

**PROGRAM-FOR-RESULTS INFORMATION DOCUMENT (PID)  
APPRAISAL STAGE**

Report No.: PIDA0113271

<b>Program Name</b>	<b>Public financial management and accountability to support service delivery project</b>
<b>Region</b>	South Asia
<b>Country</b>	Islamic Republic of Pakistan
<b>Sector</b>	Central government administration, sub-national government administration
<b>Lending Instrument</b>	Program for Results
<b>Program ID</b>	P157507
<b>Parent Program ID</b>	NA
<b>Borrower(s)</b>	Islamic Republic of Pakistan
<b>Implementing Agency</b>	Ministry of Finance, Federal Government of Pakistan
<b>Date PID Prepared</b>	October 13, 2017
<b>Estimated Date of Appraisal Completion</b>	November, 2017
<b>Estimated Date of Board Approval</b>	December 2017

**I. Country Context**

1. **Pakistan, with a population of over 207 million people, is the world’s sixth most populous country. In recent years, it has achieved continued Gross Domestic Product (GDP) growth and substantially reduced poverty.** GDP growth was 5.3 percent in 2016-17 and is expected to continue accelerating, reaching 5.8 percent in FY19. Growing fiscal and external imbalances may, however, erode these gains if not addressed. The national poverty headcount declined from 64.3 percent in 2001-02 to 29.5 percent in 2013-14. Nevertheless, inequality persists and the country continues to rank low on the human development index, at 147 out of 188 countries. Macroeconomic, political, and security conditions, natural disasters, and continuing unreliable power supply continue to constrain the country’s achievement of poverty reduction and shared prosperity goals.

**II. Multi-sectoral and Institutional Context**

2. **Pakistan’s twin challenge: centralized public financial management and decentralized service delivery.** Pakistan’s public financial management (PFM) structure is different from most federal countries in that it is highly centralized in nature: this means that addressing bottlenecks by the federal government is critical to service delivery. The four general functions of a PFM system, auditing, accounting, budgeting, and expenditure management, are split between provincial and federal institutions in Pakistan. Budgeting and expenditure management are responsibilities of the provincial government. Accounting and auditing functions remain federal mandates and are managed by the Controller General of Accounts (CGA) and Auditor General of Pakistan (AGP) respectively. Furthermore, District Account Officers, who are posted to the Provinces and supervised by the Provincial Accountant Generals,

are all federal CGA staff and have direct responsibility for transaction processing for payroll, pension and vendors. These functions have direct bearing on provincial governments’ capacity for service delivery.

**3. Public financial management bottlenecks contribute to Pakistan’s weak performance in health and education: despite a substantial increase, resources fail to efficiently reach service delivery points such as clinics and schools.** The 18<sup>th</sup> Constitutional Amendment in 2010 devolved health and education service delivery to the provinces. The budget made available to the provinces increased by 59 percent between 2013-14 and 2017-18, but there remains a large gap in budget implementation. The government plans to increase the health and education budget, which currently averages 3 percent of GDP and is 3 times lower than peer countries in South Asia and among lower-middle income countries.<sup>1</sup> However, budget increases will need to be accompanied by structural changes in public financial management and reliable execution of the budget approved by the legislature. Over the past four fiscal years, the underspend in budget execution across the country (federal and provinces) was between 4 and 43 percent for health and 2 and 30 percent for education.

**4. The actions needed to remove these PFM bottlenecks<sup>2</sup> are:** a robust law; strong cash management; timely and comprehensive reporting; improved federal-provincial coordination; timely release of funds; streamlined payroll and pension systems; efficient and transparent procurement, and user-friendly reports for citizen engagement. The absence of these actions adversely affects provision of such essential requirements as electricity, toilet blocks, boundary walls, drinking water, medicines, and teaching and learning materials. *For example, it now takes up to 20 steps over six weeks for a District Account Office to complete a payment process.*

### III. Program Scope

**5. The Program will remove PFM bottlenecks and enhance procurement systems through simplified procedures, greater accountability, and enhanced transparency for service delivery.** The Program is composed of five mutually reinforcing key results areas (KRAs) that are priorities of the Government program (PFM Reform Strategy) and contribute to achieving the PDO. The linkages between the Government’s PFM Reform Strategy and the Program is shown in Table 1. The achievement of the KRAs and their benefits to the citizens of Pakistan will depend on embedding collaborative leadership, behavioral change management, and strategic communication throughout the Program.

**Table 1. PforR Key Result Areas (KRAs) and Disbursement-Linked Indicators (DLIs)**

<b>PforR KRAs</b>	<b>DLIs</b>	<b>Responsible</b>
<b>PFM Reform Strategy: Pillar 1: Fiscal Sustainability and Credibility of the Budget; Pillar 3: Service Delivery and Results Based Management; and Pillar 4: Public Investment Management and PPP</b>		

<sup>1</sup> *Source:* \*(2013), World Development Indicators; extracted on September 28, 2016, from: <http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators>

<sup>2</sup> (i) Expenditure and Quantity of Service Delivery Survey (EQSDS) in Primary School Sector (2015), based on findings from primary data collected through three integrated surveys at provincial, district, primary school and household levels; (ii) The Punjab Service Delivery Assessment Report (2013); (iii) WDR 2018 framework; (iv) PEFA assessments; (v) Pakistan Open Budget Index.

<b>KRA 1:</b> Strengthening the legal framework and internal management systems in line ministries and service delivery units.	<b>DLI 1:</b> Reduction of variance in functional expenditure composition for health and education to improve reliability of the budget <b>DLI 2:</b> Reduction in cash held outside the Recipient's Treasury Single Account	FD, CGA  FD, CGA
<b>KRA 2:</b> Improved procurement performance.	<b>DLI 3:</b> Percentage of vendor contracts processed through the Recipient's e-procurement system	PPRAs, CGA, selected ministries and departments.
<b>KRA 3:</b> Payroll and pension payment systems.	<b>DLI 4:</b> Percentage of alignment of information and identification numbers for individual primary school teachers and health workers related to their place of work and salaries <b>DLI 5:</b> Percentage of pensioners authenticated against NADRA computerized national identity card and paid through the Direct Credit Scheme no later than the following pension payment cycle after retirement	CGA, ministries, departments  CGA, ministries, departments
<b>PFM Reform Strategy: Pillar 5: Oversight, Transparency, and Accountability</b>		
<b>KRA 4:</b> External audit, legislative scrutiny, and social accountability.	<b>DLI 6:</b> Percentage of audit recommendations processed through the Audit Management Information System <b>DLI 7:</b> Increased citizen access to key fiscal information on health and education	DAGP  FD, CGA
<b>PFM Reform Strategy: Pillar 6: Vertical PFM Coordination</b>		
<b>KRA 5:</b> Performance-based grant.	<b>DLI 8:</b> Percentage of fiscal performance and service delivery indicators met by the provinces	FD and CGA

6. **This Program complements other ongoing Bank-financed health and education operations which aim to improve service delivery outcomes directly.** The achievement of DLIs through this Program will strengthen the results of the Bank's engagement across health and education sectors.

#### **IV. Program Development Objectives**

7. **The proposed project development objective (PDO) is to improve public financial management and procurement systems for better management and accountability in service delivery for the health and education sectors.**

8. Progress toward achieving the PDO will be measured by the following intermediate result indicators, all DLIs.

- (i) Reduction of variance in functional expenditure composition for health and education to improve reliability of the budget.
- (ii) Reduction in cash held outside the Treasury Single Account (TSA).
- (iii) Percentage of vendor contracts processed through e-procurement.
- (iv) Percentage of audit recommendations processed through the Audit Management Information System (AMIS).
- (v) Percentage of fiscal performance and service delivery indicators met by the provinces.

## V. Environmental and Social Effects

9. **Communities and individuals who believe that they are adversely affected as a result of a Bank supported PforR operation, as defined by the applicable policy and procedures, may submit complaints to the existing program grievance redress mechanism or the WB's Grievance Redress Service (GRS).** The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of the WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the World Bank Inspection Panel, please visit [www.inspectionpanel.org](http://www.inspectionpanel.org).

10. **The assessment of the Program design against ESSA Core Principles<sup>3</sup> revealed that the main social risks to Program are related to Principles 5 and 6, those involving the marginalization and inclusion of vulnerable groups, and social conflict.** No activities will lead to risks related to Core Principles 1, 2, 3, and 4. The risk matrix revealed that the design of the Program is appropriate for the instrument, as no major environmental or social risks are expected from the interventions. The ESSA assessed the social risks in relation to DLIs 2, 3, 5, 6, 7, and 8; the other DLIs were assessed to have no social or environmental risks. The ESSA found that there are several laws and rules underpinning the social aspects of the Program including: the Pensions Act 1871 and federal and provincial rules, Right to Information Acts, Establishment of the Office of Wafaqi Mohtasib (Federal Ombudsman) Order 1983, Federal Ombudsmen Institutional Reforms Act 2013, and the Public Procurement Regulatory Authority Ordinance 2002 with the Public Procurement Rules 2004.

11. **The Program was assessed to have potential adverse environmental risks related to ESSA Core Principles 1 and 3, but not to ESSA Core Principles 2, 4, 5, and 6.** There are environmental risks related to treating electronic waste (e-waste), generated because the project will buy such hardware as desktop computers, printers, servers, and scanners. E-waste generated over time from the IT equipment procured by CGA will not be significant enough to have a major adverse impact. Therefore, the relevance of the e-waste issue to this project is very limited. The PAP includes an action specific to this risk: "mechanism for proper management of E-Waste implemented."

## VI. Financing

Program Financing (\$ Million)		
Source	Amount	% of Total
Government	575	58
IDA	400	41
Other Development Partners	7	1

<sup>3</sup> More fully described in the ESSA

<b>Total Program Financing</b>	<b>982</b>	<b>100%</b>
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## **VII. Program Institutional and Implementation Arrangements**

12. **This Program will be implemented by the AGP, CGA, PPRA, Finance Division and provincial Finance Departments** as noted in Table 1. The Finance Division (FD) will provide overall leadership for the PFM reforms, with responsibility for coordinating, monitoring, and reporting on the Program’s results indicators. Within 30 days after the Effective Date, an appropriate arrangement for the timely and effective implementation of the Program will be in place at the Finance Division under the Office of the Finance Secretary. A Program Implementation Cell (PIC) will be established at onset of implementation at the Finance Division headed by the Finance Secretary. The AGP will be responsible for auditing reforms. The CGA will lead the accounting, reporting and information systems reforms. The PPRA will coordinate procurement reforms and collaborate with the provinces. The Recipient shall ensure, through PPRA, that an appropriate arrangement for the timely and effective support to implement the e-Procurement system will be in place within 90 days after the Effective Date. The FD will provide policy leadership for adoption of the performance-based grant and the Open Government Partnership (OGP) principles. The provincial Financial Departments will benefit from improved budget execution capacity. The Recipient will provide sufficient and timely release of funds to the project implementing entities – Department of Auditor General of Pakistan; Office of Controller General of Accounts; Federal Public Procurement Authority; and Finance Division.

13. **A Technical Work Prioritization Group will meet regularly to take stock of progress, and determine priority and resource needs.** This group will comprise representatives of all the provincial governments, the planning commission, and provincial Accountants General to ensure that the reform program is aligned with the priorities of all stakeholders. (The detailed roles and responsibilities for each substructure are explained in the Technical Assessment.)

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