for civil servants in Sindh. Finally, improvements in

the quality of life occasioned by economic and income growth will have positive social benefits. The SGARRP poverty reduction and social strategy is outlined in Appendix 9.

114. Resettlement, Indigenous People, and the Environment. The SGARRP will cause neither direct nor indirect involuntary resettlement nor any negative impacts on indigenous peoples (for which it is rated category C). The SGARRP is unlikely to have any adverse environmental impact (category C).

C. Risks and Mitigating Measures

115. The benefits and impacts of the SGARRP are contingent upon several assumptions and risks. Provisions for mitigating measures have been incorporated into the SGARRP design to minimize the adverse impact of the risks.

116. Political Risks. GoS is comprised of a coalition of parties. The fabric of the coalition is delicate, and political instability could disrupt the progress of the reforms. However, ownership of the reform program cuts across political affiliations, which provides greater assurance that the program is durable. Furthermore, after the turbulent years from 1970s to early 1990s, political and social stability in Sindh has significantly improved since the late 1990s. The current GoS coalition won an overwhelming majority in the February 2008 election, giving it a clear mandate for reform. The flexibility inherent in the single-tranche modality is well suited to an environment characterized by potential political instability, since short-term actions can be modified to respond to changes in the policy environment and government priorities.

117. Macroeconomic Risks. After experiencing a relatively benign macroeconomic environment for several years, the macroeconomic situation in Pakistan has worsened significantly in recent months due to a combination of both domestic and international factors. Global economic conditions have deteriorated amid rising commodity prices and financial market turmoil. The oil price hike and rising food prices have particularly strained the fiscal and balance of payments positions in Pakistan, and pushed up inflation. The fiscal pressure on the Federal Government exerted by these factors is expected to flow down to provincial governments. The FY2009 budget of Sindh has factored in this effect and reflects expectations of a higher deficit. The impacts of these economic factors have been compounded by the deterioration in the security situation across the country which has seriously undermined business and consumer confidence.

118. The worsening macroeconomic conditions in Pakistan call for rigorous measures to restore macroeconomic stability, and structural reforms to rekindle the growth momentum and to put growth on a sustainable path in Pakistan. Sustained economic growth and stability are also key necessities for achieving peace and prosperity in the country. ADB is working closely with the Government of Pakistan to put in place measures to both deal with short-term shocks and address long-term structural issues through the Pakistan Accelerating Economic Transformation Program. The commitment of the GoS to pushing through structural reforms by means of the SGARRP remains unfettered, despite the heightened macroeconomic risks. The SGARRP measures to tackle institutional and policy impediments to growth in Sindh, particularly in rural areas, are timely, and will help to improve the economic resilience of Sindh and Pakistan in the medium term.

119. Governance Risks. The SGARRP reforms will introduce greater transparency and accountability in both the public and private sector, which may affect those who benefit from existing opaque systems. In particular, land titling and agricultural market reforms will have a

major impact on the status quo and disturb vested interests. The effort to introduce more disciplined ADP management is likely to be met with opposition, despite the overall benefits to the province that should flow from this move. GoS's strong commitment to and ownership of the reform program will assist in mitigating this risk. Citizens' satisfaction surveys will improve accountability in service delivery. The weak external audit measures and internal control mechanisms identified by PFMAA pose major governance and fiduciary risks. The SGARRP has confronted this problem by explicitly introducing measures to strengthen external audit and internal control procedures. The concomitant procurement reforms implemented by the province will reduce the leakage of public finance (Appendix 3).

120. Institutional and Implementation Risks. The SGARRP is orientated toward increased private sector participation in economic activity and service delivery. This focus will reduce implementation risks that would normally be caused by a bureaucracy with weak capacity. However, reform actions will be spearheaded by government departments and agencies. Institutional and operational risks are arguably the most important risks threatening the SGARRP day to day, but these are also risks that GoS and ADB can work together to mitigate. A table containing risk identification and mitigating measures is attached in Appendix 10.

121. Reflecting strong ownership, GoS is strengthening key departments' capacity to implement the reform measures. An executive committee chaired by the chief secretary and a steering committee chaired by the additional chief secretary will be set up. More importantly, an innovative program management structure will be put in place. First, in addition to having an overall PMU in P&DD, SPMUs will be established in the Finance Department and BOR to ensure IA ownership and dedicated staff for program implementation. Focal persons will be appointed in all other IAs. Second, the ADB TA grant will support the engagement of a small program implementation team to work with GoS. Third, GoS is establishing the PPP Unit in the Finance Department and strengthening the M&E wing of P&DD. Substantial counterpart finance has been allocated to the PMUs and SPMUs to undertake capacity building across GoS.

VII. ASSURANCES

122. In addition to the standard assurances, GoS has given the following assurances, which have been incorporated in the legal documents:

- (i) GoS will carry out the policies and actions in accordance with the schedule of reforms in the policy matrix and ensure that the reforms are sustained for and beyond the duration of the SGARRP period.
- (ii) To help bring about the successful implementation of rural investment schemes, GoS will provide sufficient and timely budgetary allocations.
- (iii) GoS will keep ADB informed of, and will consult with ADB on (a) proposals to amend or repeal the Agricultural Produce Markets Act (1939) to eliminate restrictions limiting the private sector in establishing and managing wholesale and bulk markets and (b) proposals for restructuring or divestiture of the Sindh Small Industrial Estate Corporation, Sindh Industrial Trading Estate Company, Sindh Seed Corporation, and Sindh agricultural market committees.
- (iv) GoS will use the counterpart funds to provide necessary budget appropriations in support of the following: (a) \$65,000,000 equivalent for increasing rural investment and improving rural service delivery; (b) \$1,000,000 equivalent for GoS-managed demand-driven TA-related activities; and (c) \$34,000,000 equivalent for computerizing land records, computerized performance-based

- M&E, seed capital for the VGF and the project development fund, and restructuring and adjustment costs related to PSE divestment or restructuring.
- (v) GoS will ensure that a portion of counterpart funds to finance rural empowerment and social mobilization programs will be channeled through a consortium of NGOs comprising NRSO, SRSO, SAFWCO, and Thardeep Rural Development Program.
 - (vi) GoS will provide the necessary financial and human resources in connection with the computerization of land record keeping and improving the M&E of ADPs.
 - (vii) GoS will give due consideration to the findings and recommendations of the TA when formulating and carrying out policy reforms under the SGARRP.

IX. RECOMMENDATION

123. I am satisfied that the proposed program cluster and loan would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve

- (i) the program cluster to the Islamic Republic of Pakistan for the Sindh Growth and Rural Revitalization Program; and
- (ii) the loan in various currencies equivalent to Special Drawing Rights 64,938,000 to the Islamic Republic of Pakistan for subprogram 1 of the Sindh Growth and Rural Revitalization Program from ADB's Special Funds resources with an interest charge at the rate of 1.0% per annum during the grace period and 1.5% per annum thereafter; a term of 24 years, including a grace period of 8 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft Loan and Program Agreements presented to the Board.

Haruhiko Kuroda
President

21 November 2008

DESIGN AND MONITORING FRAMEWORK FOR THE SINDH GROWTH AND RURAL REVITALIZATION PROGRAM

Design Summary	Performance Targets and/or Indicators	Data Sources and/or Reporting Mechanisms	Assumptions and Risks
Impact Higher and sustained economic growth and reduced poverty and rural–urban inequality in Sindh	Annual average provincial GDP growth maintained at 7% Doubling of average per capita income and expenditure of rural households by 2015 Rural poverty incidence declining by at least one percentage point every year to 2015	Economic and statistical reports by federal and GoS entities World Bank, International Monetary Fund, and ADB publications Multiple indicator cluster survey and Pakistan Social and Living Standards Measurement Survey survey reports	Assumptions Strong and sustained performance of the Pakistan economy Continued GoS and Government of Pakistan commitment to reforms Risks Political instability Poor security situation and law and order Resistance from vested interest groups Implementation delays due to weak public sector capacity
Outcome Larger private sector share in the provincial economy and more efficient public expenditure management	Investment-to-provincial GDP ratio raising from about 20% currently to 24% and private investment-to-PGDP ratio increasing from about 16% currently to 20% by 2012 Time and cost overruns in current ADP projects halved by 2012 Pension and general provident funds managed in line with international best practices by 2012 The share of private and nongovernment organization provision of basic health services doubled between 2008 and 2012, and citizens' satisfaction of basic health services significantly improved Rural cost of doing business indicators decreased 10 percentage points between 2008 and 2012	Economic and statistical reports by federal and GoS entities ADB, World Bank, and International Monetary Fund publications Annual budgets and ADP performance reports of GoS ADB review mission reports multiple indicator cluster survey by GoS Citizens' satisfaction surveys supported by ADB TA Cost of doing business and investment climate surveys	Assumptions Political and macroeconomic stability Continued commitment to reforms by GoS and effective leadership in line departments Risks Political instability Poor security situation and law and order Resistance to reforms from vested interests Weak public sector capacity

Design Summary	Performance Targets and/or Indicators	Data Sources and/or Reporting Mechanisms	Assumptions and Risks
Outputs 1-a. PPP institutionalized	1.1 PPP Unit established; PPP policy and institutional framework developed and put in place by FY2010, supported by ADB ADTA 1.2 Viability gap fund and project development fund established and capitalized by FY2011 1.3 At least 2 PPP projects implemented by FY2011	Budget documents Approved PPP policies GoS notifications Tender documents and approved contracts and agreements	Assumptions Sufficient commitment, capacity, and positive attitudes to reforms in Planning and Development Department, Finance Department, and relevant line departments Quality consultancy services procured Sufficient TA support Risks Resistance from vested interests in the public sector Weak reform management capacity in government agencies Rapid turnover of project management staff Delay in consulting service recruitment and poor quality of consultant outputs
1-b. Public sector enterprises divested or private management introduced	1.4 Management of 3 industrial estates of Sindh Industrial Trading Estates and 3 small industrial estates of Sindh Small Industries Corporation handed over to industrialists' associations; role of SSC reviewed and restructured by FY2012; private sector allowed entry into wholesale agriculture markets by FY2010; and divestment or private sector management introduced in at least 3 Sindh agricultural market committees by FY2012, supported by ADB ADTA 1.5 Database and analysis of public sector enterprises established by Finance Department by FY2010, supported by ADB ADTA	Consultant reports and GoS notification GoS policies, regulations, and laws ADB review mission reports Database and report	Same as above
2-a. Public sector investments prioritized, funded, and implemented as planned	2.1 Budget ceiling committee formed, and budget ceilings notified starting from FY2010 2.2 Twice tokenized and unapproved ADP schemes cancelled from FY2010 2.3 Allocation ratio of 70:30 in favor of ongoing ADP schemes achieved	GoS notifications Annual budget statements Budget call circulars ADP analysis and evaluation reports	Assumptions Government commitment to reforms Good interagency and inter-government (Finance Department and Accountant General of Sindh, and

Design Summary	Performance Targets and/or Indicators	Data Sources and/or Reporting Mechanisms	Assumptions and Risks
	<p>and maintained from FY2010</p> <p>2.4 Results-based M&E framework adopted and operationalized by P&DD and key line departments; database fully populated by FY2011, supported by ADB ADTA</p> <p>2.5 Third party evaluation of ongoing and completed ADP schemes institutionalized by FY2010</p> <p>2.6 Asset-management system installed in Service and General Administration Department and asset disposal standard operating procedures revised by FY2010</p> <p>2.7 Audit backlog for advanced observations reduced to 3 FYs by all line departments by FY2011</p>	<p>ADB consultant reports</p> <p>Third party evaluation report</p> <p>Asset management standard operating procedures</p> <p>DAC meeting minutes and Accountant General of Sindh office data</p>	<p>Planning and Development Department and line agencies) coordination</p> <p>Sufficient TA and qualified technical experts recruited</p> <p>Risks</p> <p>Resistance from vested interests in the public sector</p> <p>Weak reform management capacity in government agencies</p> <p>Rapid turnover of project management staff</p> <p>Delay in recruiting consultants and poor consulting services</p>
2-b. Off-budget pension and general provident fund management institutionalized with due diligence, and their administration improved	<p>2.8 Legal and institutional framework for asset custody, investment management, and oversight arrangements in place by FY2011, supported by ADB ADTA</p> <p>2.9 SPF and SGIPF capitalized annually from GoS budget by PRs3 billion and PRs2 billion respectively</p> <p>2.10 Pension and general provident funds record keeping streamlined and data accuracy confirmed for 100% of civil servants and pensioners by FY2012</p> <p>2.11 Actuarial cell^a established and liability estimates prepared by FY2011, supported by ADT ADTA</p> <p>2.12 Autonomous fund management house for SPF and SGIPF established and investments managed within approved exposure limits by FY2011</p> <p>2.13 Comprehensive employee benefit reform road map adopted by FY2011, supported by ADB ADTA</p>	<p>Financial statements of SPF and SGIPF</p> <p>Reports generated by SAP/R3 on pension and general provident funds and Employee Benefit Administration Task Force meeting minutes</p> <p>GoS budget</p> <p>Project for Improvement in Financial Reporting and Auditing progress reports</p> <p>ADB consultant reports</p> <p>ADB mission review reports</p> <p>ADB consultant reports</p>	Same as above

Design Summary	Performance Targets and/or Indicators	Data Sources and/or Reporting Mechanisms	Assumptions and Risks
3. Share of public spending on rural development increased, and private sector participation in rural economic activity and service delivery expanded	<p>3.1 Public investments in rural areas increased by at least 15% from FY2008 to FY2012</p> <p>3.2 Land records computerization piloted and scaling up in one district underway by FY2012, supported by ADB ADTA</p> <p>3.3 Agricultural Produce Markets Act amended or repealed to allow private sector participation in wholesale marketing by FY2010, supported by ADB ADTA</p> <p>3.4 At least 3 existing public sector agricultural markets restructured or privatized by FY2012, supported by ADB TA</p> <p>3.5 People's Primary Health Initiative scope enhanced to cover basic health units in all 23 districts by FY2011</p> <p>3.6 Two independent citizens' satisfaction surveys commissioned on basic health service delivery by public, private, and nongovernment organization providers, and results published by FY2009 and FY2010, supported by ADB ADTA</p>	<p>Annual budget documents</p> <p>Project progress reports</p> <p>Amended or repealed Agricultural Produce Marketing Act</p> <p>ADB consultant reports</p> <p>GoS Notification</p> <p>Citizens' satisfaction survey reports</p>	<p>Assumptions</p> <p>Continued government commitment to reforms and rural development</p> <p>GoS's continued positive attitude toward the private sector</p> <p>Risks</p> <p>Poor public sector capacity and inadequate allocations</p> <p>Rapid turnover of project staff</p> <p>Bureaucratic resistance to changes in operation of agricultural markets</p> <p>Weak public sector contract design and management capacity</p> <p>Delay in recruiting consultants and poor consulting services</p>
<p>Activities with Milestones</p> <p>Core Policy Area 1: Promote private sector participation</p> <p>1.1 Prepare concept note for PPP policy and institutional framework (subprograms 1 and 2) supported by ADB ADTA</p> <p>1.2 Establish PPP Unit in the Finance Department and operationalize it (subprograms 1 and 2), supported by ADB ADTA</p> <p>1.3 Develop PPP policies and guidelines (subprograms 1 and 2), supported by ADB ADTA</p> <p>1.4 Review of Sindh Industrial Trading Estates, Sindh Small Industries Corporation, Sindh Seed Corporation, and agriculture market committees, propose reform options, and decide action plans (subprograms 1 and 2), supported by ADB ADTA</p> <p>1.5 Develop and implement action plans for restructuring or divestment of entities named above (subprograms 2 and 3)</p> <p>1.6 Undertake review of PPP projects for commercial rigor and risk-sharing arrangements (subprogram 3), supported by ADB ADTA</p> <p>Core Policy Area 2: Improve public expenditure management</p> <p>2.1 Establish budget ceiling committee (subprogram 1)</p> <p>2.2 Set budget ceiling and convey it to departments (subprogram 2)</p> <p>2.3 Cancel twice-tokenized ADP schemes</p> <p>2.4 Achieve and maintain 70:30 ADP allocation ratio in favor of ongoing schemes (subprogram 2)</p> <p>2.5 Undertake review of five randomly selected projects that suffered delays (both completed and ongoing) (subprograms 1 and 2), supported by ADB TA</p> <p>2.6 Commission third party evaluation of 20 ADP schemes completed over the past 2 years (subprogram 2)</p>			<p>Inputs</p> <p>ADB program loan: \$380 million over 4 years, of which subprogram 1 (2008) \$100 million subprogram 2 (2010) \$140 million (indicative), and subprogram 3 (2011) \$140 million (indicative)</p> <p>ADB Advisory TA Grant: \$800,000</p> <p>GoS counterpart funding for program implementation: \$200,000 equivalent</p> <p>ADB review missions</p>

Design Summary	Performance Targets and/or Indicators	Data Sources and/or Reporting Mechanisms	Assumptions and Risks
<p>Activities with Milestones</p> <p>2.7 Develop and operationalize monitoring and evaluation database of development schemes in P&DD and line departments (subprograms 2 and 3), supported by ADB ADTA</p> <p>2.8 Develop and operationalize asset-management systems in Service and General Administration Department and selected line departments (subprogram 2), supported by ADB ADTA</p> <p>2.9 Notify and implement departmental accounts committee meetings calendar (subprograms 1, 2, and 3)</p> <p>2.10 Capitalize SPF and SGPIF by PRs3 billion and PRs2 billion respectively every year (subprograms 1, 2, and 3)</p> <p>2.11 Establish and resource a fund management house (subprogram 2)</p> <p>2.12 Establish actuarial cell in Finance Department (subprogram 2)</p> <p>2.13 Set up Employee Benefit Administration Task Force (subprogram 1)</p> <p>2.14 Revise pension fund and GPF benefit procedures and business processes as recommended by Employee Benefit Administration Task Force (subprogram 3)</p> <p>2.15 Data entry of all civil servants and pensioners in SAP/R3 (subprogram 3)</p> <p>2.16 Review existing employee benefit package and develop reform options (subprogram 2), supported by ADB ADTA</p> <p>CPA 3. Revitalize the rural economy</p> <p>3.1 Adopt and implement rural investment plan (subprogram 2), supported by ADB TA</p> <p>3.2 Initiate a land records computerization pilot and extend this to 1 district (subprograms 1, 2, and 3), supported by ADB ADTA</p> <p>3.3 Review Agricultural Produce Markets Act (1939) and other regulatory impediments to the rural economy</p> <p>3.4 Develop and implement action plan for restructuring or divestment of agricultural wholesale markets (subprograms 2 and 3)</p> <p>3.5 Expand People's Primary Health Initiative coverage to 16 districts (subprogram 1) and to all 23 districts in Sindh (subprogram 2)</p> <p>3.6 Implement PPP in service delivery</p> <p>3.7 Carry out and institutionalize citizens' satisfaction survey (subprograms 2 and 3), supported by ADB ADTA</p> <p>Common Activities for Core Policy Areas 1, 2, and 3</p> <p>4.1 Establish and resource program management unit and subprogram management units</p>			

ADB = Asian Development Bank, ADP = annual development plan, ADTA = advisory technical assistance, FY = fiscal year, GDP = gross domestic product, GoS = Government of Sindh, PPP = public-private partnership, SGPIF = Sindh General Provident Investment Fund, SPF = Sindh Pension Fund, TA = technical assistance.

^a The creation of an actuarial cell is defined as allocating a financial analyst to interact with and support the analysis of the Office of the Chief Actuary of the Ministry of Finance and to interact with the independent actuary. ADB does not propose that the Finance Department hire an actuary.

SECTOR ANALYSIS

1. This sector analysis provides a summary assessment of private sector participation, public expenditure management, and issues relating to the rural economy in Sindh.

A. Private Sector Participation

2. **Background.** The private sector plays a key role in promoting and sustaining growth, creating jobs, generating income, and expanding fiscal resources. Recognizing this, the Government of Pakistan initiated reforms in the 1990s to create an enabling environment and expand the role of the private sector. A subsequent series of privatization deals have placed over 70% of Pakistan's commercial banking sector and telecommunications sector in private hands.

3. The private sector has traditionally played a very important role in the economy of Sindh. This is partly because Sindh's economy is more manufacturing oriented than that of other provinces, with almost 24% of provincial gross domestic product coming from manufacturing, compared with 16% nationwide. Because Karachi is a logistical and business hub, Sindh's value-added component also stems from services, particularly transport and financial services. Public services play a smaller role in Sindh than in other provinces, accounting for 7% of provincial gross domestic product. Sindh's private sector plays a very important role in Pakistan. Its large-scale manufacturing industry accounted for 48.7% of the national total in fiscal year (FY) 2005; 66.6% of mining and quarrying, 40.2% of manufacturing, and 38.2%¹ of finance and administration in Pakistan are provided by Sindh. Major issues confronting the private sector are discussed below.

4. **Government's Involvement in the Direct Provision of Commercial Goods and Services.** Government of Sindh (GoS) has divested itself of many public sector enterprises (PSEs) over the past decade. The public sector has not, however, totally withdrawn from direct commercial activities. The remaining PSEs include the Sindh Government Press, the Sindh Small Industries Corporation (SSIC), and the Sindh Industrial Trading Estates (SITE). The Sindh Seed Cooperation has been under consideration of being revived. Most of these PSEs suffer financial losses and provide poor-quality goods and services. Continued direct government involvement in commercial activities constitutes a fiscal drain. More harmfully, it has induced inefficiency and rent seeking. For example, the establishment of SSIC and SITE was carried out by directly allotting public land to individuals at below-market prices. Some estates remained vacant for several years after the allotment of land. The below-market allocation created an incentive for speculation on land prices, undermining the objectives of promoting industrialization. While some estates have become operational, they generally suffer from poor infrastructure and a lack of basic services (Box A2). The allotment of land in the eight Sindh agricultural export processing zones was done in a similar manner. Although the establishment of the zones started in FY2003, no zone, including the Karachi zone, has become operational. All the zones remain virtually vacant. While exporters have shown interest in making the local zone work in Karachi, its development is being held back by the public sector's slow progress in putting in place basic infrastructure. Except for these well-known PSEs, knowledge in Sindh of the number, status, and performance of PSEs is lacking, as information is scattered around individual departments. The draft Sindh Public Financial Management and Accountability Assessment (2008) has pointed out that there is very little government oversight of PSEs, and it

¹ The data are from World Bank and ADB. 2006. *Sindh Economic Report - Pakistan: Securing Sindh's Future - The Prospects and Challenges Ahead*. Islamabad (Report No. 35001); and provincial gross domestic product estimates by the World Bank.

is even difficult to ascertain the exact number of the enterprises. The Finance Department is in the process of establishing an overall PSE database.

Box A2: The Sindh Industrial Trading Estate Company and Sindh Small Industrial Corporation

The SITE is a fully government-owned entity headed by a managing director from the public sector under the oversight of a board of directors. The board is chaired by the secretary of industries, and over half of its membership is drawn from the public sector. The SSIC is a corporation managed by the public sector, and its managing director reports to a board of directors headed by the Minister of Industries.

The performance of both SITE and SSIC has been lackluster. Discussions with their staffs revealed that the process of identifying sites for locating industrial estates is vague and lacks objectivity, resulting in many misplaced and hence uncolonized or undercolonized estates. Development works are executed by SITE and SSIC without properly prepared technical designs, resulting in low-quality common facilities and substantial delays in completion. The plot pricing and allotment criteria used by both are archaic and not governed by objective criteria. Many of the plots are kept as land banks for speculative gains. The allotment agreements do not stipulate any time frame for setting up and operating industrial and commercial operations. The estates that have been developed and colonized suffer a serious lack of maintenance of common facilities, which, without due involvement of the stakeholders, only encounter delayed and inadequate action. The condition of common facilities in most estates is rundown. Faulty planning and designing mean there is very little provision for storage. The management of even the fully colonized industrial estates has been retained by SITE and SSIC and not passed on to the stakeholders themselves. Likewise, there is reported to be leakage in the collection of dues. In the case of SSIC, the corporation incurred a net annual loss of approximately PRs50 million in FY2008 on its current budget. The management of industrial estates in Sindh requires urgent remedial measures. The fundamental issue is the continued involvement of the public sector in activities that are better managed by the private sector.

Sources: ADB SGARRP team based on discussion with the board members and management of SSIC and SITE, and staff of the Industries Department, Sindh.

5. Lack of an Enabling Environment for Public–Private Partnership (PPP). There is mounting evidence of the advantage of using PPP to deliver public goods and services, rather than relying on the public sector alone. The implementation of PPP in areas such as infrastructure will be particularly beneficial for Sindh. Poor infrastructure has been ranked the top investment impediment by rural and urban firms alike. Viable partnerships with the private sector serve to improve the quality, quantity, and efficiency of public goods and service delivery in both urban and rural areas, which for historical, legal, or economic reasons have remained primarily the responsibility of the public sector.

6. The Government of Pakistan has introduced various measures to promote PPP in recent years, including developing a PPP policy and guidelines. GoS also introduced the Sindh Local Government PPP Rules (2007). Some PPP elements have been considered for projects such as the Karachi Mass Transport System and the road from Hyderabad to Mirpur-Khas. However, there is a dearth of capacity in implementing PPP in the province. A popular misperception is that any transaction involving a private sector and public sector party is a PPP. This misunderstanding is harmful, as it can lead to uncompetitive transactions based on subjective handpicking by the government, instead of a transparent bidding process. There is no focused PPP institution to coordinate PPP development. To fully benefit from PPP, GoS needs to establish institutional, policy, financial, risk-sharing, and concession management mechanisms. Transaction quality needs to be ensured through a transparent bidding process. Timely contract completion needs to be pursued through better project management and appropriate linking to incentives and sanctions. There is also a need for an effective mechanism for the independent and impartial review and audit of projects involving PPP.

B. Public Expenditure Management

1. Public Investment Management

7. **Background.** The budgeting process in Sindh, as in other provinces of Pakistan, consists of a dual system where the Finance Department prepares and executes the recurrent (non-development) expenditure, and the Planning and Development Department (P&DD) prepares and executes the annual development plan (ADP), which deals with public investment. The Sindh ADP increased from PRs5.7 billion in FY2003 to PRs35 billion in FY2007, and the development budget for FY2009 is estimated to be at PRs77 billion. The significant increase has stretched implementation capacity and brought many systematic problems in ADP management to the fore. Because of improper management, the development of road, health, education, and municipal service infrastructure remains underfunded, and existing infrastructure suffers a serious deficit of resources for repair and maintenance.

8. **Too Many Projects, Too Little Funding.** The ADP for FY2009 contains around 1,890 projects, including new, ongoing, and special projects. Of these, some 70% suffer serious delays in implementation. In the Budget Call Circular issued by the Finance Department in October each year, departments are asked to prepare their proposals for the next fiscal year's operations. No guidance is provided on the likely resources available, so that departments work on the assumption that they will receive increases in nominal funding of 5–10%. Similarly, P&DD issues a circular in October requesting proposals for the following fiscal year's development budget. No guidance is provided on the limit to resources available. While departments are aware of the approximate budget ceiling, this has nonetheless not been taken into account when preparing ADPs. Departments submit a list of projects with inadequate prioritization. Anecdotal evidence suggests that the departmental coordinating officer receives all proposals and simply forwards them to P&DD. Many proposals that are required to include a feasibility study fail to do so. However, these proposals are not rejected but incorporated into the planning process. This practice creates an unnecessary burden, poor quality proposals, and an excess of projects in relation to available resources. As the ADP is prepared without adequate consideration and knowledge of the resources that will be available for implementation, it includes more development projects than is optimal. This overcrowds the ADP. Consequently, project completion is delayed. Besides being difficult to manage and implement, a large number of projects means that more time is required to complete the schemes, eroding their economic and social benefits.

9. Budget discipline can be introduced through notification of a budget ceiling in respect of departmental budgets. This would reduce the number of projects put forward by departments, enhance the quality of proposals, and improve funding outcomes for approved projects. However, to be successful, such a system requires high-level political support to ensure that no one, including cabinet members, will circumvent discipline with actions taken outside the approved budget process.

10. **Low Absorptive Capacity and Large Throw Forward.** The capacity of line departments to absorb the initial allocations has been stretched by the large number of projects put forward, causing them to under spend the ADP allocation. The low absorptive capacity, coupled with the inclusion of a large number of new schemes, has resulted in the accumulation of many uncompleted development schemes, which has given rise to the so-called throw forward effect. From FY2007 to FY2008, the number of new schemes in ADP increased by 53%, while the number of ongoing schemes increased by 27%. According to the Finance Department

and P&DD, the total amount of throw forward as of May 2008 stood at about PRs170 billion, which is 4.2 times the size of the current provincial ADP allocation.

11. Poor Performance Orientation in Budget Allocations. Allocation decisions made during the preparation of the ADP are not supported by strategic planning at the policy-making level. This issue is compounded at the management level by the lack of prioritization criteria to guide allocation decisions across and within sectors. In P&DD, ADP allocations are determined incrementally, and the amount of resources that each department will receive is not related to its performance in the previous fiscal year in terms of both resource utilization and physical project completion. An incremental approach also prevails in the line departments. A major shortcoming of the current incremental and input-oriented approach is that budget allocations fail to reflect service-delivery goals. While development proposals are now required to submit performance measures and targets, these are input related and do not seem to be monitored, or is remedial action taken when targets are not reached. The lack of a robust mechanism for consolidating the current and development budgets and aligning expenditure with government priorities means that it is difficult for governments to know the extent of the effort being applied to any of its stated goals. Midyear monitoring of budget execution is limited to assessing whether the expenditure of line departments conforms to budgeted amounts, while actual expenditure performance is not well monitored. To improve fiscal discipline and the efficiency and effectiveness of government expenditures, there should be phased movement toward the adoption of a medium-term framework that eventually, in the medium- to long-term, focuses on outputs and outcomes.

12. Poor Internal Control. Internal control is important for ensuring efficiency and effectiveness in operations, the reliability of financial information, and compliance with rules and regulations. Poor internal controls leave institutions at risk of public resource wastage and undermine the accountability process. The International Organization of Supreme Audit Institutions classifies internal controls in five components:² (i) control environment, reflecting the commitment at the top toward internal controls and the capacity and skills prevalent in the organization; (ii) risk management, or identifying, assessing, and responding to risk in terms of transfer, tolerance, and treatment; (iii) control activities, or delineating authorization processes and procedures and segregating duties; (iv) the availability of quality information and routine communication between staff and management; and (v) ongoing monitoring and periodic evaluation. Sindh suffers weaknesses in all of these areas.

13. The Government of Pakistan, assisted by the World Bank, has launched the Project to Improve Financial Reporting and Auditing (PIFRA) in all accounting offices. The PIFRA has the task of improving accounting and auditing functions by automating financial reporting systems with the accounting software SAP/R3 in the federal, provincial, and district governments. As of June 2008, all 23 district account offices in Sindh and that of the executive district officer for finance and planning have been automated in terms of budget making and financial reporting. Eight districts have prepared their district budgets on the system. Provincially, the Finance Department and the Office of the Accountant General of Sindh have SAP/R3 installed and the servers unified. Improvements have been made at both the provincial and the district level in terms of budget preparation under the new accounting model.

14. While automation helps to improve the governance of the public financial management, much remains to be done to improve internal control. Auditor general reports point to numerous

² International Organization of Supreme Audit Institutions. 2004. *Guidelines for Internal Control Standards for the Public Sector*. Brussels.

instances across government of expenditure approvals that do not comply with budget limits, misclassification of expenditure, and fraud and misuse of public funds and assets. One area in particular that requires attention is the management of movable assets. Inventory controls in line departments on movable assets are not carried out. Anecdotal evidence suggests that this has brought substantial losses to the exchequer, though no official data is available on this. Standard operating procedures for asset disposal are archaic and lengthy. Government departments are required to record any asset worth PRs100,000 or more in a dead stock register. However, the practice is seldom followed, bringing the risk of fraud. Introducing a sound management system for movable assets will reduce misuse and misappropriation and make asset depreciation more transparent.

15. Weak Audit Compliance and Legislative Oversight. The Office of the Auditor General conducts regular external audits of all GoS spending units. The audit reports contain many audit observations (commonly referred to as 'paras' in Pakistan) addressed to the individual departments concerned, which have not been settled because of departmental accounts committee failure to meet. The departmental accounts committees are administrative bodies comprising of the department officials and audit representatives. Their function is to settle the draft audit observations. In FY2008, most departmental accounts committees met only twice a year. The meeting of the public accounts committee, the legislative body of the Provincial Assembly, has not been convened regularly. The public accounts committee did not meet for 15 years between 1983 and 1998 and has met only twice since 2000. Currently, the Office of the Auditor General conducts financial audits focused on compliance with accounting standards and the regularity of transactions in government expenditure. Its capacity to conduct performance audits for development projects and programs is limited. The examination of value for money to determine whether the expenditure was incurred economically, efficiently, and effectively has not been carried out.

16. Institutional and Legal Framework for Public Procurement. Sindh was the first province in Pakistan to adopt, in 2006, public procurement rules along the same lines as those introduced by the federal Government in 2004. The Public Procurement Regulatory Authority (PPRA) Law is currently being vetted by the Law Department. When promulgated, it will fill the vacuum created by the lapse of the PPRA Ordinance (2006). A PPRA has already been established under the PPRA Ordinance (2006), but only the managing director has been appointed. The Sindh PPRA was mandated to provide general principles of procurement and then develop sectoral guidelines and other regulations. However, the sub-legislative work has not been carried out because the capacity of PPRA is weak. As a result, most public procurement still takes place under the old purchase manual procedures, which lack transparency.

2. Pension and Other Employee Benefits

17. GoS provides pension and other employee benefits to 421,000 employees and pays monthly pensions to an estimated 108,000 retired employees and surviving dependents. Pension and general provident fund (GPF) benefits, defined in detail below, are a form of deferred wages and are expressed as a percentage of basic pay scale. In addition, GoS employees are covered by the benevolent fund and a group insurance policy that pays a death benefit to the surviving dependents of GoS employees.

a. Employee Benefits for Retirement, Survival, and Life Events

18. The pension scheme is an unfunded, pay-as-you-go defined-benefit scheme. No employee contributions are made to the pension scheme. The pension pays a lifetime guaranteed monthly benefit to retired employees, pre- and post-retirement death benefits to surviving dependents, and monthly income for qualifying permanently disabled employees. The benefit is based on the final monthly basic pay scale wage times 2.33% for each year of service completed. Eligibility for a pension is contingent upon an employee completing a minimum of 10 years of service.³ A maximum of 30 years of service can be computed to reach a 70% basic pay scale replacement. Benefits can be paid once the minimum of 25 years of service is satisfied, providing that the retirement age of 60 is attained. Employees have the option to elect a commuted benefit of up to 35% of the pension amount due and receive reduced monthly benefits for the remainder of their entitlement.

19. In contrast to the monthly income structure of the pension benefit, the GPF pays a single sum at retirement comprised solely of employee contributions and accrued interest. The mandatory contributions⁴ are deducted from the civil servants' monthly pay and range between 3% and 8%, based on the basic pay scale. The GPF is an unfunded (notional) defined-contribution scheme. Interest rates are annually declared by the federal Ministry of Finance and have averaged 15% annually over the past 35 years, well above market rates, placing an unnecessary burden on the budget of GoS.

20. The benevolent fund is an insurance policy managed by the Service and General Administration Department to reimburse employees for certain expenses related to life events—primarily in case of marriage, to cover funeral costs, and a small monthly grant paid to surviving dependents upon the death of the household's primary breadwinner. The fund is a mandated contributory benefit that accumulates assets, with the investment managed by the Service and General Administration Department. The employee claims process is fraught with conflicts, delays, and great employee dissatisfaction. The application of claim payment rules is arbitrary and capricious. The delays and small amounts paid to beneficiaries further diminish this benefit's reputation.

21. The financial assistance program pays a death benefit to family members of employees who die in service. The claims are paid through the Finance Department directly from the GoS budget. There is no employee contribution or accumulation investment fund. The State Life Insurance Company (SLIC) underwrites the group life insurance benefit for GoS employees and pays a death benefit to surviving family members. The compulsory contribution to the benefit is deducted from the monthly pay of civil servants. About 80% of GoS employees are insured by SLIC for amounts of between PRs150,000 and PRs175,000 in the event of their death. The remaining 20% of employees are eligible for higher death benefits. A recent increase in SLIC premiums, a backlog of claims, and declining service standards have led the Finance Department to question whether the current arrangement of paying death benefits from different sources constitutes the most efficient option for life insurance.

³ For employees who fail to meet the minimum requirement of 10 years of service, a gratuity is paid, calculated at approximately 1/5 of final month basic pay scale times the number of years of service completed.

⁴ Employee GPF contributions became mandatory in 1986; previously the contribution rate was discretionary.

b. Issues and Progress in Addressing Liabilities

22. Despite redundancies, overlaps, and repetition in payments of old age and surviving dependents' income, employees are dissatisfied because benefits are inadequate and poorly administered. On the other hand, GoS struggles to finance ever-increasing contingent liabilities for pension, GPF, and other benefits. GoS is analyzing reform options to streamline and improve employee benefit record keeping, administration, and delivery. It is also exploring ways to enhance benefit investment functions and their governance structures in line with international best practice.

23. Table A2 reflects costs and revenues to and from the GoS budget for pension, GPF, and other employee benefits.

Table A2: Government of Sindh Budget Allocations for Employee Benefits

Benefits	Current Value of Investment Fund	Annual Budget Transfer into Each Fund	Benefits Paid from Budget (FY2008)	Total Budget Expenditure (FY2008)	Contributions/Premiums from Employees
Pension Scheme SPF created in August 2002	PRs6 billion as of 1 July 2008	PRs3 billion	PRs6.1 billion	PRs9.1 billion	Inapplicable
GPF SGPIF created in May 2007	PRs2 billion as of 1 July 2008	PRs2 billion	PRs1.9 billion	PRs3.9 billion	PRs4.1 billion
Benevolent Fund Fund created 1990	PRs163 million as of 1 July 2008	Inapplicable	PRs484 million	PRs484 million	PRs245 million
Group Life Insurance	Inapplicable		PRs860 million paid from SLIC	Inapplicable	PRs414 million paid to SLIC
Financial assistance	Inapplicable		PRs379 million	PRs379 million	Inapplicable
Total	PRs8 billion	PRs5 billion	PRs8.9 billion	PRs13.9 billion	PRs7.6 billion

FY = fiscal year, GPF = general provident fund, SGPIF = Sindh General Provident Investment Fund, SLIC = State Life Insurance Company, SPF = Sindh Pension Fund.

Sources: Government of Sindh (GoS) budget figures in Volume I, Annual Budget Statement FY2008; Finance Department, GoS. Information on group life insurance was provided by SLIC. The amount is not from the GoS budget and reflects payments by SLIC in the first quarter of 2008 for the 5-year period ending in December 2007. However, group life premiums reflect only a single year's collection and were included in the Annual Budget Statement FY2008. The Finance Department provided information on the SPF and SGPIF values, and SGA&SD provided the information on the benevolent fund.

24. In 2002, GoS created the Sindh Pension Fund (SPF) to finance future pension liabilities. It has transferred funds to the SPF annually since then from the GoS budget. The Finance Department manages the investments of the SPF. All investment income has been reinvested and not used for financing current pension outlay. Between FY2007 and FY2008, budget expenditure on pensions increased by 40.6%, and it is expected to continue to rise. GoS will initiate an actuarial valuation to determine pension liabilities and ascertain the amount of the implicit debt. In 2007, GoS created the Sindh General Provident Investment Fund to finance future GPF liabilities and has since completed two annual transfers to it from the GoS budget. The Finance Department manages the investments of the Sindh General Provident Investment Fund. All investment income is reinvested and current payments are made from the GoS budget.

25. The boards of pension and general provident funds comprise ex officio senior GoS officials. Its investment approach has been conservative to ensure no loss of the principal and has resulted in a portfolio that is made up solely of bank certificates of deposit. The Finance Department recently prepared a proposal recommending the creation of a fund management house (FMH), a unit manned by investment professionals. The Asian Development Bank is providing technical assistance (TA) to support the establishment of a sound fiduciary

mechanism (a governance structure) that meets international best practice, the analysis of a full range of investment options (an investment structure), and a broadening of the allowable range of investments (an investment policy). The TA supports an actuarial valuation of the pension and GPF liability. The Asian Development Bank TA will support the review of the cost and structure of all benefits to determine the best options to finance and manage the benefits.

26. The record keeping of the pensions and GPF is entering a new phase of data creation and retrieval and a new generation of management information. Until recently, virtually all pension and GPF record keeping was manual, which is difficult to access and relied on a multi-step, paper-driven system that was a source of rent seeking. The PIFRA has created an automated employee payroll, pension, and GPF record-keeping system. The Office of the Accountant General of Sindh has worked for over 2 years to transfer the paper-based wage and employment histories into the new SAP/R3 system. Until this time-consuming and onerous exercise is completed, the PIFRA-created software cannot be fully utilized. Furthermore, monthly pensions paid from the budget are plagued by problems of “ghost” pensioners—recipients who have passed away or otherwise are not entitled to receive monthly payments but whose records still exist in the paper-based system. The conversion from manual, paper-based records to the computerized system is expected to reduce the number of fraudulent pension claims. The expected completion date for this task is December 2009. GoS is searching for a long-term resolution to the growing contingent liability of employee benefits. The Sindh Growth and Rural Revitalization Program (SGARRP) and related TA will support GoS’s efforts to identify and implement options for improvement.

C. Revitalizing the Rural Economy

27. **Infrastructure.** Rural Sindh has not been successful in exploiting its proximity to Karachi for two reasons. First, the rural areas of Sindh are poorly connected with the rest of the province and especially with Karachi. Nearly 20% of rural communities in Sindh still lack basic motor access, and 63% of communities lack paved access. The marketing of farm produce is often limited to farm gates and nearby market sales for lack of transport services and limited access to credit. Production trips are mostly conducted along paths and tracks that do not permit the operation of vehicles capable of giving economies of scale. Improved connectivity with urban areas has been found to reduce the price of inputs and raise farm gate prices for agricultural products. Thus, improving rural areas’ access to their nearest urban centers should remain a priority for GoS.

28. **Cost of and Access to Finance.** Access to formal credit has been rated by enterprises as a top constraint on the growth of rural enterprises. Limited access to formal credit in rural areas is a constraint on agricultural growth and a barrier to creating a more diversified rural economy. The problem is particularly pressing in Sindh, because land is the most widely used collateral in rural areas and Sindh has the lowest percentage of land-owning households in the country. A World Bank study⁵ (2007) found that, in Sindh, only 8% in villages and 14% in small towns applied for a formal loan to finance investment or working capital in the 5 years preceding the survey. A major barrier impeding access to finance is the ambiguity of land titles, which hinders the provision of collateral required by 80% of approved loans. Clarifying land titles is expected to contribute to improved access to credit.

⁵ Sustainable and Development Unit, South Asia Region, World Bank. 2007. *Pakistan Promoting Rural Growth and Poverty Reduction*. Washington, DC (30 March, Report No. 39303-PK).

29. **Ambiguity in Land Titling and Outdated Land Record-Keeping System.** Since rural poverty has increased despite reasonable agricultural growth during the 1990s, it has been argued that agricultural growth in Pakistan has become less inclusive. The problem appears more acute in Sindh, as its agricultural sector grew more rapidly than the rest of the country during the 1990s, and, paradoxically, its rural poverty increased more markedly than in other provinces during the same period. Inequality in the ownership of land has been cited as one of the reasons for the lack of inclusiveness in agricultural growth. Because land is the most widely used collateral in rural areas, and Sindh has the country's lowest percentage of land-owning households, land ownership has sharply limited access to finance.

30. Land markets in Sindh are thin, with less than 0.5% of land sold or bought each year. The most important impediment to the creation of a flexible land market is the ambiguity of the agrarian law regarding records of land rights. According to the World Bank (2007) (footnote 5), the present law does not provide for a state certificate of title to land under the aegis of a public authority. Furthermore, there are serious defects in the system of preparing, maintaining, and updating the land records used by the Sindh Board of Revenue (BOR). The entries on the land and revenue records provide only presumptive status of rights under the law and have been challenged in various courts.⁶ Such insecurity of land titling and tenure serves as a disincentive to investment, reducing growth and employment opportunities. The low frequency of land transactions helps perpetuate the highly unequal distribution of land, hampers labor mobility, and reduces returns on family labor. Lack of secure title means landowners are less willing to risk renting out land, which reduces access to land for landless households. Uncertainty over the validity and enforceability of titles makes it harder to buy or sell land.

31. Computerizing land records⁷ is one option for establishing clearer land records and reducing fraudulent dealings by land administration officials. It will help to clarify ownership rights and tenancy rights as both are covered under the Sindh Land Revenue Act (1967). In FY2004, GoS launched a pilot scheme for revenue assessment and computerizing billing and the record of rights in the districts of Hyderabad, Kambar Shadadkot, Khairpur, Larkana, Matiari, Mirpukhas, Sukkur, Tando Allah Yar, Tando Mohammad Khan, and Umerkot. This was based on current records with no authentication of the revenue record, i.e., no field verification or updating. The software developed made it cumbersome to accommodate changes in the record of rights. There was a lack of enthusiasm on the part of the field functionaries, who are perceived as beneficiaries of the current outdated system. The net result was that, even for the limited output of computerized revenue bills, both the accuracy and the sustainability of system were questionable.

32. **Distorting Regulations and Ineffective Market Facilities.** The infrastructure, framework, and institutional arrangements for the marketing of agricultural products play very important roles in maximizing returns for farmers. One important piece of legislation in Sindh in this regard is the Agricultural Produce Markets Act (1939), which regulates the purchase and sale of agricultural produce, including livestock and poultry. This act has been in place for several decades without thorough review or revision. It restricts wholesale transactions in agricultural commodities to regulated markets and permits wholesale trade only through

⁶ World Bank and ADB. 2006. *Sindh Economic Report - Pakistan: Securing Sindh's Future - The Prospects and Challenges Ahead*. Islamabad (Report No. 35001).

⁷ Village land-related records are of two categories: (i) those that are prepared every year and (ii) those that are more permanent. Together, they constitute the "village accounts", and comprise 25 registers. The former category includes the field book and the demand register regarding land revenue, local cess, agricultural income tax, water rate, and so forth. The latter category includes the Record of Rights and the Register of Mutations.

government-appointed, registered commission agents. This setup tends to benefit the intermediaries, locally called *arhatyas*, at the expense of farmers.

33. The marketing committees that manage and supervise the operation of regulated markets are legally required to be elected by the users of the market. In reality, committees have been managed and operated by government officials from the Agriculture Extension Department, usually without a committee being formed at all. Under Section 4 (2) of the legislation, a license is required from the provincial government to establish a market within a notified area, which is to be managed by a market committee that issues licenses to dealers and brokers and allots shops in the market. The appointment of government officials to administer the markets has weakened the accountability and administrative oversight of the market. Further, it has provided potential rent-seeking opportunities to the administrators. Where market committees exist (in only a handful of the 71 government-operated markets in Sindh), GoS nominates the members and maintains significant control over the inflow of resources and assets owned by the market committee. This arrangement results in a lack of committee accountability to market users and key stakeholders. The committee has monopolistic power and control over the bulk and wholesale purchase and sale of farmer produce in the area, which harms the interests of growers. Handling, weighing, and storage infrastructure is in disrepair. These regulated markets impede trade rather than facilitate it.

34. **Lack and Poor Quality of Social Service Delivery.** Economic growth and social development in rural Sindh require substantial improvements in rural service delivery. Investments in human capital (education and health) will enhance the productivity of the poor in the rural economy and enable them to earn higher incomes in urban areas. Despite the expansion of government infrastructure, social service delivery in Sindh is tainted by high absenteeism and low quality of delivery. Progress in social indicators has been slow. Poor services related to health and education contribute to disparities between rural and urban Sindh in many social welfare indicators. In recent years, several large nongovernment organization programs supported by international donors have undertaken major rural development efforts. In Sindh, the most notable of these are the National Rural Support Program, Sindh Rural Support Organization, and Thardeep Rural Development Program. These programs have achieved substantial success in organizing rural communities, building local community infrastructure, and delivering basic health services. The People's Primary Health Initiative has achieved through enhanced accountability and incentives for service providers significant improvement in primary health services in 10 districts of Sindh. The vertical nature of the program and its integration with district governments, however, have raised questions about its sustainability. This has been a common problem with other rural support organizations.

35. The proposed SGARRP aims to assist GoS in carrying out the necessary reforms to address the issues noted above. Given the huge tasks required, the program is structured to tackle only some key issues directly (e.g., land titling), while others receive a less-intense focus (e.g., access to finance). The selection of reform areas partly reflects the need to complement, rather than duplicate, other donor support in Sindh (see the donor coordination matrix in Appendix 4). The SGARRP aims to trigger a reform process that leads to more efficient public expenditure and a more dynamic private sector to enhance growth and prosperity in Sindh.

ASSESSMENT OF PUBLIC FINANCIAL MANAGEMENT AND ACCOUNTABILITY IN SINDH

1. The Public Financial Management and Accountability Assessment (PFMAA), 2008 for Sindh was jointly carried out by the Asian Development Bank, World Bank, Department for International Development of the United Kingdom, and European Commission. The government of Sindh (GoS) welcomed the PFMAA as an independent external review of the province's public financial management performance and a tool for identifying the reforms needed. A baseline procurement performance assessment is part of the broader PFMAA for Sindh. This appendix briefly describes the results from the assessment.

A. Public Financial Management and Accountability Assessment In Sindh

2. The PFMAA uses the commonly accepted public expenditure and financial accountability framework, which covers 31 indicators across 7 core areas: (i) budget credibility; (ii) transparency and comprehensiveness; (iii) policy-based budgeting; (iv) predictability and control in budget execution; (v) accounting, recording, and reporting; (vi) external scrutiny and auditing; and (vii) donor practices. The public financial management performance is assessed against each indicator, and ratings from A to D are assigned based on the criteria defined by the public expenditure and financial accountability framework. A rating of A indicates international practice and B good performance, while ratings of C and D point to the need for improvement. Table A3.1 shows how GoS performed against each indicator.

Table A3.1: Public Financial Management and Accountability Assessment

Indicators	Indicator	Rating	Indicators	Indicator	Rating
	Budget credibility		PI-16	Predictability of available funds for expenditure commitments	B+
PI-1	Aggregate expenditure out-turn compared with original approved budget	C	PI-17	Recording and management of cash balances, debt, and guarantees	B
PI-2	Composition of expenditure out-turn compared with original approved budget	D	PI-18	Effectiveness of payroll controls	C+
PI-3	Aggregate revenue out-turn compared with original approved budget	B	PI-19	Competition, value for money, and controls in procurement	C
PI-4	Stock and monitoring of expenditure payment arrears	D+	PI-20	Effectiveness of internal controls for non-salary expenditure	C
	Comprehensiveness and Transparency		PI-21	Effectiveness of internal audit	D
PI-5	Classification of the budget	A		Accounting, Recording, and Reporting	
PI-6	Comprehensiveness of information included in budget document	A	PI-22	Timeliness and regularity of accounts reconciliation	C+
PI-7	Extent of unreported government operations	D+	PI-23	Information on resources received by service delivery units	B
PI-8	Transparency of inter-governmental fiscal relations	B	PI-24	Quality and timeliness of in-year budget reports	C+
PI-9	Oversight of aggregate fiscal risk from other public sector entities	D	PI-25	Quality and timelines of annual financial statements	B
PI-10	Public access to key fiscal information	C		External Scrutiny and Audit	

Indicators	Indicator	Rating
	Policy-based budgeting	
PI-11	Orderliness and participation in the annual budget process	B+
PI-12	Multiyear perspective in fiscal planning, expenditure policy, and budgeting	C
	Predictability and control in budget execution	
PI-13	Transparency of taxpayer obligations and liabilities	C
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	D+
PI-15	Effectiveness in collection of tax payments	C+

Source: Sindh PFMAA (2008).

Indicators	Indicator	Rating
PI-26	Scope, nature, and follow-up of external audit	D+
PI-27	Legislative scrutiny of the annual budget law	D+
PI-28	Legislative scrutiny of external audit reports	D+
	Donor Practices	
D-1	Predictability of direct budget support	C+
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	C+
D-3	Proportion of aid that is managed by the use of national procedures	B

3. Although Sindh's performance in terms of **budget credibility** (realism in the budget and its planned implementation) has been generally unfavorable, the indicator for the aggregate revenue amount compared to the original approved budget has a B rating. The **comprehensiveness and transparency** of the budget system with regards to classification of budget conforming to international standards, comprehensiveness of information included in the budget document, and the transparency of inter-governmental fiscal relations achieved A and B ratings respectively. The extent of unreported government operations, however, was rated as D. The province's oversight of aggregate fiscal risks from public sector entities, and the ease of access for the public to key fiscal information are areas where performance has been weak. Strengthening oversight of public sector entities is a reform area included in the Sindh Growth and Rural Revitalization Program.

4. There have been mixed results for **policy-based budgeting**, where "orderliness and participation in the annual budget process" was on a par with international standards, but the "multiyear perspective in fiscal planning and expenditure policy and budgeting" indicator indicated need for improvement.

5. **Predictability and Control in Budget Execution.** Transparency in defining taxpayer obligations and liabilities, the effectiveness of taxpayer registration, tax assessment, and tax collection show poor results overall. There is, therefore, significant room for improvement in these spheres of activity. While the predictability of available financial resources for expenditure commitments and the overall management of cash balance, debt, and guarantees showed good performance; internal controls, internal auditing, and transparency and controls in public procurement showed weak performance.

6. **Accounting, Recording, and Reporting.** While accounts are regularly reconciled, the frequent carry-over of uncleared balances in suspended accounts undermines the "timeliness and regularity of account reconciliation." In the same vein, the quality and timeliness of in-year budget execution reports is an area requiring significant improvement. GoS is making good progress in preparing and presenting financial statements that are consistent with the International Public Sector Accounting Standards. The province scored well in the area of information provision on resources received by service delivery units, as the budgeting for this area has been done down to a detailed spending level across the province.

7. **External Scrutiny and Audit.** This is one area where performance across the province has been weakest due to (i) the time taken before a completed audit report is certified by the auditor general and presented to the governor (in the case of provincial government) and (ii) the lack of vigor in following up on audit recommendations through the departmental accounts or Zila (district) accounts committees. Auditing quality has started to improve, with the auditor general having begun to use the new risk-based audit methodology according to the *Financial Audit Manual*, which is consistent with International Standards on Auditing. GoS has performed well in its legislative scrutiny of the annual budget law, but the legislative scrutiny of external audit reports is weak.

8. **Donor Practices.** The lack of consistency between donors' reporting systems and GoS's own budgeting and reporting mechanisms on fund flows has caused difficulties in compliance. The Government draws its budget from its planning commission pro forma approvals (project proposal), but the reporting units—"ring-fenced" project management units—do not report back on the same basis. Instead, the donors' reporting requirements become the core reporting arrangements for the project. The proportion of aid funds that are managed by using the government systems shows a better performance, as most aid (at least 75%) to the province has been in the form of budget support rather than project, or investment, aid.

9. Overall, the ratings are relatively higher for budgeting but weaker in accounting, recording, and, in particular, external auditing. The Sindh Growth and Rural Revitalization Program will include measures to tackle a number of the weakness such as enhancing external auditing.

B. The Baseline Procurement Performance Assessment Report of Sindh

10. The Baseline Procurement Performance Assessment Report provides an assessment of the public procurement system in Sindh using the baseline indicator tool developed by the Organization for Economic Co-operation and Development's Development Assistance Committee. The assessment forms part of the broader PFMAA. The baseline indicator tool comprises four pillars and 12 indicators. Each of the indicators is further divided into several sub-indicators. The scoring system for assessment ranges from 3 to 0. A score of 3 indicates full achievement of the stated standard. A score of 2 is given when the system exhibits less-than-full achievement and needs some improvement. A score of 1 is for those areas where substantive work is needed, and a rating of 0 indicates a failure to meet the proposed standard.¹

¹ Some of the sub-indicators have no score for lack of relevance or where actions have just commenced and it is too early to assess achievements.

Table A3.2: Baseline Procurement Performance Assessment

No.	Indicator	Score
A.	Pillar 1: The Legislative and Regulatory Framework	1.64
1.	Public procurement legislative and regulatory framework complies with applicable obligations with regard to national and international requirements.	2.12
2.	Existence of implementing regulations and documentation	1.16
	Pillar II: Institutional Framework and Management Capacity	1.20
3.	The public procurement system is mainstreamed and well integrated into the public sector governance system.	1.00
4.	The country has a functional normative/regulatory body.	2.40
5.	Existence of institutional development capacity	0.25
B.	Pillar III: Procurement Operations and Market Practices	1.34
1.	The country's procurement operations and practices are efficient.	1.25
2.	Functionality of the public procurement market	1.62
3.	Existence of contract administration and dispute-resolution provisions	1.16
C.	Pillar IV: Integrity and Transparency of the Public Procurement System	1.63
1.	The country's procurement operations and practices are efficient.	1.20
2.	Efficiency of appeals mechanism	1.40
3.	Degree of access to information	2.00
4.	The country has ethics and anticorruption measures in place.	1.92

Source: Baseline Procurement Performance Assessment Report of Sindh (2008).

11. Overall, GoS's performance on procurement has been moderate. Most areas indicated are rated below 2, showing the need for improvement. GoS has shown a strong commitment to further improve the procurement system. The assessment provides a baseline for GoS against which progress in this area can be periodically evaluated. Continued procurement reforms will help to improve the efficiency of public resource management. Sindh was the first province in Pakistan to adopt the Public Procurement Regulatory Authority (PPRA) Ordinance initiated by the federal Government. Currently, the PPRA Ordinance is vetted to become a law, and PPRA rules have been developed. Reforms in these areas are expected to significantly improve the integrity and effectiveness of public sector procurement.

DEVELOPMENT COORDINATION MATRIX^a

Asian Development Bank (ADB)	Other Multilateral Agencies	Selected Bilateral Agencies
<p>Sindh Devolved Social Services Program (SDSSP): The just-completed \$220 million SDSSP (2003–2007) provided support to reduce poverty and gender imbalances by improving people's education, health, and access to water supply and sanitation. It especially focused on improving the governance and financing of social services while targeting five principal policy reform areas: further devolution of social services to local governments, increased social sector financing, improved participation and accountability, rationalized services and setting minimum standards, and the promotion of public-private partnership to improve service delivery.</p> <p>Decentralized Elementary Education Project: This 5-year project commencing in 2003 at a cost of \$97 million (now cancelled after GoS-ADB consultations) aimed to strengthen the pro-poor public elementary school system in Sindh by rehabilitating and upgrading primary schools to secondary schools. The project was to build capacity at the community, subdistrict, district, and provincial education offices to better plan, manage, budget, and monitor school performance. The project attempted to improve access to the elementary school system, with 60% of the beneficiaries being rural poor, including 40% from the lowest income group.</p> <p>Sindh Rural Development Project: The project, costing \$62.5 million (now cancelled after GoS-ADB consultations), aimed to enhance rural development that supported people-centered, rights- and responsibility-based, and service-oriented government structures. The objective was to improve the social status and economic well-being of the poorest groups in the project area by building management capacity at the district level and supporting the creation of synergies between government and civil society through partnerships with community-based organizations and nongovernment organizations (NGOs). Discussion with GoS indicates that the implementation of this project suffered from the complexity of its design (including the mix of reforms and capacity building with investment), weak implementation capacity in the government, and over burdensome ADB procedures, which, in combination, led to its cancellation in 2007.</p>	<p>World Bank</p> <p>Sindh Education Sector Development Policy Credit: The \$100 million Sindh Education Sector Development Policy Credit (FY2007–FY2008) is the first of a programmatic series of three development policy credits designed to support the government of Sindh's Medium Term Education Sector Reform Program. The objectives of the program are to improve participation, retention, and transition; reduce gender and regional disparities; and improve quality in elementary and secondary education.</p> <p>Second Poverty Alleviation Fund Project: The \$368 million assistance to Pakistan through the Second Poverty Alleviation Fund Project (2003–2010) is a follow-on of the first poverty alleviation project. The development objective remains to reduce the incidence of poverty in the country, including in Sindh, by providing resources and services to the poor and low-income groups, particularly women.</p> <p>Pakistan Tax Administration Reform Project: This (2004–2009), at a cost of \$149 million, aims to fundamentally reform the Central Board of Revenue (now Federal Board of Revenue) toward a more efficient and effective revenue administration system, by promoting voluntary compliance, increasing overall collection, and ensuring the fairer and more equitable application of tax laws. The project attempts to contribute to achieving fiscal targets and facilitate the collection of optimum tax revenues.</p> <p>Sindh On-Farm Water Management Project: This Project (2004–2008), at a cost of \$84.7 million, seeks to improve the efficiency and equity of irrigation water distribution, support agricultural productivity enhancement to complement the benefits of improved water management, and enhance the long-term financial sustainability of the irrigation system. It supports self-sustaining farmer organizations in managing watercourses and distribution canals.</p>	<p>United States Agency for International Development</p> <p>Widening Harmonized Access to Microfinance: The program, at a cost of \$47million, enhances support for micro-enterprise loans by providing consulting, training, and technology to the National Bank of Pakistan, Standard Chartered Bank, First Microfinance Bank, and Union Bank to cater to the needs of Sindh's micro, small, and medium-sized enterprises. It works closely with the State Bank of Pakistan to advise on reforms needed to strengthen financial services for small and medium-sized enterprises and explore options for introducing mobile banking in Pakistan.</p> <p>Links to Learning: Education Support to Pakistan (ED-LINKS) Project: This assistance (2007–2013) aims to establish baselines and assess needs to map the capacity of Sindh's Education Department to manage the education system. It targets providing training to department staff; strengthening teacher training institutions and establishing English language laboratories at the institutions; improving classroom equipment including labs in middle and high schools; and supporting local boards of examination to develop a functional examination system for public schools.</p> <p>Pakistan Initiative for Mothers and Newborns Project: The project aims to expand access to quality</p>

Asian Development Bank (ADB)	Other Multilateral Agencies	Selected Bilateral Agencies
<p>Pakistan Improving Access to Financial Services Program: One condition of this program required the automation of land records in five districts in Sindh. It allocated 6 person-months of consulting services under its TA to develop a geographic information system. The significant underestimation of the magnitude of the land record automation tasks and the insufficient TA allocation means that little progress has been made in land record computerization. GoS, however, learned from this experience and has significantly increased resource allocation for this task.</p> <p>Sindh Cities Improvement Investment Program: The proposed investment program, at a cost of \$400 million, aims to improve water supply, wastewater management, and solid waste management services to clusters of secondary cities in Sindh. This will improve the urban environment, public health, and economic opportunities for about 4 million urban residents in Sindh's second-tier cities. This objective is to be achieved through an integrated program of institutional and management reforms, and priority infrastructure investment, including improvement-in-service-provision reforms.</p> <p>Karachi Urban Transport Program. This is the tentative new title for the formerly titled Karachi Mega City Sustainable Development Program. The program aims to improve the quality of life for mega city residents, including the poor. Discussions between ADB and the GoS were focused on providing Sindh with a comprehensive program on urban development, including transport, water supply and sanitation, solid waste management, and other related areas. The new GoS indicated a desire to have a program focused on urban transport, and discussions between the ADB and GoS for processing a program along these lines is underway</p> <p>Pakistan Accelerating Economic Transformation Program. The Accelerating Economic Transformation Program aims to help Pakistan achieve and sustain higher economic growth in the medium term. The program cluster comprises four subprograms amounting to between \$1.8 billion and \$2 billion. The first subprogram was completed and \$500 million was released in September 2008. The expected outputs of the Program are: (i) removal of price, fiscal and structural distortions in the agriculture and energy sectors in the short term, with the objective of resolving the present food and energy crisis</p>	<p>Sindh Water Sector Improvement Project Phase 1: The overarching objective of the Sindh Water Sector Improvement Project (2007–2013), with phase 1 costing \$175 million, is to improve the efficiency and effectiveness of irrigation water distribution in three area water boards—Ghotlu, Nara, and Left Bank— by deepening and broadening institutional reforms, improving key irrigation infrastructure, and the enhancing the long-term sustainability of irrigation systems through participatory irrigation management and developing institutions for improving the operation and maintenance of the system and ensuring cost recovery.</p> <p>Second Partnership for Polio Eradication Project: The Second Partnership for Polio Eradication Project for Pakistan, at a cost of \$61.4 million, assists Pakistan's effort to eradicate polio by supplying the oral polio vaccine for supplementary immunization activities during 2006–07. It will support a polio eradication initiative that has three components: vaccine procurement, supplemental operations, and surveillance.</p> <p>European Union</p> <p>Sindh Education Reform: This €39 million assistance (2007–2011) supports the World Bank's Sindh Education Sector Development Policy Credit and will provide support to building province-wide capacity in districts for the improved the delivery of educational services. The four pillars of reforms include (i) improved fiscal sustainability and effectiveness of public expenditure; (ii) improved education sector management and governance; (iii) improved access to quality schooling, particularly in rural areas and for girls; and (iv) improved quality of teaching and learning.</p>	<p>essential health services for mothers and newborns in Dadu and Sukkur districts of Sindh. The project aims to improve the health of married couples and newborns through a program of sub-grants to NGOs in remote villages and to provide emergency transport to pregnant women. Likewise, it provides funding for renovating and equipping health facilities, including hospitals and rural health centers, to provide an improved standard of care for mothers and newborns.</p> <p>Pakistan Legislative Strengthening Project: The project conducts a comprehensive orientation program for members of the Sindh Assembly. It provides extensive training to them and members of the secretariat. It has provided information technology support, including multilingual software, to the Provincial Assembly.</p> <p>HIV/ AIDS Prevention and Care Project: The 3-year HIV/AIDS Prevention and Care Project aims to promote awareness about modes of HIV transmission. The project provides diagnostic and referral services on sexually transmitted infections and voluntary counseling and testing for HIV infection. In addition, the program provides home-based care to HIV-positive individuals and their family members to meet their physical, medical, and psychological needs.</p>

Asian Development Bank (ADB)	Other Multilateral Agencies	Selected Bilateral Agencies
and averting future crises; (ii) accelerated value creation in industry, agriculture and services through structural reforms, including greater private sector participation; and (iii) sound financial intermediation. The Accelerating Economic Development Program tackles major institutional and policy impediments at the Federal Government level, and has a complementary relationship with provincial level reform programs.		

FY = fiscal year, GoS = government of Sindh, TA = technical assistance.

^a This table includes only major recent or ongoing interventions.

Sources: Asian Development Bank and websites of various donor agencies.

DEVELOPMENT POLICY LETTER



No.4 (7) ADB-I/08.
GOVERNMENT OF PAKISTAN
MINISTRY OF ECONOMIC AFFAIRS & STATISTICS
(ECONOMIC AFFAIRS DIVISION)

Islamabad, the 29th September, 2008

From: Joint Secretary,
Phone: 92-51-9210085.
Fax: 92-51-9202019

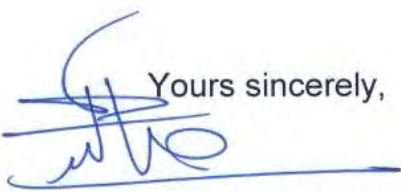
Subject: Request for Asian Development Bank Loan for the Sindh Growth and Rural Revitalization Program.

Dear Mr. Stroem,

Please refer to Government of Sindh's letter No.P&D/FA/ADB-236/08 dated 2nd September, 2008 on the above subject (copy enclosed).

2. Government of Pakistan fully support the reform agenda under Sindh Growth and Rural Revitalization Program.

With regards.


Yours sincerely,
(Zafar Hasan Reza)

Mr. Rune Stroem,
Country Director,
Pakistan Resident Mission,
Asian Development Bank,
Islamabad.
(Fax: 2823324/2274718)



Additional Chief Secretary (Dev)

. No. P&D/FA/ADB-236/08

**GOVERNMENT OF SINDH
PLANNING & DEVELOPMENT
DEPARTMENT**

Karachi, 02ND September, 2008

The Secretary
Economic Affairs Division
Government of Pakistan
Islamabad

**Subject: Request for Asian Development Bank Loan for the
Sindh Growth and Rural Revitalization Program (SGARRP)**

Dear *Secretary*.

This letter of Development Policy outlines the commitment of the Government of Sindh to improved economic prosperity and rural revitalization through a comprehensive program of reforms that seek to underpin measures to stimulate economic growth and reduce chronic and deep poverty specially in rural Sindh. The letter highlights recent reform efforts and future priorities of the Government of Sindh. The reforms being undertaken through this program are consistent with the National and Provincial policy frameworks including the Pakistan Poverty Reduction Strategy Paper, the draft Sindh Vision 2030, , which set out the broad medium term policy parameters and sector strategies for economic development.

A. Introduction

The Government of Sindh is anxious to undertake urgent actions which can in the short run reduce the pervasive and deep poverty in the province specially in the rural areas and to unfold a set of well considered economic reforms; which can address major institutional and policy impediments to growth and revitalization of the stagnant rural economy. The Sindh Growth and Rural Revitalization Program (SGARRP) demonstrates Government of Sindh's strong commitment towards medium and long term economic growth, with pro-poor focus, particularly in the impoverished rural areas of Sindh.

The Chief Minister Sindh, while presenting the first budget of the newly elected democratic government, clearly stated that one of the biggest challenge before the new Government was to ensure that the public spending is made effective by improving the overall implementation and reducing leakages. He stated that the new Government stood committed to

creating an enabling environment for the private sector to contribute to generating income and employment in the Province. In short, some of the fundamental issues that the Provincial Government wishes to address are: (i) greatly improving governance in all quarters, particularly in the context of improving the management of public expenditures; (ii) ensuring that the public service is merit-based; (iii) improving monitoring and accountability systems; (iv) tackling corruption; (v) reducing poverty and increasing employment opportunities; (v) encouraging private investment and growth; (vi) raising agricultural productivity; (vii) revitalizing the rural economy and undertaking rural reforms.

Macroeconomic performance. Provincial growth averaged about 7.0% from 2003/04-2006/07, which unfortunately was primarily on account of growth in the services sector and partly in the large scale manufacturing sector. The growth remained skewed with very little impact on job creation and poverty reduction in the province. The Public financial management indicators improved and the fiscal position hovered around a balanced budget band from 2003/04 to 2006/07. Development expenditure increased 3.5 times between 2001/02 and 2006/07.. Despite this increased public sector expenditure the overall development indicators especially on account of human development under health and education remained dismal.

Recently, in line with the economic trends in Pakistan generally, Sindh's economy has been impacted by unfavorable international and domestic factors and the fiscal condition has deteriorated as a result. The 2008/09 budget estimates that the fiscal deficit will reach PRs14.1 billion (about US\$215 million or about 0.7% of the provincial gross domestic product), 72% higher than the previous year. While total development expenditure between 2002/03 to 2007/08 grew at a rapid rate of 68.7%, this rate is expected to decline to about 32.0% in 2008/09. The budgeted size of the annual development plan (ADP) increase reflects the Government's effort to maintain a relatively strong growth rate of development spending. The rate of increase of recurrent expenditure has been kept at just over 10% which virtually means low real growth given the current high rate of inflation.

B. Factors Constraining Economic Growth

Need to promote private sector participation. There are a number of critical constraints in Sindh which inhibit the attainment of higher economic growth rates. One important constraint is the inadequacy of private sector participation in the economy due to inappropriate institutional environment which expanded government's role in economic activities. First, there is a need to reduce the inefficiency of public enterprises. Government of Sindh still operates a number of public enterprises that are unable to cover even their operating costs. There is an understanding that the Provincial Government needs to reduce the fiscal burden of these entities by allowing the private sector to participate in their ownership and administration, or divesting them completely. Second, the Government of Sindh acknowledges that there is strong need to create an enabling environment for private and public partnerships (PPP) to improve service delivery and reduce the operational burden on the public sector. For this the Government plans to put in place a proper PPP framework including policy, institutional, financial, and risk sharing mechanisms which are currently missing in the Province. Given the acute capacity and fiscal constraints in the province, the GoS is willing to examine its role in projects for public purpose and the potential for private delivery of such projects.



Need for better public expenditure management. In this critical area, there is a need to manage public financial resources effectively by investing them judiciously and closely monitoring their utilization. There is also a need to manage the Province's pension and other employee benefits to generate fiscal space, reduce contingent liability, and improve employee morale. Regarding the need for efficient public investment management, key concerns include (i) the large number of projects that are approved, and which are chronically under-funded; (ii) weak monitoring and evaluation of development projects; and (iii) weak external auditing and internal control mechanisms. Regarding the need for better employee benefit management, key issues include (i) the growing liabilities of employee benefits; (ii) the lack of accuracy and timeliness in record-keeping, administration, and service delivery; and (iii) the weak employee benefit structure.

Need to revitalize the rural economy. Over 50% of the province's population resides in rural areas of which a large majority lives below the official poverty line. The slow growth of the rural economy has led to a large and widening income gap between urban and rural Sindh. The landless ratio is the highest in Sindh among the four provinces at 62%, making non-farm income important for income generation. Barriers to improvements in living standards and economic growth in rural Sindh include (i) weak government prioritization and direction of rural economy revitalization, (ii) complete neglect of rural investments which remained stubbornly low in the last over a decade; (iii) lack of transparency in land administration, and the need for a computerized land titling and record keeping system; (iv) poorly functioning agricultural markets with weak infrastructure; and (v) very poor quality of social and economic service delivery.

C. The Sindh Growth and Rural Revitalization Program

The Government of Sindh is of the view that the proposed SGARRP effectively addresses some of the critical constraints enumerated above that are hindering the economic advancement of the Province. The proposed reforms will contribute to broad based growth throughout the Province, and in particular will awaken the dormant rural economy. We expect the program to result in higher and sustained economic growth, reduced poverty, and a reduction in rural urban inequalities in living standards. Private sector participation in all economic sectors will be enhanced, public financial resources will be better managed, and investment in rural areas will be augmented. To achieve these outcomes, the program will focus on three core policy areas, consisting of promoting private sector participation, improving public sector management, and revitalizing the rural economy. The reform actions to be undertaken are presented in greater detail below.

Promoting private sector participation. Core policy area 1 consists of two subcomponents, promoting private and public partnerships, and improving the efficiency of public enterprises. The program will promote private and public partnerships by enhancing the role of PPP in augmenting resources, improving efficiency, and mitigating risks. PPP policy, institutional, regulatory, financial, and concession management frameworks will be introduced. A PPP Unit will be created to develop PPP policies, viability gap fund mechanisms, risk management arrangements, and concession management frameworks.

The efficiency of public enterprises will be improved in subprogram 1 (SP1) first by conducting a stocktaking exercise to ascertain the number of public sector corporations, and gathering information on their financial performance. The GoS will also take concrete steps towards privatizing or introducing private management to a number of public sector corporations, including the Sindh Small Industries Corporation, Sindh Industrial Trading Estate



Company, Sindh Seed Corporation, and Sindh Agricultural Market Committees. The Government will gradually move towards private sector led management plans for these corporations for raising their efficiency and reducing fiscal burden on the Government. Most of these reforms will be undertaken in SP2.

Improving public expenditure management. Core policy area 2 comprises two components, improving the efficiency of public sector investment, and improving employee benefit management. The efficiency of public investment will be improved by making the budget process more rigorous, with ADP funding limits for the next budget cycle being clearly conveyed to each department. To reduce the excessive number of development projects brought forward each year, the P&DD will advise departments that projects will be considered only within the allocated budget limit, thus ensuring that departments go through a rigorous expenditure prioritization process. Token allocations to projects have also inflated the number of projects brought forward every year. Under SP1, the P&DD will cancel all projects which have received token allocations or remained unapproved for 2 consecutive years, and institutionalize this discipline. Other measures to be introduced include requiring departments to secure approvals for all new schemes by March 2009 to remain eligible for funding from the current year ADP, with schemes approved after March 2009 going into the next year ADB as new approved schemes; and discontinuance of the practice of carrying forward previous years' unapproved schemes into the new ADP as ongoing schemes. All these measures are expected to reduce project over-hang and the accumulation of a large number of poorly funded projects. Under SP2 the discretionary block allocations would be reduced and criteria would be developed for funding schemes from block allocations. The M&E capacity of the P&DD will be strengthened by adopting a computerized result based M&E framework. To improve the oversight of the use of public resources and accountability, a schedule for convening regular departmental account committee meetings will be approved by the Chief Secretary and observed by all line departments in the first quarter of 2008/09 and beyond.

Employee benefit management will be improved in several ways. First, the financing of employee benefit liabilities will be improved by the establishment of professionally managed investment funds to finance pension and General Provident Fund liabilities. The Government is preparing for the establishment of a Fund Management House through which the Sindh Provident Fund and Sindh General Provident Investment Fund will be managed in a professional manner by an investment board with expert advice from the private sector. Second, record-keeping, administration, and service delivery of employee benefits will be improved by the introduction of a reliable recordkeeping system in the Accountant General Sindh's office, and a streamlined process for benefit calculation and processing. Under SP2, the claim procedures and business processes will be revised in line with the SAP/R3 automated system, discontinuing reliance on manual wage history reviews and approvals. Third, pension and employee benefit policy will be improved under SP2 by undertaking a diagnostic study of the existing employee benefits to prepare recommendations for reform towards an integrated system of employee benefits.

Revitalizing the rural economy. This component of the reform program consists of five subcomponents, (i) institutionalizing the Government's commitment to rural revitalization, (ii) increasing and sustaining rural investments, (iii) improving land records, (iv) removing regulatory impediments to market access, and (v) promoting private sector and civil society participation in service delivery and rural empowerment. The Government's commitment to rural revitalization is demonstrated by the creation of an Executive Committee chaired by the Chief Secretary to define and guide the rural revitalization process. In addition, in the 16 June 2008 budget speech




the Government announced its intention to constitute a high level agriculture task force comprised of concerned stakeholders to review the existing policy, strategy and investments, and recommend interventions in the agriculture sector with immediate benefits for the rural poor.

To increase and sustain rural investments, a prioritized draft rural investment plan has been prepared under SP1 which lays out government priorities for rural investment. Under SP2 the rural investment plan will be converted into a medium-term rural development framework, to be embedded in the Province's Mid Term Fiscal Framework (MTFF), and ADP will be implemented in line with the rural development framework and MTFF. The Government has also decided that under SP1 it will realign its investment portfolio by committing to increase the ADP allocations for rural investments by about 15% per annum over the new MTFF period (FY2009-11). This commitment has been reflected in a 15% increase in rural investments in the 2008/09 ADP allocation.

Land record keeping will be improved by computerization of land records which will contribute towards the eventual establishment of clearer land titles. Successfully accomplished, this process would bring more transparency, improve public access to land records, and reduce the possibility of errors and fraud. Under SP1, the GoS has adopted a policy framework, and approved an action plan and budget to implement a computerized land record and titling regime throughout the province based on surveys. Under SP1, budget allocation has also been approved for the creation of a geographic information system for land administration and revenue management to assist in delineating ownership of properties and lands. A part of the budget has been approved the preservation of old revenue records, revamping of the BoR's Survey, Settlement, and Land Records Directorate.

The Sindh Agricultural Produce Markets Act (1939) prohibits the establishment of private sector wholesale markets. To remove the anti-competitive nature of the Act, under SP1, the GoS has submitted a summary to the Chief Minister proposing an amendment or repeal of the Sindh Agriculture Produce Markets Act enabling the private sector to establish and manage wholesale and bulk markets. The Government has also identified options for private sector management or divestment of the government-owned agricultural markets. These actions will ultimately result in the replacement of government operation of agricultural markets by the private sector.

As part of the Government's effort to promote private sector and civil society participation in service delivery and rural empowerment, the GoS has entered into a partnership agreement with Sindh Rural Support Organization (SRSO) under the Peoples' Primary Health Initiative (PPHI). SRSO/PPHI has managed the basic health units in 10 districts since 2007. SP1 will support the expansion of this partnership from 10 to 16 districts, and SP2 will support the expansion to all 23 districts of Sindh. To ensure quality services, SP1 will support the adoption of minimum service standards under PPHI, and ensure that sufficient funding is provided to attain the minimum standards. In addition to primary health, the Government is intending to enter into partnership with a number of Rural Support Programs to promote holistic rural development by providing productive assets to impoverished rural communities through in-kind grants, microfinance, micro insurance, skill development, and other empowerment activities.




D. Conclusion

The Government of Sindh believes that the reform agenda presented above is in close alignment with its overall vision and commitment to redress historical imbalances in opportunities, living standards and incomes in Sindh, and to stimulate broad based and sustainable economic growth. The reform program has the Government's strong ownership and commitment, as demonstrated by the prior actions that have already been taken in support of the reform program. The Government is also committed to the subsequent actions which will widen and deepen the reforms in coming years. We expect that these reforms will (i) streamline the role of government and enhance private sector participation; (ii) lead to more efficient allocation of public resources; (iii) improve financial sustainability of pension and other employee benefits; and (iv) significantly improve rural economic growth and service delivery.

We are of the firm view that the Sindh Growth and Rural Revitalization reforms would have far reaching impact on the sustained economic growth, and an overall reduction in poverty, both through direct interventions and indirectly through increased economic growth. We would thus be grateful for your support in obtaining financial assistance from the ADB for on-lending to the Government of Sindh, to enable us to carry out the reforms under the Subprogram 1 of the SGARRP

With kind regards,

Yours sincerely


 2/05/08
 Nazar Hussain Mahar
 Additional Chief Secretary (Development)
 Government of Sindh

POLICY MATRIX FOR THE SINDH GROWTH AND RURAL REVITALIZATION PROGRAM

Impact: Higher and sustained economic growth, and reduced poverty and rural urban inequality in Sindh
Outcome: Greater private sector participation and improved public expenditure management for the province as a whole, and particularly in rural Sindh

Objectives	Summary of recent actions (Apr 2007-Oct 2008) under subprogram 1	Indicative triggers for subprogram 2 (Nov 2008 – Apr 2010)	Medium-term program direction (Basis for subprogram 3) (May 2010 – Nov 2011)
Core Policy Area 1: Promote private sector participation			
Promote private and public partnerships	1.1 FD to have prepared a concept paper outlining a framework for developing provincial PPPs and for establishing a PPP Unit	PPP Unit to be fully operational	GoS to improve the PPP policy, financial, concession, and risk management mechanism
	1.2 GoS to have notified the establishment of a Public Enterprise Working Group, and FD to have assessed past financial performance of public enterprises	GoS to adopt a PPP policy framework, a viability gap and risk management mechanism, establish project development revolving fund, and inject seed capital in the viability gap fund and project development fund	FD to commission an independent assessment of the commercial rigor and risk sharing arrangements of PPP projects to date; and institutionalize the assessment practice
Improve efficiency of public enterprises	1.3 GoS to have committed to introduce private management or to divest the Sindh Small Industrial Estate Corporation, Sindh Industrial Trading Estate Company, Sindh Seed Corporation, and Sindh Agricultural Market Committees; and to have taken steps to review and identify options for doing so	GoS to approve at least 2 PPP projects based on competitive bidding and clearly defined contractual agreements with the private sector participants	GoS to adopt a policy and regulatory framework for corporatizing water supply and sanitation utility services, after reviewing the existing experience
		PPP Unit to analyze international experience in applying rules requiring recourse to PPP modalities in public investments exceeding a certain threshold, and recommend its applicability in Sindh	
		FD to appoint a dedicated staff member to update and maintain a public sector organization database, prepare a summary report, and post the report and data in the FD website	
		GoS to implement the private management and divestment plan arising out of action under 1.3; and identify other candidates for divestment	
		Industries Department to hand over full management control of Sindh Industrial Trading Estates Kotri, and Small Industrial Estates of Sukkur and Tando Adam to concerned industrialist associations, based on findings from 1.3	

Objectives	Summary of recent actions (Apr 2007-Oct 2008) under subprogram 1	Indicative triggers for subprogram 2 (Nov 2008 – Apr 2010)	Medium-term program direction (Basis for subprogram 3) (May 2010 – Nov 2011)
Core Policy Area 2: Improve public expenditure management			
Improve efficiency of public investment	<p>2.1 GoS to have formed a Budget Ceiling Committee to recommend the budget ceilings for each line department, and P&DD to have notified departments that the Committee will recommend ADP ceilings for FY 2009/10 by December 2008 and instructed departments to prioritize proposals in line with budget ceilings</p> <p>2.2 P&DD to have issued a standing instruction to line departments to cancel all projects that received token allocations or have not been approved for 2 consecutive years, starting from budget for FY 2009/10</p> <p>2.3 P&DD to have issued a standing instruction requiring departments from FY 2009/10 onwards to secure approvals for new schemes to be included in the current FY ADP by 30 April of such FY, and to consider schemes approved after 30 April as new schemes in the next FY</p> <p>2.4 P&DD to have excluded from the FY2008/09 ADP those schemes that had zero utilization of funds during the previous FY</p>	<p>GoS to achieve and maintain an ongoing-to-new-scheme-ratio of 70:30 or more</p> <p>The Budget Ceiling Committee to recommend the global limit for both the current and development budgets for each line department for FY 2010/11 by December 2009, and GoS to establish the Cabinet Budget Ceiling and Expenditure Review Committee</p> <p>P&DD and line departments to carry out a spring cleaning exercise to consolidate ADP implementation</p> <p>P&DD to introduce top supervision by third parties of large projects in FY10/11 ADP schemes</p> <p>P&DD to review the ADP approval ceiling by DDWP, P&DD, and PDWP with a view to devolve more authority to departments and increase their ceiling of approval</p> <p>GoS to initiate performance based budgeting and introduce medium term development planning</p>	<p>GoS to achieve a ratio of ongoing to new schemes of 80:20 or more</p> <p>All departments to adopt a system of departmental performance reporting system</p> <p>FD and P&DD to link budget allocations with clearly specified output and outcome indicators</p>
Improve monitoring and evaluation	<p>2.5 P&DD to have initiated actions to adopt the computerized M&E framework developed by GoP</p> <p>2.6 P&DD to have reviewed 5 randomly selected</p>	<p>P&DD and line departments to operationalize result based M&E framework; all new development schemes for 2009/10 ADP to incorporate performance indicators; and information for 50% of the schemes input into the M&E database</p> <p>P&DD to implement measures to reduce project delays based</p>	<p>P&DD, all line departments, and all districts to adopt and connected through an integrated computerized result based M&E framework, and information for all ADP schemes input in the system</p>

Objectives	Summary of recent actions (Apr 2007-Oct 2008) under subprogram 1	Indicative triggers for subprogram 2 (Nov 2008 – Apr 2010)	Medium-term program direction (Basis for subprogram 3) (May 2010 – Nov 2011)
	projects that suffered from delays in execution to identify systematic blockages	<p>on the review of the 5 projects P&DD to complete Third Party Evaluation for 20 ongoing ADP schemes completed over the past 2 years (half of which representing large projects) and publish the reports</p> <p>P&DD to draft, and the GoS to promulgate, rules and procedures to institutionalize third party evaluations and publishing of results</p> <p>M&E Wing staffed as per the organism in the planning commission pro-forma approvals</p>	
Improve audit compliance, legislative oversight, and internal control	<p>2.7 Departments of Agriculture, Livestock and Fisheries, Irrigation and Power, and Works and Services to have committed to hold DAC meetings at least quarterly, and to settle or refer to public accounts committee advance and draft audit paras for FY2004/5 and FY2005/06 by Dec 2008, and for FY2006/07 and FY2007/2008 by December 2009. Such departments to have scheduled DAC meetings for FY2008/09</p> <p>2.8 Provincial Assembly Secretariat to have notified the establishment of the new public accounts committee</p>	<p>DAC meetings held as scheduled in Departments of Agriculture, Livestock and Fisheries, Irrigation and Power, and Works and Services</p> <p>Departments of Agriculture, Livestock and Fisheries, Irrigation and Power, and Works and Services to reduce audit backlog as planned</p> <p>Public accounts committee to meet regularly</p> <p>Service and General Administration Department to have notified a committee to revise moveable asset record maintenance system and initiated the establishment of a computer based movable asset management system</p> <p>Sindh PPRA Law passed and the Authority adequately staffed, GoS to implement PPRA rules and sub-legislations to replace the Purchase Manual</p>	<p>All departments to have reduced backlog to 2 fiscal years</p> <p>DACs to meet as specified in the calendar</p> <p>Line departments to adopt a computer based moveable asset management system with records reconciled, and list of assets posted on departments' website</p> <p>Procurement by all line departments to be subject to PPRA rules and sub legislation with purchase manual completely phased out</p>

Objectives	Summary of recent actions (Apr 2007-Oct 2008) under subprogram 1	Indicative triggers for subprogram 2 (Nov 2008 – Apr 2010)	Medium-term program direction (Basis for subprogram 3) (May 2010 – Nov 2011)
		PPRA to post of all tenders on the procurement website, and subsequently post all purchase orders raised against these tenders on website, giving item description, quantities, unit prices and order value, GoS to institutionalize this practice	Sindh PPRA to post departmental annual procurement plans based on the approved planning commission pro-forma approvals and the current allocations
Improve financing of employee benefits: pensions, GPF, benevolent fund, group life and other death benefits	<p>2.9 For FY 2007-08, FD to have transferred PRs3 billion to Sindh Pension Fund and PRs2 billion to SGIPF, all from the GoS budget</p> <p>2.10 FD to have prepared a draft strategy and action plan for the establishment of a Fund Management House</p>	<p>For FY 2008/09, FD to have transferred PRs3 billion to Sindh Pension Fund and PRs2 billion to SGIPF from the GoS budget</p> <p>FD to establish and resource the Fund Management House</p>	<p>For FY 2009/10, FD to have transferred PRs3 billion to Sindh Pension Fund and PRs2 billion to SGIPF from the GoS budget</p> <p>Fund Management House to be fully operational</p>
Improve record-keeping, administration, and service delivery of pensions and other employee benefits	<p>2.11 FD and Accountant General of Sindh Office to have established an Employee Benefit Administration Taskforce</p> <p>2.12 Accountant General, Sindh to have completed data entry for at least:</p> <ul style="list-style-type: none"> • 156,000 civil servants in the SAP/R3 payroll module; • 24,000 pensioners in the SAP/R3 pension module; and • 29,000 wage history records in the SAP/R3 GPF module 	<p>Employee Benefit Administration Task Force to confirm the accuracy and timeliness of data entry for [all] civil servants, pensioners, and wage history records in the SAP/R3 payroll, pension and general provident fund modules</p> <p>Employee Benefit Administration Task Force to recommend changes in procedures and business processes to accommodate transition from paper-based to automated system</p> <p>FD to determine the optimal design for service delivery of employee benefits</p>	<p>Employee Benefit Administration Task Force to review and report on implementation of revised procedures and business processes</p> <p>FD to operationalize the new design of service delivery of employee benefits</p>
Improve pension and other employee benefits policy		<p>FD to complete a diagnostic study of existing employee benefit package and recommend reform, supported by actuarial estimates of reform options</p> <p>FD to create an actuarial cell to develop capacity for financial analysis of pension and other employees benefits reform</p>	GoS to propose policy reform of pension and other employee benefits

Objectives	Summary of recent actions (Apr 2007-Oct 2008) under subprogram 1	Indicative triggers for subprogram 2 (Nov 2008 – Apr 2010)	Medium-term program direction (Basis for subprogram 3) (May 2010 – Nov 2011)
Core Policy Area 3: Revitalize the Rural Economy			
Institutionalize GoS commitment to rural revitalization	3.1 GoS to have established an Executive Committee chaired by the Chief Secretary to formulate and recommend rural revitalization strategic directions and reform agenda	GoS to have established a RRTF chaired by the Chief Minister to guide the rural recovery agenda; the RRTF to have adopted its work plan for FY2009/10 including implementation of legislative reforms RRTF to implement the FY2009/10 work plan	RRTF to continue to implement 2009/2010 work plan RRTF to adopt and implement the FY2010/2010 work plan
Increase and sustain rural investment	3.2 P&DD to have prepared a draft public sector rural investment plan for inter-departmental consultation	The EC to approve the rural investment plan and P&DD to convert the investment plan into a medium-term rural development framework and FD to embed the RDF into the Medium Term Fiscal Framework	P&DD to maintain implementation of rural investment plan as committed
	3.3 GoS to have increased the FY2008/09 ADP allocation for rural areas by at least 15% from the previous FY, and committed to increase provincial public investment in rural areas by at least 15% per annum between FY 2009/10 - FY 2010/11	GoS allocates ADP for rural areas for FY 2009/10 according to the rural investment plan	GoS continue ADP allocation for rural areas for 2010/2011 according to the rural investment plan
Improve land records	3.4 GoS to have approved planning commission pro-forma approvals for carrying out preservation of records, computerization, and development of geographic information system of land records 3.5 BoR to have commenced recruitment of the program management unit Project Director and management consultants for the computerization of land records and establishment of the land administration and revenue management information system	GoS to provide funding for 3 approved planning commission pro-forma approvals as planned (i.e. no token allocation) and BoR's program management unit fully operational BoR to complete implementation of pilot, review results and expand implementation accordingly BoR to (i) complete survey and mapping in 11 rural towns, and (ii) prepare planning commission pro-forma approvals for modernization and capacity building of survey and map preparation and P&DD to approve and allocate funds accordingly	GoS to provide funds to accelerate city survey and village mapping work

Objectives	Summary of recent actions (Apr 2007-Oct 2008) under subprogram 1	Indicative triggers for subprogram 2 (Nov 2008 – Apr 2010)	Medium-term program direction (Basis for subprogram 3) (May 2010 – Nov 2011)
	3.6 BoR to have obtained a legal opinion from the Law Department regarding the legal status of computer generated title deeds, mutations (transfers), e-Pass Books, and other related changes	GoS to amend law and rules if advised by Law Department	GoS to provide funds and BoR to fast track regularization of villages and issuance of title in all eligible village settlements
Eliminate market distortions and barriers to private sector entry	<p>3.7 GoS to have undertaken a review to identify ways for enabling private sector management or divestment of government-owned agriculture markets, and establishing markets</p> <p>3.8 Agriculture Department to have submitted to CM a summary for amending or repealing the Sindh Agricultural Produce Markets Act (1939) to eliminate restrictions limiting private sector's establishment and management of wholesale and bulk markets</p>	<p>GoS to implement recommendations on the private management/ divestment of public sector Agriculture Markets and eliminate the role of Government appointed market committees, and the GoS / the Provincial Assembly to approve the amendment to the Agriculture Produce Markets Act, 1939</p> <p>GoS to identify other major regulatory barriers to private sector participation in the rural economy and implement measures to reduce other major regulatory barriers to private sector participation in the rural economy</p>	<p>GoS to continue to expand the role of the private sector in rural sectors through further reduction of regulatory barriers</p> <p>GoS to implement measures to reduce other major regulatory barriers to private sector participation in the rural economy</p>
<p>Enter into partnerships for service delivery and rural empowerment with non-governmental organizations</p> <p>Enhance citizens' voices through regular citizens' satisfaction surveys</p>	<p>3.9 GoS to have expanded the primary health care management partnership for managing BHUs under PPHI from 10 to 16 districts</p> <p>3.10 Health Department to have notified minimum service delivery standards to be adopted by PPHI in BHUs</p> <p>3.11 GoS to have taken steps to enter into a partnership with a consortium of NGOs to carry out rural empowerment and social mobilization programs</p>	<p>GoS to further expand the primary health partnership under PPHI to all districts, and enter into partnerships with a consortium of NGOs</p> <p>PPHI to have adopted GoS prescribed minimum service delivery standards in BHUs, GoS to approve appropriate funding mechanism for PPHI to ensure adherence to the minimum service standards and adjustments for inflation, FD to link provision of funds with the approved minimum standards through a up-front one window transfer of funding</p> <p>GoS to conduct citizen satisfaction survey on service delivery by the public, private, and NGO service providers,</p>	GoS to expand PPPs in public service delivery through a transparent and competitive process

Objectives	Summary of recent actions (Apr 2007-Oct 2008) under subprogram 1	Indicative triggers for subprogram 2 (Nov 2008 – Apr 2010)	Medium-term program direction (Basis for subprogram 3) (May 2010 – Nov 2011)
		publish the survey results, and base the decision to extend the management contracts on the survey results GoS to adopt and apply rigorous PPP procedures in outsourcing service delivery through bidding and concession agreements	

ADP = annual development plan, BHU = basic health unit, BOR = Board of Revenue, CM = chief minister, DAC = development accounts committee, FD = Finance Department, FY = fiscal year, GoS = government of Sindh, M&E = monitoring and evaluation, NGO = nongovernment organization, P&DD = Planning and Development Department, PPHI = People's Primary Health Initiative, PPP = public-private partnership, PPRA = Public Procurement Regulatory Authority, RTF = Rural Revitalization Task Force, SAP = standard accounting procedures, SGIPF = Sindh General Investment Provident Fund, SPF = Sindh Pension Fund.

Source: Asian Development Bank.

LIST OF INELIGIBLE ITEMS

No withdrawals shall be made in respect of the following expenditures:

- (i) for goods included in the groups or subgroups of the United Nations Standard International Trade Classification, Revision 3, as shown in Table A7, or any successor groups or subgroups under future revisions to the classification, as designated by the Asian Development Bank to the Borrower;
- (ii) in the currency of the Borrower or of goods supplied from the territory of the Borrower;
- (iii) for goods supplied under a contract that any national or international financing institution or agency will have financed or has agreed to finance, including any contract financed under any loan from the Asian Development Bank;
- (iv) for goods intended for a military or paramilitary purpose or for luxury consumption;
- (v) for narcotics;
- (vi) for environmentally hazardous goods, the manufacture, use, or import of which is prohibited under the laws of the Borrower or international agreements to which the Borrower is a party; or
- (vii) on account of any payment prohibited by the Borrower in compliance with a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations.

Table A7: Ineligible Items

Chapter	Heading	Description of Items
112		Alcoholic beverages
121		Tobacco, unmanufactured; tobacco refuse
122		Tobacco, manufactured (whether or not containing tobacco substitute)
525		Radioactive and associated materials
667		Pearls, precious and semiprecious stones, unworked or worked
718	718.7	Nuclear reactors, and parts thereof, fuel elements (cartridges), non-irradiated for nuclear reactors
728	728.43	Tobacco processing machinery
897	897.3	Jewelry of gold, silver, or platinum-group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971		Gold, nonmonetary (excluding gold ore and concentrates)

Source: United Nations.

TECHNICAL ASSISTANCE GRANT

A. Impact and Purpose

1. The purpose of the technical assistance (TA) grant is to support the implementation of the Sindh Growth and Rural Revitalization Program (SGARRP). Specifically, it will focus on (i) promoting increased private sector participation by enhancing public sector capacity to undertake effective partnerships with the private sector and streamlining the role of the government; (ii) improving public expenditure management by improving the efficiency of public sector investments and enhancing monitoring and evaluation (M&E) capacity for development projects; developing an affordable and sustainable pension and employee benefit system; and (iii) revitalizing the rural economy by developing a medium term rural investment plan, identifying and reducing regulatory impediments to growth, and improving rural service delivery.

B. Methodology and Key Activities

2. Enhancing private sector participation in public service delivery is a way of improving efficiency and effectiveness, as well as augmenting resources for public service delivery. This requires a mindset change, institutional realignments, and capacity building in contract design and risk management. The TA will provide national and international expertise to the Finance Department to support the establishment of the Public-Private Partnership (PPP) Unit and develop PPP policy and regulatory frameworks. Likewise, the TA will support the Planning and Development Department (P&DD) and line agencies in improving the quality of public sector investments by enhanced prioritization, project management, M&E, and medium-term planning. The TA will support the strengthening of governance structures, investment, policy, and legal frameworks for pension and other employee benefits. A pension-investment and record-keeping expert will be engaged to advise on the investment, administration, and policy reform of the employee benefit package. Legal experts will be engaged to review the relevant laws and rules pertaining to employee benefits and prepare amendments or draft new laws. The TA will assist the Board of Revenue (BOR) in formulating an integrated and comprehensive strategy to undertake the work of modernizing land records under the three planning commission pro-forma approval prepared by BOR. Furthermore, it will assist the citizens' satisfaction survey on basic health services in the province to enhance service delivery. The consulting services required are summarized in Table A8.1.

Table A8.1: Indicative Consulting Services Required

Area	Number of Consultants	International Consultants (person-months)	National Consultant (person-months)
Program Implementation	3	0	54
Private Sector Participation	4	4	5
Improve Public Investment	4	8	15
Improve Employee Benefits	3	4	3
Revitalize Rural Economy	4	6	9
Total	18	22	86

Source: Asian Development Bank estimates based on discussion with the government of Sindh.

C. Cost and Financing

6. The total cost of the TA grant is estimated at \$1 million equivalent (Table A8.2). ADB will provide \$800,000 equivalent financed as a grant from its TA Special Fund. The in-kind

contribution of \$200,000 equivalent from the government of Sindh (GoS) will cover office accommodation, transport, counterpart staff support, and facilities for seminars and meetings.

Table A8.2: Cost Estimates and Financing Plan
(\$'000)

Item	Total Cost
A. Asian Development Bank (ADB) Financing^a	
1. Consultants	691.3
a. Remuneration and Per Diem	643.3
i. International Consultants	403.0
ii. National Consultants	240.3
b. International and Local Travel	48.0
2. Reports and Communications	15.0
3. Workshops, Training, Seminars, and Conferences	21.7
4. Miscellaneous Administration and Support Costs (including translation)	8.0
5. Contingencies	64.0
Subtotal (A)	800.0
B. Government Financing	
1. Office Accommodation and Transport	90.0
2. Remuneration of Counterpart Staff	55.0
3. Others	55.0
Subtotal (B)	200.0
Total	1,000.0

^a Financed from ADB's TA Special Fund.
Source: Asian Development Bank estimates.

D. Implementation Arrangements

7. P&DD will be the executing agency for the TA, and the various implementing agencies (IAs) will be responsible for their respective components. The major IAs are the Finance Department, BOR, Agriculture Department, and Industries Department. Each IA will have a focal person who, together with the consultants for the TA, will be responsible for undertaking the key activities agreed upon for their particular area.

8. The TA grant is expected to begin once subprogram 1 becomes effective and will be implemented within 18 months. The TA will engage individual consultants or firms that may be recruited through requiring and evaluating biodata and technical proposals. It will require about 22 person-months of international consultancy and 86 person-months of national consulting services. All consultants will be recruited in accordance with ADB's *Guidelines on the Use of Consultants* (2007, as amended from time to time).

E. Outline Terms of Reference for Consulting Services

1. Program Coordination and Implementation¹

a. Program Coordinator (18 person-months, national)

1. The program coordinator will be experienced in dealing at all levels of government in Pakistan, particularly middle and senior levels, and project implementation. The coordinator will

¹ A team leader will be selected from the three consultants, depending on experience and qualifications.

- (i) work closely with ADB and GoS to ensure that identified needs for technical assistance are communicated in a timely manner between them;
- (ii) relay to ADB and GoS any concerns that one or the other may have in respect of project and reform implementation in a timely and comprehensive manner, as they arise, and identify options to address these concerns;
- (iii) work with technical advisers to identify issues and opportunities with respect to executing their terms of reference;
- (iv) supervise core policy area (CPA) coordinators, help prepare and approve their work plans, and monitor and report on their performance;
- (v) review material produced by consultants for suitability in the Sindh context and to ensure that any issues identified are addressed in the revision;
- (vi) produce monthly progress reports for the ADB program officer regarding progress in reform implementation as required by the policy matrix and the progress and quality of TA implementation; and
- (vii) work on land recording keeping and/or other technical areas in the SGARRP.

b. CPA 1 Coordinator/Public–Private Partnership Specialist (18 person-months, national)

2. The PPP specialist will have experience in dealing with PPP and good coordination skills. He or she will be located in the Finance Department and will

- (i) assist GoS in planning and implementing the PPP reform agenda as envisaged under the SGARRP;
- (ii) assist, in particular, in developing a work plan for the PPP unit, including actions like the development of the PPP framework, review of public sector entities, development of the tender design, and competitive selection of private sector partners;
- (iii) assist in developing terms of reference for the consultants;
- (iv) review reports by the consultants to ensure relevance and quality;
- (v) coordinate with the government agencies concerned and the consultants to ensure better delivery of the required outputs; and
- (vi) work closely with the Finance Department and report to the team leader.

c. CPA 2 Coordinator/Development Planning Specialist (18 person-months, national)

3. The development planning specialist will have experience in development planning with exposure to the public sector development planning process. He or she will be housed in P&DD and will

- (i) assist GoS in planning and implementing the development management reform agenda as envisaged under the SGARRP;
- (ii) assist in developing work plans for the development planning reforms, including reviewing the planning process, diagnostic review of underperforming ADP projects, M&E, and establishing budget ceilings.
- (iii) assist in developing terms of references for consultants;
- (iv) review reports by the consultants to ensure relevance and quality;
- (v) coordinate with the government agencies concerned and the consultants to ensure quality delivery of the required outputs; and
- (vi) work closely with P&DD and report to the team leader.

2. CPA 1: Promote Private Sector Participation

a. Public–Private Partnership Experts (2 person-months, international; 2 person-months, national)²

4. The experts will have solid track records and experience of at least 5 years in PPP institutional design, project design, and tender structuring and execution, including contract negotiation. They will

- (i) assist GoS in developing a PPP framework, its institutional requirements, and performance parameters including risk sharing, and in identifying capacity needs;
- (ii) advise on the design of a model PPP contract, its key features and underlying principles, risk assessment and risk sharing, and the tendering process and subsequent contract management;
- (iii) develop training materials on approaches to PPP, including risk sharing and contractual methods and techniques for risk mitigation, and undertake six training workshops for GoS staff; and
- (iv) advise on appropriate organizational structures to protect the public interest through transparency in PPP tenders and subsequent contract management.

b. Public Sector Enterprise Restructuring Experts (2 person-months international; 3 person-months, national)

5. The specialists will have solid track records in undertaking the restructuring, privatization, and liquidation of public sector enterprises. They will

- (i) undertake an in-depth financial and operational analysis of public sector enterprises identified by the corporate restructuring expert as suitable for restructuring, privatization, or liquidation;
- (ii) develop a restructuring road map for those organizations identified as suitable for restructuring;
- (iii) consult with relevant departments to develop a cabinet submission seeking GoS approval for restructuring, privatization, and/or liquidation of government activities and agencies in accordance with corporate restructuring and privatization guidelines;
- (iv) develop a privatization or liquidation road map for those activities and organizations considered suitable for privatization or liquidation;
- (v) assist relevant departments in executing the restructuring of a limited number of approved activities or agencies in accordance with GoS approval(s); and
- (vi) assist relevant departments in undertaking privatization and liquidation of activities approved by GoS.

3. CPA 2: Improve Public Sector Expenditure Management

a. Improve Public Investment Management

i. M&E and Systems Experts (6 person-months, national)

6. The experts will have an understanding of the results-based monitoring software developed by ADB in conjunction with the Government of Pakistan. They will

² The TA needs on PPP are large. GoS and ADB are in the process of identifying other TA resources.

- (i) help install, in coordination with the information technology expert, the software in GoS and P&DD and ensure it is tailored for the particular requirements of GoS.
- (ii) undertake six training workshops of 4 hours each, training P&DD and other departments' staff in the use of the software; and
- (iii) undertake a follow-up review of the system and provide support to ensure its smooth running at the completion of the training.

ii. Information Technology Experts (6 person-months, national)

7. The experts will have expertise in designing, adapting, and operationalizing computer software systems. They will

- (i) help install the software in GoS and P&DD and tailor its installation for the particular requirements of GoS;
- (ii) help supervise and clean up the data entry into the M&E database;
- (iii) undertake training workshops for P&DD and other departments' staff in the use of the software; and
- (iv) undertake a follow-up review of the system and provide support to ensure its smooth running at the completion of the training.

iii. Physical Asset Management Specialist (3 person-months, national)

8. The experts will have at least 10 years' experience in strengthening internal control and promoting compliance with standards. They will

- (i) review the key public sector asset types and undertake the system requirements for managing the assets,
- (ii) assist GoS in designing an asset-tracking and -management system of suitable specifications,
- (iii) assist GoS in procuring an off-the-shelf asset-management system in accordance with defined specifications, and
- (iv) help install the asset management software and train the relevant staff in managing and maintaining it.

iv. Public Financial Management Advisor (8 person-months, international)

9. The expert will have expertise in budgeting and planning, in particular in development project management. He or she will advise GoS and ADB on the overall strategy to implement and design reforms under the SGARRP. The expert will

- (i) introduce a sound prioritization process to GoS that is essential for reducing the number of schemes and throw forward;
- (ii) design a method for GoS to estimate budget ceilings;
- (iii) design a sound institutional mechanism to implement budget ceilings;
- (iv) carry out capacity building on budgeting and planning
- (v) advise GoS and ADB on implementing and designing of reforms, in particular in the areas of CPA 2.1 and CPA 3;
- (vi) provide quality assurance for outputs produced by other consultants; and
- (vii) provide overall guidance and supervision for consultants working under the SGARRP TA grant.

b. Improve Employee Benefits

i. Pension and Insurance Legal Advisors (1 person-month, international; 3 person-months, national)

10. The experts will have a solid track record and at least 10 years' experience in pension fund management and a strong background in pension legislation and regulations. Relevant experience in Pakistan is highly desirable. The experts will

- (i) review the relevant laws and rules pertaining to pension, general provident fund, group insurance, and benevolent payments;
- (ii) prepare amendments or new draft laws implementing rules and regulations on employee benefits, the Sindh Pension Fund, the Sindh General Provident Investment Fund, and the fund management house; and
- (iii) review the compliance of the fund management house with existing legislation.

ii. Pension Investment and Record-Keeping Expert (3 person-months, international)

11. The expert will have a solid track record and at least 10 years' experience in pension fund management and pension administration and a strong background in pension legislation and regulations. Relevant experience in Pakistan is highly desirable. The expert will

- (i) advise on establishing a pension fund and general provident fund, as well as the group insurance and benevolent funds;
- (ii) advise on record keeping, administration, and benefit payment processes and procedures; and
- (iii) provide policy analysis and diagnostic studies of employee benefits.

4. CPA 3: Revitalize Rural Growth

a. Land Records Modernization Specialist/Business Process Re-engineering Specialist (3 person-months, international)

12. The consultants will provide support to BOR in the actions required to launch the initiative on a sound technical and management foundation, specifically in

- (i) reviewing the three BOR planning commission pro-forma approvals;
- (ii) preparing, in consultation with the officials concerned, an integrated and comprehensive implementation strategy and plan for modernizing land records, including a detailed work plan and budget for the first year (FY2009);
- (iii) preparing an action plan for implementing the 3 planning commission pro-forma approvals,
- (iv) preparing detailed terms of references for management consultants;
- (v) identifying and advising on the other consultant support necessary, including preparing their terms of references;
- (vi) assisting BOR in the evaluation of technical proposals from management consultants and other support required in their appointment; and
- (vii) reviewing the land revenue act and other related laws and, keeping in view the Punjab amendment on conferring legal status on computer-generated land-title documents, studying the implications of the computer-generated land-title documents in Sindh.

b. Economist (3 person-months, international)

13. The consultant will provide support to the Agriculture Department and the Livestock and Fisheries Department. He or she will

- (i) review the overarching investment climate and identify (a) key constraints and opportunities for private sector business investment and (b) the most promising subsectors;
- (ii) undertake the value chain analysis of the identified subsectors in the horticulture and livestock sectors and identify and analyze a series of market chains with high potential for integration and improving the livelihood of rural families living in poverty; and
- (iii) provide recommendations on legal and institutional reforms to encourage value addition and the realization of the full potential of the market.

c. Citizens' Satisfaction Survey (6 person-months, national; and a number of surveyors)

14. The consultants will have at least 5 years' experience in working on social service delivery and surveys. They will

- (i) design the survey,
- (ii) supervise the survey,
- (iii) carry out data processing and analysis,
- (iv) prepare a report describing and analyzing the results, and
- (v) assist in disseminating the information through publications and workshops.

d. Information Technology Specialists (3 person-months, national)

15. The consultants will have at least 5 years' experience in working on management information systems. The consultants will

- (i) design a management information system for the People's Primary Health Initiative,
- (ii) operationalize the system,
- (iii) train People's Primary Health Initiative staff to operate and maintain the system, and
- (iv) prepare a manual describing how to manage the system.

SUMMARY POVERTY REDUCTION AND SOCIAL STRATEGY

Country/Project Title: Pakistan/Sindh Growth and Rural Revitalization Program

Lending/Financing
Modality:

Policy-Based Program

Department/
Division:

Central and West Asia Department/
Governance, Finance, and Trade Division

I. POVERTY ANALYSIS AND STRATEGY

A. Linkages to the National Poverty Reduction Strategy and Country Partnership Strategy

Taken together, Pakistan's Poverty Reduction Strategy Paper, completed in 2003; the 2005 Medium Term Development Framework (MTDF) 2005–2010, the draft *Sindh Vision 2030*^a developed in 2007 and 2008, and the PRSP II currently being developed articulate the country's medium- and long-term development strategies and investment plans. *Sindh Vision 2030* underlines the need for structural change and transformation and for the enhanced competitiveness of the economy aiming for "a developed, industrialized, just and prosperous Pakistan through rapid and sustainable development in a resource constrained economy by deploying knowledge inputs." The MTDF outlines specific action and investment plans until 2010 to ensure progress toward achieving the vision. It prioritizes investments in five areas: balanced rural and urban development; accelerating output growth; upgrading physical infrastructure; achieving the Millennium Development Goals; and supporting private sector development. The PRSP II draft summary document confirms that the PRSP II has been aligned to the MTDF. While the MTDF focuses on economic growth to provide a framework for the realization of *Sindh Vision 2030*, the PRSP II itself "presents a strategy to ensure that the growth is broad-based and leads to effective poverty reduction." The PRSP II is built around seven strategic pillars: (i) creating "world class infrastructure," including water resources, energy, transport, and public-private partnerships (PPPs) for infrastructure development; (ii) "drivers of economic growth," including urban and rural infrastructure as engines of growth, reaping the "demographic dividend," and taking advantage of globalization; (iii) "crafting a competitive advantage" through private sector development, liberalization and deregulation, and enhancing productivity; (iv) "harnessing the potential of people" by focusing on human capital development, gender mainstreaming, and employment generation; (v) "financial sector deepening," which looks at a more vibrant role for financial and capital markets and at financial globalization; (vi) "effective governance and management," which includes second-generation reforms, devolution, and improved service delivery; and (vii) "targeting the poor and vulnerable" through social safety nets and microfinance. The Sindh Growth and Rural Revitalization Program (SGARRP) will directly and indirectly support increased investment in rural infrastructure (pillars i and ii, including the promotion of PPPs), promoting private sector development and increased agricultural productivity (pillar iii), prioritizing government of Sindh (GoS) investments in education in rural areas (pillar iv), reforms to improve financial governance and management and rural service delivery (pillar vi), and targeting the rural poor with comprehensive programs including microfinance delivered by nongovernment organizations (NGOs).

The Asian Development Bank is finalizing a new country partnership strategy (2007–2011) that rests on interventions in four focal areas. These focal areas are fully aligned with the national development framework, including the PRSP-II draft summary document, and represent a carefully selected subset of priorities articulated in the framework. The focal areas include (i) reforms and investment in major infrastructure sectors, (ii) second-generation reforms to strengthen governance and services to promote structural change, (iii) the development of the urban and rural economy for balanced development, and (iv) effective implementation for development effectiveness and results. The SGARRP will introduce reforms and interventions through GoS's increased prioritization of investments in rural areas that directly address all four focal areas and are consistent with GoS and national poverty-reduction priorities.

B. Poverty Analysis

Targeting Classification: General intervention

1. Key Issues

The slow growth of the rural economy has caused a large and widening income gap between urban and rural Sindh. Average monthly per capita expenditure in rural areas is only about PRs1,047, about half of the urban figure. Coupled with Sindh having historically suffered inequality, what has emerged is a typical dual economy whose rural-urban inequality is the most pronounced among Pakistan's four provinces. The rural-urban duality is indicated in the economic as well as social sphere. With 99% gross primary enrollment, 72% literacy, and 87% of babies fully immunized, urban Sindh's social indicators are on a par with those of other developing countries with comparable per capita income. On the other hand, with 58% gross enrollment at the primary level, 38% literacy, and 62% of babies fully immunized, the level of human development in rural Sindh is among the lowest in South

Asia. The large rural–urban divide is a serious concern for the welfare of the rural population and because it is potentially destabilizing. Accelerating rural growth and improving the income of the rural poor are thus urgently needed. Recognizing the importance of reducing rural poverty, it is also important to note that urban Sindh is far from poverty free. Furthermore, the incidence of poverty in small cities and towns even surpasses that of villages. Thus, any poverty-reduction efforts should not focus solely on narrowly defined rural areas.

The SGARRP is a policy-based program that, while introducing policy change and prioritized GoS investment in rural areas, essentially provides budget support to GoS to undertake reforms. Core policy area (CPA) 1 promotes private sector participation in the economy by encouraging PPP and improving the efficiency of public enterprises. It will indirectly contribute to poverty reduction by stimulating economic growth for the province as a whole. CPA 2 will support improvements in public expenditure management that will directly contribute to overall economic growth, improved efficiency and equity in public expenditure, and poverty reduction. CPA 3 will revitalize the rural economy with direct support for GoS poverty-reduction interventions.

2. Design Features

The SGARRP will tackle poverty issues in Sindh by promoting economic growth and with more direct measures. The review of the performance of public corporations and consideration of private sector management of them under CPA 1 will encourage greater private sector participation and more efficient management of public corporations, bringing improved performance and economic growth. The enhanced PPP supported by CPA 1 will augment resources for more and better public goods and service delivery. Improved budget prioritization and allocation under CPA 2 will benefit the poor in Sindh. Improved audit compliance and internal controls will bring better management of public expenditure and improve the effectiveness of government programs. Reforms to public sector pension and employee benefit schemes will free up additional government resources for use in productive investments to benefit the poor. CPA 3 involves the creation of a rural revitalization task force and the preparation of a prioritized rural investment plan for interventions that will contribute to reducing poverty in rural areas of Sindh. Other reforms will directly contribute to poverty reduction by (i) eliminating market distortions and barriers to entry that reduce farmer incomes, in particular for smallholders; (ii) improving rural service delivery through NGOs that empower the rural poor; and (iii) improving agricultural productivity.

C. Poverty Impact Analysis for Policy-Based Lending

1. Discuss the impact channels of the policy reform(s) (direct and indirect, short and medium term) to the country and major groups affected.

Increased private sector participation in enterprises previously operated by GoS will stimulate economic growth that indirectly benefits the poor. Better public expenditure management will improve the efficiency, effectiveness, and equity of public investment; ensure improved delivery of outputs to the people of Sindh; and provide finance to increase investments to benefit the poor. Greater emphasis on redressing the urban–rural inequalities that have persisted for decades in Sindh, typified by land-titling arrangements that disadvantage the poor, and improvements in rural service delivery are important elements of GoS pro-poor reforms.

2. Discuss the impact of the policy reform(s) on vulnerable groups and ways to address it/them (refer to social analysis).

The program has no adverse impacts on vulnerable groups.

3. Discuss how the policy reform(s) contribute(s) to poverty reduction, pro-poor growth, and the Millennium Development Goals.

The SGARRP will encourage greater private sector participation in operating activities that are currently run inefficiently by GoS. It will introduce more efficient and effective public sector management through improved budget prioritization, monitoring and evaluation, audit compliance and internal controls, and management of pension and employee benefit schemes. These measures will leave financial resources that can be used for productive investments that benefit the poor and ensure good value for money for public expenditure. The rural revitalization component of the program will channel a substantially larger flow of public resources to rural areas, foster a dynamic private sector, improve service delivery, and improve the legal and regulatory environment to address more effectively the needs of the rural poor.

II. SOCIAL ANALYSIS AND STRATEGY

A. Findings of Social Analysis

As CPAs 1 and 2 address issues of inefficient public expenditure management, there are no specific targeted beneficiaries. The reform program will benefit all citizens of Sindh, including the poor and vulnerable. The improved efficiency and effectiveness of public expenditure management through improved resource mobilization and allocation and better audit and internal controls will ensure that public investments are of greater benefit to the public and more responsive to citizens' needs. The rural revitalization component of the program will allow GoS to target more directly the most disadvantaged and poor people in Sindh and promote greater and more effective service delivery by the private sector.

B. Consultation and Participation

1. Provide a summary of the consultation and participation process during the project preparation.

During program preparation, extensive discussions were held with GoS's Finance Department; Planning and Development Department; Board of Revenue; Excise and Taxation Department; Irrigation and Power Department; Food Department; Agriculture Department; Livestock and Fisheries Department; Local Government Department; Education Department; Health Department; Sindh Seed Corporation; Sindh Irrigation Development Authority; and district governments. Meetings were held with the private sector and NGOs active in Sindh. Further meetings were held with concerned development partners to facilitate donor coordination.

2. What level of consultation and participation (C&P) is envisaged during the project implementation and monitoring?

☒ Information sharing ☒ Consultation ☐ Collaborative decision making ☐ Empowerment

3. Was a C&P plan prepared? ☐ Yes ☒ No

If a C&P plan was prepared, describe key features and resources provided to implement the plan (including budget, consultant input, etc.). If no, explain why.

No formal C&P plan was prepared as program preparation was not complicated, requiring meetings with concerned government departments and agencies. Key government agencies to be contacted were identified prior to processing missions. The program consists of a series of prior actions, many of which have already been completed, in addition to subsequent indicative subprograms 2 and 3 actions that follow up on and deepen subprogram 1 reforms and will be firmed up during the processing of subprogram 2.

C. Gender and Development

1. Key Issues.

There are no specific gender implications of the program. GoS will use counterpart funds and funds allocated under its rural revitalization investment prioritization program to target the rural disadvantaged, including girls, women, and particularly households headed by women.

2. **Key Actions.** Measures included in the design to promote gender equality and women's empowerment—access to and use of relevant services, resources, assets, or opportunities and participation in decision-making process:

☐ Gender plan ☐ Other actions/measures ☒ No action/measure

III. SOCIAL SAFEGUARD ISSUES AND OTHER SOCIAL RISKS			
Issue	Significant/Limited/ No Impact	Strategy to Address Issue	Plan or Other Measures Included in Design
Involuntary Resettlement	No impact.		<input type="checkbox"/> Full Plan <input type="checkbox"/> Short Plan <input type="checkbox"/> Resettlement Framework <input checked="" type="checkbox"/> No Action
Indigenous Peoples	No impact.		<input type="checkbox"/> Plan <input type="checkbox"/> Other Action <input type="checkbox"/> Indigenous Peoples Framework <input checked="" type="checkbox"/> No Action
Labor <input checked="" type="checkbox"/> Employment opportunities <input type="checkbox"/> Labor retrenchment <input type="checkbox"/> Core labor standards	No adverse impact. The private sector takeover of public sector enterprises may create employment as the corporations become more competitive.		<input type="checkbox"/> Plan <input type="checkbox"/> Other Action <input checked="" type="checkbox"/> No Action
Affordability	No impact.		<input type="checkbox"/> Action <input checked="" type="checkbox"/> No Action
Other Risks and/or Vulnerabilities <input type="checkbox"/> HIV/AIDS <input type="checkbox"/> Human trafficking <input type="checkbox"/> Others(conflict, political instability, etc), please specify	No impact.		<input type="checkbox"/> Plan <input type="checkbox"/> Other Action <input checked="" type="checkbox"/> No Action
IV. MONITORING AND EVALUATION			
Are social indicators included in the design and monitoring framework to facilitate monitoring of social development activities and/or social impacts during project implementation? No. GoS will improve its monitoring and evaluation capacity to assess the development effectiveness of its programs. Citizens' satisfaction surveys will be used to evaluate the effectiveness of service delivery programs operated by NGOs. A poverty incidence target is used as an indicator of program impact.			

^a Planning and Development Department, Government of Sindh. 2007. *Sindh Vision 2030: Aspiring Towards a Healthy, Productive & Prosperous Nation*. Karachi. The draft is being finalized currently.

CPA = Core policy area, GoS = Government of Sindh, MTDF = Medium Term Development Framework, NGO = nongovernment organization, PPP = Private and public partnership, SGARRP = Singh Growth and Rural Revitalization Program.

KEY INSTITUTIONAL AND OPERATIONAL RISKS AND MITIGATING MEASURES

Reform Areas	Major Institutional and Implementation Risks	Mitigating Measures
A. Core Policy Area 1: Promote Private Sector Participation		
1. Promote PPPs	Lack of capacity on PPP	Intensified capacity building led by the Finance Department and P&DD Technical assistance support from ADB
	Lack of ownership by line departments	Establishment of a PPP advisory board chaired by the chief secretary with the participation of secretaries of key line departments Establishment of PPP focal group involving key additional secretaries of the Finance Department, P&DD, and key line departments
	Misperception about PPP and misuse of the VGF	Establishment of strong governance mechanisms for the VGF and project development fund, supported by ADB TA Adopt transparent and sound selection criteria and operating procedures for VGF, supported by ADB TA Intensified capacity building, supported by ADB TA, on the essence and modalities of PPP
2. Improve efficiency of public enterprises	Resistance to restructuring and divestment from public enterprises	Developing sound proposals, supported by ADB TA Stakeholder consultation to obtain broad public support Addressing the adjustment costs faced by public enterprise employees, including training and temporary relief measures
B. Core Policy Area 2: Improve public expenditure management		
1. Improve efficiency of public investment	Political and bureaucratic resistance to introducing budget constraints at the onset of the planning cycle	Establishing a budget ceiling committee to implement budget ceilings Establishing a cabinet expenditure committee to involve political leaders in setting sectoral budget constraints in the medium term
2. Improve monitoring and evaluation	Lack of resources or interest to improve M&E	Strengthening the linkages between federal and Sindh P&DD in introducing the computerized M&E framework to the province Establishing a focal group on M&E with officers from P&DD and line departments Planning commission pro-forma approval for improving M&E peer reviewed and adequate resources allocated for enhancing M&E ADB TA support on training and adaptation of software
4. Improve audit compliance, legislative oversight, and internal control	Lack of political or bureaucratic interest in improving external auditing and internal control	Defining and publishing realistic targets, such as departmental account committee meeting calendars Strengthening the provincial accounts committee secretariat, initially supported by ADB TA

Reform Areas	Major Institutional and Implementation Risks	Mitigating Measures
5. Improve pension and other employee benefits	Fiduciary risks in managing the pension, general provident, and other funds	Establishing sound fund management governance structure, supported by ADB TA
C. Core Policy Area 3: Revitalize the Rural Economy		
1. Increase and sustain rural investment	Fading political commitments to rural investment	Adopting the medium term rural investment plan Linking the medium term rural investment plan with the provincial medium term fiscal framework
2. Improve land titles and records	Lack of capacity and know-how	Support from ADB TA Learning from the Punjab experience Allocation of sufficient government resources for technical development
	Resistance from the <i>tapedars</i> and their <i>patwaris</i> (the lowest-level revenue functionary), who have long held exclusive custody over the land records and been beneficiaries of the archaic land record system	Stated commitments through establishing a land title and record steering committee chaired by the additional chief secretary of P&DD Allocation of sufficient human and financial resources, especially at the initial stage, for carrying out the computerization of records Awareness and training of <i>patwaris</i> In the medium term, carrying out business process re-engineering of Board of Revenue, introduction of market-based recruitment similar to that carried out at the Federal Board of Revenue
3. Eliminate market distortions and barriers to private sector entry	Resistance to amendments to the Agricultural Produce Markets Act and other regulatory barriers by beneficiary public officers	Wide stakeholder consultation. Consultation to date indicates that there is widespread support for change in both the public sector and private sector Obtaining broad political support. Consultation to date indicates that the top political leadership in the province supports the changes Designing sound proposals supported by ADB TA to avoid manipulation and misconceived changes to the laws. This is the key to ensuring that changes are in the right direction
4. Promote private-public partnerships for service delivery	Resistance by the public service providers	Carry out citizens' satisfaction survey to reflect citizens' choice in service provision and expose deficiencies and advantages in the different modalities of service delivery Adopt a transparent and sound PPP regulatory framework and implement PPP in service delivery in a sound and professional manner

ADB = Asian Development Bank, BOR = Board of Revenue, P&DD = Planning and Development Department, PPP = private-public partnership, TA = technical assistance, VGF = viability gap fund.
Source: ADB program team based on discussion with government of Sindh.