

# PROPOSALS FOR SINDH BUDGET 2026-27



**PRAC**  
POLICY RESEARCH  
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# Acknowledgement and Disclaimer

This document, **Proposals for the Sindh Budget 2026–27**, has been prepared by the Policy Research and Advisory Council (PRAC). It aims to present research-based policy recommendations for strengthening Sindh’s fiscal framework, improving provincial own-source revenue mobilization, supporting productive sectors, enhancing urban infrastructure and service delivery, and promoting equitable and sustainable development across the province.

All data and statistics cited in this document are drawn from the latest available official sources and may be subject to revision. The analysis, interpretations, and recommendations presented herein are solely those of the authors and do not necessarily reflect the views of the institutions, organizations, or data sources referenced.

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## Preface

The Sindh Budget 2026–27 is being prepared at a moment of heightened fiscal pressure and unfinished structural reform. Expenditure growth continues to outpace revenue mobilization, and the province faces a fundamental challenge: how to expand public services and address longstanding development deficits while building a more autonomous, resilient, and accountable fiscal structure.

The structural vulnerabilities underlying Sindh’s finances remain unresolved. Federal transfers continue to account for nearly three-quarters of General Revenue Receipts, leaving provincial finances vulnerable to changes in federal fiscal policy and NFC dynamics. Own-source revenues have not kept pace with rising expenditure needs, constrained by weak agricultural income tax enforcement, limited property tax collection, and a narrow services tax base. Meanwhile, poverty has risen sharply across Sindh, underscoring the urgency of translating higher budget allocations into measurable improvements in livelihoods and service delivery.

Karachi, despite generating a disproportionate share of Sindh’s revenues and Pakistan’s economic output, continues to suffer from chronic underinvestment in water supply, public transport, drainage, and core urban infrastructure. The persistence of the city’s infrastructure deficit, worsened by years of delayed execution of committed programmes, reflects both a governance failure and a growing economic risk that the province can no longer afford to defer.

These proposals focus on strengthening Sindh’s own-source revenue base, improving the equity and effectiveness of development spending, addressing critical urban infrastructure gaps, and reinforcing the institutional foundations of local governance and service delivery. The underlying premise is straightforward: a more fiscally autonomous, better-governed, and development-oriented Sindh is not only a provincial imperative — it is essential to Pakistan’s broader economic stability and growth.

It is hoped that these recommendations will contribute to evidence-based policymaking and support the formulation of a Sindh Budget 2026–27 that moves decisively from announcement to execution, from dependency to autonomy, and from incremental spending to structural reform.

## PROPOSALS FOR SINDH BUDGET 2026–27

### I. Enhancing Provincial Revenue Mobilization for Fiscal Sustainability

Sindh's fiscal structure remains heavily dependent on federal transfers and grants, projected to constitute 74.2% of General Revenue Receipts in FY2026, while provincial tax and non-tax revenues account for only 25.8%. Within Sindh's own revenue base, agriculture tax contributes only 0.3% of General Revenue Receipts in the FY2025–26 Budget Estimates, while property tax contributes merely 0.05%, reflecting substantial underutilization of two major provincial revenue sources. This dependence raises concerns over fiscal autonomy and underscores the need to strengthen own-source revenue mobilization for long-term fiscal sustainability. Despite revising agriculture income tax rates, the Government of Sindh has deferred implementation of the proposed rate of up to 45% for one year and restored the previous lower rate of 15%, further delaying meaningful agricultural income taxation reform.

#### Recommendation:

The Government of Sindh should impose revised agriculture income tax rates, including income from livestock, to broaden the provincial tax base and improve own-source revenue. Strengthening local property tax collection would also support the modernization of property records by requiring updated ownership data and accurate property valuation. This should be complemented by stronger tax administration and enhanced non-tax revenue generation to reduce dependence on federal transfers and strengthen long-term fiscal sustainability.

### 2. Strengthening Local Governance in Sindh through an Effective PFC Framework

Sindh has announced only four Provincial Finance Commission (PFC) Awards to date, with the last Award issued for the period 2007–09. Despite the formation of a new PFC in 2023, no updated Award has yet been finalized. This prolonged delay has created uncertainty in local government financing and weakened the process of fiscal decentralization. The issue is further reflected in the declining share of local governments in Sindh's General Revenue Receipts, which has fallen from 16% in FY2012 to 5.8% in FY2026 (Budget Estimate), despite only a marginal increase in nominal allocations from Rs. 162.5 billion in FY2025 to Rs. 165 billion in FY2026. The absence of a transparent, rules-based, and updated fiscal transfer framework risks inequitable resource distribution, weaker municipal service delivery, and widening regional disparities across Sindh.

#### Recommendation:

The Government of Sindh should institutionalize regular and timely Provincial Finance Commission Awards by mandating their notification within a defined timeframe after each National Finance Commission Award. This should be supported by strong legal and institutional safeguards to ensure transparent, equitable, and predictable fiscal transfers to local governments, enabling them to plan and deliver essential services more effectively. The distribution formula should also be revised to reflect the current realities of Sindh, including the expenditure needs of major urban and rural local governments.

### 3. Addressing Regional Disparities through an Equitable ADP Framework in Sindh

While Sindh's total developmental outlay reached Rs. 1,018 billion for FY25-26, the distribution of development resources continues to reflect significant spatial imbalance. This is particularly evident in Karachi, which accounts for around 37% of Sindh's population but has not received a proportionate share of provincial development spending. Given its roughly 37% population share, Karachi's proportionate entitlement from this year's developmental spending should be nearly Rs. 400 billion. Between FY2010–11 and FY2024–25, Sindh spent approximately Rs. 3,871 billion on development, of which Karachi's population-based entitlement would have been around Rs. 1,416.6 billion; however, the city received only Rs. 472 billion, resulting in an estimated cumulative shortfall of Rs. 944.6 billion. This persistent under-allocation constrains district-level development planning, delays critical investments in urban infrastructure and service delivery, and exacerbates regional development disparities across Sindh.

#### Recommendation:

The Government of Sindh should adopt a more equitable and needs-based development financing framework by aligning provincial ADP allocations with population share, infrastructure gaps, and urban service delivery pressures across districts. Given Sindh's total developmental outlay of Rs. 1.018 trillion for FY25-26, Karachi's 37% population share entitled it to nearly Rs. 400 billion in development spending for the current year alone. The budget 2026-27 should therefore allocate at least Rs. 400 billion for Karachi in FY26-27 that should be supported by a transparent district-wise disclosure of ADP allocations and expenditures to ensure accountability, reduce regional disparities, and improve the effectiveness of development spending across Sindh.

### 4. Strengthening Investment in Karachi's Critical Urban Infrastructure

Karachi, Pakistan's largest city and principal economic hub, requires substantially higher development investment to address chronic water shortages, inadequate mass transit, deficient sewage infrastructure, and deteriorating urban services. Although allocations for Karachi's mega projects have increased from Rs. 5.6 billion in FY2025 to Rs. 8.3 billion in FY2026 (Budget Estimates), the increase remains insufficient given decades of infrastructure neglect. This financing gap is particularly evident in major underfunded projects such as K-IV, where only Rs. 3.2 billion has been allocated by the federal government for FY2025–26, while the Sindh provincial budget provides Rs. 10.4 billion, including provisions for land acquisition and water-related requirements, against an estimated Rs. 40 billion requirements for the project's completion. Continued underinvestment in Karachi's critical urban infrastructure risks further economic losses, declining livability, and worsening service delivery for the city's growing population.

#### Recommendation:

The Government of Sindh should substantially enhance and dedicate development allocations for Karachi in the Sindh Budget 2026–27 by prioritizing strategic investments in mass transit, water supply, sewage treatment, drainage, and core urban service infrastructure. These allocations should be aligned with Karachi's economic contribution, population size, infrastructure deficit, and its central role in sustaining provincial revenue generation and national economic activity. The budget should include strict timelines and adequate funding for each critical project as

follows; Rs. 40 billion for K-IV (deadline: December 2026); Rs. 20 billion for BRT Red Line (operational by end-2026); Rs. 10.5 billion for BRT Yellow Line (completion: June 2027); and Rs. 105.6 billion for Karachi Circular Railway (revitalization by June 2028).

Infrastructure Projects	Government's Deadline	PRAC's Proposed Deadline	Proposed Allocation under Budget 2026-27 (PKR Bn)
K-IV Greater Karachi Bulk Water Supply	Dec 2026	Dec 2026	40.0 <sup>a</sup>
BRT Red Line (26–27 km)	End of 2026	End of 2026	20.0 <sup>b</sup>
BRT Yellow Line (21 km)	Dec 2028	Jun 2027	10.5 <sup>c</sup>
Karachi Circular Railway	-	Jun 2028	105.6 <sup>d</sup>

**Notes:**

a = Total cost of K-IV: PKR 171 Bn (2026); financing shared 50:50 by Federal and Sindh Governments. Federal Government claims PKR 85.5 Bn of its PKR 86 Bn share has been disbursed.

b = Total cost of Red Line BRT (2026): US\$503.2 Mn (=PKR 140 Bn); Sindh share: US\$75.71 Mn (=PKR 20 Bn). AIB reports only 22% of total cost was disbursed by all co-financers.

c = Estimates have been taken from *The Nation* (2026)

d = Project Cost of KCR (2022) = PKR 292.4 Bn. Inflation adjusted cost (2026) = PKR 489.2 Bn, ADB Funding (US\$ 1Bn) = PKR 278 Bn. The remaining amount has been divided equally for years FY27 & FY28.

Sources: *Tribune*, *Planning Commission*, *WAPDA*, *Dawn*, *AIB*, *Business Recorder*, *Dawn*, and *Business Recorder*

## 5. Reforming Sindh's Infrastructure Development Cess Fund Management

The Infrastructure Development Cess (IDC), collected since 1994 on goods transported through Karachi's ports for the development and maintenance of related infrastructure, continues to be merged into the provincial consolidated account instead of being utilized through a dedicated infrastructure fund. With IDC collections reaching approximately Rs. 170 billion in 2024-25 alone and cumulative collections estimated at nearly Rs. 1 trillion since inception, the absence of a transparent utilization mechanism has significantly constrained investment in Karachi's critical transport and urban infrastructure needs.

### Recommendation:

The Government of Sindh should discontinue the practice of subsuming Infrastructure Development Cess collections into the provincial budget and establish a dedicated infrastructure fund. The proceeds should be transparently earmarked for Karachi's port connectivity, freight corridors, transport infrastructure, and urban logistics network, ensuring that IDC revenues are deployed in line with the levy's original economic purpose and contribute directly to reducing logistics costs.

## 6. Accelerating Karachi's Mass Transit and Urban Bus Fleet Expansion

Karachi's urban transport system remains critically underfunded despite its central role in Sindh's economy and Pakistan's trade network. The Karachi Transportation Improvement Project proposed a 175.5 km mass-transit network by 2030, including BRT, LRT, and Karachi Circular Railway revival, yet only limited progress has been achieved. Sindh has completed only the 3.9 km Orange Line over the past 14 years, while the Red and Yellow Lines remain delayed, and the city still has fewer than 700 private buses against an estimated requirement of 8,000–10,000.

Continued delay in mass transit investment will further increase congestion, logistics costs, productivity losses, and urban service pressures in Pakistan's largest city.<sup>1</sup>

### **Recommendation:**

The Government of Sindh should introduce a dedicated and ring-fenced Karachi Urban Transport Acceleration Programme in the Sindh Budget 2026–27, with clearly defined allocations for the timely completion of the Red and Yellow BRT lines, revival of priority KTIP corridors, and phased procurement of buses. As estimated, around Rs. 20 billion for BRT Red Line (operational by end-2026); and Rs. 10.5 billion for BRT Yellow Line (completion: June 2027) should be allocated under the Budget 2026-27 to get these critical BRTs operationalized within one year. The programme should also include periodic targets, and independent project monitoring, and a medium-term financing plan to expand Karachi's public transport fleet and reduce the city's widening mobility deficit.

## **7. Strengthening Human Development through Education and Health Reforms**

Despite continued increases in provincial spending, Sindh continues to underperform in key education and health indicators relative to other provinces. According to the Household Integrated Economic Survey (HIES) 2024–25, Sindh's net enrolment rate stands at 60%, below the national average of 68%, Punjab's 77%, Khyber Pakhtunkhwa's 66%, and Balochistan's (43%). Similarly, Sindh's full immunization coverage for children aged 12–23 months stands at 66%, below the national average of 73%, Punjab's 79%, and Khyber Pakhtunkhwa's 69%, and Balochistan's (54%). These persistent gaps indicate that higher allocations alone are insufficient without stronger frontline service delivery, district-level accountability, and improved governance mechanisms. Weak local government capacity, inadequate school and health infrastructure, teacher absenteeism, and uneven rural-urban access continue to constrain human development outcomes across the province, particularly in low-income districts and informal settlements in Karachi.

### **Recommendation:**

The Government of Sindh should increase targeted education and health financing, prioritizing rural basic health units, school rehabilitation, infrastructure availability, teachers' availability, girls' enrolment, immunization, nutrition, and maternal-child health. District-level Education and Health Authorities should be established to identify local needs and monitor service delivery. Enhance the use of AI-enabled learning tools to improve student learning outcomes, strengthen digital literacy, support personalized learning, and equip students with market-relevant skills required for the modern economy.

## **8. Expanding SME Financing Support Framework**

The Sindh Enterprise Development Fund (SEDF) provides markup subsidies and credit facilitation to SMEs, having mobilized PKR 7 billion in private investment against PKR 500 million in subsidy support, demonstrating strong leverage<sup>2</sup>. However, SEDF's per-project interest subsidy is capped at PKR 50 million and total support at PKR 200 million, limiting its reach relative to Sindh's SME

<sup>1</sup> Dagha (2026). *Karachi mass transit: a pipe dream*. Available at: <https://www.dawn.com/news/1998584>

<sup>2</sup> <https://sindhinvestment.gos.pk/sindh-enterprise-development-fund>

financing gap<sup>3</sup>. Meanwhile, the SBP's revised Prudential Regulations for SME Financing, effective January 2026, now mandate cash-flow and digital underwriting across all banks and DFIs, an opportunity SEDF's current design and budget allocation are not scaled to fully exploit.<sup>4</sup>

### **Recommendation:**

The Government of Sindh should substantially increase SEDF's annual budget allocation, raise its per-project subsidy caps, and formally align SEDF eligibility criteria with the SBP's revised SME Prudential Regulations, enabling more Sindh-based SMEs to access clean, collateral-free credit through the growing network of bank and fintech partnerships already operating under the new framework.

## **9. Modernize Property Records in Karachi and Major Urban Centres**

Despite several initiatives undertaken over the past decade, Sindh's land administration system continues to face significant structural inefficiencies due to incomplete digitalization, fragmented record management, and continued dependence on manual processes. The persistence of outdated land management practices weakens investment confidence, contributes to land disputes and encroachments, constrains urban planning, and increases transaction costs for agriculture, housing, and industrial development, particularly in Karachi and rapidly urbanizing districts.

### **Recommendation:**

The Government of Sindh should undertake a comprehensive end-to-end digital land governance reform by fully integrating e-registration, e-mutation, cadastral mapping, GIS-based land records, and property verification systems under a unified provincial digital land platform.

## **10. Enforcing Minimum Wage Compliance**

The Government of Sindh fixed the minimum wage for unskilled workers at Rs. 40,000 per month, effective July 1, 2025.<sup>5</sup> However, weak enforcement continues to undermine the effectiveness of minimum wage policy, as Sindh's Public Accounts Committee was reportedly informed that more than 80% of industrial units in the province do not pay the legally mandated wage.<sup>6</sup> With rising poverty and reemerging inflationary pressures, wage announcements without credible enforcement mechanisms risk becoming nominal policy measures rather than meaningful income protection.

### **Recommendation:**

The Government of Sindh should strengthen enforcement of minimum wage compliance through risk-based labour inspections, stricter penalties for repeat violators, and improved monitoring by the Labour Department before announcing further minimum wage increases.

<sup>3</sup> <https://www.ksez.com.pk/PDF/ap/24-Sindh%20Enterprise%20Development%20Fund.pdf>

<sup>4</sup> <https://www.sbp.org.pk/publications/prudential/SME-PRs-Updtd-Jan-2025.pdf>

<sup>5</sup> <https://www.dawn.com/news/1922679>

<sup>6</sup> <https://www.dawn.com/news/1916616/over-80pc-industrial-units-dont-give-minimum-wage-to-workers-sindhs-pac-told>

## II. Earmarking Telecom Sales Tax for Subsidized Internet in Educational Institutions

ADB's Pakistan Digital Ecosystem Diagnostic Report highlights that despite provinces charging comparatively high taxes on digital and telecommunication services, their contribution to digital-sector development remains limited, particularly in infrastructure investment and promotion of digital usage<sup>7</sup>. In Sindh, sales tax on telecommunication services is charged at 19.5%, yet this revenue is not visibly linked to digital inclusion, education connectivity, or institutional internet access. This creates a policy mismatch: the sector is heavily taxed, but the proceeds are not sufficiently reinvested to expand digital adoption. Low-cost internet in schools, colleges, universities, and technical institutes is essential for digital learning, research access, skills development, and reducing the urban-rural digital divide.

### Recommendation:

The Government of Sindh should earmark a defined portion of the 19.5% sales tax collected from telecommunication services to create a "Sindh Education Connectivity Fund." The fund should provide subsidized broadband and Wi-Fi access to public schools, colleges, universities, technical institutes, and libraries, with priority for underserved districts and low-income areas of Karachi.

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<sup>7</sup><https://www.adb.org/sites/default/files/publication/1067316/pakistan-digital-ecosystem-diagnostic-report.pdf>