



SINDH BUDGET FY16

REVIEW – WHERE DOES KARACHI STAND?

INFONALYSIS

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Research & Development Cell

Karachi Chamber of Commerce & Industry

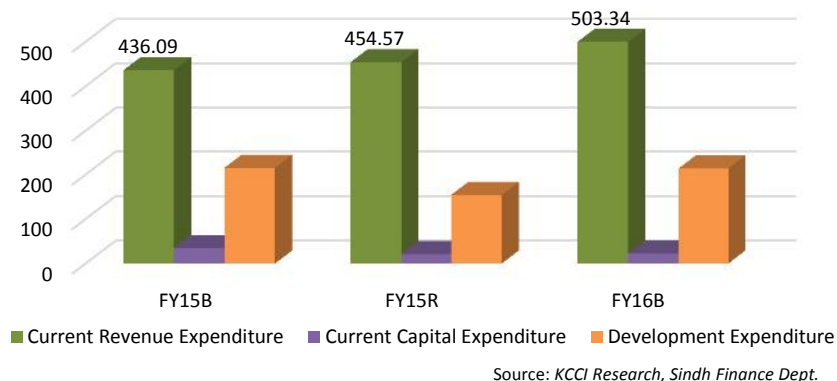
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Optimistic targets in a challenging scenario

Yet again Sindh government has revealed a traditional budget for fiscal year 2015-16 with a total outlay of PKR 739.3Bn against last year's budget estimate of PKR 686Bn, showing an overall 7.7% increase in expenditure. The budget includes a total PKR 214Bn development outlay for FY16, which is even less than the revised estimates of PKR 215.3Bn for the current FY15.

Out of PKR 214Bn, some PKR 162Bn will be funded by the Provincial Resources, PKR 9.6Bn will come from govt. grants, PKR 27Bn is estimated to come as Foreign Project Assistance while PKR 15Bn is estimated to be raised through Viability Gap Funding (VGF). The provincial govt. has decided to continue with its policy of allocation of 80% of development funds to the ongoing schemes and only 20% for important new schemes and special initiatives.

Sindh Budget Expenditure Snapshot (PKR Bn)

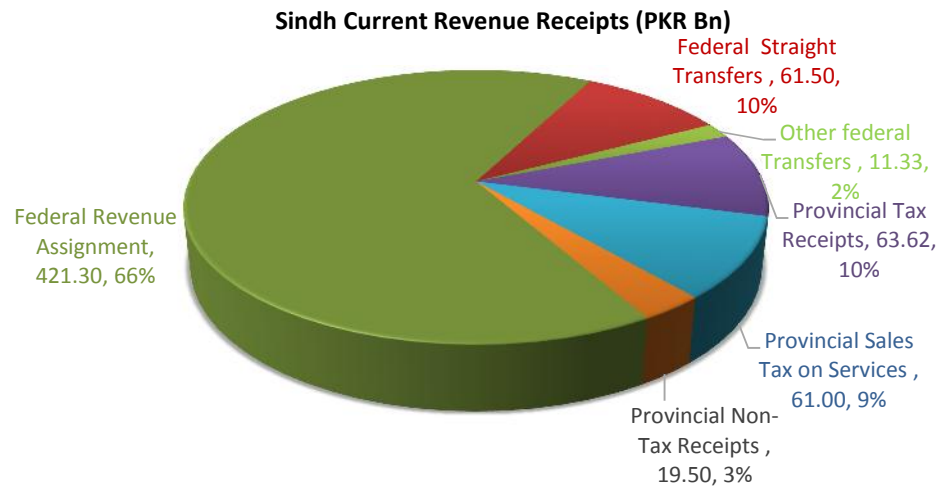


Sindh will spend PKR 16.5Bn over the next year on energy-related schemes, most of it going to build infrastructure in Tharparkar district where coal mines and power plants are being established.

The provincial government has earmarked a 10% increase in salaries and 25% hike in medical allowance with effect from July this year. The ad-hoc increase of 2011-12 will be merged in the pay scales. The rate of orderly and special additional pension has also been increased to PKR 12,000 per month. The minimum wage has also been increased from PKR 12,000 to PKR 13,000 per month.

On the revenue side, the onus is again on the federal govt. which is expected to provide PKR 494Bn or 78% of the current revenue receipts, while provincial tax receipts are expected to rake in PKR 124.6Bn or 19%.

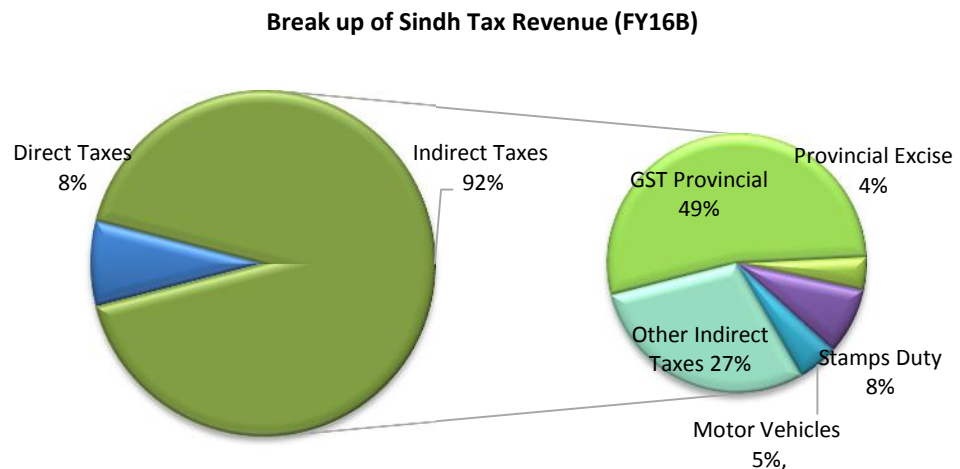
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Source: KCCI Research; Sindh Finance Dept.

SRB has been the star performer in terms of revenue collection as it managed to collect PKR 109Bn against budgeted revenue target of PKR 107Bn in FY15.

Nonetheless, in the upcoming budget, the focus of the provincial govt. is once again on indirect taxes that are borne eventually by the end consumers. The tax revenue collection from direct sources is estimated at only 8% while 92% of taxes are to be generated through indirect means.



Source: KCCI Research; Sindh Finance Dept.

New taxes added to jack up tax collection

The government has set an optimistic tax collection target at PKR 144.12Bn for FY16. For this purpose, the scope of Sales Tax has been expanded to 17 more services, which had been hitherto out of the Sindh Sales Tax (SST) net, to be taxed at a rate ranging from 6% - 14%. These 17 services include travel agencies, dredging and de-silting, and copyright or intellectual property right services to be charged at 10%. Likewise, services of credit rating agencies, underwriters, indenters, auctioneers, packers & movers and valuers to be taxed at the rate of 14% while renting of commercial properties is to be charged at 6%. This broadening of tax net is aimed at raising an additional PKR 61Bn sales tax collection.

Sindh Revenue Board would be substituting existing positive list of taxable services with a negative list implying that all services shall be liable to tax except the ones specified in the negative list schedule.

Although, it is very encouraging that the maximum rate of sales tax on services has been reduced to 14% from 15%, the minimum rate of sales tax has been increased to 6% from 5%.

While the expansion of the SST to incorporate more services is aimed at broadening the tax base, the govt. should realize that there are many services which are already struggling to remain profitable or operate at very low profit margins. For instance, indenting services are a source of earning much needed forex for the country, and are already under duress owing to increase usage of IT and internet technologies in business for establishing direct contacts with foreign principals. Further, indenters operate at very low commission rates and are already subject to withholding tax. Additional SST tax of 14% would prove to be a major burden for the service and may well result in closure of business which will be detrimental to the economy.

Declining literacy despite high allocation to education

The Sindh govt. allocates the highest proportion of the budget to the education sector in relation to other provinces. For FY16, PKR 144.67Bn have been allocated to the sector (19.5% of the total outlay) as against PKR 134.37Bn in FY15, a growth of 7.6%. However, the irony of the matter is that despite the highest allocation to the sector, the literacy rate in Sindh has declined by 4% to 56% in FY14 as per the last available figures.

The health sector has been allocated an amount of PKR 54Bn in FY16 as against PKR 43Bn, an increase of 24%.

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The Sindh government has also allocated 8.79% of the budget i.e. PKR 65Bn for improving law and order situation of the province. Under this allocation, PKR 61Bn have been kept for the police department, PKR 1.52Bn have been reserved for police constables while PKR 2.4Bn have been set aside for the Rangers. To improve the efficiency of the law and order situation in the province, it has been planned that around 10,000 new vacancies would be generated in Sindh Police.

Allocation for Karachi remains insufficient

Lamentably, budget allocation for Karachi has always remained insufficient to its needs, and FY16 is no different. Karachi is a mega port city, ranking amongst the top three cities in the world in terms of population with an estimated FY14 population of more than 23.5Mn, accounting for around 13% of the country and more than 47% of Sindh. Rate of urbanization has been highest in Karachi where hordes of people from all four provinces have migrated to settle and for earning, leading lives in cramped shelters and under unhygienic conditions.

Umpteen colonies have sprung in the city comprising of people coming from different areas of the country including interior Sindh, Punjab (mainly southern part), KPK and Baluchistan and foreign illegal migrants from Afghanistan, Burma and Bangladesh. Scores of families affected by the devastating floods of 2011 in Sindh are also said to have settled in Karachi for their living.

This heavy and unplanned influx of migrants has caused multifaceted problems for the city. Many areas of the city have turned into ruins where infrastructure and roads are badly worn out, sewerage system is clogged with sewage water running on the roads and heaps of filth lying unattended at roadsides. Solid waste management has become one of the serious urban nightmares in the city. These are accompanied by numerous other problems like water shortage, power outages, lack of public transport facilities, lack of fumigations and outbreak of criminal mafias including robbers, land grabbers, water tanker mafias and beggars have altogether made life and doing business increasingly difficult in this city.

Therefore, lots of funds are needed to manage the city to cope with the additional burden on the resources of Karachi. However, it has been extremely unfortunate that budget allocations for Karachi have been kept direly low while totally ignoring the ground realities and changed dynamics of the city. Karachi is only allocated a meagre PKR 49.7Bn for FY16 which is

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just 6.7% of total outlay and a mere 23% of total development expenditure of the Sindh Budget FY16. It is interesting to note that Karachi was allocated PKR 42Bn for FY15 but the revised disbursement estimates are only PKR 33Bn which are even lower than the amount allocated to other much smaller cities of Sindh.

No one would deny the facts that Karachi has the largest contribution to the revenue collection (more than 65%), provides highest employment to the people from across Pakistan, has the highest rate of urbanization and that the census of 1998 wildly understates the population of Karachi.

According to the last census that dates back to 1998, the population of Pakistan was 132Mn where Punjab had a population of 73.6Mn and that of Sindh was 30.44Mn. The population of Karachi Division at that time was at 9.9Mn which accounted for 32% of Sindh and 7.5% of Pakistan's population. Even as per these obsolete population figures, the allocation to Karachi in Sindh Budget FY16 is so low that the per capita allocation to Karachi comes out to a mere PKR 5,024 which if taken as per recent population estimates would be only PKR 2,116.

The table below depicts that the budget allocation to Karachi remains very low in comparison with other divisions of Sindh.

COMPARISON OF BUDGET ALLOCATIONS OF MAJOR DIVISIONS OF SINDH					
Divisions of Sindh	Population Census 1998 (Mn)	Revised Allocation FY15 (PKR Bn)	Per Capita Allocation FY15	Budget Allocation FY16 (PKR Bn)	Per Capita Allocation FY16
Karachi	9.9	33.4	3,374	49.7	5,024
Hyderabad	6.0	37.6	6,260	39.7	6,617
Sukkur	3.4	19.4	5,718	27.3	8,043
Larkana	4.3	25.5	5,930	33.6	7,811
Mirpurkhas	3.6	36.4	10,055	34.6	9,554
Benazirabad	3.6	17.3	4,806	18.0	5,004

Source: KCCI Research; Sindh Budget Speech; PBS

According to the formula for the allocation of shares to the provincial governments by the Federation, the highest weight is given to population

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(82%) followed by poverty or backwardness (10.3%), revenue generation (5%) and inverse population density (2.7%). Based on this criteria, Punjab gets the lion's share of 51.74% followed by Sindh which gets 24.55% share. KPK and Baluchistan get shares of 14.62% and 9.09% respectively.

The above criteria also needs to be applied by Sindh to cities within the province to rationalize budgetary allocations so that Karachi get its due share. On the afore-mentioned criteria, Karachi would comfortably and justifiably qualify for a share of more than 50% (i.e. more than PKR 107Bn for FY16) of the Sindh development allocations due to it being the city with the highest population, highest revenue generation, and extreme poverty with more than 560 Katchi Abadis.

Development in Karachi – Big on announcements, short on completion

The Sindh govt., in budget FY16, has once again announced mega projects for the development and uplift of Karachi. But the question that arises is, will those projects see actual completion? In the past budgets too, many schemes were announced for Karachi, but either those projects have not been initialized in the first place, or the work on them is too slow to warrant timely completion.

For example, as in budget FY16, the Green Line Bus Rapid Transport (BRT) project was announced in budget FY15 too, and PKR 3Bn were allocated from the Sindh ADP, but no development has taken place on it. Now that the Federal govt. has taken responsibility for it and has disbursed PKR 2Bn for the project, it remains to be see when it will be completed. The Yellow Line project was also announced in budget speech FY15, and again in FY16, but there has been no progress on it, so far.

The tables below give a snapshot of the projects that have been announced in FY16 along with their completion status.

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ROAD AND RAIL INFRASTRUCTURE PROJECTS							
Project	Route/ Location	Cost (PKR Bn)	Mode of Project	Allocation FY16 (PKR Bn)	Commuters / day	Work to Start in	To be completed by
The Yellow Line Project	Korangi Industrial Area to Saddar (Regal)	13	Private Public Partnership	N/A	150,000	Oct'16	May'18
The Orange Line Project	Connects District West to BRT Green Line at Board Office Chowrangi (Nazimabad)	2.36	Provincial Annual Development Plan (ADP)	N/A	50,000	Aug'16	N/A
The Green Line Project	Municipal Park Saddar to KESC Powerhouse (North Karachi)	16	Federal Govt.	2.5	400,000	Jul'15	Jul'16
The Red Line Project	To operate in Gulshan e Iqbal	15	PKR 12.75Bn Chinese Loan; PKR 2.25 Bn Provincial ADP	2	350,000	Jul'16	Jul'17
The Blue Line Project (Convertible to Metro Rail Transit)	Starts at Bahria Town and has two terminating points; one ends at the Airport and the other at MW Tower	N/A	Private Public Partnership; PKR 10Bn to be arranged through Viability Gap Funding (VGF)	N/A	357,000	Dec'15	May'17
The Brown Line Metro Rail Transit Project	Nagan Chowrangi to Landhi	N/A	Chinese Funding	N/A	N/A	N/A	N/A
Karachi Circular Rail	43.3 Km route across Karachi	270	Chinese Funding if Japan Funding does not go through	N/A	N/A	N/A	N/A
Construction of Fly over	Malir Halt	0.39		0.01	N/A	N/A	N/A
Construction of Madar-e-Jamhoriyat Nusrat Bhutto Under pass	Mehran Hotel	0.46		N/A	N/A	N/A	N/A
Construction of Shaheed Benazir Bhutto Flyover	Shaheen Complex	0.54		N/A	N/A	N/A	N/A
Construction of 3 Lane Flyover	Malir 15 at Shahrah -e-Faisal	0.47		0.53	N/A	N/A	Jun'16
Widening / Improvement of Main Hawks Bay Road		N/A		N/A	N/A	N/A	N/A
Karachi Thatta Dual Carriageway		9.9		N/A	N/A	N/A	Jun'17

Source: KCCI Research, Sindh Finance Dept.

The Karachi Sewerage S-III (approved in 2007) and Water Supply Scheme K-IV ((approved in 2011) projects are too other mega project which have again been mentioned in the budget speech. Allocations of PKR 1Bn and 0.9Bn were made for the two project in FY15 which were never utilized in FY15.

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Allocations of PKR 1Bn and 2.5Bn have again been made for FY16 and it is yet to be seen when the projects will materialize.

WATER AND SEWERAGE PROJECTS					
Project	Purpose	Cost (PKR Bn)	Mode of Project	Allocation FY16 (PKR Bn)	To be completed by
Karachi Sewerage Project S-III	Enhance the capacity of sewerage treatment by 500 MGD (total sewerage generated in Karachi is 465 MGD)	7.98	PKR 3.99 Bn Federal Govt; PKR 3.99 Bn Sindh Govt;	1	
Greater Karachi Bulk Water Supply Scheme K-IV	Provision of additional 650 MGD water in 3 phases.	25.52	PKR 12.76 Bn Federal Govt; PKR 12.76 Bn Sindh Govt.	PKR 2.5Bn each by the Federal and Sindh Govts.	1st Phase in CY18
Additional Water Supply from Haleji to Pipri	65 MGD	6.2	N/A	N/A	N/A
Integrated Solid Waste Management Project	6 Garbage Transfer Stations to be constructed	N/A	N/A	1.79	Oct'15
Up-gradation of Dhabeji Pumping Station		N/A	N/A	N/A	N/A

Source: KCCI Research, Sindh Finance Dept.

Likewise, in the health sector too, projects such as the construction of a 400 Bedded Hospital at NIPA Chowrangi, establishment of Children Hospital at SIUT and an Emergency Complex at Civil Hospital Karachi have now long been pending and commencement of development has been announced again as in multiple earlier budgets.

HEALTH AND EDUCATION PROJECTS		
Project	Cost (PKR Bn)	To be completed by
Conversion of Selected Existing Schools to Model Schools of CDGK	1.52	
Establishment of Shaheed Zulfikar Ali Bhutto University of Law	1.2	Aug'15
Shaheed Benazir Bhutto Accident Emergency & Ancillary Services Complex at Civil Hospital	6.3	Jul'15
Construction of 400 Bedded Hospital at NIPA Chowrangi	1.73	
Establishment of Children Hospital at SIUT	0.58	
Extension of the Services of SIUT	1.5	
Up gradation of Jinnah Sindh Medical University	1	
Establishment of Shaheed Benazir Bhutto Medical Complex at National High way, near Razzaqabad	1.42	
Establishment of Medical College in Karachi	1	

Source: KCCI Research, Sindh Finance Dept.

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The Sindh govt. had also announced a PKR 132Bn Special Development Package for urban development in Sindh, including Karachi in FY15. Had this fund been granted and utilized properly, the infrastructural position of Karachi would not have been the way it is.

Therefore, the Sindh Budget FY16 has once again raised hopes but in the back drop of past experiences, many projects would not be initiated or completed. It is likely that once again the development expenditure would remain significantly low than what is targeted in the budget. The blame would go to non-materialization of stipulated foreign funding or non-transfer of funds from the federal government.

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SINDH BUDGET SNAPSHOT								
		Sindh					Variance	Growth
		FY14 B	FY14 R	FY15 B	FY15 R	FY16 B	FY15B-R	FY16B-FY15R
RECEIPTS								
Provincial Consolidated Fund	PKR Bn	595.60	533.71	672.11	616.69	726.57	(55.42)	17.8%
<i>Share of Prov. Consol Fund</i>	%	29.3%	27.3%	28.6%				
Federal Transfers & Straight Transfers	PKR Bn	400.06	380.34	464.01	413.50	482.80	(50.51)	16.8%
Provincial Tax Receipts	PKR Bn	91.37	89.22	107.03	109.94	124.62	2.91	13.4%
Provincial Non-Tax Revenue	PKR Bn	28.81	10.86	18.04	18.03	19.50	(0.00)	8.2%
Other Grants from the Federal Govt.	PKR Bn	8.95	8.31	10.25	9.50	11.33	(0.75)	19.3%
Total General Revenue Receipts	PKR Bn	529.19	488.73	599.32	550.97	638.25	(48.35)	15.8%
Development Receipts	PKR Bn	15.41	10.80	22.47	17.24	9.66	(5.23)	-44.0%
Capital Receipts	PKR Bn	48.00	35.35	43.32	30.58	58.96	(12.74)	92.8%
Carryover Cash Balance	PKR Bn	(5.00)	(6.17)	5.00	8.78	7.00	3.78	-20.3%
Public Accounts of the Province	PKR Bn	8.00	5.00	2.00	9.12	12.70	7.12	39.2%
State Trading Schemes A/C II	PKR Bn	83.96	77.07	48.54	20.54	47.89	(28.00)	133.2%
Provincial Consolidated Fund (Incl. State trading)		679.56	610.78	720.65	637.23	774.46		
EXPENDITURE								
Revenue Expenditure	PKR Bn	355.97	368.40	436.09	454.57	503.34	18.48	10.7%
Capital Expenditure	PKR Bn	31.30	29.74	34.73	21.57	22.31	(13.16)	3.4%
Development Expenditure	PKR Bn	229.94	152.01	215.36	154.59	213.65	(60.77)	38.2%
Total Expenditure		617.21	550.15	686.18	630.73	739.30		
State Trading Expenditure	PKR Bn	86.35	87.58	48.42	45.90	53.74	(2.52)	17.1%
Total Expenditure including State Trading	PKR Bn	703.56	637.73	734.60	676.63	793.04	(57.97)	17.2%
Difference of Receipts & Expend.	PKR Bn	(21.61)	(16.44)	(14.07)	(14.04)	(12.73)		
Difference of Receipts & Expend. With State Trading	PKR Bn	(24.00)	(26.95)	(13.95)	(39.40)	(18.58)		
Rev Exp on Health		36.4	36.21	43.58	43.8	54.09	0.22	23.5%
Rev. Exp on Education		120.5	107.72	134.38	126.79	144.68	(7.59)	14.1%
Rev. Exp on Law and Order		54.43	63.89	66.6	72.65	79.66	6.05	9.6%
Share of Federal Transfers	%	67.2%	71.3%	69.0%	67.1%	66.4%		
Share of Prov Tax receipts	%	15.3%	16.7%	15.9%	17.8%	17.2%		
Share of Prov Non-Tax receipts	%	4.8%	2.0%	2.7%	2.9%	2.7%		
Share of Revenue Expenditure	%	57.7%	67.0%	63.6%	72.1%	68.1%		
Share of Capital Expenditure	%	5.1%	5.4%	5.1%	3.4%	3.0%		
Share of Development Expenditure	%	37.3%	27.6%	31.4%	24.5%	28.9%		
Share of Education on total Expenditure	%	19.5%	19.6%	19.6%	20.1%	19.6%		
Share of Law & Order on total Expenditure	%	8.8%	11.6%	9.7%	11.5%	10.8%		
Share of Health on total Expenditure	%	5.9%	6.6%	6.4%	6.9%	7.3%		

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The gateway to economic prosperity...

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