

**AIDE MEMOIRE
OF
ASIAN DEVELOPMENT BANK MISSION
FOR**

**LOANS 2047/48/49-PAK: SINDH DEVOLVED SOCIAL SERVICES PROGRAM
REVIEW MISSION (APRIL 25 -- 28, 2005)**

I. Introduction

1. The Sindh Provincial Government (SPG) is undertaking wide-ranging reforms in the social sectors. ADB is supporting these reforms through the Sindh Devolved Social Services Program Loan (SDSSP) approved on 12 December 2003 for \$220 million. SDSSP will assist local governments in focusing on improving social services for the poor, especially women and children. SDSSP covers the social services that have been devolved to the district governments (education and health) and Taluka Municipal Administrations (TMAs) (water supply and sanitation). SDSSP supports formula-based conditional grants to local governments based on annual plans prepared for the entire sector and showing all sources and (proposed) uses of funds. A policy reform program has been agreed covering the following areas: (i) further devolution of administrative and financial powers, (ii) improving social sector financing, (iii) improving participation and public accountability, (iv) rationalization and standard setting of services, and (v) support for community-based organizations. In April 2004, the above captioned loans became effective and ADB released the first tranche of \$100 million was released in May.

2. A Mission visited Sindh from 25--28th April, 2005 to (i) review overall implementation of the Program and update, in consultation with the Executing Agency (EA), the project implementation schedule; (ii) discuss and agree on implementation arrangements for the Technical Assistance Loan; (iii) review progress with second tranche conditions and, discuss proposed remedial measures for compliance with the EA. The Mission comprised L. Arthur, Education Specialist as Mission Leader; H. Kim, Director, South Asia Social Sectors Division, H. Ikemoto, Economist; and F. Moriani, ADB Team Leader, DSSP Coordination. The Mission held discussions with the Senior Minister, Finance; the Departments of Finance, Education, Health, Local Government, Planning and Development, Women Development, Environment and Alternate Energy; the PSU; the Technical Working Group; PD DSP; Additional Finance Secretary Resource; and Nazims and representatives from various Districts and Taluka Municipal Administrations (TMAs). The Aide Memoire was discussed at the wrap-up meeting on 28th April, which was chaired by the Chairman, PSC. The Mission requested that the Aide Memoire be reviewed and confirmed by 5 May.

II. Loans 2047/48 -- Review of Second Tranche Conditions

3. **Policy Outcome 1: Further Devolve Social Services to District Governments and Taluka Municipal Administrations.** A note has been submitted by the PSU to the Chairman Local Government Commission for establishing a monitoring framework to review the exercise of delegated administrative and financial powers to District Governments (DGs) and TMAs and to identify areas where further devolution is required

to strengthen the LGs. The Sindh Local Government Commission (LGC) will assume a leadership role in developing the framework in consultation with the PLDs and Local Governments (LGs). Another note including detailed proposed composition of the team that will work on this initiative, Terms of Reference, and the details of the design, including the monitoring instruments to be used. will be submitted to the LGC for approval after comments are received from all stakeholders.

4. Although the administrative and financial functions of the Public Health Engineering Department (PHED) have been devolved to the TMAs, the relationship between the District Support Unit (DSU) and the TMAs on the issue of technical approval authority needs to be further clarified. Currently, the technical approval of schemes over Rs.1 million must be undertaken by the DSU of the DG Technical's Office, because officers of sufficient grade are not available for posting to TMAs. While good progress has been made in terms of financial empowerment of the TMAs, with Local Fund Accounts established and GST shares flowing directly into these Accounts, in order for TMAs to function effectively in their devolved capacity, it is essential to establish clarity on the roles/responsibilities between the TMAs and DSUs. For this purpose, PSU jointly with LGD will submit a concept note outlining detailed steps to be taken in order to achieve further devolution of technical approval power to TMAs. This concept note will be approved by the ACS Local Government and will be fully implemented during the next fiscal year.

5. The existing Delegation Plan, developed as a condition for the first tranche, outlines the responsibilities and authority of positions at the District level within the devolved social sectors. The Plan requires revision in order to indicate progress on certain actions, and in addition will require a clear strategy for ensuring effective implementation by DGs in the next year of the program. As a condition for second tranche, this Plan will be approved by the Chief Secretary and DGs.

6. The Education Department has prepared and published a Sindh Education Plan which provides a vision and direction for the sector, including in terms of improving teacher training quality, building capacity of the DGs and in providing a strategic framework for education in Sindh. In addition to strengthening its role as a standards setter and regulator, a Quality Assurance Resource Centre is being established in partnership with the Sindh Education Foundation. Similarly, the Health Department has announced a Health Policy and LGD has submitted a concept paper which will be approved and published by 15 May.

7. **Policy Outcome 2. Improve Social Sector Financing.** The PFC has not yet finalized a mechanism for introducing performance-based grant distribution under the overall PFC Award, although the Government of Sindh has expressed its commitment in writing to the Federal Government in this respect. A consultant firm under the DSP has completed the bulk of the work, including creating databases of DG and TMA budgets and evaluating trends in expenditure to determine fiscal need. The firm has also presented grant design options to the PFC, but the final report is expected some time in June and only after this submission, a decision on a grant design(s) would be taken by the PFC. As an interim measure and as further reaffirmation of the commitment to introduce conditional grant systems in the PFC Award, the PFC is expected to accord concept clearance for conditional grants as a prior action for actual approval of a grant design(s) and will also approve a revised DSSP conditional grant mechanism, moving away from purely input and process based indicators to more performance benchmarks.

The PFC Secretariat, the DSSP Consultant for PFC and the Government of Sindh PFC Consultant will, after taking stakeholder inputs and building on the data and analysis already available, develop the modified DSSP conditional grant design by 15 May.

8. **Policy Outcome 3. Improve Participation, Linkages, and Public Accountability.** An initial Action Plan has been developed for promoting transparent and participatory planning and monitoring in DGs and TMAs. This Plan has evolved in light of the process of preparing initial ASPs and will be revised to reflect these experiences. The Plan will further incorporate participatory planning strategies developed by programs in particular sectors, such as ESRA in the education sector. The PSU has indicated that the revised Action Plan will be submitted and approved by the Chief Secretary by May 15th. In addition, the PSU will provide evidence of implementation of participatory processes in an analytical reports on ASP development.

9. A total of 101 LGs, 15 DGs and 86 TMAs, have signed the MOU. The Mission encourages the PSU to pursue the remaining LGs to sign up to the Program and to send a report by 5 May 2005, identifying steps it has taken to pursue the LGs and the reasons for their not signing the MOUs.

10. **Policy Outcome 4. Rationalize Services and Set Minimum Standards.** In order to ensure that the Annual Sector Plans have been developed and funds utilized in such a way as to improve the rationalization of services and standard-setting, each of the sector officers in the PSU will provide an analysis of ASPs of LGs to whom the conditional grants have been transferred. Specifically, these analyses will indicate fund utilization in accordance with the MOU and rationalization strategies; identification of areas of investment and their link with the problem identification in the situation analysis; assessment of financial and technical feasibility before committing new schemes and/or services. The first draft analyses will be submitted by May 5th.

11. One of the expected outputs of the Environmental Management TA is an Interim Solid Waste Management Policy. Although delivery of the actual Policy will be delayed due to further processing requirements of the PC-II for the Environmental TA, policy directives have been articulated by the Government in a Governor's Meeting. On 26/2 and 31/3 2005. The Sector Officer, Local Government is requested to compile a report on solid waste management. The first draft paper will be submitted by May 5th.

12. **Policy Outcome 5. Encourage Public-Private Partnership to Improve Service Delivery.** As part of its policy commitment to expand support to Public Private Partnerships as Alternative Service Delivery Agents and to involve communities more deeply in planning, execution and operations, the Government of Sindh has taken several measures, including announcement of support for Health Boards, and establishment and enhancement in allocations and/or coverage of SMCs and VDAs. The Mission requests that these measures be reflected in reports by PLDs, consolidated by the PSU and submitted by May 15th.

13. **Next Steps.** SPG has indicated its requirement for release of the second tranche within this budget year. In order to achieve this, the Mission has advised SPG of the following timeline:

- i. Submission of all required documentation in support of compliance with 2nd Tranche Conditions by 15 May.
- ii. ADB Internal Circulation of Progress Report by 16 May.

- iii. ADB Board Approval by 17 June.
- iv. Tranche Release (anticipated) by 27 June

III. TA Loan 2049: Implementation Arrangements

14. A TA loan of \$10 million was made available to the Government of Sindh as part of the financing arrangements for SDSSP, to enable the establishment of the Provincial Program Support Unit and the Local Support Units at District level, as well as to support capacity building initiatives in line with the policy reform agenda of the Program. The Mission noted that there was negligible progress on the implementation of the TA Loan and through this Aide Memoire, would like to highlight this as an area of concern. While recognizing that much of this lack of implementation could be ascribed to the delays in obtaining ECNEC approval for the PC-I, there is a need to develop a strategic approach towards ensuring more efficient and effective TA Loan utilization.

15. **Progress On TA Utilization.** Annexe 3 outlines TA Loan utilization status as of 27 April 2005, details of expected expenditures by the end of FY04-05 as well as committed expenditures till end of FY05-06, measured by allocations for positions already staffed or advertised and expected to be filled in the PSU and LSUs. The Mission would like to stress on improving this utilization and for completing the recruitment procedures for advertised positions as per the timelines in the Action Plan attached with this Aide Memoire. ADB actions/approvals, wherever pending, will be completed at the earliest, to assist the PSU.

16. **Issues.** Several issues emerged from the discussions with the PSU and the PLDs. These have been summarized as follows:

- i. **PC-I Revision and PDWP Approval.** Due to the increase in the number of Districts and TMAs in Sindh as a result of the recent bifurcation of existing Districts and also because of revision in allocations for various heads of expenditure following the decisions of the PSC, the PC-I needs to be revised to reflect the changed situation. Although the revision in costs and re-appropriation of expenditures amongst different heads would still be within the overall ECNEC approved costs, the revised PC-I will need to be presented before the PSC and after its clearance, submitted to the PDWP for approval. This exercise needs to be given top priority and is expected to be completed before 15 June.
- ii. **Posting of Government Counterpart Officers in PSU.** The Government counterpart officers for Education, WSS, M&E and Administration are on-board and have been duly notified, the Health Sector Officer has not yet been posted, although the Mission was informed that the case is pending with SGA&CD and is expected to be completed within the next few days. The unavailability of the Health Sector Officer has impeded the PSU efforts to provide support to EDO Health in the DGs during the Annual Sector Plan process and also in maintaining close contact with the Provincial Health Department, so it is hoped that this issue will be finalized by the time confirmation of the Aide Memoire is sent by the Government of Sindh.
- iii. **Following the Action Plan.** The PSU has done well to meet a number of commitments on actions outlined in the agreed Action Plan, but there is a need to

follow the agreed timelines more closely and to provide more detailed reports while providing updates.

- iv. **Role of PLDs and LGs in TA Management.** As per the SDSSP Program and Loan Documents, the responsibility for TA management lies with the PSU and the Finance Department as the Executing Agency. However, it is clear that the Social Sector Provincial Line Departments of Education, Health and LGD, have very important roles, as Implementing Agencies, in the utilization of the TA funds, because the capacity building initiatives in pursuit of the policy reforms agenda, must take place within and be led by the Line Departments. In addition, the role of the P&D as the umbrella organization for promoting better planning and budgeting also needs to be supported through the TA. Based on the revised costs of the PC-I worked out by the PSU, out of the total amount of \$14.2 million approximately \$7.3 million is available under the TA Loan for training, workshops, capacity building, surveys, studies, reports, and communication. Funds will also be utilized for setting up monitoring and evaluation arrangements by PLDs and LGs. Substantial allocation is also available for hiring of domestic consultants to work with the PSU, PLD and LSUs. The Mission would request for an early confirmation of the estimated \$7.3 million available exclusively for the heads of expenditure outlined above and for the approval by the PSC of clear, rationalized TA Management arrangements that accords greater responsibility and leverage for TA Loan utilization to the PLDs and LGs, within the overall parameters of TA implementation agreed in the TA Loan documents.

17. **Opportunities.** The Mission was particularly enlightened by the interaction that took place with the Secretaries of the PLDs, the Nazims and functionaries of the Districts and TMAs, and the members of the Technical Working Group, comprising of the PLD Focal Persons. It was evident during these discussions that there are great opportunities for using the TA funds to assist the PLDs in furthering the policy reforms process and to help address capacity and technical gaps at the LG level. Given the large menu of positive developments at the Provincial level, such as the Sindh Education Plan, the announcement of the Health Policy and measures to improve solid waste management, it is clear that the PLDs can tap into the TA funds to strengthen their new roles as regulators, policy makers and standard setters. The Mission was pleased to learn of the ongoing dialogue with PLDs and the LGs regarding articulation of needs for capacity building and hopes that this process is carried forward in an organized manner.

18. **Strategy.** Given the size of the TA loan, there is a need to devise mechanisms for efficient, effective and transparent use of TA funds to deliver on areas of capacity building linked with the policy areas and reform objectives. This would entail:

- i. Distribution of TA Loan for PLD, PSU and LG use
- ii. Developing criteria for accessing of TA funds by PLDs and LGs
- iii. Clear specification of:
 - Roles and responsibilities of PLDs, LGs and PSU
 - TA management arrangements within PLDs and LGs
 - Funds flow arrangements and funds usage procedures
 - Expected actions and agreed timelines
 - Coordination systems
 - Reporting requirements
 - Monitoring and evaluation

19. During detailed discussions with the PLD Focal Persons, it appeared that there was a consensus on a few issues, namely:

- i. The PSU, as per the provisions of the TA Loan document, will be the Executing Agency for the TA Loan; and the PLDs will be the Implementing Agencies
- ii. As per the agreed procedures between ADB and Government of Sindh, the TA funds will be managed by the PSU who will continue to operate the Imprest Account opened for this purpose
- iii. The PLDs should be able to access TA funds on a need basis, rather than having allocations for each department
- iv. Every PLD will have to prepare detailed annual work plans articulating their needs, prioritizing and costing specific actions/initiatives and providing timelines, phasing and monitoring mechanisms. The PLDs will also develop TOR for every initiative or requirement and the PSU will assist in the development of these TOR
- v. All contracting, procurements and accounting procedures will be managed by the PSU in accordance with *ADB Guidelines for Procurement of Goods and Services* and *ADB Guidelines for Use of Consultants by Borrowers*, as agreed in the TA Loan document.
- vi. On a need basis, the PSU will assist in establishing TA Management cells within the PLDs, including providing technical resources, administrative support or equipment.
- vii. The PLDs would provide detailed progress and performance reports to the PSC.

20. **Next Steps.** In order to proceed with this strategy for optimal TA Loan utilization, the Mission recommends the following actions and timelines:

- i. PDWP Approval of revised PC-I by 15 June.
- ii. PSC approved TA Management strategy as per details in section 18 above by 15 May
- iii. Detailed Progress report on TA utilization by 5 May and subsequently as prescribed under ADB procedures
- iv. PSC approved quarterly work plans for PSU and PLDs in relation to TA use by 30 May for PSU and by 15 June by PLDs.

IV. Monitoring under Loans 2047/48.

21. **Financial Monitoring.** PSU reported that there is a mechanism, which ensures that the conditional grants are spent on eligible items. Conditional grants are released only to the district governments and TMAs, which submitted Annual Sector Plans (ASPs) to PSU and having such ASPs approved by their respective councils. Furthermore, these ASPs have been examined by the PSU regarding compliance with eligible expenditure criteria defined in the MOU. When DGs receive an invoice from a supplier/contractor of goods and services, the invoice is checked and a bill is prepared by the concerned office, checked by Executive District Officers (Finance and Planning), authenticated by the District Coordination Officers being the Principle Accounting Officers of the district, and forwarded to District Account Office (DAO). The District

Account Officers will check the bill against a specific provision made in the ASP, pre-audit and issue a check to the supplier/contractor. When the check is cashed by the supplier/contractor, money will be withdrawn from Account IV, and the expenditure is booked against the supplementary grant provided under the head of SDSSP and reflected in the Civil Accounts.

22. All transaction processes, including receipts and expenditures of Account IV, are recorded in Civil Accounts, which are maintained by each DG. The Civil Accounts contain an opening balance, and expenditure and ending balances, sorted by funding sources, and these accounts are updated monthly. DGs send the statements of the civil accounts to Finance Department each month. Similar procedures are also applied to TMAs. Details are in Appendix 4.

23. **Performance Monitoring by PLDs.** PLDs have stressed the need for monitoring, supervision and evaluation of SDSSP funded activities of DGs and TMAs. PLDs have proposed that PLDs would play primary roles in conducting supervision and performance audit. PLDs will make proposals to PSU for supervision and performance audit, which includes (i) definition of PLD roles and responsibilities in performance audit, (ii) identification of their required inputs and assistance to conduct performance audit, (iii) output of the performance audit, (iv) course of action which PLDs may take to district governments and TMAs based on the output, by end June. PSU will evaluate and discuss the proposal with the PLDs, DGs and TMAs. The Mission agreed to finance the performance audit activities from the allocation for studies and surveys.

V. Review of Development of ASPs

24. The Mission met with various representatives from DGs and TMAs in order to gain an understanding of their experiences in developing annual sector plans and utilizing funds. The LG representatives made several presentations about their processes for mapping existing resources and identifying and prioritizing needs in their Districts/TMAs. The TMA representatives requested that the Mission consider increasing the allocation of funds for TMAs since their needs are so great. The TMA representatives also indicated that there is confusion surrounding the issue of technical approval of schemes. Also, it was suggested that there should be clear linkages established between the TMAs, DSUs, and Office of the DG Technical. The Mission was encouraged by the progress in developing sector plans, and utilization of conditional grants.

VI. Status of Related Additional TAs

25. **Environmental Management and Mobilization of Grassroot Stakeholders TAs.** There are two add-on Technical Assistance Grants, one for Environmental Capacity Building and one for Mobilization of Grassroot Stakeholders which are under process in the Government of Sindh. The PC-II documents for both TAs have been prepared and cleared by the PDWP. The PC-II for the Mobilization of Grassroot Stakeholders was sent to the CDWP for clearance but a decision was deferred on the request of the Government of Sindh. The Mission was informed by the PD SDSSP that the Government of Sindh wanted a review of the implementation arrangements, with a

change in the EA from Finance Department to Local Government Department and in the choice of the two districts where the piloting is to take place. The Mission communicated that the TA is to be financed through a Trust Fund and that there are limitations on the time within which these funds must be accessed, therefore it was imperative that while ADB would have reservations on these changes at this late stage and after substantial discussions had resulted in the PC-II, if changes are to be made, with regard to change in the EA and in choice of the Districts, these choices should be made quickly and without changing the other implementation arrangements such as the use of NGOs. In the case of the Environmental Management TA, the PC-II has been cleared by the PDWP and submitted to CDWP for approval. The Mission again requested for early processing especially because this TA will deliver the Solid Waste Management Policy, which is a major policy action for the release of the third tranche under SDSSP.

VII. Conclusions and Recommendations

26. In acknowledging the leadership provided by the Honorable Ministers for Finance and the Social Sector Departments, the oversight by the Program Steering Committee, the active support and guidance of the PLDs and the efforts of the PSU, the Mission notes that several issues continue to surround some critical policy initiatives, notably the role of the PHED/Directorate General Technical and its relation with TMAs. In addition, as outlined in the section on TA Management, clarity needs to be achieved and a mechanism devised quickly for broader participation and leadership by the PLDs and the DGs for TA Loan utilization. A more hands-on role of the PLDs is also critical in improving the quality of the Annual Sector Plans and in guiding the LGs on developing Plans that are in sync with the Provincial targets and strategic framework, without impinging on local choices for investments. In conjunction with the PFC, LGC and the PSU, the PLDs also have the responsibility of monitoring activities and tracking outcomes to ensure effective and efficient utilization of grants by the LGs. The need to mobilize the TA management arrangements and indeed for expediting the full functionality of the PSU itself, thus act as significant milestones.

27. At the same time, the Mission was greatly encouraged by the kind of enthusiasm and support that the Program activities have generated at the LG level, which clearly view the SDSSP framework as providing the kind of fiscal and planning support that will go towards strengthening the LGs and assisting in institutionalizing certain planning and budgeting processes. The LGs in particular appear to be great beneficiaries of the kind of flexibility provided under the SDSSP in identifying local needs and attending to them through specific investment choices. ADB and the Government of Sindh will continue to monitor the roll out of the Annual Sector Planning process with keen interest and would encourage and expect detailed documentation of the processes, political dynamics and the outcomes that emerge from this local planning initiative,

28. The Mission therefore recommends that:

- i. All procedural issues in relation to staffing of PSU and LSUs, revision and approval of the PC-I be completed as per the timelines indicated and agreed with the PSU through this Aide Memoire and the Action Plan appended to it.
- ii. The TA management arrangements be finalized and communicated to the ADB, with details outlined in this Aide Memoire
- iii. Critical policy actions that still require completion, in particular the approval of the Delegation Plan, the establishment of a Monitoring Framework and

resolution of the issue surrounding PHED/TMA relationship, be complied with within the agreed timelines and no later than 15 May 2005. Delays in compliance beyond this period will seriously jeopardize the release of the second tranche

- iv. Adequate documentation and analysis of the processes that the SDSSP has spawned and is trying to institutionalize, through the Annual Sector Planning processes is important to assess the efficacy of this framework
- v. Effective monitoring mechanisms be evolved that provide the PLDs and the SLGO institutions like PFC, LGC with lead roles

VIII. Acknowledgements

29. The Mission would like to thank the Sindh Provincial Government for its continued efforts in implementing the Program. In addition, the Mission appreciates the kind cooperation and hospitality extended by the EA during the Review Mission.

Signed in Karachi on April 28th, 2005

Linda Arthur
Mission Leader

ACTION PLAN
Sindh Devolved Social Services Program

II. A. Conditions for Release of Second Tranche				
	Tranche Condition	Responsible Agency	Deadline	Supporting Documentation
No. A (i)	<i>Sindh shall have established a framework for monitoring the delegation of administrative and financial powers to the DGs and TMAs.</i>	PSU LGC	15 May	Note containing detailed TORs, composition of the multi-stakeholder team, and the details of the design, including the monitoring instruments, approved by the Chairman LGC
A (ii)	<i>Public Health Engineering Department, Sindh shall have completed devolution of administrative and technical sanctioning powers to the TMAs</i>	LGD PSU	15 May	Concept note outlining detailed steps to be taken in order to achieve further devolution of technical approval power to TMAs. This concept note will be approved by the ACS Local Government and will be fully implemented during the next fiscal year.
A (iii)	<i>The Chief Secretary and the DGs shall have approved the Delegation Plan</i> -Revised Delegation Plan -Delegation Plan shared with DGs -Approvals	PSU	15 May	Delegation Plan clearly providing the strategic roadmap for further empowering LGs through administrative and financial decentralization, identifying roles and responsibilities for Provincial and local governments, with a time-bound action plan prepared through stakeholder consultation. This Plan will be approved by the Chief Secretary and DGs
A (iv)	Sindh shall have approved, published, and initiated implementation of the new role and responsibilities of the PLDs.	PLDs	15 May	Copy of the Sindh Education Plan, the Health Policy and the LGD concept paper

	-Revised Concept Papers -Approvals/Publishing			
B (i)	<i>Sindh, the DGs and the TMAs shall have agreed to maintain the level of social sector expenditures as a proportion of total revenues in the fiscal year 2003-2004 and shall have allocated Thirty-three Million Dollars (\$33,000,000) as an additionality.</i>	PFC	15 May	Budget document showing the Pak rupee equivalent of \$33m as line item
B (ii)	<i>The PFC shall have established a mechanism for the needs and performance-based distribution of the PFC grant (hereinafter called the PFC Grant) to the DGs and the TMAs.</i> Work on structure of DSSP performance-based grant	PFC DSP PSU	May 15	Concept clearance of the conditional grant system by the PFC and amended DSSP Conditional Grant system, with introduction of performance based systems
B (iii)	<i>Within one (1) month of the start of the fiscal year 2005, Sindh shall have transferred twenty-five (25%) of total non-salary allocations for the DGs and the TMAs</i>	PFC		PFC statement showing the monthly releases of non-salary allocations for DGs and TMAs
C (i)	<i>Sindh shall have approved the GRAP</i>			Done
C (ii)	<i>Sindh shall have implemented the provincial action plan to promote transparent and participatory planning in the DGs and the TMAs</i> -Action Plan developed.	PSU	May 15	Revised Action Plan approved by Chief Economist, P&D, and PSU Report on ASPs.
C (iii)	<i>Majority of the DGs and the TMAs shall have executed the MOUs</i>	PSU	May 15	PSU to provide list of DGs and TMAs that have signed the MOU.
D (i)	<i>The DGs and the TMAs shall have utilized the conditional grants in accordance with the agreed eligibility criteria of scope, process and performance.</i>	PSU	May 15	PSU to provide list of those DGs and TMAs that have utilized the conditional grants. PSU to provide analysis of ASPs.
D (ii)	<i>The DGs shall have developed strategies to rationalize services, staff and funds and shall have incorporated such strategies</i>	PSU	May 15	PSUs to provide analysis of ASPs.

	<i>in their annual sector plans.</i>	PSU		
D (iii)	<i>The DGs and the TMAs shall have assessed technical and financial feasibility before committing to new civil works or reopening schools, schemes or services.</i>	PSU	May 15	PSUs to provide analysis of ASPs.
D (iv)	<i>The DGs shall have recruited staff on need basis using a transparent selection procedure.</i>	PSU	May 15	Provincial Policy on Recruitment. Notification on Selection Committee for Teachers PSU to provide analysis of ASPs.
D (v)	<i>Sindh shall have, in consultation with the TMAs, prepared an interim solid waste management policy.</i>	PSU	May 15	PSU to submit a framework for policy options on Solid Waste Management
E (i)	<i>Sindh shall have, in consultation with the DGs and the TMAs, approved expansion of support to non-formal home schools for girls, health boards and VDAs.</i>	FD Health Dept PSU	15 May	Report from Finance Department for non-formal home schools for girls and VDAs and summary on health boards
E (ii)	<i>Majority of DGs shall have provided financial support to the SMCs for shelterless schools.</i>	FD Education Dept. PSU		Report from Finance Department on DG support to SMCs for shelterless schools
E (iii)	<i>The DGs shall have allocated at least fifteen percent (15%) of conditional grants to the CBOs.</i>	FD PSU	15 May	PSU analysis on ASPs. FD report on allocations and releases to CBOs. conditional grant allocations to CBOs

FUND FLOW, FINANCIAL MONITORING MECHANISMS AND TREASURY OPERATIONS

Accounts of the Provincial Government, District Governments and TMAs

1. **Account I** is a generic term to describe funds allocated to each provincial governments maintained in the State Bank of Pakistan. It consists of (i) current revenue receipts, (ii) current revenue expenditure, (iii) current capital revenue receipts (iv) current capital expenditure incurred on repayment of debt, loans and advances by the Provincial Government and (v) public accounts. The fund is lapsable.

2. The regular annual budgets of the district governments are transferred from Account I (provincial divisible pool) to Account IV based on the Provincial Finance Commission (PFC) award. The regular share for the TMAs is transferred from Account I to Taluka/Town Local Fund from the GST (OZT) received from federal government on monthly basis, based on their historic share. The regular transfer of the budget is stated in the annual budget under the heading 6-89000: Other Expenditure in Current Revenue Expenditure.

3. **Account IV** is a generic term to describe funds allocated to each district governments maintained in the State Bank of Pakistan. It consists of (i) current revenue receipts, (ii) current revenue expenditure, (iii) current capital revenue receipts and (iv) current capital expenditure. Provincial government does not have access to the Account IV. Legally, the fund is non-lapsable in the end of the financial year, therefore, the provincial governments cannot claw back the remained fund in Account IV. However, the district governments close their accounts in the end of financial year, and carry over the balance fund to the new financial year through regular budgetary procedures.

4. **Taluka/Town Local Fund** is a generic term to describe bank accounts maintained by the TMAs in any scheduled bank. (in Sindh, all TMAs have accounts in National Bank of Pakistan) Legally, neither provincial nor district governments have access to Taluka/Town Local Fund. Due to its nature, the Taluka/Town Local Fund account is non-lapsable as defined in Section J of Instructions for Establishment of Taluka/Town Local Fund. Rules and regulation of Taluka/Town Local Fund set by No. FD.SO(RES-VI)PLAs(TMAs)/81/2004-5: *Instructions for Establishment of Taluka/Town Local Fund*.

Transfer of Local Currency generated by the Program Loan.

5. The local currency generated by the program loan is transferred to Account I of the provincial government from State Bank of Pakistan. The transferred fund is recorded in the annual budget under the heading 1312200: Other Grants from Federal Government (Non-Development) in Current Revenue Receipts.

Use of Local Currency generated by the OCR Program Loan.

6. The OCR loan sourced local currency is used for early retirement of Cash Development Loan financed by the Federal Government, which incurs interest rates at around 15% to 18% per annum. In FY 2004/5, the Provincial Government of Sindh

prepaid approximately Rs3.8 billion which saved debt servicing expenditure of 2004/5 estimated at approximately Rs600 million. The prepaid amount is stated in the annual budget under the heading 71000, Debt Repayment in Current Capital Expenditure.

Use of Local Currency generated by the ADF Program Loan.

7. The ADF loan sourced local currency is used for grants to district governments and TMAs over and above the regular transfer of annual budget from the provincial government to district governments and TMAs, based on PFC award formula. The transfer of the local currency is stated in the annual budget under heading 6-74200-64200-10: Sindh Devolved Social Service Program in Current Revenue Expenditure.

Procedures for Releasing SDSSP Grants by Provincial Governments

8. District governments and TMAs become eligible for the SDSSP grants (conditional grants), once they signed a Memorandum of Understanding (MOU) with the provincial government, as described in Appendix 9 of Report and Recommendation of the President (RRP). Under the Paragraph 6 of the MOU, the district governments are to produce Annual Sector Plan (ASP) and have the ASP approved by its district council. ASP generally contains (i) situation analysis of the sector, (ii) revenue and expenditure of the sector for the past years, (iii) issues and problems in the sector, (iv) needs analysis and prioritization of the needs, and (v) project proposals and cost estimates, The cost of each proposed project in ASP is limited to less than \$100,000 under the MOU. The approved ASP is sent to PSU. The concerned sector officers in PSU check the compliance of ASP with eligible expenditure criteria defined in MOU. Once compliance is confirmed, PFC authorizes the release of conditional grants on the recommendation of PSU.

Procedure for Recording the Expenditure by District Governments

9. When district government receives an invoice from a supplier/contractor of goods and services, the invoice is checked and a bill is prepared by the concerned office, checked by Executive District Officers (Finance and Planning), authenticated by the District Coordination Officers being the Principle Accounting Officers of the district, and forward it to District Account Office (DAO). The District Account Officers will check the bill against a specific provision made in the ASP, pre-audit and issue a check to the supplier/contractor. When the check is cashed by the supplier/contractor, money will be withdrawn from Account IV and the expenditure is booked against the supplementary grant provided under the head of SDSSP and reflected in the Civil Accounts.

10. All transaction processes, including receipts and expenditures of Account IV, are recorded in Civil Accounts, which is maintained by each district government. The Civil Accounts contains opening balance, expenditure and ending balance, sorted by funding sources, and is updated monthly. District governments send the statements of the civil accounts to Finance Department each month. The process for the utilization of SDSSP grants is set by No. FE(TR)2(17)2002(Pt-1)(TMA): *Procedure for Accounting and Transfer of SDSSP Funds to DGs for Budget Year 2004/5*. In case of a conspicuous or unclear amount of expenditure from conditional grant is questioned, district governments can track back to the original invoices using the Civil Accounts and can identify activities and suppliers, which the conditional grant has been spent on.

Procedure for Recording the Expenditure by TMAs

11. When TMA receives an invoice from a supplier of goods and services, the invoice checked and bill prepared by the town officers (Finance), pre-audited and checked against ASP by internal auditors. Upon the clearance by the internal auditors, Town Officer (finance) issues a check payable to the supplier/contractor, which is jointly signed by Nazim and Taluka/Town Municipal Officers (TMOs). When the check is cashed by the supplier/contractor, money will be withdrawn from Taluka/Town Local Fund. TMAs send monthly statements of expenditure directly to the Local Finance Wing of the Finance Department.

Conditional Grants Allocation and Release in FY2004/5

12. Out of 16 district governments and 102 TMAs, EA has released the conditional grants to 8 district governments and 36 TMAs. The total allocation for FY2004/5 is Rs1.89 billion, and Rs762 million (40%) has been released.

Reporting Formats for Conditional Grants Release and Utilization

13. To demonstrate the PSU's capacity on financial monitoring, PSU will make following tables in the end of FY2004/5. Also, PSU will make the same tables every month in FY 2005/6 and will be reported to ADB as a part of quarterly progress reports.

Conditional Grants Release and Utilization in FY 2004/5 (Rs million)				
	Education	Health	WSS	Total
Released				
Utilized				
Utilization rates				

WSS = water, sewerage and sanitation

Eligible Activities in Education in FY 2004/5 (Rs million)		
Eligible Activities in MOU	Planed in ASP	Utilized
Rehabilitation of schools		
New facilities		
Materials, furniture and equipment		
Stipend		
Contracts for teachers		
Support for SMCs upto class 12		
Others		
Total		

Eligible Activities in Health in FY 2004/5 (Rs million)		
	Planed in ASP	Utilized
Provision of Basic Health Packages		
Contracts for female staff		
Support or health boards		
Support or patient association		
Support or financial reform		

Support or public private
partnerships
Others
Total

Eligible Activities in WSS in FY 2004/5 (Rs million)

	Planned in ASP	Utilized
Rehabilitation of water supply		
Rehabilitation of Sewerage		
Rehabilitation of Sanitation		
TMA capacity building		
TMA consumer survey		
TMA master plan		
Others		
Total		
