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Report No: PAD847

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED CREDIT

IN THE AMOUNT OF SDR 33.9 MILLION (US$ 50 MILLION EQUIVALENT)

TO

THE ISLAMIC REPUBLIC OF PAKISTAN

FOR THE

SINDH PUBLIC SECTOR MANAGEMENT REFORM PROJECT (P145617)

December 30, 2014

GOVERNANCE GLOBAL PRACTICE
SOUTH ASIA

CURRENCY EQUIVALENTS

(Exchange Rate Effective October 31, 2014)

Currency Unit	=	Pakistan Rupee (PKR)
PKR 102.78	=	US$1
US$ 1.47833	=	SDR 1

FISCAL YEAR

July 1 – June 30

ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank
ADP	Annual Development Program
AG	Accountant General
AGA	Autonomous Government Agencies
AGP	Auditor General of Pakistan
AGPR	Accountant General Pakistan Revenues
AO	Audit Office
BER	Budget Execution Reports
BOR	Board of Revenue
BPS	Basic Pay Scale
BSP	Budget Strategy Paper
BTS	Base Transceiver Station
B2B	Business to Business
CPI	Corruption Perception Index
CPS	Country Partnership Strategy
CQS	Consultants Qualification Selection
CRG	Core Reforms Group
DAC	Development Assistance Committee
DDO	Drawing and Disbursing Officer
DeMPA	Debt Management Practices Assessment
DFID	UK Department for International Development
DG	Director General
DLI	Disbursement Linked Indicators
DLR	Disbursement Linked Results
DMU	Debt Management Unit
DSA	Debt Sustainability Analysis
E-GP	e-Government Procurement
EEP	Eligible Expenditure Program
ERU	Economic Reforms Units
EU	European Union
E&TD	Excise and Taxation Department
FBR	Federal Board of Revenue
FBS	Fixed Budget Selection
FD	Finance Department
FM	Financial Management
FMIS	Financial Management Information System
FY	Fiscal Year
GDP	Gross Domestic Product
GFMIS	Government Financial Management Information System
GIS	Geographic Information System
GoS	Government of Sindh
GPS	Global Positioning System
GPN	General Procurement Notice
GRM	Grievance Redress Mechanism
GST	General Sales Tax
HR	Human Resources
IA	Internal Audit
IBRD	International Bank for Reconstruction and Development
ICB	International Competitive Bidding
ICR	Implementation Completion Report
ICT	Information and Communication Technology
IDA	International Development Agency
IDC	Infrastructure Development Cess
IEG	Independent Evaluation Group
IFR	Interim Financial Reports
IMF	International Monetary Fund
IPF	Investment Project Financing
IPSAS	International Public Sector Accounting Standards
ISP	Implementation Support Plan
IT	Information Technology
KP	Khyber Pakhtunkhwa
LAC	Latin America and the Caribbean Region
LCS	Least Cost Selection
MEC	Monitoring and Evaluation Cell
MIS	Management Information System
MTBF	Medium Term Budgetary Framework
MTFF	Medium Term Fiscal Framework
MO	Monitoring Officers
M&E	Monitoring and Evaluation
NADRA	National Database Registration Authority
NAM	New Accounting Model
NCB	National Competitive Bidding
NFC	National Finance Commission
OBB	Output Based Budgeting
OECD	Organization for Economic Co-operation and Development
DAC	Development Assistance Committee
ORAF	Operational Risk Assessment Framework
ORG	Operational Reforms Groups
OSR	Own-Source Revenues

PAC	Public Accounts Committee
PACT	Provincial Advisory Committee on Tax
PAD	Project Appraisal Document
PAO	Principal Accounting Officer
P&DD	Planning and Development Department
PDO	Project Development Objective
PE	Public Enterprises
PEC	Pakistan Engineering Council
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PIFRA	Project to Improve Financial Reporting and Auditing
PKR	Pakistani Rupee
PMU	Project Management Unit
PPP	Purchasing Power Parity
PPRA	Public Procurement Regulatory Authority
PRAL	Pakistan Revenue Automation (Pvt.) Ltd
PSM	Public Sector Management
PV	Present Value
QBS	Quality Based Selection
RFP	Requests for Proposal
RMO	Regional Monitoring Officers
SBD	Standard Bidding Document
SBP	State Bank of Pakistan
SBR	Sindh Board of Revenue
SECP	Security and Exchange Commission of Pakistan
SERP II	Second Sindh Education Reform Project
SLGO	Sindh Local Government Ordinance
SMO	Senior Monitoring Officer
SN	Subnational
SPN	Specific Procurement Notice
SOE	Statement of Expenditures
SOP	Standard Operating Procedures
SPPRA	Sindh Public Procurement Regulatory Authority
SRB	Sindh Revenue Board
SRG	Strategic Reforms Group
STRMP	Sindh Tax Revenue Mobilization Plan
SSS	Single Source Selection
STPIN	Sindh Tax Payer Identification Number
STS	Sales Tax on Services
SW	Staff Weeks
SWAp	Sector Wide Approach
TA	Technical Assistance
TOR	Terms of Reference
TPV	Third Party Validation
TRACS	Tax Reforms Steering Committee
TRU	Tax Reform Unit
TTL	Task Team Leader
US$	United States Dollar
USAID	United States Agency for International Development
VAT	Value Added Tax
WB	World Bank
WBS	Work Breakdown Structure

Regional Vice President:	Annette Dixon
Country Director:	Rachid Benmessaoud
Senior Practice Director:	Mario Marcel Cullel
Practice Manager:	Alexandre Arrobbio
Task Team Leaders:	Zubair Khurshid Bhatti / Paul Welton

PAKISTAN

SINDH PUBLIC SECTOR MANAGEMENT REFORM PROJECT (P145617)

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PAD DATA SHEET

Pakistan

PK Sindh Public Sector Management Reform Project (P145617)

PROJECT APPRAISAL DOCUMENT

SOUTH ASIA

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Report No.: PAD847

Basic Information		
Project ID P145617	EA Category C - Not Required	Team Leader Zubair Khurshid Bhatti
Lending Instrument Investment Project Financing	Fragile and/or Capacity Constraints [ ]	
	Financial Intermediaries [ ]	
	Series of Projects [ ]	
Project Implementation Start Date 30-Jan-2015	Project Implementation End Date 31-Aug-2020	
Expected Effectiveness Date 16-May-2015	Expected Closing Date 31-Aug-2020	
Joint IFC No		

Practice Manager/Manager	Senior Global Practice Director	Country Director	Regional Vice President
Alexandre Arrobbio	Mario Marcel Cullell	Rachid Benmessaoud	Annette Dixon

Borrower: Islamic Republic of Pakistan			
Responsible Agency: Economic Reform Unit, Finance Department			
Contact:	Shahmir Bhutto	Title:	Director, Economic Reforms Unit
Telephone No.:	009221-99222187	Email:	Shahmirmustafa@yahoo.com
Responsible Agency: Sindh Revenue Board			
Contact:	Tashfeen K. Niaz	Title:	Chairman, Sindh Revenue Board
Telephone No.:	00921-99213950	Email:	tashfeen.niaz@srb.gos.pk

Project Financing Data(in USD Million)					
[ ]	Loan	[ ]	IDA Grant	[ ]	Guarantee
[X]	Credit	[ ]	Grant	[ ]	Other

Total Project Cost:	282.00	Total Bank Financing:	50.00
Financing Gap:	0.00		

Financing Source	Amount
BORROWER/RECIPIENT	220.00
International Development Association (IDA)	50.00
EC European Commission	12.00
Total	282.00

Expected Disbursements (in USD Million)

Fiscal Year	2015	2016	2017	2018	2019	2020	2021	0000	0000	
Annual	20.00	8.00	8.00	8.00	6.00	0.00	0.00	0.00	0.00	
Cumulative	20.00	28.00	36.00	44.00	50.00	50.00	50.00	0.00	0.00	

Institutional Data

Practice Area / Cross Cutting Solution Area

Governance

Cross Cutting Areas

[ ] Climate Change
[ ] Fragile, Conflict & Violence
[ ] Gender
[ ] Jobs
[ ] Public Private Partnership

Sectors / Climate Change

Sector (Maximum 5 and total % must equal 100)

Major Sector	Sector	%	Adaptation Co-benefits %	Mitigation Co-benefits %
Public Administration, Law, and Justice	Sub-national government administration	50		
Public Administration, Law, and Justice	General public administration sector	50		
Total		100		

☑ I certify that there is no Adaptation and Mitigation Climate Change Co-benefits information applicable to this project.

Themes

Theme (Maximum 5 and total % must equal 100)

Major theme	Theme	%
Public sector governance	Public expenditure, financial management and procurement	40
Public sector governance	Tax policy and administration	40
Public sector governance	Other accountability/anti-corruption	20
Total		100

Proposed Development Objective(s)

The development objective of the Project is to strengthen public sector performance in the Province of Sindh through improved revenue generation and expenditure management.

Components

Component Name	Cost (USD Millions)
Component 1: Results-based financing to provide an incentive for achieving eligible PSM reforms.	40.00
Component 2: Technical Assistance (TA) to support capacity building and institutional strengthening associated with achievement of eligible PSM reforms.	10.00

Compliance

Policy

Does the project depart from the CAS in content or in other significant respects?	Yes [ ]	No [X]
Does the project require any waivers of Bank policies?	Yes [ ]	No [X]
Have these been approved by Bank management?	Yes [ ]	No [ ]
Is approval for any policy waiver sought from the Board?	Yes [ ]	No [X]
Does the project meet the Regional criteria for readiness for implementation?	Yes [X]	No [ ]

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01		X
Natural Habitats OP/BP 4.04		X
Forests OP/BP 4.36		X
Pest Management OP 4.09		X
Physical Cultural Resources OP/BP 4.11		X
Indigenous Peoples OP/BP 4.10		X
Involuntary Resettlement OP/BP 4.12		X
Safety of Dams OP/BP 4.37		X
Projects on International Waterways OP/BP 7.50		X

Projects in Disputed Areas OP/BP 7.60		X

Disbursement Condition

The Provincial Government shall prepare and adopt an Operations Manual, in form and substance satisfactory to the Association, setting forth the institutional arrangements for implementation of the Project including: (i) Disbursement-linked indicators (DLIs)/Disbursement-linked results (DLRs) verification protocols; (ii) simplified procurement reporting arrangements, record keeping protocols and complaints redressal mechanisms consistent with the Consultants' Guidelines and Procurement Guidelines; and (ii) financial management procedures and protocols for the carrying out of internal audits, the preparation financial statements, and withdrawal, accounting of Credit funds and settlement of payments.

Legal Conditions

Type	Effectiveness

Description of Condition

GoS to enter into a participation agreement with SRB for the implementation on SRB parts of the Project in accordance with the fiduciary requirements of the Project Agreement, the Procurement/Consultants' Guidelines, the Anti-Corruption Guidelines and the Operations Manual.

Type	Disbursement

Description of Condition

GoS has prepared and adopted an Operations Manual (as described in the Project Agreement) in a manner and substance satisfactory to the Association.

Legal Covenants

Name	**Recurrent**	**Due Date**	**Frequency**
Economic Reforms Unit (ERU)	X	N/A	Throughout Project implementation

Description of Covenant

GoS to maintain the ERU to serve as the focal unit in day-to-day implementation of Project activities.

Name	**Recurrent**	**Due Date**	**Frequency**
Project Steering Committee	X	3 months after effectiveness	Throughout Project implementation

Description of Covenant

GoS to establish (notify) and maintain a Project Steering Committee in order to periodically review, identify problems and suggest corrective measures, provide policy guidance, and coordinate inter-departmental efforts, in the implementation of the Project.

Name	**Recurrent**	**Due Date**	**Frequency**
Finance & Accounting Specialist	N/A	3 months after effectiveness	Throughout Project implementation

Description of Covenant

GoS to recruit/select and hire a finance and accounting specialist to work within the ERU to take care of Project financial management responsibilities (accounting, disbursements and reporting requirements).			
Name	**Recurrent**	**Due Date**	**Frequency**
Tax Reform Unit (TRU)	N/A	3 months after effectiveness	Throughout Project implementation
Description of Covenant GoS to establish (notify) and maintain a TRU to establish linkages with national and international academic institutions to promote evidence-based tax policy planning and administration.			
Name	**Recurrent**	**Due Date**	**Frequency**
Operations Manual	**X**	N/A	Throughout Project implementation
Description of Covenant GoS to implement the Project in accordance with the Operations Manual.			
Name	**Recurrent**	**Due Date**	**Frequency**
Public Disclosure of PFM Reform Strategy and Sindh Tax Revenue Mobilization Reform Plan	**X**	N/A	Yearly, 3 months after each Fiscal Year.
Description of Covenant GoS to disclose in FD’s website the PFM Reform Strategy and Sindh Tax Revenue Mobilization Reform Plan; and to prepare and also disclose comprehensive annual progress reports on the implementation thereof.			
Name	**Recurrent**	**Due Date**	**Frequency**
Third Party Validations	**X**	N/A	Throughout Project implementation
Description of Covenant GoS to ensure that terms of reference for third party validation of DLIs shall have been agreed with the Association.			
Name	**Recurrent**	**Due Date**	**Frequency**
SRB Annual Budgetary Allocations	N/A	By July 1 of each Fiscal Year	Yearly
Description of Covenant GoS to ensure minimum level of budgetary allocation for SRB’s current and development expenditures, namely: (i) PKR 1,000,000,000 for FY 2014/15; (ii) PKR 1,100,000,000 for FY 2015/16; (iii) PKR 1,200,000,000 for FY 2016/17; (iv) PKR 1,400,000,000 for FY2017/18; (v) PKR 1,500,000,000 for FY 2018/19. GoS to release these allocated funds to SRB in a timely manner.			
Name	**Recurrent**	**Due Date**	**Frequency**
Procurement Transparency and Grievance Redressal Mechanism	**X**	3 months after effectiveness	Throughout Project implementation
Description of Covenant			

GoS to establish at FD and SRB, and thereafter maintain: (i) a procurement and documentation and record keeping system including disclosures in a publicly accessible website; and (ii) a system for the handling of procurement complaints, both systems to be established in a manner and substance satisfactory to the Association.			
Name	**Recurrent**	**Due Date**	**Frequency**
Sindh Public Procurement Regulatory Authority (SPPRA) Plans and Financing	**X**	6 months after effectiveness	Throughout Project implementation
Description of Covenant			
GoS to cause SPPRA to prepare and carry out a costed multiyear reform plan covering the adoption and implementation of e-procurement, the establishment of MIS and a procurement certification program; and ensure that SPPRA receives on an annual basis, adequate allocations of financial resources.			
Name	**Recurrent**	**Due Date**	**Frequency**
Monitoring and Evaluation (M&E) Cell Plans and Financing	**X**	6 months after effectiveness	Throughout Project Implementation
Description of Covenant			
GoS to cause the M&E cell of the P&DD to prepare and carry out a costed multiyear reform plan for the management of a dashboard for investment interventions; and to ensure that the cell receives on an annual basis, adequate allocations of financial resources.			
Name	**Recurrent**	**Due Date**	**Frequency**
Sindh Revenue Board Integrity Management System	**X**	2 years after effectiveness	Throughout Project implementation
Description of Covenant			
GoS to cause the SRB to establish, and thereafter maintain, an integrity management system, including, adequate capacity for the carrying out of tax litigation, an independent tax appeal mechanism comprised of a tax appellate tribunal and alternative dispute resolution procedures.			

Team Composition			
Bank Staff			
Name	**Title**	**Specialization**	**Unit**
Zubair Khurshid Bhatti	Sr Public Sector Mgmt. Spec.	Task Team Leader	GGODR
Magali Junowicz	Consultant	Consultant	GGODR
Syed Waseem Abbas Kazmi	Sr Financial Management Specialist	Sr Financial Management Specialist	GGODR
Sher Shah Khan	Senior Public Sector Specialist	Senior Public Sector Specialist	GGODR
Nazar Hussain Mahar	Consultant	Consultant	GGODR
Afzal Mahmood	Program Assistant	Program Assistant	SACPK
Zahra Mansoor	Consultant	Consultant	GGODR
Grace Porter Morgan	Senior Governance Specialist	Senior Governance Specialist	GGODR
Nauman Rafique	Consultant	Consultant	GGODR
Naseer Ahmad Rana	Adviser	Adviser	GGODR
Saeeda Sabah Rashid	Sr Public Sector Spec.	Sr Public Sector Spec.	GGODR
Saadia Refaqat	Economist	Economist	GMFDR
Uzma Sadaf	Senior Procurement Specialist	Senior Procurement Specialist	GGODR
Martin M. Serrano	Senior Counsel	Senior Counsel	LEGES
Chau-Ching Shen	Senior Finance Officer	Senior Finance Officer	WFALN
Immanuel Frank Steinhilper	Public Sector Specialist	Public Sector Specialist	GGODR
Muhammad Waheed	Senior Economist	Senior Economist	GMFDR
Paul Welton	Sr Financial Management Specialist	Co-Task Team Leader	GGODR

Non-Bank Staff

Name	Title	City

Locations

Country	First Administrative Division	Location	Planned	Actual	Comments
Pakistan	Sindh	Sindh	X		

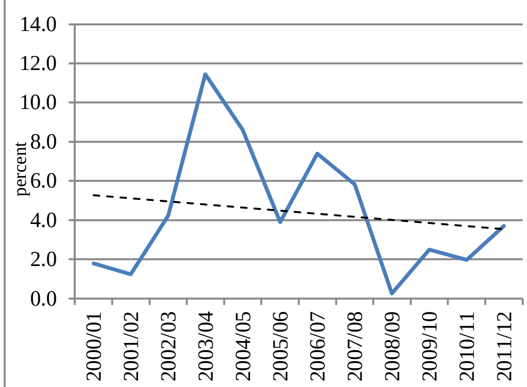
I. STRATEGIC CONTEXT

A. Country Context

1. **Pakistan, the world's sixth most populous country, with an estimated population of 187 million in 2011, is a lower-middle-income country with a 2012 per-capita gross national income of US$1,278.** The economy grew at an average of 7.3 percent between fiscal years 2004 and 2007, and the poverty rate fell by half from 34.5 percent in 2001/02 to 17.2 percent in 2007/08. Progress appears to have stalled since 2008 as a result of the deterioration and increased volatility of fiscal, macroeconomic, political, and security conditions, which have adversely affected the socioeconomic status of households, the productivity and profitability of firms and employment activities, and the functioning of private markets and public services. The wide-scale devastation caused by floods and heavy rains in 2010 and 2011 has taken a further toll on the country. An IMF Program of US$ 6.7 billion dollars was approved in September 2013 and progress remains on track. There are also some early signs of economic recovery. Yet the recovery is still fragile and the near-term outlook is uncertain, as it depends on the Government's resolve to continue and expand and deepen economic reforms along with mitigating risks arising on political, governance, and security fronts; debt and external financing concerns; persistent structural and fiscal weaknesses; and mounting price pressures. Limitations in public sector systems and practices remain a significant challenge.

2. **Sindh, the most industrialized and second largest province with an estimated population of 42 million, is facing important development challenges.** In spite of its enormous economic, geographic, and resource advantages, recent growth and social development trends indicate that the Province is not realizing its full potential. Over the last decade growth has been erratic and declining (see Figure 1), and real incomes have declined since 2005/06. Several deep-seated structural challenges underlie this continuous decline in Sindh's economic growth including: (i) a stark urban-rural bifurcation of the Province which limits economic and social cohesion; (ii) an adverse law and order situation, especially in Karachi; (iii) vested interests which have undermined the cost effectiveness and quality of the public service delivery system; (iv) revenue collection which, despite some success, has remained relatively static in terms of share of provincial gross domestic product (GDP); (v) continued reliance upon federal transfers; (vi) increasingly binding skills, factors and input constraints impacting production and incomes in the Province; and (vii) limited governance.

Figure 1: Sindh -- Trends in Economic Growth



3. **The fiscal and administrative relationships between the Federal Government and the Province and between the Province and Districts have undergone substantial changes.** The last National Finance Commission (NFC) Award (2009) substantially increased the provincial share in divisible revenues. The 18th amendment to the Constitution of Pakistan (2010) devolved several functions and powers of the federation and the federal government to the provincial

governments. While welcomed as recognition of long-standing provincial demands for more autonomy, these new unfunded mandates have reduced the space provided by the increased funding of the 7th NFC award. Around the same time, a series of local government laws promulgated by the Sindh Government largely reversed, as is the case with the other provincial governments, the 2001-10 political and administrative devolution to the districts. Elections to the new local governments, which now have a much narrower mandate of service delivery compared with the 2001 devolution plan, are yet to be held.

4. **Improving revenue mobilization and expenditure management performance is necessary to shift upwards the provincial curve of economic and social growth in Sindh.** While federal transfers, which constitute 79% of the revenues of the Province, provide a significant base for provincial expenditure, the total quantum of federal transfer revenues is not adequate to finance the existing infrastructure and social development needs of the Province. Similarly, anecdotal accounts suggest that limited internal controls and oversight of fund management and flow, limited accountability and competition in the procurement process, and inadequate management and oversight of the development process contribute to risks of leakages of public funds and undermine service delivery. In particular, Sindh is faced with the challenge to raise its own tax revenues through improved evidence-based policy making and administrative efficiency, improve its public financial management performance, strengthen procurement functions, and improve the quality of execution of its development portfolio.

5. **Limited transparency and monitoring and evaluation capacity contributes to weak governance.** Despite enactment of the Sindh Freedom of Information Act in 2006, the Sindh regulatory regime governing right to information, decreed as a fundamental right in the 18th Amendment, suffers from several supply and demand infirmities. The Sindh Ombudsman Office, tasked with appeals and enforcement, has limited means to mobilize civil society, conduct training and enforce the law. The powers provided in the law for increased compliance and capacity and understanding among government officials are limited. The legal requirements of proactive disclosure and presumptions of transparency are under developed. Citizen and civil society awareness of this right, or even the law, is also weak. Similarly, general monitoring and evaluation capacity, including performance management, is constrained by poor data, inadequate analytical capacity and limited demand for information.

6. **The Government of Sindh (GoS) has proven that when champion exists, reform can be successfully undertaken and governance improved**. As part of its efforts to improve delivery of public services, the Sindh Government has undertaken several successful service delivery initiatives, involving business and civil society leaders in the governance of government programs, strategically leveraging institutional capabilities of partner organizations, testing new institutional models and innovating with modern information and communication technologies (ICT). These initiatives demonstrate the reform potential inherent in the Sindh Government and the visible presence of reform champions capable and willing to drive improvements and innovation.

B. Sectoral and Institutional Context

Revenue Management

7. **Sindh has struggled to generate sufficient tax revenues to meet investment requirements in line with its development objectives, particularly since 2005.**[1] The revenues generated at the provincial level are insufficient to support social and development expenditures needed for economic growth. Own-source revenues (OSR) are a small fraction of the total budget of the Province, and an even smaller fraction of its needs. The Province is highly dependent on federal transfers which have been erratic in recent years due to limited enforcement in tax collection by the federal government. Over the last few years, GoS has made efforts to raise revenue to meet development expenditure targets. Provincial levy of the Sales Tax on Service (STS) since 2010 and the creation of the Sindh Revenue Board (SRB), using the space created by the 18th Amendment, have led to major increases in revenue.

8. **The Province has sixteen taxes and other minor levies in its portfolio of tax options.** The taxes and fees, ranging from taxes on agriculture income to sales tax on services, are levied on a variety of tax bases assigned to the Province under the Constitution. All taxes are not equally important in revenue generation. Nine taxes account for almost 97 percent of all tax collection. Furthermore, only two taxes - sales tax on services (42%) and Infrastructure Cess (22%) – contributed 63 percent of the total collection. Another 14 percent of revenue is collected from transfer of property taxes which include stamp duty, registration fee and capital value tax. With less than 4 percent contribution to the provincial resources, urban immovable property tax does not yield revenue according to its potential.

9. **The mandate to collect the provincial taxes is split among three independent tax collecting agencies with implications for tax administration reform.** The Board of Revenue (BoR), the oldest and the biggest of the three, focuses on rural land management and taxes, the Excise and Taxation Department (E&TD) collects property and excise taxes, and SRB, created in 2010, collects STS. The Finance Department (FD) acts as a coordinating and facilitating organization to these tax collecting agencies in addition to its overall mandate to prepare the provincial budget, plan resource mobilization and exercise control over the expenses of GoS. However, despite this formal role in the realm of revenue and expenditure policies assigned to FD under the Sindh Rules of Business 1986, evidence-based tax policy and administration are conspicuous by their absence. While the three tax agencies and FD recognize the need for intra-agency coordination to create synergy for improved tax administration, including functional integration by linking databases and synergizing collection systems, progress remains limited.

10. **Government has articulated its tax plans in a comprehensive Sindh Tax Revenue Mobilization Plan (STRMP).** Discussed and formulated in February 2014 and subsequently approved by the Chief Minister, the plan comprises a set of activities to: (a) increase own source revenues, thereby enabling higher investments in development programs; (b) reduce administration and compliance costs; (c) facilitate taxpayers to enhance voluntary compliance; and (d) improve the efficiency and equity of provincial taxation. The specfic reform activities will cover: (a) institutionalizing evidence-based tax policy and administration and coordination mechanism; (b) institutionalizing IT-based business processes for efficient tax administration; (c) generating a policy dialogue to create and sustain impetus for tax reforms seeking revenue adequacy, as well as efficiency and equity in taxation.

[1] Annex 7 provides a detailed overview of the provincial taxation in Sindh.

11. **The Finance Department (FD) has led and managed the design and development of this plan through consultation with a variety of stakeholders.** It has been prepared under the leadership of a several groups consisting of policy makers and middle managers and consisting of the four main government tax coordination and collection agencies. Going forward, a high-level steering committee, chaired by the Minister Finance/Advisor Finance, will hold meetings to review and oversee implementation of STRMP on a quarterly basis. Secretary Finance will continue to coordinate monthly implementation of STRMP and take necessary measures to streamline implementation.

12. **The opportunity for revenue growth associated with STS, in particular, is substantial.** Since its creation in 2010, SRB has demonstrated highly satisfactory revenue collection performance. In comparison to the tax receipts from sales on services of about Pakistan Rupee (PKR) 15 billion (US$ 150 million) for the Province when the tax was federally administered, SRB collected PKR 26 billion (US$ 260 million) during its first year of operations, PKR 33 billion (US$ 330 million) during the second year, PKR 42 billion (US$ 420 million) during the third year, 2013-2014, and is targeting PKR 9 billion (US$ 90 million) during FY 2014-15. STRMP goal now targets an increase in tax collection to PKR 100 billion (approximately US$ 1 billion) within the next five years, starting FY 2014-15.

13. **Government needs to address several key challenges to meet the ambitious STRMP target.** These include: limited national tax compliance culture compounded by high compliance costs; undocumented transactions; complicated judicial processes used as delaying tactics by some taxpayers; low perceived rationality of public expenditure; limited evidence base to deepen and broaden the tax base; shortage of qualified tax administrators with the necessary sector-specific technical skills; limited transparency; absence of a comprehensive automated tax administration platform; coordination challenges with other provincial agencies; and continuing operational ambiguities vis-à-vis the federal government including limited access to information from the automation system of FBR.

Expenditure Management

14. **The Government of Sindh has introduced several Public Financial Management (PFM) reforms but challenges remain.** Over the years, GoS has taken various initiatives to improve its PFM systems. Some relate to ongoing reforms at the federal level since accounting and audit are federal subjects. The budget classification is aligned with international standards and significant improvements have been made in the coverage and scope of the Government Financial Management Information System (GFMIS). At the provincial level Medium Term Budgetary Framework (MTBF) were introduced in 2009 and rolled out in six departments by 2012.

15. **Deterioration in performance of public financial management systems is constraining economic and social performance.** A Public Expenditure and Financial Accountability (PEFA) assessment was conducted for Sindh in 2009 and 2013. Despite the improvements noted above, less than a third of the scores are at a satisfactory level indicating a limitation in the ability of the Provincial Government to achieve aggregate fiscal discipline, strategic allocation of resources, efficient service delivery and financial compliance. Most notable are the deficiencies in budget

credibility and the internal control structure applicable to budget execution casting doubts on the accuracy, completeness and credibility of information available to the officials responsible for key decisions. Annex 6 provides a summary of PEFA findings and scores.

16. **Budget credibility and transparency is undermined by the frequent use of extra-budgetary releases met through supplementary grants/re-appropriations among grants.** The executive has extensive power for amendments to the approved budget, including expansion. The law allows ex-post approval of these changes with the presentation of the next year's budget proposals. Such large-scale revision of the approved budget through a "mechanism of releases" significantly reduces the opportunity to use the budget as a tool to create fiscal discipline, economy and transparency.

17. **The quality and timeliness of the financial reports are undermined by the non-operationalization of the commitment accounting module of GFMIS and significant delays in the reconciliation of civil and public accounts, which compromises transparency.** The Government of Sindh has no consolidated information on its liability under existing contracts/commitments. Substantial volumes of arrears, especially in development expenditure await payment. The unaccounted backlog of liabilities is one of the major problems in preparing an accurate cash flow. The same challenge compels FD to control expenditure through the mechanism of releases instead of an approved budget. This gap in procedures also provides potential opportunities for rent-seeking when the authorities involved in the payment cycle can easily switch among the vendors who all have approved bills from the principal accounting office and are waiting for the release of payment.

18. **Recording and reporting of debt, particularly foreign debt, is fragmented and a consolidated picture is currently not available.** The official reporting of debt stock in financial statements is un-reconciled and without any data based on government FMIS or even any manual debt ledgers. No single entity is looking at the overall provincial debt portfolio; active loans are being managed by P&DD, while the record of closed loans is with FD. Given little analysis of the debt portfolio as a whole, the provincial legislature also does not evaluate GoS performance in public debt management.

19. **While the scope, nature, and follow-up of external audits are adequate, significant efforts are required to clear the backlog of review of audit reports and to prevent the build-up of any new backlogs.** The Departmental Accounts Committees (DAC)[2], the first line of scrutiny of reports submitted by the Auditor General, comprises representatives from the audited department and FD, and face capacity and monitoring and evaluation constraints. Follow up of recommendation is also limited. The legislature has a key role in exercising scrutiny over the execution of the approved budget through the Public Accounts Committee (PAC) of the Sindh Provincial Assembly, which examines the external audit reports, if not already settled by DACs, and questions responsible officials about the findings of the reports. Presently, there is a delay of more than three years to examine reports of the Auditor General of Pakistan (AGP). This substantial delay undermines the effectiveness of AGP audit. Follow-up of PAC

[2] DAC discusses findings and observations of the external audit and is the forum for settlement of any observations prior to the finalization of the audit report for submission to the government as well as the compliance related observations deemed not material enough for inclusion in the final audit report.

recommendations is also limited. There is no system whereby the recommendations/directions issued by PAC can be tracked for implementation.

20. **Formal coordination of PFM reforms could be improved.** A comprehensive Public Financial Management Strategy was approved by the provincial cabinet in October 2014 to formulate, monitor and steer reforms. For better transparency and to gain support for the reform effort, the Government is considering holding regular consultation sessions with parliamentarians (especially the members of the Committee on Finance and Public Accounts Committee), development partners, civil society representatives and district administration officials.

21. **Despite several regulatory improvements, public procurement in Sindh faces the standard developing countries challenges of cost, timeliness and quality.** The PEFA assessment highlights absence of credible data as a major factor causing lower scores, despite a good regulatory framework. Progress includes: the establishment of the Sindh Public Procurement Regulatory Authority in 2004; adoption of the Sindh Public Procurement Rules in 2010; development of standard bidding documents for goods and works, and a standard requests for proposal for consulting services. While these are significant legislative and systemic steps towards improving the regulatory system, substantive qualitative changes in procurement performance have not been observed. The procurement practitioners are aware of the rules, but the competencies to focus on performance rather than compliance are limited. The absence of implementing regulations, limited training and reliance on the previous practices mean that the benefits of an enhanced regulatory framework are yet to be realized. A deeper analysis on the current context, challenges and opportunities for improvement in procurement systems, based on Organization for Economic Co-operation and Development (OECD) Development Assistance Committee (DAC) Baseline Indicator Survey, is presented in Annex 8.

22. **Disconnect between budget releases and procurement plans, and limited capacity of local suppliers and procurement officials, are major contributory factors.** Limited planning, budgeting and risk management are common risks faced by agencies leading to delays in processing contracts and cost overruns. The budgets contain an outline of a procurement plan, but the packaging and planning from advertisement to award is often not done. The uncertainty associated with the budget releases further exacerbates the situation, creating a rationale for undue changes and rendering a procurement plan impossible to track. At the entity level, most procuring agencies have never had specialist staff to manage procurements and contract administration. The capacity gaps of procurement officials, already significant despite decades of experience with the old procurement manual, have been aggravated by the demands of a completely new regulatory regime. Capacity of suppliers, especially for smaller projects, is also limited. Timely and accurate information on the requisite details of various procedural steps of the procurement process is absent. Progress could be achieved by putting in place a comprehensive procurement training strategy. The Bank is supporting all Public Procurement Regulatory Authorities (PPRAs) to conduct a training needs assessment and develop a training plan.

23. **E-procurement offers a viable solution for improving procurement transparency and increasing competition.** Given the relatively advanced institutional capacity of SPPRA compared with the other provinces, implementing an e-procurement system, strongly recommended by the draft National Procurement Strategy, is a possible next step for the Province. Global experience

points out that this system can help in improving transparency and competition of the procurement process, and create a reliable source of data which can be used to improve procurement performance and inform the public about results. GoS is committed to start work on developing such a system. In parallel, a Monitoring and Evaluation (M&E) system for SPPRA is being developed to serve as an immediate solution to capture, analyse and retrieve data for performance management until e-procurement is implemented and rolled out. A training strategy is also being adopted and implemented by SPPRA to enhance the capacity of the procuring entities and enhance professionalization of procurement.

Management of Development Portfolio

24. **Inadequate monitoring and evaluation hampers management of development expenditure.** The Planning and Development Department (P&DD) prepares the one billion dollar-plus Annual Development Program (ADP)[3] and coordinates all external assistance, including that of the World Bank. Currently, the Monitoring and Evaluation Cell (MEC) of P&DD monitors selected provincial ADP schemes. The current focus of MEC on logging of financial and physical progress of a small sample of schemes, based on passive data collection from field implementers, is insufficient. A clear picture of the provincial portfolio, major bottlenecks, and field results does not exist. Monitoring of quality of construction and maintenance remains limited. This is an important concern of the senior political and administrative leadership because of widespread reports about poor quality of civil works. The response to the monitoring reports shared by MEC is also limited. A deeper analysis of the current context, challenges and opportunities for improvement in the management of the development portfolio is presented in Annex 8.

25. **The quality and timeliness of execution could be improved by using information collection, communication and decision-making innovations.** The capacity of the M&E Cell and other monitoring mechanisms to monitor the quantity and quality of execution of the development portfolio, including civil works construction, could be enhanced with improved information collection, analysis and visualisation. Monitoring of major programs for improved decision-making to address bottlenecks could be enhanced with management dashboards. In particular, the following could help understand the quality and spatial coverage of expenditure: using smart phones to collect geo-tagged data of scheme progress and quality; targeted use of third parties to inspect quality of construction including use of photo-enforced monitoring; proactively engaging beneficiaries of projects to get feedback on quality and maintenance; and a management dashboard, for input and output monitoring and related decision-making. It will also improve the perception of beneficiaries regarding the usefulness of the scheme and the quality of construction; the capacity to analyse, visualise, and present the data for enhanced timely decision-making; and the capacity to understand the impact of various interventions. Initial efforts to introduce such

[3] Annual Development Program is the compilation of ongoing and new projects and the amount of funding they are likely to receive during the year. It is approved by the provincial assembly. The 2013-14 provincial ADP allocations, for example, are estimated at around 1.6 billion dollars spread around 2463 schemes. These large schemes are in turn spread over one or more geographical locations. From the funds made available by the Finance Department, the planning and Development Department provides funds against the approved schemes, or any other scheme that may be inserted in ADP, with the approval of the relevant authority, monitors progress and reallocates funds based on their relative progress.

smartphone-based monitoring of human resource in the health department and the Sindh Peoples Primary Health Initiative have received an enthusiastic response.

Government Strategy

26. **Led by the Finance Department, the Government of Sindh has approved tax and PFM reform plans to provide a roadmap for fiscal and financial management reform**. Endorsed by the Chief Minister, the Sindh Tax Revenue Mobilization Plan (STRMP) was shared and approved at a February 2014 Taxation Forum, representing tax practitioners, taxpayers, business persons, academia and civil society representatives. STRMP includes a detailed roadmap for medium-term reforms in revenue mobilization covering tax policy, administration and institutions. These include: (i) revenue goals associated with policy and technical/administrative tax reforms (over and above current projections) for each tax; and (ii) specific policy and technical/administrative initiatives associated with meeting these goals. The approved PFM reform strategy (2014) uses PEFA findings as a foundation. The Bank's engagement in Sindh Province is premised upon these two reform plans.

Other Development Partners

27. **In addition to the proposed Bank support, the European Union (EU) has committed approximately Euro 9 million of technical assistance to PFM reform in Sindh Province over a five-year period.** The EU PFM TA, with specific interventions to be finalized in close collaboration with the World Bank during the inception phase, is likely to provide technical assistance related to the achievement of three key Public Financial Management objectives: (i) establishing strategic budgeting in Sindh Province, (ii) enhancing the credibility of budget execution and reporting, and (iii) improving accountability. The Bank and EU teams are working together to harmonize the dialogue and ensure that their respective initiatives are complementary. Asian Development Bank (ADB) does not have an ongoing core public sector/governance operation in the Province. United States Agency for International Development (USAID) is helping institutional development of the Sindh Public Procurement Regulatory Authority (SPPRA) under its Assessment and Strengthening Program.

C. Higher Level Objectives to which the Project Contributes

28. **The proposed operation has direct relevance to the Pakistan Country Partnership Strategy.** One of the pillars of the Country Partnership Strategy (CPS) for FY 2015-2019[4] is accelerating improvements in services. Improved services in Pakistan focuses on multiple strategies including: (i) increasing revenues to fund services, (ii) improve public financial management, (iii) improve development expenditures, and (vi) setting more ambitious stretch targets for areas that are not producing change fast enough (especially education and health). The scope of the proposed Project touches upon all of the aforementioned areas of focus. Several interventions - tax collection and budget variance as part of the PEFA scores, departments adopting

[4] The Executive Directors discussed the joint BANK/IDA/IFC/MIGA Country Partnership Strategy for Pakistan for the period FY2015-2019 (R2014-0065[IDA/R2014-0109, IFC/R2014-0084, MIGA/R2014-0019]), dated April 9, 2014) at the Board meeting on May 1, 2014.

proactive feedback mechanism, establishment of service delivery units – directly support the CPS results framework. In addition, the Project will also support large Bank investments in education, nutrition, irrigation and agriculture sectors in the Sindh Province.

II. PROJECT DEVELOPMENT OBJECTIVE

Project Development Objective (PDO)

29. The development objective of the Project is to strengthen public sector performance in the Province of Sindh through improved revenue generation and expenditure management.

30. The Project will support improvements in revenue collection, public financial management and procurement systems. The quality of public expenditures remains beyond the Project scope. The success of the Project is to be measured by the following outcome indicators: improved collection of Sales Tax on Services; improved credibility of budget execution; and increased timeliness of contract execution.

Project Beneficiaries

31. **The Project is oriented mainly towards improving and strengthening upstream government systems, which are expected to ultimately imply better public policies and services, benefitting Sindh's citizens.** Direct beneficiaries of the Project will be government departments, particularly the officials of the Finance, Planning and Development, Agriculture, Education and Irrigation Departments, but also others reaping efficiency gains from improved tax collection, budget and procurement management. These include senior and middle management of the provincial administration and public servants. Lastly, improvements in procurement, development management, and tax collection are expected to increase Sindh's fiscal space, reduce leakages, increase transparency and make more funds available for service provision.

PDO Level Results Indicators

32. **Indicators for measurement are as follows:** (a) improved collection of Sales Tax on Services; (b) improved credibility of budget execution; (c) reduced time taken to process procurement contracts. PDO and intermediate indicators are provided in Annex 1, the Results Framework.

III. PROJECT DESCRIPTION

A. Project Components

33. **The Project consists of two complementary components: (i) results-based financing based on DLIs to provide an incentive for achieving eligible public sector management ("PSM") reforms (US$ 40 million), and (ii) technical assistance to support activities for achieving DLIs (US$ 10 million).** Results-based financing will disburse against agreed eligible

expenditure programs (EEPs) based on DLIs in four reform areas: increasing tax revenue mobilization; enhancing performance of public financial management systems; strengthening public procurement performance, and improving management of the development portfolio.[5]

Table 1: Eligible Expenditure Budget Programs (Million Dollars)

Identified EEPs	**FY 13- 14**	**FY 14-15**	**FY 15-16**	**FY 16-17**	**FY 17-18**	**FY 18-19**	**Total**
Tax Administration Improvement	18.7	20.6	22.7	24.9	27.4	30.2	144.5
Public Financial Management and Monitoring of Development Expenditure	9.4	10.3	11.4	12.5	13.7	15.1	72.4
Public Procurement	0.4	0.4	0.4	0.5	0.5	0.6	2.8
TOTAL	28.5	31.3	34.4	37.9	41.7	45.9	219.7
Disbursements of Credit Component[6]		20	6	5	5	4	40

34. ***Component 1: Results-based financing to provide an incentive for achieving eligible PSM reforms (US$ 40 million).*** Under the results-based component, Credit disbursements will reimburse expenditures incurred by the Government of Sindh in selected key budget line items referred to as EEPs. The event and amount of Project disbursements will be contingent on satisfactory achievement of disbursement linked indicators. EEPs include pay and allowances for departments of Finance, Excise and Taxation, and Planning and Development, the Board of Revenue, SPPRA, and SRB since the Project interventions will mainly focus on these organizations.

Increasing Tax Revenue Mobilization

35. **The objective of this sub-component is to increase the collection of STS.** It will support development, approval and publication of the Sindh Tax Revenue Mobilization Plan; institutional development of SRB with enhanced staffing, increased automation, and improved auditing practices; and improved management with improving monitoring and evaluation and increased transparency.

Enhancing Performance of PFM Systems

36. **This sub-component aims to strengthen PFM systems by improving budget formulation, execution and related oversight mechanisms.** Interventions include: establishing internal audit mechanisms; increasing the use of the FMIS; improving debt management; and increasing transparency and legislative oversight in budget formulation and execution.

Strengthening of Public Procurement Performance

37. **This sub-component aims to strengthen the public procurement performance by improving capacity of staff, improving monitoring and evaluation and enhancing**

[5] Annex 2 provides more detailed information on the Project components.

[6] The disbursement calendar is detailed in Table A.3.2, in Annex 3.

transparency. The proposed interventions include: improving capacity of procurement professionals with certification; improving performance monitoring and transparency with a Management Information System (MIS); and improving competition, efficiency and transparency with an e-Government Procurement ("EGP") system.

Improving Management of the Development Portfolio

38. **This sub-component aims to improve monitoring of the development portfolio.** The project interventions include: the development of an ICT-based ADP monitoring system and publication of quarterly reports by the Monitoring and Evaluation Cell of P&DD for improved delivery of the development portfolio; geo-tagging of development schemes for improved spatial planning and quality of implementation; and proactively seeking feedback from identified beneficiaries of selected schemes.

39. ***Component 2: Technical Assistance (TA) to support capacity building and institutional strengthening associated with achievement of eligible public sector management (PSM) reforms, mitigating implementation challenges and promote sustainability of project outcomes (US$ 10 million). TA will be used to support all four eligible PSM reform areas: tax collection, PFM, procurement, and development monitoring.*** The technical assistance will consist of technical consultancies and capacity building activities, including training, seminars, conference participation, equipment purchase, and other activities. Efforts will be made to utilize an inclusive approach to capacity building and institutional strengthening to ensure strong female representation and a pro-poor focus. In particular, TA will fund activities in the following areas:

- ***Support to the implementation of reform activities included in the Sindh Tax Revenue Mobilization Reform Plan,*** including: (a) establishing a new Tax Reforms Unit in FD; (b) supporting TRU to conduct high quality analytical studies to support the decision-making process associated with GoS tax policy and administrative reforms; (c) reviewing critical aspects of STS administration with the potential to enable procedure harmonization with the other two revenue administrations in Sindh; (d) establishing a state-of-the-art training facility in sales tax administration and support other pre- and in-service training activities within tax agencies; (e) conducting initial studies to identify factors which can be employed to increase tax morale in the Province, which will serve as input to prepare large-scale taxpayer education programs; (f) conducting GIS and satellite imaging analysis for property tax and other tax reforms; (g) conducting regular tax payer communication, education and facilitation activities; and (h) supporting other efforts to implement the Sindh Tax Reform plan within Board of Revenue, Excise and Taxation Department and other tax agencies including but not limited to Urban Immovable Property Tax, Stamp Act, document/property registration and related reforms.

- ***Support to the implementation of the Sindh Public Financial Management Strategy,*** including: (a) supporting for enhancing the usage of the FMIS in Finance, P&DD and line departments; (b) improving cash management mechanisms including support to commitment accounting; (c) organizing trainings on the usage of FMIS reports in Finance, P&DD and line departments; (d) supporting pre-budget workshops and seminars (e) supporting debt management; (f) asset recording, internal control, and expenditure commitment control; (g) payroll and pension audits; (h) strengthening public accounts committees; and (i) strengthening citizen engagement and information disclosure practices.

- ***Support to the implementation of procurement reforms,*** including (a) developing and implementing the e-procurement and MIS plans by identifying required changes for the new technology to be effective; (b) partnering with higher education institutions and specialized training institutions to develop training modules which cover the full range of courses that are required for building procurement skills of procurement officials and; (c) supporting SPPRA in developing their own capacity and strengthening their regulatory framework (implementing regulations, contract management guidelines, etc.) .

- ***Support to the management of the development portfolio,*** including: (a) supporting capacity building activities of the Monitoring and Evaluation Cell/Development Delivery Unit within the Planning and Development Department; (b) developing systems of photo-enforced monitoring; (c) conducting satellite imaging and other GIS analysis, including creation of related infrastructure, to deepen poverty analysis for improved targeting/pro-poor development; and (d) supporting proactive beneficiary feedback of government development schemes and other day-to-day service delivery areas.

40. ***General Project Support,*** including: (a) seeding e-governance, taxation, and other public sector reform innovations, including proactive citizen feedback and other smart phone based monitoring mechanisms for incubation, documentation and scale up; (b) establishing a dedicated information and communications unit in the lead implementing agency (Finance Department) for donor, media, and civil society relations and engagement, complaints management, and proactive, regular, and wide communication and consultation on the reform agenda; (c) implementing a communication strategy to ensure inclusive communication outreach on the budgetary and other public expenditure and revenue raising information; and (d) carrying out an institutional review of the Sindh IT Department's capacity to implement e-services, review its board recommendations; (e) conducting third party reviews; and (f) conducting evaluations including rigorous academic evaluations of proactive feedback and other ICT-based monitoring mechanisms

41. **Technical Assistance (TA) to support capacity building and institutional strengthening associated with achievement of eligible PSM reforms, mitigating implementation challenges and promote sustainability of project outcomes (US$ 10 million).** TA will be used to support all four eligible PSM reform areas: tax collection, PFM, procurement, and development monitoring. In particular, TA will fund activities to:

- ***Support the implementation of reform activities included in the Sindh Tax Reform Plan,*** including: (a) analytical and programmatic support to establish a Tax Reform Unit (TRU) in FD; (b) development and communication of evidence-led policy analysis and administration reports with the special focus on sales tax on services; (c) GIS and satellite imaging analysis (d) execution of tax payer communication, education and facilitation programs (e) review of critical aspects of STS administration; and (f) establishment of a state-of-the-art training facility in sales tax administration.

- ***Support the implementation of the Sindh Public Financial Management Strategy,*** including studies, capacity building, and consultancy support for : (a) enhancing usage of the Financial

Management Information System; (b) improving cash management mechanisms; (c) trainings on usage of the FMIS reports; (d) online submission and processing of bills; (e) asset recording, internal control, and expenditure commitment control; and (f) payroll and pension audits; and (g) strengthening public accounts committees.

- ***Support the implementation of procurement reforms,*** including: (a) developing and implementing the e-procurement and MIS plans; (b) supporting implementation of training for building procurement skills of procurement officials and; (c) supporting SPPRA for their own capacity building and strengthening their systems (implementing regulations, contract management guidelines, etc.).

- ***Support the management of the development portfolio,*** including: (a) ICT-based systems, processes and dashboards and related capacity building activities; (b) photo-enforced monitoring; and (c) proactive beneficiary feedback of government development schemes.

- ***Support the project change management efforts,*** including: (a) conducting communication activities; (b) supporting innovations, including ICT-based proactive feedback and smart phone based monitoring efforts, to help create champions and demonstrate reform movement; (c) conducting evaluations including rigorous academic evaluations of proactive feedback and other ICT-based monitoring mechanisms; (d) conducting third party audits; and (e) providing general support to Economic Reforms Unit, Debt Management Unit, Tax Reform Unit and other project implementing entities for the execution of the PFM and tax reform plans.

Efforts will be made to utilize an inclusive approach to capacity building and institutional strengthening to ensure strong female representation and a pro-poor focus. More detailed information is provided in Annex 2.

B. Project Financing

i. Lending Instrument

42. **The proposed operation will be financed by an Investment Project Financing (IPF) Credit of US$ 50 million to the Government of Sindh in Pakistan and will use a results-based financing modality to support project implementation**. Previous experience of use of this modality has been successful for challenging reforms in the Sindh education sector. Lessons learned from the Sindh Education Sector Project (P107300), as well as similar results-based SIL projects designed in Punjab province and with the federal government and the Latin American region, have been incorporated into the project design. It will include a large results-based component (US$ 40 million) which will be linked to achievement of agreed-upon performance indicators (disbursement-linked indicators, or "DLIs") and a smaller technical assistance component (US$ 10 million). The time horizon for this operation is five years. This approach will ensure sustained funding to priority programs, enable the achievement of identified policy objectives, and contribute to developing a performance-based approach to public sector management in the Province. The TA component will complement the EEP and DLI part of the operation by providing the necessary capacity and technology to achieve the identified

development objectives. This approach also helps to address the ownership, coordination, and authorizing environment issues by better aligning the incentives of the different actors.

43. **The proposed IPF project design combines three critical and interrelated elements**: (i) specific EEPs against which Credit proceeds will be disbursed; (ii) DLIs that establish a performance-based framework to measure progress in sector reform implementation and to identify the operation's contribution to the identified development objectives; and (iii) TA support capacity building and knowledge dissemination in the targeted areas. Credit proceeds will be disbursed to the Government of Sindh against the execution of specific EEPs and the fulfillment of DLIs. The main disbursement arrangements are summarized below and detailed in Annex 3.

ii. Project Cost and Financing

44. **A large part of project expenditures will be financed from the current budget comprising of salaries and operating expenses of the key administrative departments where the reform interventions will concentrate.** These include the Finance, Excise and Taxation, and Planning & Development Departments and BOR, SRB and SPPRA that are directly involved in the implementation of the Project. The expenditures have been summarized in Table 3 based on the current year's budget estimates and assuming 10% annual increase of cost of salary and allowances.

45. **Disbursements in Component 2 will include direct payments for large TA contracts and related activities to support the project outcomes.** For direct payments, funds will be transferred directly from the Bank to the supplier bank account for major technical assistance and supply contracts (thresholds will be indicated in the disbursement letter). For other expenditures, disbursements will also be made against Interim Financial Reports (IFRs). Eligible expenditures comprise: (i) consultant services, (ii) goods, (iii) workshops and training, and (iv) other operating costs. Bank account maintenance and commission charges for the designated and operating accounts will be financed by the Credit.

Table 2: Project Cost and Financing

Project Components	IDA Financing	Government of Sindh	Other Donors	TOTAL
Results Based Component	40	220	0	260
Technical Assistance	10	0	12[7]	22
TOTAL	50	217	12	282

C. Lessons Learned and Reflected in the Project Design

46. **The design of this operation draws upon and adapts the experiences from the Pakistan portfolio as well as successful operations worldwide, particularly in the Latin America and**

[7] Approximately 12 million dollars of EU TA will not directly flow into the Project but will directly help Finance Department implement the Public Financial Management Strategy as part of the reform program.

Caribbean Region (LAC).[8] Lessons learned during the preparation and implementation of these operations include:

- ***Government ownership and willingness to reform are crucial to meet the indicators that are linked to the disbursements.*** The Government of Sindh has approved the tax reform and public financial management reform plans on which the Project is anchored. The technical assistance and DLIs are adapted to the needs and priorities of the Province and will contribute to smooth implementation.
- ***Need for prior analytical work and client engagement.*** In-depth analytical work is needed to ensure high quality project design. The Project is based on in-depth prior analytical work on public sector financial management in Pakistan and Sindh, in particular the 2009 PEFA assessment and the 2013 update conducted by the Bank which highlighted several possible areas of improvement in public financial management areas. Substantial investment on analysis of provincial taxes has also been undertaken.
- ***Well-defined and measurable indicators incorporated into the Government's monitoring framework contribute to a timely compliance process and early identification of potential delays.*** Indicators have been designed, in close coordination with the Government, to be clearly defined, measurable, and achievable within the reform efforts. The tax sub-component's indicators are based on a sub-set of STRMP indicators. Component 2 includes technical assistance to strengthen the provincial monitoring systems, finance innovations and just-in-time advice where needed.
- ***Close Bank supervision and coordination with the implementing agency is crucial to ensure timely disbursements, both on the results-based financing and technical assistance components.*** The proposed Project has clearly defined TA activities and all TA, as well as the monitoring of the DLIs, will be coordinated by the Economic Reforms Unit (ERU) in FD and SRB.

IV. IMPLEMENTATION

A. Institutional and Implementation Arrangements

47. **The Secretary of the Finance Department will have the overall responsibility for implementing the Project.** The Economic Reform Unit of FD, the designated Project Management Unit, shall coordinate with all participating or recipient agencies including P&DD, SRB, SPPRA and other tax collecting agencies and the targeted departments. Because of its central organizational mandate, FD also sits on the board of SRB and SPPRA. Capacity at ERU has been uneven during recent years, but efforts are underway to install a strong team. Institutional arrangements for donor-financed projects are established in the Province. A detailed fiduciary assessment of the implementing agencies has been conducted and arrangements have been agreed with counterparts to ensure mitigation of fiduciary risk to an acceptable level. FM risk is assessed as "Substantial" considering the challenging governance environment in the Province.

48. **The Project will build on the existing government led institutional mechanism for transition from STRMP development to implementation.** Several inter-governmental consultative groups which led the formulation of the Sindh Revenue Mobilization Plan will also

[8] In particular, Program design incorporates lessons from ICR Review of the Pakistan Public Sector Capacity Building Project and Independent Evaluation Group (IEG) review of Country Assistance Strategies (CAS) and Sector Wide Approaches (SWAps) in the Latin America Region.

provide expert technical advice on overseeing implementing of the STRMP. Similar implementation structure has been proposed for the implementation of the PFM strategy. In addition, a Project steering committee, to be chaired by the Additional Chief Secretary, Planning and Development Department, will be created no later than three months after effectiveness to oversee Project management, to provide ERU strategic direction and guidance, assure the exchange of information between participating agencies and ERU, and to identify problems and discuss corrective measures.

B. Results Monitoring and Evaluation

49. **The Project has a strong monitoring and evaluation focus**. SRB sales tax collection system is already substantially automated enabling easy collection and analysis of the relevant indicators. The proposed SPRRA MIS for information collection on key procurement timelines and processes also aims to generate performance data for improved monitoring and evaluation. The proposed interventions in the Planning and Development Department also aim at enhancing monitoring of the development portfolio. Third party validations, wherever appropriate, will also be deployed to verify DLI results and also to assess performance of the intermediate results indicators. The capacity of ERU will also be enhanced for effective monitoring and evaluation of Project activities. Capacity of the Monitoring and Evaluation Cell of the P&DD will also be strengthened with mainstreaming of modern ICT tools and selective use of third parties. The existing M&E system will incorporate improved mechanisms to monitor Project implementation, compliance with the established procurement and financial management procedures, and achievement of Project performance indicators included in Annex 1. Monitoring instruments include bi-annual progress reports on Project implementation, output and performance indicators, and targeted annual external assessment of compliance with DLIs. Where relevant, gender disaggregated data will be collected including from the proactive beneficiary feedback mechanisms.

C. Sustainability

50. **The Project is rooted in strong political and administrative ownership.** The STRMP, extensively discussed with stakeholders, including in a high-level consultative Taxation Forum, was approved by the Chief Minister. The PFM reform strategy has also been approved by the provincial cabinet. There are around four years to go before the next provincial elections become due, providing a substantial window of time to show results on the current agenda of reform. The momentum generated by the strong performance of SRB has also helped generate traction for the reforms and will also help sustain it. The Government has also concurred with the findings of the recent PEFA and has expressed commitment to improve. The strong ownership of FD, best positioned to coordinate with all the tax agencies, procurement authority, and other financial management entities, is also important. FD is also the implementing agency of the Project. Several tax reform committees have been constituted to institute inter-agency dialogue and coordination mechanisms. Several ongoing governance improvement efforts mainly covering public private partnerships and e-governance, also demonstrate that well-planned and sequenced reform efforts, can succeed even in challenging environments. Communication with stakeholders will be an important part of the reform. Contributing to sustainability, the Project will build on the existing government-led institutional mechanism and country systems for transition from reform agenda development to implementation that the Project will support.

Key Risks and Mitigation Measures

Table 3: Risk Ratings Summary Table

Risk	Rating
Stakeholder Risk	Substantial
Implementing Agency Risk (including Fiduciary)	
- Capacity	Substantial
- Governance	High
Project Risk	
- Design	Substantial
- Social and Environmental	Low
- Program and Donor	Moderate
- Delivery Monitoring and Sustainability	Substantial
Overall Implementation Risk	Substantial

Overall Risk Rating Explanation

51. **As is indicated in ORAF (Annex 4), the overall implementation risk for the Project is substantial.** Various mitigation measures are and will be put in place to address high stakeholders' risks, fiduciary and other Project execution risks during implementation Nevertheless, the risk during implementation is assessed to remain Substantial because of substantial or high governance, capacity, design and delivery risks (see ORAF). The proposed Project design is considered to be justified due to the potential high impact of successful Project implementation.

52. **Risks associated with the Project are substantial and must be managed accordingly.** Pakistan conducted elections in May 2013, resulting in a change of government at the center. In Sindh, however, the major coalition partner returned with a majority. Table 4 below includes the main risks and mitigation measures. A more detailed description is included in Annex 4.

Table 4: Key Risks and Mitigating Measures

Key Risks	***Mitigation Measures***
Political risk. Political risk is a critical element of any investment in Sindh Province. The ruling party has a strong hold but fluctuation in the center of gravity of its political leadership is possible.	In spite of these challenges, recent political changes have created some optimism for renewed reform opportunities in Sindh; and that competition between provinces will bear pressure on the Provincial Government to perform. At the moment - there are strong counterparts in place for the Project (Finance Secretary, Additional Chief Secretary at Planning and Development and Chairman Sindh Revenue Board), creating an opportunity for reform. This, coupled with the recent reform work with tax agencies, and the incubation of many e-governance and public private partnership reforms by senior managers, gives many a sense of cautious optimism about reform in Sindh. To strengthen the understanding of the context, an in-depth

	political economy analysis has been conducted of the Province to allow the Project team to refine specific strategies for managing these and other risks. In addition, strategic provincial reform plans for tax reforms have been agreed and endorsed by the highest political authorities in each area, documenting the ownership of the difficult reform processes. Similarly, provincial PFM Reform Strategy has been approved. Most importantly, this engagement process aims to develop stronger ownership for the Project and to enhance sustainability of reforms. Preparation and publication of the annual tax and PFM strategies progress report will also help sustain interest.
Leadership and coordination. Reforms in all areas will be subject to the risk of losing champions for priority reforms due to the excessive turnover of government officials in the Province. During the past few years, senior civil servants have been reposted annually, creating enormous flux and discontinuity in the Government.	The Project will support reform champions within the Sindh Government and other stakeholders such as civil society organizations, provincial assembly legislators, and enhance their capacity to articulate and advocate for policies reforms. Evidence-based efforts to expand the tax net, central to sustain a policy dialogue, will also help expand the quality of dialogue. Documentation and dissemination of innovations will also help create and sustain champions and ownership.
Sustaining Commitment. Reform implementation will generate debates about different aspects of reforms. Some of these may be agitated by interest groups who may perceive reform measures to be inimical to their short-term interests. Adequate funding for implementing agencies may be a challenge.	The proposed institutional mechanisms are designed to manage the internal stakeholder risks. SRB will manage external clients with extensive taxpayer facilitation and education, establish appellate tribunal and alternative dispute resolution mechanisms to facilitate citizens, and develop e-integrity management systems to check internal manipulation of IT systems. In addition, TRU will organize evidence-based tax policy analysis and education, and ERU at FD will carry out periodic briefings to sustain momentum of implementation. Preparation and disclosure of the annual progress reports of the tax and PFM strategy will also help sustain interest. Adequate funding for SRB, SPPRA, and Monitoring Cell of the P&DD will also be ensured. Similar disclosure mechanisms are planned for development management and procurement interventions. Communication will be a special focus during Project implementation.
Federal-provincial tax coordination. New federal rules changing the eligibility of STS for input adjustment, and similar other legal/regulatory changes, could curtail tax collection in the Province.	The federal and provincial governments have recently agreed to sort out some pending differences on STS collection. On outstanding issues, technical assistance will support analysis and communication to document the areas where inter-provincial consumption of services is claimed and carry out a study to find a workable mechanism in consultation with FBR and Punjab (and other provinces), carry out a study to clarify the goods and service components of complex goods or services to achieve agreement with FBR; support discussion on the inter-jurisdictional incidence of service consumption through evidence based studies; and organize discussion seminars to bring in international experience with sub-national VAT and various ways in which agreements on definitions and credit mechanisms have been achieved.
Implementation challenges. Multi-agency coordination, the risk of losing key champions, design of innovations, and resistance to reforms are key major challenges. Improving the efficiency, enforcement, and transparency of sales tax on services and other introduction of other transparency and oversight interventions in	Building support of taxpayers and other government internal stakeholders will require a well thought-out communication plan. Policy papers based on analysis to sustain a policy dialogue on efficiency and equity of provincial taxation will also support implementation. In addition the new platform for taxpayer facilitation, education and dialogue is expected to mitigate the risk. SRB will also establish appellate tribunal and alternative dispute resolution

public financial management, procurement and development management is likely to face opposition to reform. Opposition may include They include those who would experience an increase in tax and the officials who collude by under-reporting or not declaring tax liabilities or may lose other rent-seeking opportunities or may resist improved monitoring of development schemes.	mechanisms to facilitate citizens. It will also develop e-integrity management systems to check internal manipulation of IT systems. Similar change management efforts will be undertaken for other challenging reform areas like PFM, procurement, and development management. Project management unit capacity and early results, even with incubation of innovations, will also be critical to sustain reforms.

V. APPRAISAL SUMMARY

A. Economic Analysis

53. **The net present value of the proposed interventions, though difficult to quantify, is positive.** For details, please see Annex 10. The proposed Project will improve the public sector performance by improving revenue collection, better management of public finances, enhancing the capabilities of staff of concerned departments, and making more funds available for development projects. Except the increase in revenue collection, the benefits of the Project, especially in terms of efficiency gains in procurement and budget execution, cannot be easily translated into monetary terms. Therefore, the economic analysis makes less use of the quantitative data and relies mostly on qualitative analysis. Moreover, the appropriate attribution of benefits of the Project is difficult since GoS is taking other initiatives as well.

54. **The overall benefits of the Project include better use of public funds, increased credibility of the budget, result based management, and more transparent budget releases**. The Project aims at training employees in the concerned departments which will improve internal capacity and more qualified workforce will be available to run the business of the Government. Furthermore, more informed policy decisions would be taken regarding development projects, especially in the proposed areas of intervention. The saving in public spending, through better management practices in the procurement, will make more funds available for the development of the Province.

55. **The Project sets GST on services revenue targets for the next five years but the benefits of increased tax collection will go on beyond five years because increase in tax base and improved capacity of tax department will contribute to higher tax collection beyond the Project period.** The present value of the increased revenues, over the next five years, is estimated approximately $13.9 million under the low scenario, $28 million under the moderate scenario and $56.3 million under the high scenario. These figures over the next 25 years are estimated at $ 101.9 million under the low scenario, $204.8 million under the moderate scenario and $413.3 million under the high scenario. (See Table A10.1 for more details). Hence, it is clear that this increase in revenue alone covers the cost of the intervention in all proposed areas. The total present value of the increased revenues is many times higher than the above figure as revenue increases will not be limited to only ten years. Moreover, the automation of the tax system, human resource management reforms in the tax machinery and institutionalization of evidence-led tax policy will further improve revenue collection.

56. **The gains from procurement reforms, though difficult to estimate, are expected to be significant in terms of improved transparency and financial savings.** Different countries underwent procurement reforms and the evidence of success is heterogeneous. Nonetheless, there is evidence of 20% cost saving in Australia due to procurement reforms. The e-procurement, if implemented, will definitely result in significant cost savings for GoS. It also would increase the transparency and credibility of the Government.

57. **Finally, the Project will improve public financial management in four priority areas; education, health, agriculture, and irrigation.** The objective of this sort of intervention is to ultimately improve public service delivery. The improvement in health and education sectors will contribute to the accumulation of human capital which would result in higher productivity of workers and ultimately lead to poverty alleviation and shared prosperity. Moreover, it is perceived that public investment in health and education would be pro-poor. Similarly, the improved service delivery in agriculture and irrigation would lead to improved living standard of the people as livelihood of most of the households, especially in rural Sindh, depends on agriculture.

B. Technical

58. **The rationale for selecting the technical design for the Project relies on the critical factors described below:**

- ***Opportunity***. The current focus of GoS on enhancing fiscal space through both revenue mobilization and better expenditure management creates space for engagement in a policy dialogue around politically sensitive issues on tax policy, tax administration reforms and the increasingly limited performance of PFM systems in Sindh.
- ***Feasibility***. International experience shows that tax administration and tax policy reforms when undertaken in combination provide the best gains. They also demonstrate that short-term gains create space for more difficult reforms including targeting the high levels of perceived leakages in public finances. These together if implemented with appropriate and flexible design could generate gains for expanding the overall envelope of resources available to enhance development and target poverty alleviation activities.
- ***Sequencing:*** The proposed interventions at this stage represent areas of current focus in FD. There is high ownership of reforms which are more likely to be successfully implemented. These interventions, if developed and implemented within the context of a comprehensive policy dialogue, will serve the twin purposes of engendering reform ownership as well as widening the scope for reform discussions with GoS. In the medium to long-term, a number of closely related reform interventions will be necessary to increase revenue mobilization and better management of government resources.
- ***Significance.*** The proposed interventions represent key points of entry in tax administration reform in Sindh through SRB and PFM reforms through FD. Early success could create space for more difficult reforms in tax policy, procurement performance and accountability in expenditures. The interventions could result in both institutional gains and revenue collection increases.

C. Financial Management

59. **Having due regard for the state of public financial management systems in the country and particularly in the Province of Sindh, the overall financial management risk is rated as *Substantial*.** The implementing entities (ERU and SRB) are using the country financial management system but have not implemented any donor-funded project. The financial management capacity of the entities will need to be augmented to manage the Project's financial management matters.

60. **The designed financial management arrangements for the Project are based on the country systems and provide reasonable assurance on the use of Credit proceeds for intended purposes.** Government budgeting processes will apply, and the Project's budget will be a part of the Government's annual budget. For the TA Component, ERU and SRB will maintain books of accounts on cash of basis of accounting in accordance with government accounting policies. The Accountant General will maintain the accounts in respect of EEPs using the government's FMIS. The Project's financial statements will be prepared in accordance with the Cash Basis IPSAS and audited by the Auditor General of Pakistan (AGP). The audited financial statements of the Project will be submitted to the Bank within six months of the close of the financial year. There is no overdue audit report or unsettled ineligible expenditure in respect of the implementing entities.

61. **Disbursement will be report-based.** For Component 1 (the results-based component), funds will be disbursed annually to the Provincial Consolidated Fund Account No. I (non-food); conditioned on satisfactory achievement of DLIs. The Credit proceeds will be applied against the reimbursement of EEPs as reported in the semi-annual Interim Financial Reports (IFRs). For Component 2 (Technical Assistance), advance equivalent to six months cash forecast will be provided in the Provincial Consolidated Fund Account No. I (non-food). However, the use of advance will be available to the Project only when the issue of lapsed loan in the Pakistan portfolio is fully resolved. The Finance Department would allow local currency Assignment Account to both implementing entities to access funds for Component 2. Subsequent IFRs will be used to document the expenditure and determine the amount of advances. Semi-annually, IFRs covering a period of six months July to December and January to June will be submitted to the Bank within 45 days of the close of the period. The format of IFRs has been agreed during negotiations.

D. Procurement

62. **Procurement under the Project TA component will be carried out in accordance with the World Bank's guidelines.**[9] EEPs are salaries and procurement neutral budget line items. All the good and consultancies procured under any of the agreed EEPs, as well as TA component, shall be subject to the Bank procurement procedures. Even if any of the EEPs have procurable items, it is expected that these shall be limited to small value goods, and individual consultancies. The TA component will include selection of consultancy firms, individuals and goods (mostly IT and office equipment). The procurement needs for TA will be identified by the relevant Project agencies and will be coordinated by the Finance Department and SRB. For non-SRB focused

[9] "Guidelines: Procurement of Goods, Works and Non-Consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers" dated January 2011; and "Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers" dated January 2011.

procurements, the Finance Department (ERU) will take the lead. ERU has been staffed with an identified procurement focal point and additional procurement and contract management staff is being hired. SRB has a track record of carrying out large procurements of goods and consultancies; however for the Project and overall program implementation separate dedicated staff is being hired. Currently a focal point, who reports to the chairman, has been identified. The procurement plans of the TA component are finalized and approved. The fiduciary assessment has been completed; the procurement risk is Substantial.

63. The "Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants", dated October 15, 2006 and updated January 2011, shall apply to the Project.

E. Social (including Safeguards)

64. No social safeguards are triggered by the Project.

65. **Project stakeholders include: the Finance Department; Planning and Development Department; Accountant General; the Sindh Revenue Board; the Sindh Public Procurement Revenue Authority; Education, Irrigation, and Agriculture Departments; and taxpayers and business groups affected by tax policy changes.** A brief summary of relevant stakeholder concerns is provided below:

- Borrower/Government: The tax policy tensions between the center and the provinces remain a significant issue, calling into question the sustainability of the reform agenda.
- Finance Department, Planning and Development Department, and Accountant General: Currently champions exist in the Finance Department and the P&DD but frequent changes in senior bureaucracy have been the norm in Sindh. The Accountant General's office is currently not a reform leader, yet is critical to increased PFM oversight.
- Sindh Revenue Board and other Tax Administration Agencies: The two most significant risks to tax reform are opposition to reform and limited execution.
- Sindh Public Procurement Regulatory Authority and implementing agencies: Procurement performance depends on the extent to which senior leadership in GoS supports the implementation of an e-procurement system, and the degree to which the selected implementing agencies support the development of the e-procurement system. Likewise the resolve of SPPRA in adopting and implementing the training strategy and interest of the procuring agencies in benefiting from the opportunity will impact the overall capacity of procuring staff.
- Planning and Development Department: Introducing new practices in the Monitoring and Evaluation Cell and monitoring the quality of construction may meet resistance.
- Taxpayers and Business Groups: Due to the volatile nature of tax reform, taxpayers and groups affected by increased tax compliance and collection are likely to develop as important stakeholders in the Project. The politics of coalition formation may weaken the political resolve to take decisions essential for both revenue mobilization and PFM.
- Citizens: Community feedback, with a special focus on women, will be proactively sought to monitor the quality of construction schemes wherever beneficiaries can be distinctly identified. Already, the Finance Department is seeking feedback on the problems faced by government staff – a substantial percent of which are women – during processing of pension cases at various

district treasury offices. Citizens may however not be fully informed of quality of construction issues.

F. Environment (including Safeguards)

66. The Project will not involve rehabilitation, civil works or construction and, therefore, it will have a Safeguards Category "C" rating which requires no Environmental Management Plan.

Annex 1: Results Framework and Monitoring

PAKISTAN: Sindh Public Sector Management Reform Project

	Project Development Objectives										
	PDO Statement The development objective of the Project is to strengthen public sector performance in the Province of Sindh through improved revenue generation and expenditure management.										
	Project Development Objective Indicators										
				Target Values						Data Source/	Responsibility for
	Indicator Name	Unit of Measure	Baseline	FY 14-15	FY 15-16	FY 16-17	FY 17-18	FY 18-19	Frequency	Methodology	Data Collection
1	Improved collection of Sales Tax on Services (STS)	Percentage	39.4 billion PRs (FY13-14)	3.5%	3.5%	3.5%	3.5%	3.5%	Annually	Annual Financial Statements	SRB
2	Improved credibility of the budget	Percentage	Variance is 13.48% for FY 2011/12	13%	13%	12%	10%	10%	Annually	Audited Financial statements for the year	FD
3	Reduced time taken to process procurement contracts	Percentage	82 days	-	5%	10%	10%	15%	Annually	SPPRA monitoring reports	SPPRA

	Intermediate Results Indicators										
	Indicator Name	Unit of Measure	Baseline	Target Values					Frequency	Data Source/ Methodology	Responsibility for Data Collection
				FY 14-15	FY 15-16	FY 16-17	FY 17-18	FY 18-19			
Area 1: Increasing revenue mobilization through tax policy reforms and increased administrative efficiency in tax collection:											
1	**Approval and initial implementation of Sindh Tax Revenue Mobilization Reform Plan (DLI)**		Tax Reform Plan approved in Feb 2014; 2012-13 STS collection is 34 billion.	i) FD has publicly disclosed the Sindh Tax Revenue Mobilization Reform Plan. ii) SRB's collection of STS for FY2013/14 reached PKR 39.43 billion.					FY 14-15 only.	Government Accounts and FD website.	FD
2	**Enhanced SRB human resources capacity for administration (DLI)**	Process	Staffing and training plan is under development.	SRB has approved an enhanced staffing and training plan and a human resources policy acceptable to the Association.	SRB has: (i) has hired and trained at least 50% of the staff sanctioned as per approved staffing plan; and (ii) carried out a third party review of the staffing plan and the implementation thereof.	SRB has: (i) approved a revised staffing plan as per the recommendation of the third party review; and (ii) has hired and trained at least 75% of the staff sanctioned as per the revised staffing plan.	SRB has: (i) has hired and trained at least 90% of the staff sanctioned as per revised staffing plan; and (ii) carried out a third party review of the revised staffing plan and the implementation thereof.	SRB has approved a revised staffing plan as per the recommendation of the third party review.	Annually	SRB documents/ TPV reports	SRB
3	**Increased automation of SRB systems (DLI)**	Percentage	Zero automated notices; Unique taxpayer identification system does	SRB has developed and approved an automation plan for tax collection and administration.	SRB has: (i) piloted the automation plan; (ii) established linkages with third party databases; and	SRB has: (i) implemented the automation plan; and (ii) carried out a third party database analysis.	SRB has: (i) issued all notices to at least 90% of non-compliant registered taxpayers in FY2017/18	SRB has issued all notices to at least 90% of non-compliant registered taxpayers in FY2018/19	SRB documents/ TPV reports	SRB reports	SRB

			not exist; No third party linkages		(iii) carried out a third party review of the automation systems.		through automated systems; (ii) carried out a third party review of the automation systems; (iii) reviewed the recommendations made by the foregoing third party review; and (iv) approved a follow-up automation implementation plan.	through automated systems.			
4	Increased tax base	Percent	4800	5%	10%	15%	20%	25%	Annually	SRB reports	SRB
5	Risk-based audits of taxpayers implemented (DLI)	Process/ percentage	System absent.	SRB has developed risk-based criteria for the carrying out of taxpayer audits and fraud investigations.	SRB has (i) conducted audits of taxpayers as per the risk-based criteria; and (ii) established a *hit rate* benchmark (baseline).	SRB has: (i) conducted audits of taxpayers as per the risk-based criteria, resulting in: (A) a hit rate of 85%, or (B) a *hit rate* increase of at least 5% (against benchmark), during the initial nine months of FY2016/17; and (ii) when applicable, initiated the corresponding fraud investigations.	SRB has: (i) conducted audits of taxpayers as per the risk-based criteria, resulting in: (A) a hit rate of 85%, or (B) a *hit rate* increase of at least a 5% (against the previous Fiscal Year's *hit rate*), during the initial nine months of FY2017/18; and (ii) when applicable initiated the corresponding fraud investigations.	SRB has: (i) carried out a strategic review to enhanced risk-based criteria objectivity; and (ii) approved a compliance risk management strategy, in order to increase the audits' *hit rate*.	Annually	SRB reports	SRB
6	Improved SRB performance transparency	Number	Annual report irregular, quarterly reports not published	Annual report published.	Two quarterly reports and one annual report published.	Four quarterly and one annual report published	Four quarterly and one annual report published	Four quarterly and one annual report published	Annually	SRB website	SRB

Area 2: Enhancing performance of public financial management systems											
7	Debt management systems instituted.	Process	Debt Management Systems do not exist.	External debt management procedure and operation manual for GoS notified.	a) FD conducts sensitivity analysis of debt servicing estimates w.r.t. exchange rate and interest rate b) Publication of the above in the Budget Analysis for FY2015/16.	a) FD debt database captures 100% information on debt servicing and disbursements b) FD constructs the debt stock based on this information and publishes it in the Budget Analysis for three years (FY16: Actual, FY17: RE, FY18: BE).	a) FD publishes annual debt statistics bulletin in-line with international best practices having a lag of not more than six months. b) SN debt sustainability analysis approved by the Cabinet and published in the Budget Analysis.	a) Complete loan by loan debt stock (opening and closing) and flow details included in budget documents for FY 2017/18. b) Publication of annual debt statistics bulletin in-line with international best practices having a lag of not more than three months.	Annually	FD monitoring reports	FD
8	Increased extra-budgetary releases captured in FMIS	Percentage	Not available.	Baseline established.	65%	75%	80%	90%	Annually	FD monitoring reports	FD
9	**Establishment of internal audit (DLI)**	Text	Internal audit function does not exist.	FD has: (i) established internal audit functions and identified the audit scheme(s), which can be revised from time to time; and (ii) allocated sufficient and adequate staff thereof, in numbers and with qualifications satisfactory to the Association.	FD has: (i) conducted an internal audit(s); and (ii) prepared a risk-based audit plan.	At least three (3) Government Departments (in addition to the FD) have: (i) conducted internal audits; and (ii) submitted their internal audits reports to their PAOs.	i) At least five (5) Government Departments (in addition to the FD) have: (A) conducted internal audits; and (B) submitted their internal audits reports to their PAOs. ii) At least three (3) PAOs have undertaken actions in response to the forgoing internal audit	i) At least seven (7) Government Departments (in addition to the FD) have: (A) conducted internal audits; and (B) submitted their internal audits reports to their PAOs. ii) At least five (5) PAOs have undertaken actions in response to the foregoing	Annually	FD monitoring & audit report/Govt. documents	FD

							reports, within a month of receipt of such reports.	internal audit reports, within a month of receipt of such reports.			
10	**Transparency in budget formulation, allocation and execution (DLI)**	Process	a) Budget Strategy Paper not prepared b) One quarterly report submitted to the provincial assembly	FD has: (i) submitted to the Cabinet the Budget Strategy Paper for FY2015/16; and (ii) submitted at least two (2) quarterly budget execution reports for FY2014/15 to the Provincial Assembly, and published them in FD's website.	FD has: (i) submitted to the Cabinet the Budget Strategy Paper for FY2016/17; and (ii) submitted all four (4) quarterly budget execution reports for FY2015/16 to the Provincial Assembly, and published them in FD's website.	FD has: (i) submitted to the Cabinet the Budget Strategy Paper for FY2017/18; and (ii) submitted all four (4) quarterly budget execution reports for FY2016/17 to the Provincial Assembly, and published them in FD's website.	FD has: (i) submitted to the Cabinet the Budget Strategy Paper for FY2018/19; and (ii) submitted all four (4) quarterly budget execution reports for FY2017/18 to the Provincial Assembly, and published them in FD's website.	FD has: (i) submitted to the Cabinet the Budget Strategy Paper for FY2019/20; and (ii submitted all four (4) budget execution reports for FY 2018/9 to the Provincial Assembly and published them in FD's website.	Monthly / Annually	FD documents/ website documents	FD
Area 3: Strengthening public procurement performance											
11	Contracts data entered in the procurement MIS	Percentage	MIS does not exist.	MIS developed, and tested.	25%	25% .	50%	75%	Annually	SPPRA reports	SPPRA
12	Contracts processed through e-procurement modules	Percentage	E-procurement systems do not exist.	E-procurement action plan developed and adopted.	System designed	System tested with major contracts of one department.	25% .	50%	Annually	SPPRA reports	SPPRA
13	**Procurement officials certified (DLI)**	Number	No certification mechanism exists.	SPPRA has: (i) developed a procurement certification action plan setting forth contents, and delivery mechanisms; and (ii) notified the mandatory certification requirements.	SPPRA has certified at least fifty (50) officers of grade BPS-16 of above.	SPPRA has: (i) certified at least two hundred (200) officers of grade BPS-16 of above; and (ii) carried out a third party review of the certification process.	SPPRA has certified at least three hundred (300) officers of grade BPS-16 of above	SPPRA has certified at least five hundred (500) officers of grade BPS-16 of above.	Annually	SPPRA reports/TPV reports	SPPRA

Area4: Strengthening management and transparency of the development portfolio											
14	**Quarterly departmental development plan monitoring reports prepared and published (DLI)**	Number	Zero	P&DD has piloted the format of dashboard reporting on implementation of development schemes in at least one (1) Government Department.	P&DD has prepared and published at least two (2) quarterly reports on implementation of development schemes during FY2015/16 for at least one (1) Government Department.	P&DD has: (i) prepared and published at least ten (10) quarterly reports on implementation of development schemes during FY2016/17 for at least four (4) Government Departments; and (ii) carried out a third party review	P&DD has prepared and published at least sixteen (12) quarterly reports on implementation of development schemes during FY2017/18 for at least four (4) Government Departments.	P&DD has: (i) prepared and published at least twelve (12) quarterly reports on implementation of development schemes during FY2018/19 for at least four (4) Government Departments; and (ii) carried out a third party review.	Annually	P&DD reports/TPV reports	P&DD
15	Departments where geo-tagging of development schemes is implemented and information published.	Number	Zero	Geo-coding and photo enforced monitoring of development schemes is piloted.	1	i. 4 ii. Third party review conducted.	6	6	Annually	P&DD reports/ website	P&DD
16	Departments with proactive feedback mechanisms established	Number	Zero	Implementation arrangement, reporting and publishing formats established.	1	i. 3 ii. Third party review conducted.	7	7	Annually	P&DD reports	P&DD

Project Development Objective Indicators

Indicator Name	**Description (indicator definition etc.)**
1) Improved collection of Sales Tax on Services	Measures the overall performance of the Sales Tax on Services (STS) Collection. STS to be measured in real terms, as three and a half percent annual collection growth minus inflation. Performance is cumulative, and over or under-performance adjustable vis-a-vis preceding or succeeding years.
2) Improved credibility of the budget	The variance between actual and budgeted expenditure composition during the last three years, excluding contingency items; for the preceding fiscal year.
3) Reduced time taken to process procurement contracts	Time taken to process procurement contracts proxies procurement performance as measured by days taken from the first advertised tender to signing. Targets measure

	improvements against baseline; for targeted contracts of education, agriculture, health and irrigation departments with dataset as sampled in the "Review of Procurement Practices and Timelines in Specified Departments of GOS," dated Oct 2014, and as detailed in the operations manual.

Intermediate Results Indicators

Indicator Name	**Description (indicator definition etc.)**
1) Approval and initial implementation of Sindh Tax Revenue Mobilization Reform Plan (DLI)	Measures approval and implementation progress of STRMP.
2) Enhanced SRB human resources capacity for administration (DLI)	Measures SRB human resources capacity development progress.
3) Increased automation of SRB systems (DLI)	Measures transparency of taxpayer obligations, effectiveness of systems for taxpayer registration, tax assessment, and collection of tax payments through increased automation of several key systems and in particular the number of notices sent through automated systems.
4) Increased tax base	Measures the increase in the registration of the number of taxpayers to assess the increasing width of the tax base.
5) Risk based audits of taxpayers implemented (DLI)	Measures use of risk targeted auditing of taxpayers as a key activity to improve compliance and deter tax evasion and also its success with the hit rate.
6) Improved SRB performance transparency	Measures disclosure of key performance information (defined as debt collection, appeals resolution, tax payer facilitation, pre-service and in-service training conducted, annual taxpayer satisfaction survey and revenue and number of active and inactive tax payers and revenue collected against category) for increased public oversight.
7) Debt management systems instituted.	Measures the degree of implementation of the recommendations of the DeMPA reform plan.
8) Increased extra-budgetary releases captured in FMIS	Measures the percentage of extra-budgetary releases during the previous fiscal year entered by FD in SAP prior to payment.
9) Establishment of internal audit	Measures the degree of implementation of internal audit function to be established in GoS based on a plan to be adopted for staffing, mandate, and audit plans to focus on systemic issues.
10) Transparency in budget formulation, allocation and execution (DLI)	Measures transparency and legislative oversight through the budget cycle
11) Contracts data entered in the procurement MIS	Measures increased use of the procurement MIS for targeted contracts of the irrigation, health, agriculture, education, local government and works departments
12) Contracts processed through e-procurement modules	Measures the percentage of high value contracts processed through e-procurement systems for targeted contracts of the irrigation, health, agriculture, education, local

	government and works departments to assess the implementation of the new e–procurement system.
13) Procurement officials certified. (DLI)	Measures the increased capacity of the procurement staff.
14) Quarterly departmental development plan monitoring reports prepared and published (DLI)	Measures monitoring capacity of P&DD with focus on the Bank portfolio.
15) Departments where geo-tagging of development schemes is implemented and information published.	Measures improved spatial monitoring and planning capacity and increased transparency.
16) Departments with proactive feedback mechanisms established	Measures implementation of proactive feedback mechanisms, where government contacts the citizens to elicit views on various aspects of service delivery, for increased citizen oversight of development projects.

	DLI	Verification Protocol
1	Approval and initial implementation of Sindh Tax Revenue Mobilization Reform Plan (DLI)	• Publishing means disclosure of the approved Sindh Tax Revenue Mobilization Reform Plan on the Finance Department website during FY 14-15. • Approval means approval by the Chief Minister Sindh.
2	Enhanced SRB human resources capacity for administration	• Approval means sanction by the Board of SRB • Staff means staff of basic pay scale 15 or equivalent and above. • Training means pre-service and in-service training conducted as required by the approved SRB training plan as amended from time to time. • The staffing and training plan and HR policy, and any revisions, will be agreed with the Association. • Year 2 and 4 TPVs will review the adequacy of the staffing plan, the skills gap, the training systems, and implementation of the staffing plan to meet the SRB human recourse capacity needs to meet the annual targets set by the approved tax reform strategy. • Source: SRB documents and TPV reports.
3	Increased automation of SRB	• Automation means automated notice system, e-payment system, e-tax payer grievance redressal mechanism, unique tax payer identification number (STPIN) system, and e-tax payer facilitation and education. • Automated notice system means the detection of a possible non-compliance condition in the tax payer's return through an automated system and the production of a notice by the system. SRB will have various automated system(s) in place to report conditions such as non-filing, short payment, inadmissible (unverifiable or suspicious) input claim. Based on this detection the system will produce an automated notice which may be either dispatched electronically or with an officer's approval. • Tax identification number means a unique tax payer identification number. • E-grievance redressal system means electronic mechanism to report citizen grievances through a call center or email. A third party service center should be operational with a mechanism to receive

		phone calls and emails, log complaints and report follow-up action to; (i) tax payer / citizen; and (ii) management with escalation protocol for no action. • E-payment system means payment of taxes to a GoS tax collecting agency from a secure web based facility without the need to physically go to a bank, or government office. • Linkages to government and other registration systems databases means coordinated analysis between SRB and other third party databases. Third party refers to entities whose databases are of interest to the tax authority for the purpose of tax assessment, consistent with the law and government policy. Possible third parties include FBR, NADRA, banks, other provincial tax collecting agencies, NADRA, SECP, gas and electricity utilities, telecom companies, professional bodies, schools, housing authorities etc. • E-tax payer facilitation and education means use of ICT (internet, phones, emails, sms, etc.) to facilitate actual and potential taxpayers easy access to user friendly, and up-to-date information on the laws, regulations and procedures, making potential taxpayers aware of their liabilities, deadlines, arrears etc., and making available on SRB and government websites guidelines/pamphlets and other taxpayer education measures. • Piloting means that minimum 25% of the relevant business is transacted through the automated system but does not include e-tax payer facilitation and education measures. • Implemented means that minimum 90% of the relevant business is transacted through the automated system. • Third party review of years 2 and 4 will audit the quality and effectiveness of the automation systems for improved tax administration and suggest recommendation. • Third party review of year 3 will review the effectiveness and use of linkages of the third party databases with SRB systems. • Source: SRB documentation and TPV reports.
4	Risk based audits of taxpayers implemented	• The risk based criteria for selection for tax payer audits mean audits and fraud investigations conducted on the basis of a structured systematic plan, clear risk assessment criteria, and related tax compliance and reporting requirements, with any revisions from time to time based on the outcomes of tax audits conducted approved by SRB, and agreed with the Association, with the aim to improve tax compliance. • Hit rate means the percentage of audits that result in meaningful additional tax liabilities/assessments. • Source: SRB audit reports and related documents.
5	Establishment of internal audit	• PAO means the Principal Accounting Officer of the department. • Departments are any of the GOS departments identified under the Government of Sindh Rules of Business. • The number of departments will be counted minus the Finance Department. Unique new departments will be counted towards achievement of results. Targets are not cumulative. • Actions taken are any measures for policy or practice reform or training or counseling or punitive action taken by the PAO to correct the challenge identified by the internal audit. • Source: Government documents and internal audit reports.
6	Transparency in budget formulation, allocation and execution	• Budget strategy paper means a document to be presented to the Cabinet by the Finance Department before preparation of budget proposals, laying out the main contours of the budget; including

		government's policies, priorities and strategic allocation of resources. Medium Term Fiscal Framework for GoS and key macro-economic assumptions must be included. . • Budget execution reports means a detailed report providing information on budget allocation (original and revised) and actual expenditure incurred. • The required BERs from the second to the fifth year of the program may include one BER from the last quarter of the previous fiscal year. • Budget execution reports must be prepared and published within 60 days of the end of the quarter. • Published means permanent disclosure on the FD website. • Source: FD documents and website.
7	Procurement officials certified.	• Certification program as defined in the training strategy approved by SPPRA board as amended from time to time and agreed with the Association. • Staff is BPS 16 and above. • Target is cumulative. • Third party review will examine the adequacy and effectiveness of the certification program. • Source: SPPRA documents and TPV reports.
8	Quarterly departmental development plan monitoring reports prepared and published	• Format of data collection, reporting and disclosure the nature and number of schemes to be reported, as revised from time to time over the implementation years, will be agreed with the Association. • Data collection from the field will include data collected with geo-tagged photos in prescribed format and frequency, including selective use of third party monitors and community participation. • Departments for the purposes of this DLI are education, agriculture, irrigation, and one other department. • Development plan is annual development plan schemes and any other WB-financed schemes including the sub-schemes of any umbrella scheme. • Published means permanent disclosure on the P&DD website. • Third party review will examine the usefulness of the ICT-based data collection for improved monitoring of civil works execution. • The targets are not cumulative. • Piloted means using ICT-based data collection efforts for any six districts for one targeted department. • Source: P&DD documents, website and TPV reports.

Annex 2: Detailed Project Description

PAKISTAN: Sindh Public Sector Management Reform Project

1. **Overall approach**. The proposed Project design combines three key critical and interrelated elements: (i) eligible expenditure programs against which Credit proceeds can be disbursed; (ii) a set of disbursement conditions that provide a performance framework to advance the sector reform agendas and contribute to the development objectives supported by the operation; and (iii) a technical assistance component to support the achievement of targets in each sector.

(i) Eligible Expenditure Programs. EEPs will comprise line items in the annual provincial budget. Each item has a unique identifying code. The budgeted and actual expenditures under these line items would be reported to the Bank for GoS to receive Credit disbursements, provided that the corresponding disbursement rules are met.

(ii) Disbursement Conditions. The operation relies on a series of disbursement rules, associated with key indicators to provide incentives for performance by the Government of Sindh.

(iii) Technical Assistance. TA needs have been identified and agreed with GoS to support the achievement of targets in selected sectors, strengthen fiduciary oversight and support Project implementation. These activities are included in the TA component that will disburse against statement of expenditures (SOEs).

Project Description

2. **The Project consists of two complementary components: (i) results-based financing to provide an incentive for achieving selected public sector management ("PSM") reforms (US$ 40 million), and (ii) technical assistance to support activities for achieving DLIs (US$ 10 million).** Results-based financing will disburse against agreed eligible expenditure programs in four reform areas:

- increasing revenue mobilization with increased administrative efficiency in tax collection;
- enhancing performance of public financial management systems;
- strengthening public procurement performance; and
- improving management of the development portfolio.

3. ***Component 1: Results-based financing to provide an incentive for achieving selected public sector management ("PSM") reforms (US$ 40 million).*** The results-based component will include the following four focus areas.

Increasing Tax Revenue Mobilization

4. **The objective of this sub-component is to increase tax revenue mobilization through** tax policy reforms and increased administrative efficiency in tax collection. Considering the importance of revenue performance for development policy in Sindh, and the development of STRMP, the revenue mobilization subcomponent will support GoS with the implementation of a sub-set of STRMP. The Project support will be based on the principle of supporting existing country systems to gain the client's trust and tackle hard tax policy challenges by seizing short

windows of opportunity for tax reforms. This subcomponent will support two sets of interventions.

5. ***Sindh Revenue Board Institutional Development*****:** Since its creation in 2010, SRB has demonstrated highly satisfactory revenue collection performance. In comparison to the tax receipts from sales on services of about PKR 15 billion (US$ 150 million) for the Province when the tax was federally administered, SRB collected PKR 26 billion (US$ 260 million) in year one of becoming operational, PKR 33 billion (US$ 330 million) year two, PKR 42 billion (US$ 420 million) year three, and is targeting PKR 49 billion (US$ 490 million) during FY 2014-15. SRB's reforms goal now targets an increase in tax collection to PKR 100 billion[10] (US$ 1 billion) within the next five years, starting FY 2014-15. To achieve this ambitious goal, SRB institutional development underpinned by administrative, automation and human resource management reforms planning and implementation is essential. Specific activities include:

a. Human resource management reforms: SRB has cobbled together an initial set of staff, from the private sector, the Federal Board of Revenue (FBR) and the Provincial Government, but going forward more structured staffing and pre-service and in-service training is needed. A core professional cadre of sales tax officials, technically competent in law, taxation and sector knowledge, with merit-based career path and performance-based incentives, accountabilities and strong pre-service and in-service training systems will be developed. Wherever appropriate, functions will also be outsourced.
b. Administrative reforms including: analysis of potential tax net and unregistered taxpayers; effective internal monitoring mechanism to increase percentage of active taxpayers amongst registered tax payers; introduction of risk and system based audit.
c. Automation reforms including: formulation of a coherent IT strategy: provincial unique taxpayer identification number; establishment of IT governance protocols that provide timely solutions spanning over assessment, automated notices, collection (including e-payments), audit, appeals and integrity management. In this regard, piloting point of sale devices, establishing common provincial tax portal based at SRB with e-storage and query portal access to other provincial tax agencies, will broaden and deepen the tax base.

6. *Improving monitoring and evaluation and transparency*. The quarterly and annual SRB reports will also document and disclose key performance information including debt collection, appeals resolution, tax payer facilitation, pre-service and in-service training conducted, annual taxpayer satisfaction survey and revenue and number of active and inactive tax payers and revenue collected against category for increased management and public oversight. These transparency initiatives will help implement the dormant Sindh Freedom of Information Act 2006.

Enhancing Performance of PFM Systems

7. **The objective of this sub-component will be to strengthen the performance of PFM systems by improving budget formulation and execution processes and related oversight**

[10] Increase of 138% over the FY 2013-14 target of PKR 42 billion.

mechanisms. The formulation of the Public Financial Management (PFM) component is rooted in the findings of the recently conducted PEFA assessment for the Province of Sindh. Based on the analysis of PEFA assessment findings, the PFM Reform plan has been prepared to provide a roadmap for reforms in Sindh to improve performance in the next update of the PEFA assessment. This sub-component will provide support through the following core interventions.

8. *Establishing internal audit function*: An internal audit function within the Government is essential to provide timely feedback to the executive on the performance of internal controls for achieving economy, efficiency and effectiveness of expenditures. Other provinces, namely KPK and Punjab, have recently moved forward in this direction as well. FD will explore the various models prevalent in the country and internationally for public sector internal audit and formulate the administrative and operational contours of the design to be adopted for GoS. Staffing and the reporting lines are of particular significance to ensure independence and quality. An internal audit charter and manual will be formulated. Some initial work in this area was done in 2004 and draft legislation was also prepared which can form the basis for further enhancement and improvement in light of developments in the past decade. Keeping in line with international best practice, the internal audit function will prepare a risk based audit plan focusing more than 50% of time on systemic issues. Reports will be submitted to PAOs and mechanisms need to be in place to ensure prompt and effective action on the recommendations in the reports. Initially a pilot will be started in FD and foreign-funded projects will be given priority as the function is eventually scaled up to cover GoS.

9. *Strengthening monitoring:* FMIS has several tools built into it to enable FD to perform its oversight role. There is clear segregation of duties in the budgeting and accounting function between FD and the AG which is implemented through FMIS user profiles. The AG office has already established a monitoring cell. A monitoring cell in the finance department, with staffing, composition and location to be decided, will also help ensure proper oversight of the upstream and the downstream aspects. Classification errors, for example, have been a continuous problem, but while these are now identified at the accounting level, the problem usually arises upstream when budget allocations are made in the incorrect classification. The monitoring cells in FD and AG Office should be staffed with persons having the requisite knowledge, skills and authority to perform the functions of these cells. Capacities should include: technical, i.e. skills to extract and report required data from FMIS; analytical, i.e. skills to analyze the data and draw conclusions for supporting decision-makers in monitoring and planning; and enforcement, i.e. officials with necessary level of authority to issue instructions/decisions for enforcing compliance. Standard exception reports could be generated at pre-determined frequencies. Areas for monitoring would include, for example, reconciliation levels for expenditures, revenues, suspense accounts and inter-government accounts; use of public account; oversight of risk related to liabilities generated by AGAs and PEs; compliance with issued directives e.g. booking of budget releases, re-appropriations and supplementary grants prior to payment; differences in FMIS reports and civil accounts/financial statements etc. Over the life of the Project there should be a visible reduction in volume and frequency of exceptions.

10. *Establishing Debt Management Systems: A Debt Management Practices Assessment (DeMPA) has bee*n completed in conjunction with the PEFA assessment, which shows that

provincial debt management functions are either very limited or non-existing[11]. Systematic strengthening of debt management requires setting in place an enabling environment for the GoS to have in place institutional arrangements to manage total debt, design and implement a debt strategy covering total debt, while ensuring consistency with intra-year cash flows, and accountability and transparency of debt operations. The Project will support the following interventions:

a. Setting up a Debt Management Unit (DMU): The objective is to have an active and functional debt management office within FD structured along functional lines: Back, Middle and Front Office, where the operational, analytical and execution functions are no longer segregated.
b. Developing a procedures manual for borrowing: The manual should clearly specify roles and responsibilities of various institutions/entities/units involved in provincial debt management. This will not only improve debt data reporting and recording procedures but will create a systematic roadmap for information sharing and timely consolidation of information.
c. Consolidating Debt Database: FD DMU needs to start actively collecting information on disbursement by closely coordinating with the State Bank of Pakistan and by holding quarterly and annual meetings with Project directors and treasury offices.
d. Formulating a Debt Management Strategy and undertaking Debt Sustainability Analysis: This Project will focus on actions for GoS to be able to: (i) quantify the existing cost-risk of the debt portfolio; (ii) diversify financing sources and reduce dependence of foreign financing; and (iii) ensure accountability and transparency of debt operations. The coordination with fiscal policy including the link with the debt service estimates and the debt sustainability analysis (DSA)[12] will also be supported.
e. Designing an Operational Risk Management Plan: This will include the design of an operational risk management plan, including business-continuity and disaster-recovery arrangements.

11. *Increasing transparency in budget formulation and execution*: The Finance Department and Planning and Development Department drive the annual budget formulation process with limited participation from other departments, civil society and wider political leadership. Full participation requires an integrated top-down, bottom-up budgeting process, involving all parties in an orderly and timely manner, in accordance with a pre-determined budget formulation calendar. Budget preparation is guided initially by the Budget Call Circular and subsequently through detailed negotiations between line departments and the Finance Department. The Budget Call Circular is followed by indicative ceilings for non-development and development expenditures to all departments. The Cabinet or Committee of the House does not approve ceilings, which are issued to departments, in the absence of any requirement of law or rules. Before tabling the budget in the House, the Minister of Finance discusses the budget with a standing committee of the Provincial Assembly. This is limited to a briefing to parliamentarians at a stage where any substantive changes are not possible. The involvement of budget committees in setting departmental ceilings and reviewing budget proposals is not institutionalized. Political

[11] Sindh Province Debt Management Performance Assessment (Sindh – DeMPA) was undertaken between November 2013 and February 2014. Annex 6 summarizes key finding of DeMPA.

[12] Also to delineate the functional responsibility in FD to conduct a DSA and the standards required thereof (in line with international sound practice).

involvement in the budget preparation process is mainly at the time of approval of the Annual Development Plan. The Plan is prepared by the Planning and Development Department and approved by the legislature. However, the executive has the power, frequently used, to sanction any development or current expenditure even if it is not included in the Annual Development Plan.

12. Expenditure policy decisions have multiyear implications and must be aligned with the availability of resources in the medium-term perspective. With the help of the World Bank, the Finance Department prepared the first Medium-Term Fiscal Framework (MTFF) in 2006-07. MTFF provided projections for three years (2006/07 to 2009/10) for revenues and expenditures of the Provincial Government. The most recent MTFF was approved for years 2011-2014 covering only non-development expenditure of six departments. The Medium-Term Budgetary Framework (MTBF) was introduced in 2009 and had been rolled out by June 30, 2012, in six departments of the Sindh Government: education and literacy, irrigation, agriculture, livestock, energy, and health and social welfare. The aggregate budgeted recurrent expenditure of these six departments represents almost 55 percent of the total budgeted recurrent expenditure of the Sindh Government for FY 2011/12.

13. MTBF is currently not being used as a tool for effective planning of development expenditure. There is currently no practice in place for documentation of reasons for deviations between the forecast and the budget ceiling of the following years, and the links between multi-year estimates and subsequent setting of annual budget ceilings are not strong, meaning no differences are explained in the budget document. The Sindh Government has committed development expenditure, which is more than 10 times the available annual development budget. As a result, development resources are far below the required amounts for development work, causing delays or non-payments to contractors for development schemes on many occasions. For these reasons, because the fiscal forecast at aggregate level is unavailable, sector strategies with complete costing of investments and recurrent expenditures are not in place. Sector studies were conducted in 2008 for four departments — irrigation, agriculture, education, and livestock and fisheries. These sector strategies are now irrelevant after abolishment of SLGO 2001. Moreover, these were not developed into fully costed strategies.

14. The Project aims to strengthen transparency and participation in the budget preparation process and the availability of timely information on budget execution. The Sindh Finance Department will be supported to publicly disclose all the elements of financial information listed in the PEFA Framework, i.e. annual budget documentation, in-year budget execution reports, year-end financial statements, external audit reports, contract awards and resources availability at primary service units. The Project will support investment in systems and capacity building within the Finance Department to ensure routine release of up-to-date, accessible and user friendly budget information. Finally, the Project will support external academic and other relevant institutions to use this data and provide citizens and government officials with effective analysis of budget information. In addition, various options for strengthening citizen input and feedback related to the budget may be explored, such as public consultations, ICT based feedback mechanisms and citizen's scorecard.

Strengthening of Public Procurement Performance

15. **The objective of this subcomponent is to strengthen public procurement performance, transparency and accountability to ensure the optimum delivery of government programs and efficient budget management**. The proposed interventions are, therefore, designed to build the capacity of procurement professionals with certification, improve transparency and performance monitoring with a Management Information System, and improve competition and transparency with an e-Government Procurement ("EGP") system. The selected interventions include a mid-term action (MIS system) and a long-term action (e-procurement), along with a transversal action that cuts across all other interventions, which is the professionalization of the procurement function.[13]

16. *Building capacity of procurement professionals:* Currently, the public sector lacks the required competencies, qualification, or training for procurement staff. Government servants, with decades of experience with the old Procurement Manuals, a set of instructions that guided procurement before the new regulatory regime was introduced, are still not comfortable with the new regulatory regime. At the entity level, the procuring agencies generally do not have a specialist staff for managing procurement and contract administration. Limited planning, budgeting and risk management are common risks faced by agencies that lead to unnecessary delays and cost overruns. The technical and dynamic nature of procurement requires that public sector procurement staff be provided regular training opportunities to build their capacity. Since procurement demands are specialized and require multidimensional skills, these competencies need to be developed through adequate planning, market and cost–benefit analysis, evaluation, negotiation, and contract management complemented by specialized technical skills. In addition to the provision of training opportunities about the technical aspects of the job awareness sessions/workshops need to be organized on the following subjects: correct application of procurement rules and procedures, identification of corruption risks, and ways to promote transparency and integrity throughout the procurement process. The Bank is already supporting PPRAs to develop their training needs assessment and strategy. The draft training strategy has been prepared and initially considered by the SPPRA Board, A system for procurement certification will also be developed to address the training gaps and efforts will be made to increase the number of trained officials. A systemic shift will ensure that within an adequate time frame only certified professionals administer procurements.

17. *Creating more transparency and accountability for effective procurement performance monitoring:* While SPPRA is mandated to regulate and monitor procurement performance of all the implementing agencies, it has not established a system to capture, compile, and analyze procurement performance data. The 2013-2014 PEFA and BIS results also indicate that Sindh's procurement system lacks performance information, making it difficult to determine strengths and weaknesses. In the existing system, there is no data available that represents the actual universe of the procurement outlays, the category-wise break-up within goods, works and services, type of contracts (i.e. National Competitive Bidding, shopping and direct contracting), timeline for award, typical timelines for a simple or complex contract, contract completion details, some common deviations, good or bad performing agencies or bottlenecks in the procurement cycle. In view of the above, this Project will support the implementation of a more comprehensive system that will enable SPPRA to develop a baseline, monitoring indicators, and performance benchmarks for

[13] Annex 8 presents a detailed diagnostic of current procurement practices and rational for the selected interventions.

various implementing agencies, and to generate annual reports for the information of implementers. This system should allow SPPRA to conduct more effective checks on procurement ex ante where supervisors and regulators can monitor more closely the time taken to process contracts and enhance timeliness by entering a higher volume of data on competitive bids online. Moreover, they can also verify on an objective basis and in real time if a planned procurement is within reasonable bounds, and carry out more efficient accounting that enables comparison of procurement efficiency along various margins (adherence to process, time, prices adjusted for quality etc.) and smart auditing ex post on an objective basis. Although the ultimate solution for capturing data lies in the creation of an e-procurement system, a long-term objective, capturing the procurement data with an MIS is an alternative short- to medium-term solution for the SPPRA to capture, analyze and retrieve data for performance management and enhance accountability and transparency in the process.

18. *Implementation of an e-Government Procurement ("EGP") system:* Jurisdictions have been increasingly bringing information technology to bear on procurement. It is not realistic to expect that the great volume of public procurement transactions, accounting for perhaps 20% of most national economies, can be managed efficiently and effectively within a paper-based framework. E-procurement promotes a uniform system across all government entities and between different levels of government. The online access to the client and the bidders for soliciting and submitting bids, bid evaluation and awards provide for efficient procurement processes with enhanced transparency which elevates the trust of stakeholders. The system lowers the costs of obtaining information about a tender process and as a result increases the number of bidders and consequently competition. Given the relatively advanced institutional capacity of SPPRA compared with the other provinces, implementing an e-procurement strategy is an obvious next step for the Province. This would entail a fully functional and widely implemented web-based system that will generate data encompassing the total procurement lifecycle and record all procurement activities, a central activity of which would be processing of contracts through the e-procurement system. Such a system would integrate transparency and competition into the procurement process, and create a reliable source of data, which can be used to improve procurement performance and enhance transparency within the government and between government and citizens. The Bank is already supporting PPRAs to develop an e-procurement strategy and implement this addressing the aspects of market readiness, implementing agency readiness, business need, identification of target sectors(s), and size of contracts, etc. The Project will support GoS to implement various steps of the e-procurement strategy. The results matrix identifies action on the actual implementation of e-procurement of the four identified departments above an identified threshold; the TA component may be used to implement actions as defined in the strategy.

Improving Management of the Development Portfolio

19. **The objective of this sub-component is to improve monitoring of the development portfolio.** This sub-component will support the strengthening of the Monitoring and Evaluation Cell of P&DD and will contribute to improve: (i) the current state of the financial and physical execution of each scheme to help improve development planning, (ii) the spatial understanding of the spread of development funds, (iii) the quality of construction and execution by regular photo monitoring of schemes, including through third parties, and also by seeking engagement of

beneficiaries, and (iv) the identification of resource and other administrative bottlenecks in the execution of the sectoral development programs to ensure flag raising and early intervention and attention of senior officials of the department. This sub-component will provide support through three main interventions.

20. *Improved delivery of development portfolio*. MIS division in the MEC produces paper reports about quality and quantity issues from the dashboard and shares them with the concerned department. The departments are expected to initiate action on issues highlighted to ensure smooth delivery of the development scheme. Currently, the departments do not have access to the dashboard and cannot add information to the database directly. Generally, the response to the monitoring reports shared by MEC could be strengthened. Even within P&DD, there is little awareness of this exercise. Out of the total development portfolio of the Province, only high-significance schemes led by the provincial chief executive are monitored regularly.

21. This intervention will support the development of a full reporting system linking field supervision inputs with an online management dashboard that will provide an up-to-date record of physical and financial progress of each development scheme. The dashboard will be accessible to all concerned departments and they will be required to comment or respond to monitoring reports through the same web interface. Issues being faced by the departments in executing each scheme, like delays in funds disbursement, will be highlighted so that they can be escalated to the highest level and resolved.

22. This intervention aims to introduce transparency in the execution of ADP and enable government agencies to improve delivery of their development portfolio. The online dashboard will act as the common platform with details of all planned, ongoing and completed schemes. The dashboard will benefit high-ranking officials of P&DD and other departments.

23. *Geo-tagging of development schemes for improved spatial planning and quality of implementation:* Currently, Monitoring Officers (MOs) conduct the monitoring of development schemes through physical visits. They record their observations informally in notebooks. In some cases, they have access to the PC-1 (project plan document) and use that as the reference point. In other cases, they use their memory of the last monitoring visit to compare the current situation and record their observations. The observations are then entered into an online system by the MOs in the districts. After reviewing the reports, the Regional Monitoring Officer (RMO) passes them on to the Senior Monitoring Officer (SMO) at the provincial level. The SMO reviews the reports and sends them to Monitoring and Evaluation Cell (MEC) at P&DD. At MEC, the reports are finally reviewed by the Director MEC and sent to the Director General (DG) MEC for approval and onward communication to the departments. In addition to recording their observations, monitors in some cases also collect pictures of the under construction schemes. Observations about deficiencies in quality gauged from the pictures are recorded by MEC and are communicated with the monitoring reports. Currently, two main issues are being faced in this process. The data coming in from paper-based monitoring reports is considered unreliable because of a lack of certainty of actual inspections visits being carried out. Secondly, no evidence such as the location (GPS coordinates) of schemes is available to develop a spatial sense of the schemes being executed. Thirdly, collection of photo information is not structured and regular.

24. The proposed intervention will equip Monitoring Officers and other field officers or third parties with smartphones so they can record their observations on a digital form. The form will include the required fields for recording observations about physical and financial progress and have the option of taking pictures, timestamps of visits and pictures, and GPS coordinates of the scheme. The data collected in the field will be transmitted directly over the internet to the online server and will instantly become available on the online dashboard (supported in the first intervention). The Project will monitor the progress reporting in some of the identified sectors/projects.

25. The objectives of the system are as follows: (a) ensure field presence of monitoring staff, (b) improve data collection formats and reduce data entry errors, (c) reduce delays in transmission of captured data, (d) supplement textual data about physical progress with visual evidence in the form of photographs, (e) improve the ability of provincial managers to utilize the monitoring data, (f) employ third parties to audit the photo data for improved assessment of quality; and (g) enable citizens to directly access up-to-date information about the progress of development schemes.

26. Proactive feedback mechanisms for selected schemes. Currently, the Government does not have any mechanism to seek feedback from citizens about planned, ongoing or completed development schemes. As a result, citizens cannot communicate with the Government about the utility or efficacy of the scheme or the quality of its execution. The Government has to rely on internal monitors or costly third-party validators to monitor the execution of development schemes. Even those mechanisms for collecting data are not foolproof due to potentially vested interests.

27. The proposed intervention will promote regular communication with citizens in the catchment area of each development scheme to seek feedback about quality and timeliness of execution. Mobile numbers of citizens in the catchment area can be gathered from public schools (parents) or can be captured at the time of preparation of the scheme. Alternatively, mobile operators can also broadcast messages to active subscribers in the region of a Base Transceiver Station (BTS) or cell tower. The same mechanism can be used to communicate the completion of a scheme to encourage citizens to utilize it and provide feedback.

28. The aim is to initiate two-way communication between the beneficiaries of development schemes, i.e., the citizens, and the government. The beneficiaries at large will not have any vested interest and can provide unbiased feedback about the quality of implementation of any particular scheme. Proactive seeking of feedback may also help improve the perception of the Government among citizens.

Increasing transparency

29. **Several measures under the above four areas aim to activate the provisions of the moribund Sindh Freedom of Information Act.** Publication of annual reports of SRB and

provincial budget details in citizen-friendly format, disclosure of spatial coverage and photos of development schemes, and procurement performance details will help improve transparency.

30. ***Component 2: Technical Assistance (TA) to support capacity building and institutional strengthening associated with the achievement of eligible PSM reforms (US$ 10 million)***

Technical Assistance will be used to support the achievement of results in all four eligible PSM reform areas. TA will support capacity building and institutional strengthening activities related to the improvement of tax collection, PFM and procurement. The technical assistance will consist of technical consultancies and capacity building activities, including training, seminars, conference participation, equipment purchase, and other activities. Efforts will be made to utilize an inclusive approach to capacity building and institutional strengthening to ensure strong female representation and a pro-poor focus. In particular, TA will fund activities in the following areas:

- ***Support to the implementation of reform activities included in the Sindh Tax Revenue Mobilization Reform Plan,*** including: (a) establishing a new Tax Reforms Unit in FD; (b) supporting TRU to conduct high quality analytical studies to support the decision-making process associated with GoS tax policy and administrative reforms; (c) reviewing critical aspects of STS administration with the potential to enable procedure harmonization with the other two revenue administrations in Sindh; (d) establishing a state-of-the-art training facility in sales tax administration and support other pre- and in-service training activities within tax agencies; (e) conducting initial studies to identify factors which can be employed to increase tax morale in the Province, which will serve as input to prepare large-scale taxpayer education programs; (f) conducting GIS and satellite imaging analysis for property tax and other tax reforms; (g) conducting regular tax payer communication, education and facilitation activities; (h) supporting other efforts to implement the Sindh Tax Reform plan within Board of Revenue, Excise and Taxation Department and other tax agencies including but not limited to Urban Immovable Property Tax, Stamp Act, document/property registration and related reforms.

- ***Support to the implementation of the Sindh Public Financial Management Strategy,*** including: (a) support for enhancing the usage of the FMIS in Finance, P&DD and line departments; (b) improving cash management mechanisms including support to commitment accounting; (c) organizing trainings on the usage of FMIS reports in Finance, P&DD and line departments; (d) supporting pre-budget workshops and seminars (e) supporting debt management; (f) asset recording, internal control, and expenditure commitment control; (g) payroll and pension audits; (h) strengthening public accounts committees; and (i) strengthening citizen engagement and information disclosure practices.

- ***Support to the implementation of procurement reforms,*** including (a) developing and implementing the e-procurement and MIS plans by identifying required changes for the new technology to be effective; (b) partnering with higher education institutions and specialized training institutions to develop training modules which cover the full range of courses that are required for building procurement skills of procurement officials and; (c) supporting SPPRA in developing their own capacity and strengthening their regulatory framework (implementing regulations, contract management guidelines etc.) .

- ***Support to the management of the development portfolio,*** including: (a) supporting capacity building activities of the Monitoring and Evaluation Cell/Development Delivery Unit with the Planning and Development Department; (b) developing systems of photo-enforced monitoring; (c) conducting satellite imaging and other GIS analysis, including creation of related infrastructure, to deepen poverty analysis for improved targeting/pro-poor development; and (d) supporting proactive beneficiary feedback of government development schemes and other day-to-day service delivery areas.

- ***General Project Support,*** including: (a) seeding e-governance, taxation, and other public sector reform innovations, including proactive citizen feedback and other smart phone based monitoring mechanisms for incubation, documentation and scale up; (b) establishing a dedicated information and communications unit in the lead implementing agency (Finance Department) for donor, media, and civil society relations and engagement, complaints management, and proactive, regular, and wide communication and consultation on the reform agenda; (c) implementing a communication strategy to ensure inclusive communication outreach on the budgetary and other public expenditure and revenue raising information; and (d) carrying out an institutional review of the Sindh IT Department's capacity to implement e-services, review its board recommendations; (e) conducting third party reviews; and (f) conducting evaluations including rigorous academic evaluations of proactive feedback and other ICT-based monitoring mechanisms.

31. **This component will also finance the Project management activities of ERU in FD.** These include: (i) capacity building of staff responsible for Project management and implementation support (i.e. financial management, procurement and M&E of Project activities), (ii) assistance to change management activities to create broad consensus of key stakeholders and identify incentives for successful implementation of this reform, (iii) assistance in annual external audit, (iv) establishing a dedicated information and communications unit in the lead implementing agency (Finance Department) for donor, media, and civil society relations and engagement, complaints management, and proactive, regular, and wide communication and consultation on the reform agenda; and (v) studies and other consultancies, i.e. for change management, to be determined during the Project implementation according to procedures set forth in the operational manual. Efforts will be made to utilize an inclusive approach to capacity building and institutional strengthening to ensure strong female representation.

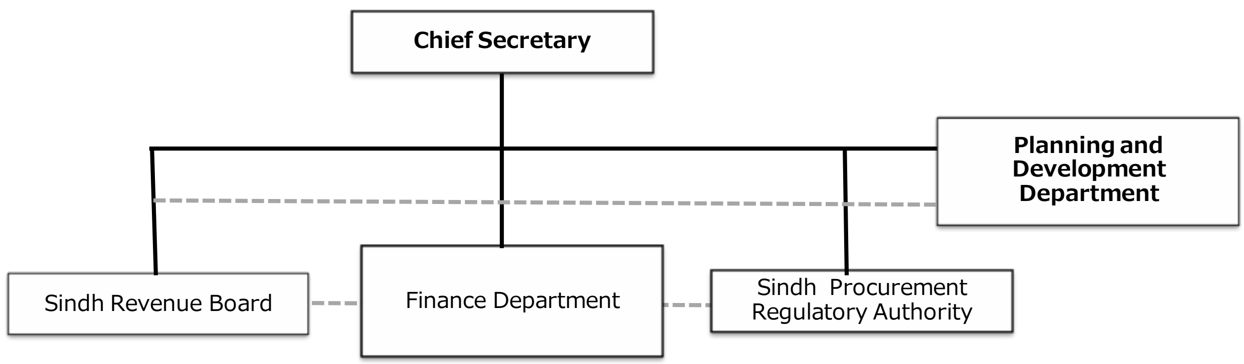
Annex 3: Implementation Arrangements

PAKISTAN: Sindh Public Sector Management Reform Project

Project Institutional and Implementation Arrangements

1. **The Finance Secretary of the Government of Sindh will implement and monitor the** Project**, and ERU will serve as Project Management Unit.** The Economic Reforms Unit (ERU) of the Finance Department will coordinate with all participating or recipient agencies including Planning and Development Department; Sindh Revenue Board; Sindh Public Procurement Regulatory Authority and targeted departments. Because of its central organizational mandate, FD also sits on the board of SRB and SPPRA. The Planning and Development Department has oversight over the SRB, PPRA, and FD for development projects. Figure A3.1 illustrates Project institutional arrangements and the relationship among participating agencies.

Figure A3.1: Project Institutional Arrangements



2. **Specific responsibilities of ERU as a PMU for this Project comprise:** (i) liaising with the Bank; (ii) overseeing technical inputs from all involved agencies and, as such, consolidating the required documentation on EEPs, DLIs and TA activities to report to the Bank on compliance in a timely and comprehensive manner; (iii) ensuring compliance with Bank financial management, procurement regulations and safeguard requirements; (iv) coordinating efforts of participating agencies; (v) managing TA Component; (vi) preparing specific Terms of Reference (TORs) for Financial Management (FM) and procurement related activities, including the annual audit and procurement reviews, and overseeing their implementation; (vii) consolidating Project financial reports in a timely manner (these reports will be based on information provided by other agencies/departments on planned and actual expenditures under EEPs); (viii) preparing the Interim Financial Reports (IFRs); (ix) reallocating unspent balances; (x) reconciling amounts advanced by the Bank with those spent under EEPs; and (xi) verifying the timely release of EEP budgeted resources. ERU will also ensure that the funds will be used properly and according to Bank guidelines. The participating agencies will not directly manage procurement under this Project. The Operations Manual specifies implementation arrangements, fiduciary responsibilities, and a detailed description of EEPs and DLIs (including their means of verification). Capacity at ERU has varied greatly during recent years, but the Finance Secretary has started putting in place a

strong team to lead the reform effort. Its capacity will be further strengthened. SRB will be the responsible agency to implement the technical assistance associated with the Sales Tax on Services component.

3. **The Core Reforms Group (CRG) and the Strategic Reforms Group (SRG).** The government-led process of dialogue among FD and the three tax collecting agencies – SRB, E&TD and BOR - has been structured into tiers, namely: the Operations Reform Groups (ORG), Core Reforms Group (CRG) and the Strategic Reforms Group (SRG). Four separate ORGs have been established at FD and at each of the three tax entities. The members of the ORGs were essentially mobilized amongst unit heads and functional managers with strong understanding of operations in their respective agencies. The ORGs are headed by the respective departmental heads. CRG brings together heads of the three tax entities and senior officials from FD and other relevant offices such as AGPR. It is headed by the Finance Secretary. SRG, headed by the Chief Minister, represents the political government and senior administration. CRG has been established to review and consider the tax reform recommendations both from independent agency and collective perspectives. Subsequently, the same are to be submitted to SRG along with their specific recommendations for the latter's consideration and approval. Both CRG and SRG will be part of the Project implementation arrangements to oversee the tax reform program. The approved Public Financial Management Strategy envisages similar implementation structure for PFM reforms.

4. **The Tax Reforms Unit (TRU).** Two key STRMP objectives are production of evidence-based studies for tax analysis to enable informed decision-making in tax policy for an efficient, fair and revenue productive tax system and fostering of effective coordination between the three tax collecting institutions and FD to move the reform agenda forward. To fulfill these objectives, a new unit called TRU will be established under the administrative control of FD, with functional linkages to all the tax agencies. TRU will be tasked with two main functions. Firstly, commission and coordinate tax policy analysis via outsourced tax experts for FD and the three tax collecting entities - SRB, E & TD, and BOR through the respective four ORGs. Secondly, facilitate knowledge-sharing and provide secretarial support to CRG and SRG.

5. **Project Steering Committee.** A Project steering committee will be created no later than three months after effectiveness to oversee Project management at the policy level, to provide ERU and SRB strategic direction and guidance, assure the exchange of information between participating agencies and ERU, and to identify problems and discuss corrective measures. This steering committee will be chaired by the Additional Chief Secretary of the Planning and Development Department and will include members from the Finance Department, Sindh Revenue Board, Sindh Public Procurement Regulatory Authority, Excise and Taxation Department, and Board of Revenue. It will meet at least twice a year.

Financial Management, Disbursements and Procurement

Financial Management

6. **Staffing:** Both ERU and SRB have adequate financial management staff to manage the existing workload but will need additional staff for the Project's financial management. Incremental staff to be hired will include a Financial Reporting Officer and an Accounts Officer at ERU, and an Accounts Officer and an Asst. Accounts Officer at SRB. Incremental staff will support the financial management of the Project including fulfillment of financial reporting requirements. For EEPs, the Accountant General Sindh will perform the accounting and reporting functions through the government's Financial Management Information System (FMIS). In particular, ERU will recruit by not later than three months after the effective date a financial reporting officer who shall prepare Project-level periodic financial reports, review financial and non-financing reports extracted from Sindh's financial management information systems, manage Project disbursements, and coordinate with auditors the preparation of the Project's audited financial statements.

7. **Budgeting:** Funding for Project activities will be allocated in the Government of Sindh budget using detailed object and functional classification prescribed in the Chart of Accounts. The function and object codes to capture expenditures for Project Eligible Expenditure Programs (EEPs) and TA are clearly identified in the Chart of Accounts.

8. The Province follows a detailed budget calendar and a budget call circular including detailed instructions is circulated during the year. This calendar provides deadlines for all the steps involved to ensure that there is sufficient time to receive, review, discuss, and compile the inputs from all departments. The consolidated budget is prepared by the Finance Department for submission to the legislature. In recent years, efforts have been made to introduce a medium-term outlook through the preparation of a Medium-Term Budgetary Framework (MTBF).

9. The Province's budget credibility, as reported by the recent PEFA Assessment, is quite low. Budget credibility of both implementing entities (ERU & SRB) is also very low; during the last two financial years, the deviation of aggregate expenditure out-turn compared to original budget for both implementing entities was more than 20%. The Project will support improvement in budget formulation and execution processes that will lead to improved budget credibility.

10. **Accounting:** For EEPs, accounting records will be maintained using the government's FMIS and in accordance with the country accounting procedures and policies defined in the New Accounting Model (NAM). These policies and procedures are being progressively and consistently applied and conform to international standards. EEPs include salaries of the government departments which are processed by the Accountant General on a monthly basis using the Human Resources (HR) functionality of the government's FMIS. However, SRB processes the payroll of its employees using bespoke software.

11. For the TA Component, ERU and SRB will maintain separate books of accounts on cash basis of accounting. Payment vouchers will be prepared for each transaction and the relevant accounting codes, disbursement category and Project component will be mentioned on the payment vouchers. A manual cash book, as required by government rules, will be maintained. In addition, following manual registers will be maintained:

i. Assets Register – will include details of assets procured from the grant, unique identification number, location of the asset and custodian of the asset.
ii. Invoice Register – will include date of invoice/bill receipt and date of payment to supplier/contractor. This will be used to monitor payment processing time.

12. **Financial Reporting:** ERU will have the primary responsibility to prepare Project level financial reports on a monthly, quarterly, semi-annual and annual basis. The Accountant General Sindh and SRB will provide data related to EEPs and TA components to ERU for preparing Project level reports. The following table summarizes the financial reporting arrangements of the Project:

Table A3.1: Financial Reporting Arrangements

Report	Frequency	Due Date & Recipient	Remarks
Management Report	Monthly	Within 5 days of the close of the month to be submitted to Director ERU	Details of receipts and payments for TA component including updated status against agreed procurement plan.
Budget Execution Report (BER)	Quarterly	Within 30 days of the close of the quarter, ERU will furnish BER to the World Bank	For each calendar quarter, BER will be generated from the government's FMIS for EEPs and will report original budget, re-appropriations, supplementary grants and actual expenditure.
Interim Financial Reports (IFRs)	Semi-Annually	Within 45 days of the close of the period, ERU will furnish IFRs to the World Bank	To be prepared as per the format agreed with the World Bank for following periods: i. Jul 1 to Dec 31 ii. Jan 1 to Jun 30 IFRs will cover EEPs and TA and will be supported by BERs for the period that will be generated from government's FMIS. *Format of the IFRs will be agreed during the Negotiations.*
Financial Statements	Annually	Within 2 months of the close of the financial year, ERU will send the financial statements to the Auditors	Financial Statements will be prepared in accordance with Cash Basis IPSAS covering Project receipts and payments (EEPs and TA) for one financial year (Jul 1 to June 30).

13. **Internal Controls:** The Sindh Government's internal control system for expenditure is based on a series of regulations, including the New Accounting Model, General Financial Rules, Treasury Orders 1922, Sindh Fiscal Transfer Rules 2004, Sindh Civil Servants Rules 1976, Sindh Government Rules of Business 1986, Delegation of Financial Powers, and the Secretariat Instructions 1994. The recent PEFA Assessment highlighted that the regulations need revision as they had been enacted a few decades back and require duplicate approvals and multiple reporting leading to inefficiency. Moreover, the PEFA Assessment also reported the absence of an effective internal audit function in Sindh. The existence of strong payroll controls, with the exception of periodic payroll audits (which are absent), was noted during the PEFA Assessment.

14. Both ERU and SRB have also adopted the same internal control system. However, no consolidated manual exists for finance and accounts. For effective Project financial management, the mandatory Project Operations Manual will include a section on financial management. The FM section of the manual should contain clearly-defined control policies and procedures related to payments verification and processing, segregation of duties, regular and timely reconciliations, record and asset management. For each process, the FM section of the manual will define key tasks, responsibilities, specific steps and timelines so it also serves as a benchmark for management to measure performance. Internal control activities for the Project will at minimum include:

(a) ***Authorization and Approvals:*** For payments to be made under Component 2, the financial and administrative authority will be exercised in accordance with the approved delegation of powers.

(b) ***Verifications:*** For each payment the FM section will review that the payment claim is appropriately supported by documents, is in compliance with approved policies and has been approved by the competent authority.

(c) ***Segregation of Duties:*** The FM function will be independent of procurement and administration. There will be dual bank signatories, one of which will be from a unit other than FM.

(d) ***Physical Controls:*** Both ERU and SRB will maintain a fixed assets register for assets procured from Credit proceeds. All assets will be tagged and periodically verified.

(e) ***Reconciliations:*** Expenditure reconciliation with the Accountant General and bank reconciliation will be carried out on a monthly basis. Any difference in the reconciliation will be reviewed and the reasons for the difference will be documented.

(f) ***Supervisory Controls:*** Monthly reconciliations with the Accountant General and the Bank, physical stock verifications reports and periodic financial reports will be reviewed by the Director ERU and the Member Support Services SRB.

15. **External Audit:** The Auditor General of Pakistan (AGP) will conduct annual audit of the Project, which is acceptable to the Bank. Directorate General Audit (Sindh), as representative of AGP, will carry out the audit of the Project in accordance with TORs that have been agreed between the Bank and AGP. The audit will cover the TA component executed by ERU and SRB as well as EEPs that will be processed by the Accountant General Sindh. EEPs will be audited by AGP as part of the provincial government's audit and ERU will need to coordinate with the auditors to ensure that the audit covers the entire Project expenditure. Auditors will issue a Management Letter that will include material observations related to TA and EEPs.

16. For each financial year closing on June 30, acceptable audited financial statements of the Project along with Management Letter will be submitted to the Bank by December 31, i.e. within six months of the close of the financial year.

Audit Report Type	*Due Date*
Project Audited Financial Statements including Management Letter for Financial Year ended June 30 each year	December 31 each year.

17. There are no overdue audit reports and no unsettled ineligible expenditure in respect of ERU and SRB.

Disbursements

18. The following table summarizes the Project's disbursement arrangements.

Table A3.2: Disbursement Arrangements

Disbursement Categories	**Amount of Credit (expressed in US$)**	**%age of Expenditure to be Financed**	**Disbursement Cycle**	**Disbursement Condition**
(1) Eligible Expenditure Program ("EEP") – Component 1	US$ 40 million	100%	Annual Reimbursement of eligible expenditure based on certification of DLIs achieved and expenditure reported in semi-annual IFRs	Achievement of DLI targets
(2) Goods, Non-Consulting Services, Consultants' Services, Incremental Operating Costs, Training and Workshops – Component 2 activities to be implemented by ERU	US$ 5 million	100%	Semi-annual Advance to Provincial Government's Consolidated Account No. 1 (six months forecast)	None
(3) Goods, Non-Consulting Services, Consultants' Services, Incremental Operating Costs, Training and Workshops – Component 2 activities to be implemented by SRB	US$ 5 million	100%	Semi-annual Advance to Provincial Government's Consolidated Account No. 1 (six months forecast)	None
TOTAL	US$ 50 million			

Retroactive Financing of US$ 10 million is allowed for eligible expenditures starting March 1, 2014 for disbursement category 1, subject to achievement of associated DLI.

19. For Component 2 (Disbursement Categories 2 and 3), disbursements will be report-based where an advance equivalent to six months forecast will be paid into the Provincial Consolidated Fund - Account No. 1 (Non-Food). Subsequent semi-annual IFRs will be the basis of documentation of the expenditures. Subsequent IFRs will also provide the forecast for the following six months, on the basis of which the amount of funds to be disbursed will be determined. Two local currency Assignment Accounts will be opened, one each for ERU and SRB, to access funds for Component 2. Assignment Accounts will be opened at the National Bank of

Pakistan with the approval of the Finance Department. Assignment accounts will be a part of Provincial Government Account No. 1 and the Finance Department will allow ERU and SRB to withdraw funds from the Assignment Accounts up to the ceiling of advance received from the World Bank. Both implementing entities will maintain accounting records in accordance with the Procedure for Operation of Assignment Account issued by the Controller General of Accounts. ***For the purpose of Disbursement, Assignment Accounts of the implementing entities will be considered Designated Accounts and the currency of disbursement will be Pakistan Rupee. However, the use of the assignment (designated) accounts and Advance method will be available only when the issue of Lapsed Loan in the Pakistan portfolio is fully resolved.***

20. The disbursements for Component 1 of the Project are conditional on the achievement of reform actions or results. These are identified as Disbursement Linked Indicators (DLIs). A certain amount of Credit proceeds has been allocated to each DLI, referred as DLI price, which is the amount that the government can claim as reimbursement against EEPs if that DLI has been achieved and verified.

Table A3.3. Pricing of DLIs

S No	**DLI**	**FY 2014/15**	**FY 2015/16**	**FY 2016/17**	**FY 2017/18**	**FY 2018/19**	**TOTAL**
		US$ in Millions					
1	Approval and initial implementation of Sindh Tax Revenue Mobilization Reform Plan	10					10
2	Enhanced SRB human resources capacity for administration	2	0.5	1	1	0.5	5
3	Increased automation of SRB	2	0.5	1	0.5	0.5	4.5
4	Risk based audits of taxpayers implemented	1	1	1	0.5	0.5	4
5	Establishment of Internal Audit	2	1	0.5	1	0.5	5
6	Transparency in budget formulation, allocation and execution	1	1	0.5	1	0.5	4
7	Procurement professionals certified	1	1	0.5	0.5	1	4
8	Quarterly departmental development plan monitoring reports prepared and published	1	1	0.5	0.5	0.5	3.5
	TOTAL	20	6	5	5	4	**40**

21. DLIs will be annually verified and the Bank will make annual disbursements to the Provincial Government's Consolidated Fund - Account No. 1 (Non-Food), consequent to the achievement and verification of the agreed DLIs. The verification protocol for the DLIs is provided in Annex 1. The reimbursement method of disbursement will be used whereby the Bank will reimburse eligible expenditures as reported in the semi-annual IFRs capped to the price of DLIs achieved. Disbursement from the Credit proceeds in US Dollars will be translated to Pakistani

Rupees by the State Bank of Pakistan and credited to the government's account. Annually, ERU will submit a Withdrawal Application along with IFRs and DLI results report to the Bank for disbursements and documentation of expenditure.

22. For each year, the amount eligible for disbursement will be equivalent to the price of the DLIs achieved as given in the table above. Where achievement of a DLI cannot be verified, an amount equivalent to the price of that DLI will be withheld. This amount may be paid at any later date when such achievement can be verified by the Bank.

23. Table A3.4 below presents the indicative schedule for DLI-based disbursements under Component 1.

Table A3.4: Indicative Disbursement Schedule – DLI-Based Disbursement

	Performance & IFRs Period	No. of DLIs to be Achieved	Submission of DLI results report to the Bank along with IFR & WA	Verification and Agreement on DLI Results between the Bank and Govt.	Amount to be Disbursed (US$ million)
1	From Mar 1, 2014 till Credit signature	8	Effectiveness	One month of Project effectiveness	10
2	Project signing till June 2015		August 14, 2015	September 30, 2015	10
3	Jul - Dec, 2015 & Jan – Jun, 2016	7	August 14, 2016	September 30, 2016	6
4	Jul - Dec, 2016 & Jan – Jun, 2017	7	August 14, 2017	September 30, 2017	5
5	Jul - Dec, 2017 & Jan – Jun, 2018	7	August 14, 2018	September 30, 2018	5
6	Jul - Dec, 2018 & Jan – Jun, 2019	7	August 14, 2019	September 30, 2019	4
	TOTAL	36			40 Million

24. **Eligible Expenditure Programs (EEPs).** Under Component 1, the Bank will finance, up to a capped amount and subject to any deductions equivalent to the price of unmet DLIs, particular expenditures which constitute sizeable recurrent expenditures that would have an impact on agreed results (DLIs) and outcomes. These expenditures are clearly identifiable in the government's FMIS and are referred to as EEPs.

25. A brief description of EEPs under the Project is provided below.

Table A3.5: Eligible Expenditure Program

Department	Budget Grant No.	Object Code & Description	Function Code	Function Description
Finance (including	SC21003	A01	011204	Administration of Financial Affairs

Sindh Revenue Board)		Employee Related Expenses	011205	Tax Management (Customs, Income Tax, Excise)
			011206	Accounting Services
			011207	Auditing Services
Planning & Development (including Sindh PPRA)	SC21008	A01 Employee Related Expenses	015201	Planning
			015220	Others
			093103	Administration
Excise & Taxation	SC21005	A01 Employee Related Expenses	011205	Tax Management (Customs, Income Tax, Excise)
Board of Revenue	SC21004	A01 Employee Related Expenses	011205	Tax Management (Customs, Income Tax, Excise)

Description: Pay and allowances for employees of the Departments of Finance (including Sindh Revenue Board), Planning & Development, Excise & Taxation, and Board of Revenue.

Oversight: The budget for pay and allowances for the above categories is assigned to each department. Direct responsibility for pay and allowances lies with the Drawing and Disbursing Officer (DDO) where expenditures are incurred. Salaries are processed through the government's FMIS and are subject to overall payroll controls which are considered adequate. Amounts are transferred by the AG Office to the personal bank accounts of employees. Some employees receive their salaries in cash through DDOs. The Sindh Government is making efforts to eliminate such cases.

Procurement

26. **The Project addresses procurement at a systemic level by providing overall support to SPPRA in developing monitoring systems, e-procurement systems as well as training programs.** This section deals only with the procurement processes of the TA component. All procurement activities under Project EEPs and TA are to be carried out in accordance with Bank Guidelines: Procurement of Goods, Works, and Non-consulting Services under IBRD Loans and IDA Credits and Grants for World Bank Borrowers (dated January 2011, revised July 2014) and Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers (dated January 2011, revised July 2014).

27. **The draft procurement plan indicates that there should only be procurements of goods and consultancies**. All procurements subject to international competition should be posted in the Project's General Procurement Notice (GPN). A Specific Procurement Notice (SPN) will be published for all ICBs for goods and consultancy assignments estimated to cost more than US$ 500,000. Overall procurement arrangements with tentative amounts are given in Table A3.4. The EEPs are limited to salaries and there are no procurable items envisaged.

28. **Procurement of Works and Goods.** No civil works are expected under Project TA. For procurement of goods through the Project TA funds, the Bank's procurement guidelines will be applicable. International Competitive Bidding (ICB) procedures will be used for all contracts estimated to cost more than US$500,000 equivalent, using the Bank's standard bidding documents. Goods contracts costing up to US$500,000 will be procured through NCB, using bidding documents acceptable to the Bank and contracts costing up to US$50,000 may be procured through shopping procedures.

29. **Improvement of bidding procedures under National Competitive Bidding**. When procuring goods and non-consultant's services pursuant to the provisions of Rules 4-15, 17, 20-26, 29, 30, 41-45 of the Sindh Public Procurement Rules (2010) (SROI (SGA&CD) 2-30/2010), as agreed to with the Association, the Recipient shall ensure that the following additional requirements be applied in order to align such procedures with the Procurement Guidelines:

i. Invitation to bid shall be advertised in at least one national newspaper with wide circulation, at least 30 days prior to the deadline for the submission of bids; unless a shorter period is agreed in the procurement plan;
ii. Bid documents shall be made available, by mail or in person, to all who are willing to pay the required fee;
iii. Foreign bidders shall not be precluded from bidding and no preference of any kind shall be given to national bidders in the bidding process;
iv. Bidding shall not be restricted to pre-registered firms;
v. Qualification criteria shall be stated in the bidding documents;
vi. Bids shall be opened in public, immediately after the deadline for submission of bids;
vii. Bids shall not be rejected merely on the basis of a comparison with an official estimate without the prior concurrence of the Bank;
viii. Before rejecting all bids and soliciting new bids, the Bank's prior concurrence shall be obtained;
ix. Bids shall be solicited and works contracts shall be awarded on the basis of unit prices and not on the basis of a composite schedule of rates;
x. Contracts shall not be awarded on the basis of nationally negotiated rates;
xi. A single bid shall also be considered for award;
xii. Contracts shall be awarded to the lowest evaluated and qualified bidder;
xiii. Post-bidding negotiations shall not be allowed with the lowest evaluated or any other bidders;
xiv. Draft NCB contract would be reviewed by the Bank in accordance with prior review procedures;
xv. Any firm declared ineligible by the Bank, based on a determination by the Bank that the firm has engaged in corrupt, fraudulent, collusive, coercive or obstructive practices in competing for or in executing a Bank-financed contract, shall be ineligible to be awarded a Bank-financed contract during the period of time determined by the Bank; and
xvi. Each contract financed from the proceeds of the Credit shall provide that the suppliers, contractors and subcontractors shall permit the Bank, at its request, to inspect their accounts and records relating to the performance of the contract and to have said accounts and records audited by auditors appointed by the Bank. The deliberate and material violation by the supplier, contractor or subcontractor of such provision may amount to obstructive practice.

30. ***Selection of consultants***. All contracts with consulting firms will be procured in accordance with Quality and Cost Based Selection procedures or other methods given in Section III of the Consultant Guidelines, such as Quality Based Selection (QBS), Fixed Budget Selection (FBS), Least Cost Selection (LCS), Consultants Qualification Selection (CQS) or Single Source Selection (SSS). For contracts with consulting firms estimated to cost less than US$500,000 per contract, the shortlist of consultants may comprise entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

31. ***Selection of individual consultants***. Services for assignments that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.2 through 5.3 of the Consultant Guidelines. Under the circumstances described in paragraph 5.4 of the Consultant Guidelines, such contracts may be awarded to individual consultants on a sole-source basis.

32. ***Selection of non-consulting Services***. There could be a need for some data entry contracts, or survey contracts, and so on, using the procedures for selection of non-consulting services. The costs are not expected to exceed US$ 100,000 per contract. Contracts costing more than US$ 50,000 would be procured through NCB, and contracts costing up to US$ 50,000 may be procured through shopping procedures. The Bank's sample documents for non-consulting services should be used for the NCBs.

33. ***Assessment of agency's capacity to implement procurement***. Procurement is the responsibility of ERU and SRB. ERU does not have a track record of conducting major procurements. The procurement needs for the ERU TA component will be identified by the relevant departments/organizations and will be coordinated by ERU. SRB has been doing major procurements and generally a PD is identified as focal point. Procurement and contract management focal person will be hired/identified at ERU and SRB by Project negotiations. ERU procurement decisions will be finalized by the Secretary Finance and SRB procurements will be decided by the Chairman.

34. In order to ensure efficiency and transparency in procurement, the following measures will be taken to strengthen Project implementation:

(a) ERU and SRB will disclose all relevant procurement activities and status of implementation of all contracts financed through Project TA funds on a dedicated section of their respective websites. Information will include procurement plans, procurement notices, invitation to bid, bid documents and Requests for Proposal (RFPs) as issued, latest information on procurement contracts, complaints and actions taken, contract award and performance under the contracts and other relevant information. The websites will be made accessible to all bidders and interested persons equally and free of charge. The relevant sections of the websites are to be mentioned in all Invitations to Bid and Requests for Proposals.

(b) Procurement training sessions will be held for newly inducted staff of ERU as well as SRB to ensure that the requirements and timelines for procurements under Project TA funds are clearly understood at the commencement of the Project. A simple procurement manual will also be prepared to document all steps and approval processes within RSU for each type of procurement.

(c) A two-tier system for managing complaints about procurement related to the Project will be operational over the Project period. The first tier will be departmental complaints handling systems; the second tier will be the complaints handling system at SPPRA. ERU/SRB and SPPRA will publicly disseminate information on a regular basis over the Project period on how to access these systems. A status report for complaints handling will be included in the semi-annual monitoring reports submitted to the Bank. For ICB/international selection of consultants, the Bank prescribed complaint redressal mechanism shall apply.

Table A3.5. Procurement Actions

No	Action	Responsibility	Date	Status
	Procurement link on ERU and SRB websites	ERU and SRB	March 2015	SRB has a link that needs customization; ERU to develop a link
	Procurement staff identified/hired.	SRB: identification; ERU: hiring; Training; Bank	By negotiations By negotiations Before procurement commences.	Focal points identified Hiring underway
	Procurement manual developed	ERU and SRB	March 2015	
	Complaint redressal mechanism set up and disseminated	ERU and SRB	March 2015	SPRPA already has a system; departmental arrangements to be developed

35. **Procurement planning.** ERU and SRB have prepared procurement plans for the t TA funds, which provide the basis for procurement methods. The plans were agreed between ERU/SRB and the Bank prior to negotiations, and will be available on the respective websites. The plans will be updated using the Bank's software CALIPER; the procurement plans will also be available in the Project's database and on the Bank's external website. The procurement plans will be updated in agreement with the Bank on an annual basis or as required to reflect the actual Project implementation needs and improvements in institutional capacity.

36. ***Review of procurement by the Bank***. Thresholds for prior review of contracts under eligible expenditures are given below, these are subject to amendments as agreed under procurement plans during implementation:

(a) All ICB contracts for goods;
(b) All single source selections or direct contracts;
(c) First NCB contract for goods, and non-consulting services irrespective of value;
(d) The first consulting services contract with consulting firms, irrespective of value, and, thereafter, all contracts with consulting firms estimated to cost US$ 300,000 equivalent or more;
(e) First consulting services contract with individual consultants, irrespective of value, and, thereafter, all contracts with individuals estimated to cost US$ 50,000 equivalent or more;

(f) All other contracts will be subject to post review by the Bank. ERU/SRB will send the Bank a list of all contracts for post review on a quarterly basis. Post reviews as well as implementation reviews will be conducted every six months. Such review of contracts below threshold will constitute a sample of about 20 percent of the contracts.

37. **Procurement information and documentation – filing and database**. Procurement information will be recorded and reported as follows:

i. Complete procurement documentation for each contract, including bidding documents, advertisements, bids received, bid evaluations, letters of acceptance, contract agreements, securities, related correspondence, etc., will be maintained in an orderly manner, readily available for audit.
ii. Contract award information will be promptly recorded and contract rosters as agreed will be maintained.
iii. Comprehensive quarterly reports by ERU/SRB indicating: (i) revised cost estimates, where applicable, for each contract; (ii) status of on-going procurement, including a comparison of originally planned and actual dates of the procurement actions, preparation of bidding documents, advertising, bidding, evaluation, contract award, and completion time for each contract; and (iii) updated procurement plans, including revised dates, where applicable, for all procurement actions.

38. ***Frequency of procurement supervision***. Bank implementation review missions will be carried out every six months, with a procurement specialist participating. In addition to prior review cases, Bank review missions will undertake post review of procurement actions conducted in the preceding six month period. The Bank's procurement specialist based in the country office in Pakistan will be available to discuss procurement issues with the Project implementing agency and partners, with visits when needed.

Environmental and Social (including safeguards)

39. The Project will not involve rehabilitation or construction and, therefore, it will have a Safeguards Category C rating which requires no Environmental Management Plan

40. **Project stakeholders include:** the Government of Sindh, the Finance Department, Planning and Development Department, Accountant General, the Sindh Revenue Board and two additional tax agencies - Excise & Taxation, and Board of Revenue, the Sindh Public Procurement Revenue Authority, and taxpayers and business groups affected by tax policy changes. A brief summary of relevant stakeholder concerns is provided below:

- Borrower/Government: The tensions between the Center and Province remain a significant issue, calling into question who controls the policy and reform agenda. These issues, which are driven by political concerns, will impact leadership in the Province and may have a significant effect on government commitment to implement PSM reforms. Regardless of leadership, institutional reforms can be expected to be met with caution at the agency level, if not opposition. Institutional fragmentation and high turnover contributes to a limited vision for reform interventions.

- Finance Department, Planning and Development, and Accountant General: Currently champions exist in the Finance Department and the Planning and Development Department but frequent changes in senior bureaucracy have been the norm in Sindh. The Accountant General's office is not a reform leader, yet is critical to increased PFM oversight.
- Sindh Revenue Board and other Tax Administration Agencies: The two most significant risks to tax reform are opposition to reform and limited execution.
- Sindh Public Procurement Regulatory Authority and implementing agencies: Procurement performance depends on the extent to which senior leadership in GoS supports the implementation of an e-procurement system, and the degree to which the selected implementing agencies support the development of the e-procurement system.
- Taxpayers and Business Groups: Due to the volatile nature of tax reform, taxpayers and groups affected by increased tax compliance and collection are likely to develop as important stakeholders in the Project. The politics of coalition formation may weaken the political resolve to take decisions essential for both revenue mobilization and PFM.

Monitoring & Evaluation

41. **The Project has a strong monitoring and evaluation focus.** The Sindh Revenue Board's sales tax collection system is already substantially automated enabling easy collection and analysis of the relevant indicators. The proposed SPRRA MIS for information collection on key procurement timelines and processes also aims to generate performance data for improved monitoring and evaluation. The proposed interventions in the Planning and Development Department also aim to enhance monitoring of the development portfolio. Third party validations, wherever appropriate, will also be deployed to verify the DLI results. The capacity of the Economic Reform Unit in the Finance Department, the designated Project Management Unit, will also be enhanced for effective monitoring and evaluation of Project activities. The existing M&E system will incorporate improved mechanisms to monitor Project implementation, compliance with the established procurement and financial management procedures, and achievement of Project performance indicators included in Annex 1. Monitoring instruments include bi-annual progress reports on Project implementation, output and performance indicators, and an annual external assessment of compliance with DLI and PDO indicators.

Grievance Redressal Mechanisms

42. A Grievance Redress Mechanism (GRM), led by the head of ERU with a focal person in each implementing agency, would be established to deter fraud and corruption, mitigate risks, and provide Project staff with practical suggestions and feedback that would enable them to be more accountable, transparent, and responsive to beneficiaries needs. Proactive collection of feedback from citizens will also facilitate focus on systemic issues and redressal of such problems.

Role of Partners

43. **The European Union Technical Assistance:** EU Technical Assistance, depending up finalization of specific interventions in collaboration with WB during the inception phase, is likely to provide technical assistance to the achievement of three key objectives: (i) establishing strategic budgeting in Sindh Province, (ii) enhancing the credibility of budget execution and reporting, and

(iii) improving accountability. Below is a description of the indicative EU TA interventions in the area of strategic budgeting.

Strategic Budgeting

44. The Sindh Government is currently piloting the Medium-Term Budgetary Framework (MTBF) approach to budgeting in eight departments. EU Technical Assistance is likely to help enhance these pilots by providing technical support to the Finance Department, P&DD, and line departments. In addition, the EU is likely to support the introduction of Output Based Budgeting (OBB) in Sindh. Output Based Budgeting links budget allocations and spending with the departmental outputs, outcomes, indicators and targets. The EU TA, depending upon the results of the inception phase, will provide TA help embed the concept of OBB in the government. EU TA is also likely to support the integration of current and development budgets: (i) by assisting the Planning & Development Department to develop strategic policy documents and plans, (ii) by supporting the Finance Department to resume the yearly publication of the white paper with the budget, and (iii) by building capacity of these two departments to map current and development budgets.

Annex 4: Operational Risk Assessment Framework (ORAF)

Pakistan: PK Sindh Public Sector Management Reform Project (P145617)

Risks

Project Stakeholder Risks		
Stakeholder Risk	**Rating**	**Substantial**
Risk Description: Borrower/Government The risk of tensions between the center and the Province may raise the question who controls the policy and reform agenda. This could potentially impact leadership in the Province and may have a significant effect on Government commitment to implement PSM reforms. Regardless of leadership, institutional reforms could be met with caution at the agency level, if not opposition. Institutional fragmentation could contribute to a limited vision for reform interventions. Finance and related Departments: • Currently champions exist in the Finance Department and the Planning and Development Department, but in the past frequent changes in senior bureaucracy have been the norm in Sindh. • The Accountant General's Office is currently not a primary reform leader, yet is critical to increased PFM oversight. • There may be a risk of limited appetite for major PFM reforms and political pressure due to comfort with the implementation of existing systems. • Preparation of a PFM reform plan led by donors without the support and buy-in of government. • Overall, the security situation remains unpredictable.	**Risk Management:** The Project team has designed a Strategic Engagement process to secure a stronger sense of ownership and sustainability in the Project from the Government of Sindh. The engagement process has commenced with Project design and continued into preparation, resulting in a Government of Sindh Reform Plan for PFM and Revenue Mobilization reform. This process will involve ongoing regular, formal consultations with internal stakeholders during the design phase to build ownership and facilitate implementation; planned regular, formal consultations with stakeholders during the implementation phase to gather feedback for refining/adapting design/implementation. • Tax reform has received strong commitment for reform at the highest political level, with the approval of SRMP by the Chief Minister. • Preparation of implementation plans that phase in reforms by starting small (and then increasing scale) or incrementally adding all the pieces of the reform (i.e. gradual intensification); periodic reviews of the implementation strategy to inform any needed reform refinements or adaptations. • Introduction of a dedicated information and communications unit in the lead implementing agency (Finance Department) for donor, media, and civil society relations and engagement, complaints management, and proactive, regular, and wide communication and consultation on the reform agenda. • In addition, taxpayer associations and taxpayers will be afforded opportunities to participate in reform implementation. To build support from taxpayers at large would require a well thought out communication plan. Certain Project components will involve the development of mechanisms to secure citizen feedback. • The EU has committed to being an integral partner in the Project, providing $10 million in Technical Assistance. • Routine meetings could be held with donors engaged in Sindh to ensure ongoing coordination should agendas begin to converge.	

Revenue Mobilization: The two most significant risks to tax reform could be opposition to reform and limited execution. • The biggest risk in any tax reform initiative can be potential resistance or opposition from those who have the most to lose from the reforms. They could include those who would experience an increase in tax or officials who under-report or who may not declare tax liabilities. • Another major risk related to reforms of tax administration can be limited execution. This includes the risk of delays or potential interference in the procurement system, unsatisfactory delivery of services by the contractors, potential resistance by rent-seeking stakeholders, and the lack of an effective change management plan. Management of these risks will require strong project management and direct reporting to senior management, including the Minister. Procurement: • Procurement performance depends primarily on the extent to which the selected implementing agencies provide accurate and reliable data to PPRA for procurement monitoring, and the degree to which they support the development of the e-procurement system. Information Disclosure Risks: Proactive information disclosure risks could include: • Limited ownership/interest at the agency level. • Unwillingness to proactively disclose information. • Generating new types of information. • The requirement for consistent updates may challenge the constantly changing environment of Government of Sindh. • Defining precisely what information should be disclosed could be difficult. • Translating technical information to 'user-friendly' information is challenging. • While the interim government indicated an interest in reforming the FOI Ordinance, this government did not	**Resp:** Both	**Status:** In Progress	**Stage:** Implementation	**Recurrent:** ☑	**Due Date:**	**Frequency:** Yearly

have the authority to pass laws. The level of interest of the new GoS in legislative reform has to be determined. Donors: While the Bank has a strong coordination effort with the EU in Sindh, collaboration with other donors is less developed. DFID has virtually no presence in Sindh. USAID and ADB are in Sindh but, at this time, they appear to have complementary reform agendas. Other beneficiaries/stakeholders: Due to the volatile nature of tax reform, taxpayers and groups affected by increased tax compliance and collection are likely to develop as important stakeholders in the Project. The politics of coalition formation may weaken the political resolve to take decisions essential for both revenue mobilization and PFM. The limited avenues for citizen feedback and input are likely to contribute to a sense of insularity in the reform design and implementation process.						
Implementing Agency (IA) Risks (including Fiduciary Risks)						
Capacity	**Rating**	**Substantial**				
Risk Description: While Sindh's top bureaucratic leadership capacity compares quite favorably with that of other provinces, there is a sharp decline in Government's technical and administrative capacity moving from the top to mid-level management. This capacity challenge is further compounded by risks of political intervention in appointment of top management and frequent transfers and postings at the level of civil bureaucracy. This could not only disrupt continuity in management, but also politicize decision-making, as civil bureaucracy tries to accommodate the political level in order to maintain their posts and positions.	**Risk Management:** The EU's TA will complement the Project through making available technical expertise to the participating departments. Capacity building – both through on-the-job training and off-site training will be embedded in the Project design. Implementation arrangements for the Project will be designed during Project preparation. Institutional arrangements for donor-financed projects are established in the Province. A detailed fiduciary assessment of the implementing agencies has been conducted and arrangements have been agreed with counterparts to ensure mitigation of fiduciary risk to an acceptable level. FM risk is assessed as "Substantial" considering the weak governance environment in the Province					
	Resp:	**Status:**	**Stage:**	**Recurrent:**	**Due Date:**	**Frequency:**
	Bank	In Progress	Implementation	☑		Yearly

<table>
<tr><td>Limited institutional capacity could create challenges with program implementation, particularly in the areas of tax and procurement reform. A particular challenge will be lower capacity in the tax agencies – especially the Board of Revenue and Excise and Taxation – and the departments implementing the new M&E system for procurement. These departments will be undergoing a major change management process involving staff and processes at three to four governmental departments. It is widely recognized that the staff in these departments do not have extensive IT skills or procurement knowledge.

Success in program implementation would require stronger coordination among the tax entities and with the Finance Department.</td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Governance</td><td>Rating</td><td colspan="5">High</td></tr>
<tr><td rowspan="4">Risk Description:
There are major challenges in public sector management, governance, and capacity which hamper effective delivery of public services in general. These limitations are evident across sectors in Sindh Province. The reasons are many. The Province has a peculiar dual-economy and dual society challenge. Partly due to this urban-rural divide, Sindh has had fragile coalition governments over the last several election cycles, with each coalition partner strongly focused on its interests.</td><td colspan="6">Risk Management:
The establishment of increased Government ownership in governance reform is a critical aspect of the risk management strategy. The strategic engagement process is viewed as central to increased ownership.</td></tr>
<tr><td>Resp:
Both</td><td>Status:
In Progress</td><td>Stage:
Preparation</td><td>Recurrent:
☑</td><td>Due Date:</td><td>Frequency:
Yearly</td></tr>
<tr><td colspan="6">Risk Management:
The PFM provisions in the Project are a critical part of the risk management strategy.</td></tr>
<tr><td>Resp:
Both</td><td>Status:
Not Yet Due</td><td>Stage:
Both</td><td>Recurrent:
☑</td><td>Due Date:</td><td>Frequency:
Quarterly</td></tr>
<tr><td colspan="7">Project Risks</td></tr>
<tr><td>Design</td><td>Rating</td><td colspan="5">Substantial</td></tr>
<tr><td>Risk Description:</td><td colspan="6">Risk Management:</td></tr>
</table>

<table>
<tr><td rowspan="2">The Project context requires flexibility but also a results focus. The Project design is ambitious and complex. It includes multi-faceted components on PFM, Revenue Mobilization and Procurement, as well as a cross-cutting component on Information Disclosure. The multiplicity of these components, as well as the multi-faceted nature of each component, poses important management challenges. Program implementation will occur with numerous tax entities and multiple departments implementing procurement reform. Implementation of the Bank's component related to M&E procurement relies upon purchase/development/readiness of a MIS which is associated with the Bank’s SERP II.</td><td colspan="6">The Project design includes both DLIs as well as a menu of reform options that can be pursued based upon client demand once critical DLIs have been met.

• Project design includes a phased-in approach which reflects prioritization to maximize the likelihood of Project success.

• The Strategic Engagement process will be used to secure increased ownership and commitment from the Government of Sindh to improve project success.

• The Project team will be coordinating with the Education team to ensure effective implementation of the procurement MIS.</td></tr>
<tr><td>Resp:
Both</td><td>Status:
In Progress</td><td>Stage:
Both</td><td>Recurrent:
☑</td><td>Due Date:</td><td>Frequency:
Yearly</td></tr>
<tr><td>Social and Environmental</td><td>Rating</td><td colspan="5">Low</td></tr>
<tr><td rowspan="2">Risk Description:
The Project will not involve rehabilitation or construction and, therefore, it will have a Safeguards Category “C” rating which requires no Environmental Management Plan.</td><td colspan="6">Risk Management:
Not applicable.</td></tr>
<tr><td>Resp:
Bank</td><td>Status:
Not Yet Due</td><td>Stage:
Both</td><td>Recurrent:
☑</td><td>Due Date:</td><td>Frequency:
Yearly</td></tr>
<tr><td>Program and Donor</td><td>Rating</td><td colspan="5">Moderate</td></tr>
<tr><td rowspan="2">Risk Description:
Donor coordination in the area of governance and public sector management in Sindh Province poses a moderate challenge. The EU, a partner in this Project, is closely aligned with the World Bank's PSM approach. USAID and ADB are involved in the Province, and currently have complementary project agendas. Nevertheless, donor coordination must be monitored going forward, as donor agendas are continuously evolving.</td><td colspan="6">Risk Management:
• The establishment and running of a donor coordination forum on PFM and revenue mobilization by the Provincial Government.
• Invited participation of donors in preparation and subsequently in supervision and implementation support mission carried out by the Bank.
• Close coordination with donors engaged in PSM and tax reform technical assistance in Sindh in order to leverage synergies between Bank funding and related donor TA.</td></tr>
<tr><td>Resp:
Both</td><td>Status:
In Progress</td><td>Stage:
Both</td><td>Recurrent:
☑</td><td>Due Date:</td><td>Frequency:
Yearly</td></tr>
<tr><td>Delivery Monitoring and Sustainability</td><td>Rating</td><td colspan="5">Substantial</td></tr>
<tr><td>Risk Description:</td><td colspan="6">Risk Management:</td></tr>
</table>

The regularity, level, and quality of monitoring by the Provincial Government is limited and needs strengthening to help ensure sustained program implementation integrity, progress, and performance.	• An optimal approach would be to use the Project to establish comprehensive, not Project-specific, approaches to PFM, tax and procurement related monitoring. The Project includes multiple IT-related Project components which could be used to support this end.					
	Resp:	**Status:**	**Stage:**	**Recurrent:**	**Due Date:**	**Frequency:**
	Both	In Progress	Implementation	☑		Yearly

Overall Risk		
Overall Implementation Risk:	**Rating**	**Substantial**

Risk Description:

The Project aims to have results related to upstream systems improvement and will not be held accountable for downstream service delivery. PFM reforms focus on enhanced reporting and oversight mechanisms. The tax component emphasizes the institutional development of SRB. The procurement component entails reporting from an existing system but with new ICT mechanisms. Finally, the management of the development portfolio component will focus on strengthening monitoring capacity of the MEC in P&DD. Given that the targeted level of results take the context into account, the Project design is likely to decrease the risks associated with achieving Project results.

Annex 5: Implementation Support Plan

PAKISTAN: Sindh Public Sector Management Reform Project

Strategy and Approach for Implementation Support

1. **The strategy and approach for the Implementation Support Plan (ISP) reflect the support requirements to implement risk mitigation measures and achieve the Project Development Objectives.** The design of the Project and its implementation arrangements aim to respond to the identified issues through the following measures and arrangements:

(a) *Limited experience with Bank-financed projects*. ERU has limited experience with Bank-financed projects and no experience at all with DLI modality. As a result, the counterpart (and ultimately ERU) requires targeted support, training and a close and steady communication with the Bank team on Project implementation mechanisms and processes. The Government was closely involved in the design and preparation of the Project.

(b) *Limited knowledge on the Bank's fiduciary rules in particular procurement.* ERU has limited experience with the Bank's fiduciary rules and has never carried out procurement processes under the Bank's guidelines. Prior to implementation, ERU will receive training on the Bank's procurement guidelines and will extend its fiduciary team by hiring additional specialists for financial management and procurement. The Bank's procurement specialist will be able to quickly react to requests for support from ERU, in particular in the beginning of the Project.

(c) *Coordination among the different departments and agencies ministries involved in the Project.* ERU in FD will be in charge of centrally managing all fiduciary aspects and the monitoring and reporting of compliance of DLIs. This unit will also serve as the main counterpart with the Bank and facilitate all communication and reporting. To facilitate coordination among participant institutions, a steering committee for the Project will be established. In addition, both CRG and SRG will be part of the Project implementation arrangements. Similarly, on the Bank side, the Project team is comprised of specialists from all relevant sectors and implementation will be coordinated by the public sector team.

(d) *Need to strengthen M&E systems and ensuring monitoring of DLI compliance*. To facilitate the monitoring of progress and DLI compliance, most indicators have been designed using available information to establish the baseline and to easily gather information on their progress. However, for some indicators no existing data for a baseline was available, but will be established during the first year of implementation through activities under the technical assistance component. In addition, technical assistance will be provided to strengthen the provincial monitoring system so all DLIs can be monitored through the provincial system.

(e) *Close supervision and support through country-based staff*. Several members of the Bank team, including the fiduciary staff and some sector specialists are based in the Province or in the country office in Islamabad. Short term consultants based in Karachi will also provide support. This will allow for close, timely and cost-efficient supervision and support to the Government.

2. **Specific provisions have also been considered to guarantee sound fiduciary and safeguard oversight:**

(a) *Procurement.* Procurement implementation support by the Bank will include: (i) providing training to ERU, (ii) providing detailed guidance on the Bank's Procurement Guidelines to the Procurement Unit, (iii) reviewing procurement documents and providing timely feedback to the Procurement Unit, and (iv) monitoring procurement progress against the Procurement Plan.

(b) *Financial management.* The Bank supervision team will: (i) provide training to ERU's Financial Management Unit and the Project team; and (ii) regularly review the Project's financial management system and its adherence to the Project Operations Manual, including but not limited to, accounting, reporting and internal controls.

Implementation Support Plan

3. Implementation will be supported by the Bank team through the following activities:

(a) *General Supervision inputs.* There will be two formal missions per year complemented by a series of visits made by staff based in Islamabad to respond to upcoming demands by the Government. The current team composition includes a TTL, which will help in focusing the supervision and responding to the demands of the sector ministries. In addition, team members based in the country office and at headquarters will provide day to day supervision support of all operational aspects, as well as coordination with the client and among Bank team members.

(b) *Fiduciary inputs.* Training will be provided by the Bank's financial management and procurement specialists before the beginning of Project implementation. The Bank team will continue to support ERU to identify capacity building needs to strengthen overall Project implementation, with an emphasis on fiduciary aspects. Formal supervision of Project implementation and financial management will be carried out semi-annually or as needed, while procurement supervision will be carried out on a timely basis as required by the client.

(c) *Sector & Technical inputs.* The sector specialists for PFM, procurement, revenue mobilization and public sector management will provide continuous advice in their areas of expertise during implementation. The objective of the team is to maintain continuity and a regular dialogue between the Government counterparts and the technical specialists. The main focus of implementation support is summarized below.

Time	***Focus***	***Skills Needed***	***Resource Estimate***	***Partner Role***
First twelve months	Technical Review/Support	Tax Reform Specialist PFM Specialist Procurement Specialist	6 SWs 6 SWs 4 SWs	Participate in training
	FM training and supervision	FM Specialist	5 SWs	NA
	Institutional arrangement and Project supervision coordination	Operations Officer	8 SWs	NA
	Team leadership	TTLs	12 SWs	NA
12-48 months	Technical Review/Support	Tax reform Specialist PFM Specialist Procurement Specialist	6 SWs 6 SWs 4 SWs	Participate in training
	FM training and supervision Procurement Training and Supervision	FM Specialist Procurement Specialist	5 SWs 5 SWs	NA NA
	Institutional arrangement and project supervision coordination	Operations Officer	8 SWs	NA
	Team leadership	TTLs	12 SWs	NA

SW= staff week

Skills Mix Required

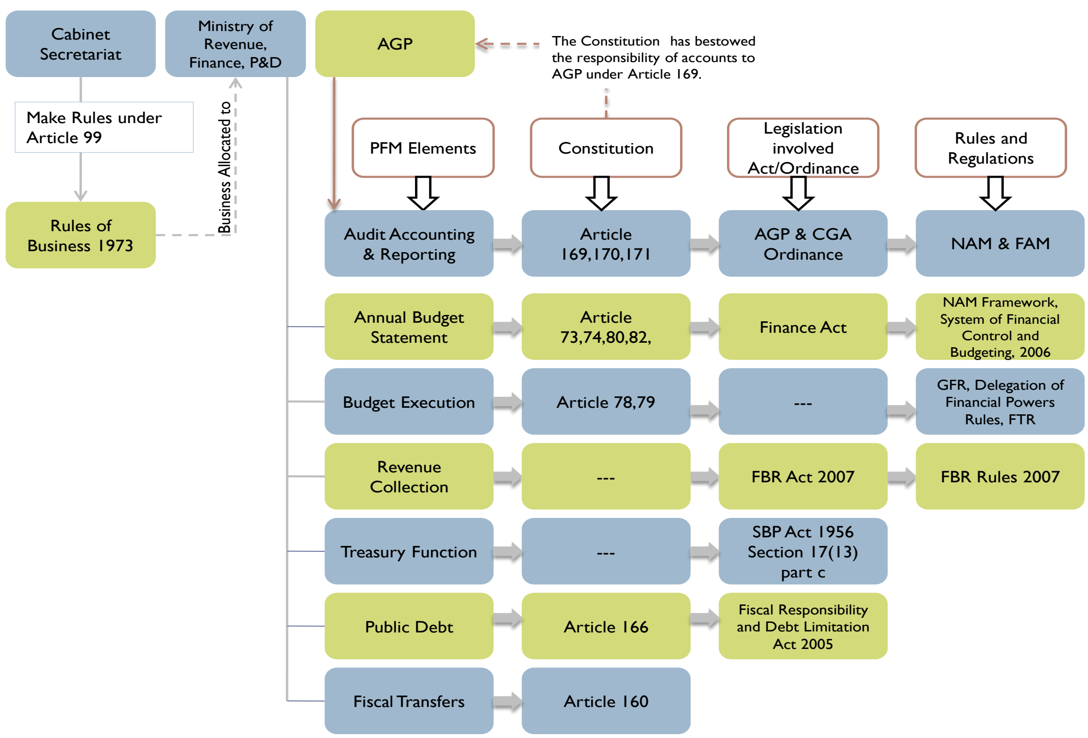
Skills Needed	***Number of Staff Weeks***	***Number of Trips***	***Comments***
TTL	6 SWs annually	Three (annually)	Country office based/ HQ Based
FM Specialist	6 SWs annually	Field trips as required	Country office based
Tax Specialist	6 SWs annually	Field trips as required	Country office based
PFM Specialist	6 SWs annually	Field trips as required	Country office based
Procurement Specialist	6 SWs annually	Field trips as required	Country office based
Operations Officer	12 SWs annually	Field trips as required	Country office based

Annex 6: Findings of 2013 PEFA

PAKISTAN: Sindh Public Sector Management Reform Project

1. **The legal and institutional framework for PFM derives from the Constitution.** The 1973 Constitution provides adequate enabling legal frameworks with respect to public finance, public debt management, and public sector audit. At intervals not exceeding five years, the National Finance Commission (NFC), consisting of the federal and provincial Ministers of Finance and other such other persons appointed by the federation and the provinces, recommends the distribution of the net proceeds of defined taxes; the making of grants-in-aid by the federal government to the provincial governments; and any other matters relating to finance referred to the Commission by the President. The 18th Amendment to the Constitution[14] and the 7th NFC Award, signed in December 2009 and in force since FY2010/11, have changed significantly the relations and accountability frameworks between the federal and provincial governments. Corresponding with more funds, the provinces now have increased responsibility for service delivery. Figure A6.1 summarizes the current legal framework for PFM.

Figure A.1: Legal Framework for PFM in Pakistan



[14] The 18th Amendment to the Constitution included several amendments. Abolishment of the Concurrent List containing the subjects on which both the Parliament and the Provincial Assemblies can legislate was the most significant and became effective from July 1, 2011. Thereafter, most of these subjects have become provincial subjects except those which have been transferred to the Federal List. Provinces have been given exclusive jurisdiction over 17 service delivery functions and the Council of Common Interests (comprising Federal Government and the Provinces) has been strengthened.

2. **A Public Expenditure and Financial Accountability (PEFA) assessment was conducted for the Province of Sindh in 2009 and a 2013 update was recently completed.** Tables 1 and 2 compare the overall trajectory of the indicators from the 2009 PEFA Assessment to the current assessment. As is evident from Table A6.1, the trajectory of change is not encouraging and, most importantly, less than a third of the scores are at a satisfactory level indicating a serious limitation in the ability of the Provincial Government to achieve aggregate fiscal discipline, strategic allocation of resources, efficient service delivery and financial compliance.

Table A6.1: PEFA Assessment for Government of Sindh
Trajectory of Change 2009 to 2013

Trajectory	Overall Scores	Dimension-wise Scores
No change	10	34
Improved	7	16
Deteriorated	11	19
Not comparable	3	6
Not rated	1	4
Total	32	79
Score of A or B	**9**	**30**

3. **A further analysis of the distribution of scores in Table A6.2 shows that, although there has been some improvement in a number of performance dimensions, there has been an overall deterioration in scores over the period between assessments.** There are also a significant number of scores that have remained the same, suggesting that little progress has been made. Most notable are the deficiencies in budget credibility and the internal control structure applicable to budget execution which casts doubts on the accuracy, completeness and credibility of information available to officials responsible for key decisions.

Table A6.2: PEFA Assessment 2013 - Distribution of Scores

Dimension of performance	A or B scores	C / D / NR* scores	Total
Credibility of the budget	-	4	4
Comprehensiveness and transparency	3	3	6
Policy-based budgeting	1	1	2
Predictability and control in budget execution	2	7	9
Accounting, recording and reporting	1	3	4
External scrutiny and audit	1	2	3
Donor Practices	1	2	3
Higher Level of Government	-	1	1
T O T A L	**9**	**23**	**32**

Source: PEFA assessment for Sindh, June 2014.
**NR – Not rated*

4. **Further, the PEFA assessment reflects notable challenges in terms of disclosure of user-friendly budget information to the public.** Of the six PEFA indicators which involve public access to financial information, only two of these – annual budget documentation and resources available at primary service units – are available to the public. The other four – in-year budget

execution reports, year-end financial statements, external audit reports and contract awards – are not publicly available. In addition, PEFA notes that while a large body of budget information is disclosed, user-friendly information on the budget for particular sectors (such as poverty reducing expenditures) is not readily available, and has to be compiled from different documents.

5. **In terms of procurement, the 2013 PEFA update findings indicate that Sindh's procurement system is weak in two critical areas:** (i) the use of competitive procurement methods, and (ii) the provision of complete, reliable and timely procurement information to the public. The findings are summarized below:

Table A6.3: PI-19 Transparency, Competition and Complaints Mechanisms in Procurement – Revised 2011

Dimension	Score		Brief Explanation of Status
	2009	2013	
Overall	**NA**	**C+**	
(i)Transparency, comprehensiveness and competition in the legal and regulatory framework.	NA	A	The legal framework meets all of the six listed requirements.
(ii) Use of competitive procurement methods.	NA	D	Consolidated reliable data for contracts awarded by method other than open competition is not available.
(iii) Public access to complete, reliable and timely procurement information.	NA	D	Bidding opportunities information is generally publicized through electronic and print media. For the remaining three requirements however, i.e. procurement plan, contract award and complaint resolution there is no evidence or data available.
(iv) Existence of an independent administrative procurement complaints system.	NA	B	An overall set up of independent complaint redress is provided, with timeframe and disclosure requirements but access is not free of cost. Five out of the seven criteria are met, including criterion i and ii.

6. **A Debt Management Practices Assessment (DeMPA) has been completed in conjunction with PEFA assessment.[15]** The following Table summarizes the main results:

[15] Sindh Province Debt Management Performance Assessment (Sindh – DeMPA) was undertaken during between November 2013 and February 2014.

Table A6.4: Key Findings of Sindh DeMPA

Area	Main Findings
Governance and Strategy	Although the Constitution allows the provinces of Pakistan to borrow, there are no provincial laws for the Government of Sindh (GoS) that delegate the authority to borrow, specifying borrowing purposes, and determining limits of borrowing. Debt management responsibilities do not appear to be clearly defined. Consequently, Finance Department Sindh is not playing a lead role. As a result, no single one entity is looking at the overall provincial debt portfolio. GoS does not formulate a DeM strategy. Given this scarcity and little analysis of the debt portfolio as a whole, the provincial legislature does not evaluate GoS performance in public debt management. Furthermore, performance audit that evaluates the effectiveness and efficiency of GoS debt management has never been undertaken.
Coordination with fiscal/budgetary policies	FD prepares debt servicing forecasts for the budget exercise (albeit lacking sensitivity analysis). However, there has been considerable variation in the estimates. After a gap of five years, the Government prepared few indicators to assess debt sustainability of the Province. However, this analysis was largely backward looking and static and does not qualify as full-fledged (DSA) which needs to inform policy making.
Borrowings and Related Activities	GoS does not prepare an annual borrowing plan of foreign debt. Written procedures are lacking, such as procedures manuals for borrowing operations as well as for issuing guarantees and on-lending-both external and domestic-and for all related activities such as debt registration and validation.
Cash Flow Forecasting and Cash Balance Management	Cash forecasting has significantly developed in recent years. GoS may wish to explore the option of creating a minimum cash balance or liquidity buffer given that its cash management options are currently extremely limited, with practically the only option being a State Bank of Pakistan (SBP) overdraft.
Operational Risk Management	There is an understanding of operational risk but lack of a formal operational risk management framework with business continuity and disaster recovery plan. Staff capacity along with human resource management requires strengthening in view of the plans to significantly increase the debt portfolio's level and complexity.
Debt Records and Reporting	The current debt database captures only debt servicing. Data on disbursement is not being captured. Moreover, what is being captured remains relatively vulnerable given that transactions are recorded in an Excel spreadsheet. Moreover, debt statistical bulletin (or its equivalent) covering the Province's debt, in compliance with the minimum standards for efficient debt management, is not being published.

7. The table below lists the potential improvements of PEFA rating because of the interventions of the project. The most important factor creating results however will be the sustained ownership of the implementation of the wider set of interventions contained in the Sindh PFM reform strategy and the Tax Revenue Mobilization Plan.

Table A 6.5: Project Result Framework and Potential Impact on the PEFA Indicators

S No.	Result framework Indicator	No.	PEFA Performance Indicator description	current Rating	Expected rating
1	Enhanced SRB human resources capacity for administration (DLI)	PI-14 (i)	controls in Tax Payers Registration system	D	B
2	Increased automation of SRB systems (DLI)				
3	Increased tax base				
4	Risk based audits of taxpayers implemented (DLI)	PI-14(iii)	Planning and monitoring of tax audit and fraud investigation programs	D	B
5	Improved SRB performance transparency	PI-13(iii)	Existence and functioning of a tax appeals mechanism	B	B
		PI-15(i)	Collection ratio for gross tax arrears, being the percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year	B	A
6	Increased extra-budgetary releases captured in FMIS	PI-7(ii)	Income/expenditure information on donor-funded projects that is included in fiscal reports	D	C
7	Establishment of internal audit	PI-21	Effectiveness of Internal audit	NR	C
8	Transparency in budget formulation, allocation and execution (DLI)	PI-10 (iii)	In-year budget execution reports. The reports are routinely made available to the public through appropriate means within one month of their completion.	C	B
		PI-1 & PI 2	Indirectly effect PI-1 Aggregate expenditure out-turn compared to original approved budget and PI-2 Composition of expenditure out-turn compared to original approved budget	D	C
10	Targeted contracts data entered in the procurement MIS system	PI-19 (ii)	Use of competitive procurement methods	D	B
11	Targeted contracts processed through e-procurement modules				
12	Procurement officials certified (DLI)				

8. The Project will contribute to improved PEFA ratings but will not be the only determining factor. For example, scope is an issue with improvement in PI 13, 14, 15 likely for sales tax on services only. The Province has 15 other tax instruments that factor into the prototype PEFA assessment for these PI's, which in this case is beyond the scope of this Project. Achievement of the above results will depend on ownership and actions by GoS which are outside the scope of the Project.

9. It should be noted also that the PEFA framework is currently being updated. Some indicators are being refined and others dropped. The new framework has not yet been agreed, As such, it needs to be recognized that some or all of the above indicators may also not be used in present from at time of next PEFA update. As such the results indicators set out in table above should be reassessed in terms of their applicability at time of mid- term review.

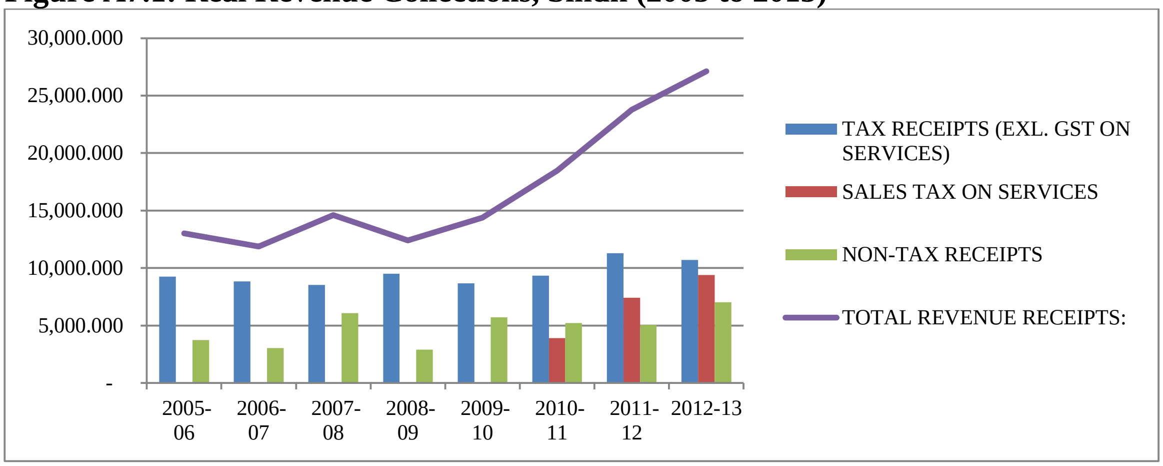
Annex 7: An Overview of Provincial Taxation

PAKISTAN: Sindh Public Sector Management Reform Project

BACKGROUND

1. **The low tax-to-GDP ratio in Pakistan, currently less than 10%, is widely recognized as a major policy concern.** The revenues generated at this level are not sufficient to support social and development expenditures needed for economic growth. Moreover, there is a serious imbalance in the Pakistan federation between the program responsibilities of the provinces and the financial resources allocated to them. Own-source revenues of Sindh Province, for example, are a small fraction of the total budget of the Province, and an even smaller fraction of its needs. Its contribution has not changed much as percentage of provincial GDP as shown by Table A7.1 below. This imbalance is addressed from time to time through transfers from the federal government to the provinces based on the recommendations of the National Finance Commission (NFC).

Figure A7.1: Real Revenue Collections, Sindh (2005 to 2013)[16]



Source: Finance Department, Government of Sindh

2. **Because of the lack of political cohesion in the country, and poor finances of the federation itself, the National Finance Commission award process has been erratic and insufficient for the needs of the provinces.** Only four NFCs have successfully concluded their deliberations in the country's entire history of 63 years. The most recent 7th NFC Awards were formed and announced after a gap of 19 years. As shown in Table A7.1 below, the Sindh tax revenues as a percentage of provincial GDP have been static over the most recent four-year period, i.e. from 2008-09 to 2011-12. The notable exception is the growth in tax revenues in 2011-12 to 1.1% of GDP, which is attributable to the shift in the collection of STS and the Infrastructure Development Cess (IDC) from the federal government to the Province, with a corresponding reduction in federal transfers.

Table A7.1: Sindh Revenue as % of Provincial GDP

	2008/09	2009/10	2010/11	2011/12
Total Revenue	5.7	5.8	6.8	6.8
Own Source (Tax & Non Tax)	2.0	1.7	1.7	2.1
Tax Revenues	0.6	0.6	0.6	1.1
Tax Revenues excl. STS and IDC	0.3	0.3	0.3	0.3
Federal Transfers	3.7	4.1	5.1	4.7

Source: Finance Accounts of the Province, Accountant General of Sindh
STS: Sales Tax on Services; IDS: Infrastructure Development Cess

3. **The under-performance of the tax system reflects both the structural weaknesses of the system (narrow tax base, undervaluation, exemptions and incentives) as well as inefficiencies of administration and enforcement.** The low tax effort at the provincial level is attributable in part to the limited powers granted to them under the Constitution to levy taxes, and also their weak administration capacity. There is a broad consensus in policy circles that tax effort needs to be, and can be, raised through focused tax policy reforms and modernization of tax administration. The 7th NFC has also recommended that the federal and provincial governments streamline their tax collection systems to reduce leakages and improve taxation to achieve a tax-to-GDP ratio of 15% by 2014-15. These improvements are needed at both federal and provincial levels.

4. **Recognizing the need for additional revenues to meet its investment requirements, the Government of Sindh (GoS) has already embarked upon an extensive program of tax modernization.** Following the 7th NFC Award, the Province has created a modern infrastructure for the collection of the Sales Tax on Services. It has also made significant progress in digitization of documents and records, and automation of compliance procedures for other important taxes. While these efforts have already yielded tangible results in improved revenue performance, much more remains to be done to fully realize the potential.

CONSTITUTIONAL FRAMEWORK

5. **The 1973 Constitution provides adequate enabling legal frameworks with respect to public finance, public debt management, and public sector audit.** The Constitution of Pakistan gives very limited powers of taxation to the provinces. Most of the broad-based taxes are enumerated on the federal legislative list, with the provinces empowered to levy only the residual taxes not on the federal list, which includes the following:

- Duties of Customs including export duties;
- Duties of Excise, including duties on salt but not including duties on alcoholic liquors, opium and other narcotics;
- Taxes on income other than agricultural income;
- Taxes on corporations;
- Taxes on the sales and purchases of goods imported, exported, produced, manufactured or consumed except Sales Tax on Services;
- Taxes on the capital value of assets, not including taxes on immovable property;
- Taxes on mineral oil, natural gas and minerals for use in generation of nuclear energy;
- Taxes and duties on production capacity of any plant, machinery, undertaking, establishment or installation in lieu of any one or more of them;

- Terminal taxes on goods or passengers carried by railways, sea or air, taxes on their fare or freights;
- Fee in any of the matters falling in the federal legislative list.

6. **Given the above list of federal taxation powers, the provincial powers are limited to:** Duties of excise on alcoholic liquors, opium, and other narcotics; Taxes on agricultural income; Sales Tax on Services; and Taxes on immovable property (presumably both capital value and property taxes). In addition to the above, the provinces also levy miscellaneous taxes (e.g. professional tax, motor vehicle tax) that are not explicitly enumerated in the federal legislative list. They can also levy fees and charges (e.g. infrastructure development Cess at Karachi Port) on activities not listed in the federal domain.

7. **All of the taxes within the domain of the provinces can be described as hard to collect.** They are limited in scope and difficult to design and administer. Furthermore, with the exception of the tax on services, they have relatively low buoyancy (i.e. their elasticity with respect to GDP is low). It is for this reason that they do not find a significant place in the tax systems of industrialized countries. Personal and corporate income taxes, Value Added Tax (VAT)/sales tax on goods and services and social security taxes are the bedrock of tax systems in advanced economies. In Pakistan, income taxes and sales taxes on goods are an exclusive preserve of the federal government. Broad-based social security taxes, being taxes on wage/earned income, could also fall in the federal domain.[17]

8. **Land and real property transfer taxes are hard to collect because the tax on full value of the property, collected in a single installment at the time of transfer, is perceived as very burdensome.** They are generally subject to significant undervaluation or avoidance through non-registration of transfer of property (e.g., by giving of power-of-attorney to the buyer, in lieu of a legal change in title to the property). The growth in their revenues is entirely dependent on the volume and value of reported transactions, and not on GDP.

9. **The biggest challenge in designing an annual property tax is the determination of value for the purposes of levying the tax.** It could be the rental value of the property or the full capital value. In the latter case, difficulties arise in valuation of commercial/industrial properties, which could vary significantly depending on the assumption made about the profitability of the business carried on from the property, and inclusion or exclusion of the value of the plant and machinery located therein. Even rental values would be difficult to determine for owner occupied properties.

10. **A sales tax on services can be highly buoyant both because services account for a large percentage of GDP and also because their share in GDP as well as personal consumption increases with the increase in per capita income.** However, there are many challenges in designing a tax on services at sub-national level. First, there are challenges in defining the base for intangible services (such as advertising, consulting, advisory, and e-commerce services) and the jurisdiction in which they would be taxable. Such services have no fixed place where they are performed or consumed. They can be provided to consumers in one province by suppliers from

[17] The provinces do levy a fee on employers, but it is not a significant source of revenue.

another province. Where the service provider has no presence in the jurisdiction where the tax is being levied, it can be very difficult to enforce the payment of tax. Where the service providers are beyond the reach of the taxing jurisdiction, the only alternative is to collect the tax from the service recipients, which is also not feasible where the service recipients are small consumers. Second, services often get bundled with goods, e.g. under a construction contract, repair and maintenance contract, or supply and install contract. In all such cases, the challenge is to delineate the value of services to which the tax is applied. If the tax is applied to the full value, it could be avoided or minimized by splitting the contract into two: one for goods and the other for services. Third, a substantial part of the services provided in an economy is B2B, i.e. services provided to other business establishments as inputs to further production and distribution of goods and services. Applying the tax to such services, with no mechanism of input tax credits or offsets, leads to tax cascading which is detrimental to investment and economic growth. Fourth, determining the place of consumption of a service is also a challenge at the sub-national level. For example, questions arise whether inter-provincial telephone calls are to be taxed in the Province where the calls originate or where they terminate. Similarly, are the services of a stock/share broker to be taxed where the contract is concluded (i.e. the stock exchange), the place where the customer is located, or where the broker is located? A high degree of co-ordination is required among sub-national jurisdictions in order to avoid any gaps and overlaps in the taxation of services. In fact, it may be practically impossible to apply a tax on intangible services at a provincial/sub-national level in isolation, outside the framework of an inter-provincial agreement or a national arrangement. These questions continue to complicate the taxation efforts in the provinces and also provincial-federal government coordination.

11. **Taxation of income from agriculture is also hard, both because the sector is largely unorganized, and also because of the political support that the farming communities command.** In India, agricultural income is completely exempted from income tax. In advanced economies such as Canada, US and Europe, where agriculture is subject to tax, the effective tax rates are often negative.

12. **Taxes on alcoholic beverages are a significant source of revenue in many jurisdictions.** As demerit goods, they are subject to special excise duties and license fees. However, given the national policy of prohibition of alcohol consumption, this too is not a buoyant source of revenue for the provinces.

13. **Given the above, one has to be cognizant of the limited scope of additional revenue mobilization from the taxes within the purview of the provinces in Pakistan.** None of the taxes are broad based. They are difficult to design and hard to collect. This clearly points to continuing dependence of the Province on federal transfers.

14. **Notwithstanding the above, Sindh is perceived to have fallen behind Punjab in its tax collection effort.** There are significant gaps in collection of taxes from each of the major taxes noted above. These gaps are attributable to limited compliance and administration, as well as tax policy gaps (i.e. too many exemptions, outdated values and flawed legislation). Sindh must initiate corrective action on all three fronts to close the revenue gaps. Moreover, given that no single tax is going to be large enough to meet the revenue needs of the Province, its reform efforts must extend to all the major taxes noted above.

CURRENT TAX REGIME IN SINDH

15. **Tax administration in Sindh comprises of three independent tax collection agencies: Sindh Revenue Board (SRB), Excise & Taxation Directorate (E&T) and Board of Revenue (BoR).** Taxes administered by these agencies and revenues collected are depicted in Table **A7.**2 below.

Table A7.2: Composition of Provincial Tax Revenue in Sindh (2012-2013)

#	Tax	Collection Agency	PKR. in millions	Percentage of total taxes
1	Sales Tax on Services	SRB	32,000	41.18
2	Infrastructure Cess	E&T	17,000	21.88
3	Stamp Duties	BoR	6,000	7.72
4	Extraordinary Collection		6,000	7.72
5	Motor Vehicles	E&T	4,200	5.40
6	Provincial Excise	E&T	3,500	4.50
7	Capital Value Tax	BoR	3,000	3.86
8	Property Tax	E&T	2,600	3.35
9	Transfer of Property Tax (Registration)	BoR	1,500	1.93
10	Tax on Agriculture Income	BoR	500	0.64
11	Land Revenue	BoR	500	0.64
12	Taxes on Professions, Trades and Callings	E&T	350	0.45
13	Cotton Fees	E&T	300	0.39
14	Taxes on Hotels	E&T	180	0.23
15	Entertainment Tax	E&T	40	0.05
16	Other Fees (All Types)		40	0.05
	Total Tax Revenues		77,710	100.00

Source: Budget estimates from Finance Department, Government of Sindh

Annex 8: Strengthening Public Procurement Performance

PAKISTAN: Sindh Public Sector Management Reform Project

CONTEXT

1. **Effective national procurement strategies are vital to ensure the optimum delivery of government programs and efficient budget management.** Public procurement can typically account for around 10 percent of GDP[18], most of which goes through government procurement systems. Hence, robust procurement systems are critical for strengthening a country's expenditure efficiency and, consequently, for improving social and economic outcomes. An ADB report postulates that procurement reforms improve spending efficiency by 1% of GDP.[19] This saving could be diverted to other pressing sectors like education, health and municipal services.

2. **Public procurement in Pakistan, as is the case with other developing countries, faces the usual challenges of cost, timeliness and quality.** Limited capacity of local suppliers, collusion in certain sectors (power), among contractors, low capacity of procurement officials, and inefficient contract management rent-seeking of public officials are widely considered to be major contributory factors. The federal and provincial regulatory regimes (except that of Balochistan) have been overhauled over the last twelve years but transparency, competition, and performance monitoring continue to remain major challenges.

3. **The Sindh Public Procurement Regulatory Authority (SPPRA) is tasked with recommending laws and regulations governing public procurement, monitoring the application of procurement laws and performance of federal procuring agencies.** Over the last seven years, the Bank has remained engaged with the Government of Sindh in procurement dialogue through the Structural Adjustment Credits and the Education Reform Project(s). During this engagement, GoS developed its Procurement Roadmap to provide a strategic plan for the development of an integrated procurement system for Sindh Province. Progress made includes: (i) the adoption of the federal public procurement law and rules in 2006; (ii) implementation of additional regulatory improvements in 2009; (iii) notification of Sindh Public Procurement Rules in 2010; and (iv) development of standard bidding documents for goods and works, and standard requests for proposal for consulting services. SPPRA has also undergone substantial institutional development. As required by the law, all provincial government tenders are displayed on its website. Its advice is sought on all complex procurement matters.

4. **While these are significant legislative and systemic steps towards improving the regulatory system, substantive qualitative changes in procurement practices have not been observed.** The existing procurement practices still lack the fairness, transparency, accountability and efficiency that a robust system would require, especially to confront capture of systems by interest groups, and weak social demand for good procurement and accountability. There continues to be: limited compliance with procurement rules, either due to lack of awareness or capacity;

[18] "The Governance Brief - Understanding Public Procurement." Asian Development Bank Web: http://www.adb.org/sites/default/files/pub/2002/GovernanceBrief03.pdf, accessed on July 1, 2014.
[19] Ibid.

irregular reporting mechanisms and absence of a database at the SPPRA level hinder in performance management and decision making.

5. **The capacity gaps of procurement officials, already significant despite decades of experience with the old Procurement Manual, have been aggravated by the demands of a completely new regulatory regime.** Progress can be achieved by improving the capacity of procurement officials, improving internal and external transparency, enhancing performance monitoring, and improving competition.

6. **The proposed interventions are, therefore, designed to build the capacity of procurement professionals with certification, improve transparency and performance monitoring with a Management Information System, and improve competition and transparency with an e-Government Procurement ("EGP") system**. The selected interventions include a mid-term action (MIS system) and a long-term action (e-procurement), along with a transversal action that cuts across all other interventions, which is the professionalization of the procurement function.

RATIONALE

Building capacity of procurement professionals

7. **Currently, the public sector lacks the required competencies, qualification, or training for procurement staff**. Government servants, with decades of experience with the old Procurement Manuals, a set of instructions that guided procurement before the new regulatory regime was introduced, are still not comfortable with the new regulatory regime. At the entity level, the procuring agencies generally do not have a specialist staff for managing procurements and contract administration. Insufficient planning, budgeting and risk management are common risks faced by agencies that lead to unnecessary delays and cost overruns.

8. **The technical and dynamic nature of procurement requires that public sector procurement staff be provided regular training opportunities to build their capacity**. Since procurement demands are specialized and require multidimensional skills, these competencies need to be developed through adequate planning, market and cost–benefit analysis, evaluation, negotiation, and contract management complemented by specialized technical skills. In addition to the provision of training opportunities about the technical aspects of the job; awareness sessions/workshops need to be organized on the following subjects: correct application of procurement rules and procedures, identification of corruption risks, and ways to promote transparency and integrity throughout the procurement process. SPPRA has developed a procurement competencies plan identifying the training needs of government officials and also suppliers. A system for procurement certification will also be developed to address the training gaps and efforts will be made to increase the number of trained officials.

Creating more transparency and accountability for effective procurement performance monitoring

9. **The monitoring of procurement processes, compliance with procurement laws and compilation of meaningful statistics on procurement undertaken by public bodies constitute some of the core functions of PPRAs in Pakistan.** However, the lack of timely and accurate information on the requisite details of various procedural steps of the procurement process acts as a major constraint for PPRAs to effectively undertake these functions. The non-availability of information also undermines accountability, making deliberate corruption possible, and also limiting well-intentioned public officials.

10. **For collection and analysis of procurement data and measuring performance of procuring agencies, an effective arrangement is missing.**[20] Consequently, a significant portion of procurement in terms of value and a number of steps in the procurement cycle are not observable to PPRAs thereby constraining their monitoring ability. At the entity level, even the larger public agencies do not have automated Management Information Systems which could enable them to track the compliance with public procurement rules during the procurement cycle. The manual contract management systems lack the capacity to raise red flags in case of deviations from conditions laid down in the contract document. Additionally, there are no written standards for internal audits except in a few autonomous agencies. Reports are not regular and there is no stipulated time frame for reporting. The audits are usually carried out after significant delays and the auditors are not trained in conducting performance audits.

11. **While SPPRA is mandated to regulate and monitor procurement performance of all the implementing agencies, it has not established a system to address the abovementioned problems and capture, compile, and analyze procurement performance data.** The 2013-2014 PEFA and BIS results also indicate that Sindh's procurement system lacks performance information, making it difficult to determine strengths and weaknesses. In the existing system, there is no data available that represents the actual universe of the procurement outlays, the category wise break up within goods, works and services, type of contracts (i.e. National Competitive Bidding, shopping and direct contracting), timeline for award, typical timelines for a simple or complex contract, contract completion details, some common deviations, good or bad performing agencies or bottlenecks in the procurement cycle.

12. **In view of the above, SPPRA needs a more comprehensive system that will enable it to develop a baseline, monitoring indicators, and performance benchmarks for various implementing agencies, and to generate annual reports for the information of implementers.** Recent literature shows that another deterrent to effective performance of the procurement function is believed to be passive laziness of procurement officials due to a lack of incentives and

[20] For example, PPRAs are not in a position to generate information regarding the average number of days taken by an entity to award a contract; percentage expenditure on procurements through alternative methods; percentage of tenders rejected in each process; size of competition, percentage of tenders that use Pakistan Engineering Council (PEC) standard bidding documents (SBDs); percentage tenders cancelled more than once, price comparison of same item procured by different agencies etc.

monitoring systems to achieve better procurement performance (Bandiera et al., 2009).[21] Ideally, the new system should provide SPPRA with information to determine the time taken to process contracts, capacity needs of various implementers, and possible changes/clarifications required in rules. Although the ultimate solution for capturing data lies in the creation of an e-procurement system, a long-term objective, capturing the procurement data with an MIS is an alternative short- to medium-term solution for SPPRA to capture, analyze and retrieve data for performance management and enhance accountability and transparency in the process.

Implementation of an e-Government Procurement ("EGP") system

13. **Jurisdictions have been increasingly bringing information technology to bear on procurement.** It is not realistic to expect that the great volume of public procurement transactions, accounting for a substantial chunk of most national economies, can be managed efficiently and effectively within a paper-based framework.

14. **E-procurement promotes a uniform system across all government entities and between different levels of government.** The online access to the client and the bidders for soliciting and submitting bids, bid evaluation and awards provide for efficient procurement processes with enhanced transparency, which elevates the trust of stakeholders. The system lowers the costs of obtaining information about a tender process and as a result increases the number of bidders and consequently competition. Similarly, it reduces possibility of collusion among bidders by widely disseminating providing information about tenders to contractors outside a local cartel and hence breaking up local bidding cartels. It also makes the evaluation process more transparent by limiting discretion. It also helps mitigate corruption by reducing the degree to which government officials can favor certain bidders over others. In addition to these benefits, the system minimizes duplicating security management, catalogue management, duplicate supplier registries and interoperability issues. Another benefit of e-procurement is that it implements standardization of many formalities in public procurement, such as standard bidding documents, procurement planning and reporting templates, standard regular reports, common registration procedures, etc., which may vary in a manual system despite standardization.

15. **The possible functions of this infrastructure are grouped under major functional blocks according to their logical inter-relationships and presented below**:[22]

- A ***Procurement Portal Service*** which will provide informational and transactional services, as well as advertising of bidding opportunities and invitations;
- A ***Supplier Register***, which will record basic details of suppliers interested in doing business with any part of the public sector;
- A ***Buyer Register***, which will host the details of procurement entities participating in e-Procurement and their designated procurement officers;

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[21] Bandiera, O., Prat, A., and T. Valletti (2009). Active and Passive Waste in Government. Spending: Evidence from a Policy Experiment. American Economic Review 99 (4), 1278-1308.

[22] For more detail, see: Garmendia, Cecilia Briceño, Antonio Estache, and Nemat Shafik. Infrastructure Services in Developing Countries: Access, Quality, Costs and Policy Reform. Rep. World Bank, Web: http://www10.iadb.org/intal/intalcdi/PE/2007/00328.pdf accessed on July 1, 2014.

- An ***e-Bidding system***, which will facilitate the secure transmission of electronic bid documents, procurement plans, e-publishing/e-advertisement, e-lodgement, evaluation and e-contract award.
- ***Direct purchasing, auction and quoting system including catalogue-based ordering system and framework agreements;***
- ***E-Payments system***, which will facilitate online payments for suppliers for the goods/services procured through the e-Procurement system by public procurement entities;
- ***Workflow Management System including a Contract Management System***
- ***Procurement Planning and Inventory Management;***
- ***Help Desk.***

16. These functions need to be able to interoperate with other databases in government such as business registries, the financial management system, the Human Resource/Payroll system, and other systems outside the government such as the banks.

17. **Globally, e-procurement developments have matured over the past decade and there are now success stories in the region too, exhibiting efficient procurement.** Efforts in South Asia, chiefly the state of Karnataka in India that suffered from challenges of cost, quality and timeliness of procurement procedures, have reaped substantial cost saving from implementing an e-procurement system. Similarly, in a recent study in India and Indonesia (see box A8.1), it was shown that although an e-procurement strategy may not directly alter government prices, it has a significant positive impact on road quality and a reduction in the number of delays for contract completion. It also showed that the system allowed for a higher number of bids from outside the region and hence could be an effective instrument for breaking up local cartels (Olken et al., 2013). This implies that for a given price, quality of infrastructure and the efficiency of procurement procedures under an e-procurement system could be higher.

Box A8.1: ***Can Electronic Procurement Improve Public Good Provision?***

Researchers from MIT and Harvard (Olken, Pande, Neggers & Faupel, 2013) developed a unique micro dataset from India and Indonesia and used the regional and time variation in the adoption of electronic procurement to assess the impact of electronic procurement on public infrastructure provision.

The study provides some of the first rigorous evidence on the impact of e-procurement on contractual choice and contract outcomes and subsequently the quality of public goods provision. While the study found no statistically significant change in prices paid by the government in response to electronic procurement, improvements in the quality of service were observed – ***in India e-procurement improved the average road quality, and in Indonesia, e-procurement reduced delays in completion of public works projects***.

The researchers point towards the contractual choice and contract outcome as an important influence of this change. By addressing the problem of possible collusion between procurement officials and bidders and amongst bidding cartels, e-procurement allowed for a broader distribution of bidders, with (better) winning bidders mostly coming from outside the region where the work takes place. Moreover, the increase in competition between bidders brought about by the introduction of e-procurement would imply a downward revision of rents accruing to firms, either through a decrease in price or through improved quality for the given level of price. In the case of this study, there is evidence for the latter case. The fact that changes were observed on the quality margin, and they came about through changing which contractor wins rather than an improvement in the existing set of contracts, suggests that e-procurement may have facilitated selection of more efficient firms.

Lastly, since e-procurement was merely a partial reform with only a change in the application ‘process’ while all other rules and regulations stayed intact, overall the findings suggest that e-governance can be an effective tool to improve governance.

18. Given the relatively advanced institutional capacity of SPPRA compared with the other provinces, implementing an e-procurement strategy is an obvious next step for the Province. This would entail a fully functional and widely implemented web-based system that will generate data encompassing the total procurement lifecycle and record all procurement activities, a central activity of which would be processing of contracts through the e-procurement system. Such a system would integrate transparency and competition into the procurement process, and create a reliable source of data, which can be used to improve procurement performance and enhance transparency within the government and between government and citizens.

Annex 9: Improving Management of Development Portfolio

PAKISTAN: Sindh Public Sector Management Reform Project

Background

1. **The Planning and Development Department (P&DD), the focal department for all donors including the World Bank, looks after the entire development portfolio (as distinct from the salary and non-salary expenditures approved in the budget) of the** Provincial Government**.** The Annual Development Program (ADP) is the document prepared by the department and approved by the assembly that provides for the allocation of development budget against each scheme. Currently, monitoring of schemes in the provincial ADP is conducted by the Monitoring and Evaluation Cell (MEC) of P&DD. Information about financial releases is obtained periodically from the Finance Department. Information and evidence of physical progress is obtained through physical visits of schemes under development by field monitors and also through reports by the concerned implementing agencies.

Current challenges

2. **The current focus of MEC on passive logging of financial and physical progress based on passive data collection from the field implementers is insufficient**. The information on inputs remains sketchy. There is no information on the quality of the portfolio. The information does not aid effective decision-making and problem resolution. The departments do not have access to the dashboard and cannot add information to the database directly. Generally, the response to the monitoring reports shared by MEC can be strengthened. Even within P&DD, there is little awareness of this exercise. Out of the total development portfolio of the Province, only politically visible schemes, as prioritized by the provincial chief executive are being monitored.

3. **Apart from the issues highlighted above, the monitoring reports lack of evidence of three kinds.** One, the location (GPS coordinates) of the scheme is not captured so the scheme cannot be "geo-tagged" or viewed on a map. All information, including pictures, captured about the scheme cannot be referenced on a map for spatial analysis of the spread of the development portfolio. In addition, due to the lack of evidence about the physical visit by the monitoring officer, the validity of the monitoring report is also questioned. Two, the detailed photos of various stages of each scheme are not obtained in any systematic manner for sustained auditing of quality by either the monitoring and evaluation cell or any third party or any other combination of government or third party assessment of quality. Third, the Government does not have any mechanism to seek feedback from "beneficiaries" or citizens about planned, ongoing or completed development schemes. As a result, citizens cannot communicate with the Government about the utility or efficacy of the scheme or the quality of its execution.

4. **Currently a computerized system is being used to aggregate monitoring data collected from a limited number of development schemes.** Moreover, an additional online database has been developed which enables the department to review data according to district-wise financial outlays and financial disbursements against each scheme along with the in-field monitoring data on the same. Despite this progress in the existing MIS system, there is a need to streamline the

existing information in the database and augment that with additional data (for example, geo location of each scheme) to be able to produce more instructive reports. This would allow for a more holistic system that can fully reap the benefits of evidence-based project management.

Improving Management of the Development Portfolio

5. **Each development scheme in the ADP can be treated as a project that requires a set of tasks to be completed by a group of people in a defined timeframe given a limited set of resources and constraints.** In most cases, unless the project involves "research and development", the tasks can be predetermined and a detailed project plan can be prepared. Common schemes in the ADP include civil works projects such as construction of buildings, roads and sanitation as well as "soft" schemes such as training of teachers and awareness campaigns. Given the similar nature of most schemes, generic project plans for common scheme types can be prepared once so they can be used as templates reducing the upfront workload.

6. **The central idea is to enable P&DD to track each development scheme's progress by viewing completed, on-going and planned activities for that scheme, as well as tracking overall progress of the ADP portfolio of the** Provincial Government**.** This function can be performed by MEC on behalf of P&DD. Activity tracking at this level of granularity will allow MEC to highlight issues and bottlenecks in the progress of individual schemes and project new timelines for completion. Moreover, they will be able to identify systemic bottlenecks that regularly cause delays in project or development scheme execution.

Project Management

7. **The proposed intervention is to implement an online project management system to facilitate monitoring of the development portfolio.** Once the execution of the Project starts, the concerned department would update the status of individual activities (physical and financial progress) regularly and highlight challenges.

8. **The aim is to automatically generate a report highlighting "Key Issues and Actions for Management Attention" that can be used for course correction.** The audience for the report would be the DG MEC and senior management of P&DD. In order to generate such a report, a set of rules or standard operating procedures (SOP) will need to be defined. Similarly, the system could highlight all schemes that have been ongoing for over three years or schemes for which the projected cost has gone beyond a certain threshold due to delays. Another example would be that the system divides the schemes into different geographical 'bins' and highlights geographical areas where no financial disbursements have taken place or where the amount of disbursement for that geographical region falls below a certain threshold. The system could also define inbuilt timelines between each deliverable and highlight schemes where no progress is reported on physical or financial activity after deadlines have been crossed. The issues themselves also need to be tracked to ensure that they do not go unnoticed by responsible officers. Issues highlighted repeatedly but not addressed can be escalated to an even higher audience for immediate rectification.

Existing Mechanism for Field Level Monitoring of Development Schemes

9. **Monitoring Officers (MOs) of MEC conduct the monitoring of development schemes through physical visits**. They record their observations informally in notebooks. In some cases, they have access to the PC-1 (project plan document) and use that as the reference point. In other cases, they use their memory of the last monitoring visit to compare the current situation and record their observations. The observations are then entered into an online dashboard by the MOs in the districts. After reviewing the reports, the Regional Monitoring Officers (RMO) passes them on to the Senior Monitoring Officer (SMO) at the provincial level. The SMO reviews the reports and sends to the Monitoring and Evaluation Cell (MEC) at P&DD. At MEC, the reports are finally reviewed by the Director MEC and sent to the Director General (DG) MEC for approval and onward communication to the departments. All approvals and complaints during this approval chain are submitted online with a follow-up intimation to the relevant person via SMS. The MIS division in MEC produces paper reports about quality and quantity issues from the dashboard and shares them with the concerned department. In addition to recording their observations, monitors in some cases also collect pictures of the under construction schemes. Observations about deficiencies in quality gauged from the pictures are recorded by MEC and are communicated with the monitoring reports. The departments are expected to initiate action on issues highlighted to ensure smooth delivery of the development scheme.

Collecting Better Field Evidence

10. **There are two sources of evidence about the construction of each development scheme: internal and external**. Internal evidence is collected by the monitoring officers. Although they do collect pictures in the existing system, they do so using separate cameras. The images are later matched with the corresponding monitoring forms filled by hand. Since pictures taken by the separate cameras are not geo-tagged and time stamped, they can be mismatched resulting in misreported evidence. In order to counter that, the monitors can use an open source application developed for Android smartphones to collect information and GPS coordinates (geo-tag) as well as pictures from the construction site and transmit it immediately to an online server. As a result, foolproof evidence collected by a field monitor, including by third parties, becomes immediately accessible to senior managers. The photo evidence itself, once presented to government auditors or assessed by a third party, should result in an improvement in the quality and execution of construction. Similar efforts are already underway in the Province of Punjab (see Box A9.1).

Box A9.1: Smart Management

The use of smartphones by government workers to collect and transmit data from remote locations is quite common in Punjab. Monitors of health facilities first began using them in August 2011 to report on staff absenteeism and medicine stock outs. Since then, the technology has been rolled out to many different verticals in the government including school monitors, livestock inseminators, agriculture extension workers and irrigation meter readers. A similar effort to geo-tag public development schemes is also underway in Punjab as part of the US$50 million assistance package by the World Bank titled “Punjab Public Management Reform Program”.

11. **The objectives of capturing evidence internally are as follows:** (a) ensure field presence of monitoring staff, (b) improve data collection formats and reduce data entry errors, (c) reduce delays in transmission of captured data, (d) supplement textual data about physical progress with visual evidence in the form of photographs, (e) improve the ability of provincial managers to utilize the monitoring data, and (f) enable citizens to directly access up-to-date information about progress of development schemes.

12. **External evidence can be collected from the beneficiaries or citizens to be affected by the execution of the development schemes in ADP.** The beneficiaries from the catchment area of each development scheme can be asked to comment on the efficacy and timeliness of the Project. Mobile numbers of citizens in the catchment area can be gathered from public schools (parents) or health facilities (patients). Alternatively, mobile operators can also broadcast messages to active subscribers in the region of a Base Transceiver Station (BTS) or tower. Feedback can also be sought before approval of a scheme to evaluate its utility to the catchment population. The same mechanism can be used to communicate the completion of a scheme to encourage citizens to utilize it and provide feedback.

13. **The aim is to initiate two-way communication between the beneficiaries of the development schemes, i.e. citizens, and the government**. The beneficiaries at large will not have any vested interest and can provide unbiased feedback about the efficacy of the government’s development portfolio. This may also help improve the perception of the government among citizens. A similar project is already underway in the Province of Punjab (see Box A9.2).

Box A9.2: Proactive Feedback

Soliciting feedback from citizens about the quality of service delivery was tried for the first time in Jhang district of Punjab. The idea, initially called the “Jhang Model”, has been scaled up by the Government of Punjab as the “Citizen Feedback Model” to over 13 services in all 36 districts of the Province. The model has also been used to mobilize school council members by proactively reaching out to them to seek feedback about issues in their school. Feedback collected from thousands of school council members is collated automatically and trends about systemic issues are formed. In order to apply the model to proactively seek feedback about a new service, the government just needs to collect cell numbers, define a set of questions and transmit them via SMS.

Annex 10: Economic Analysis

PAKISTAN: Sindh Public Sector Management Reform Project

1. The economic analysis is based on the information produced in the PDO and focuses on four main result areas.

Increasing revenues

2. Taxation is recognized as key to sustainable development. There is potential to improve revenue collection in Sindh especially in GST on services. The Project aims at increasing the capacity of tax machinery and a number of interventions that will help improve the performance of tax department. More specifically, the Projects aims to make the following interventions: positions, based on the capacity building plan, filled; automation of sales; implementation of Sindh Tax Payer Identification Number; conducting policy research publicly shared, and reviewed by the SRB governing board and Tax Reform Unit; setting evidence based revenue targets; conducting system and risk based audits of taxpayers; speeding up the appeals decision process; e-tax payer grievance redressal system; tax specific facilitation interventions; increase in the number of returns submitted on time with payment; and publication of reports on service-wise tax collection on quarterly basis.

3. The overall benefits of the Project, except for the intervention in tax collection, are difficult to estimate. The present value of benefits is therefore estimated only on the basis of increased tax collection from GST on services. Not only are the overall benefits of the Project underestimated, the benefits in terms of revenue collection too are undervalued. The proposed intervention will not only increase the revenues from services, rather these will impact the overall performance of tax department.

4. Three possible scenarios are assumed for the increase in tax revenues due to Project's intervention. For the baseline it is assumed that tax to GDP ratio remains same for the next 25 years so tax revenues will increase at the growth rate of GDP[23.] To understand the returns of this intervention, we assumed three scenarios. Under the conservative scenario it is assumed that tax revenues will increase at a rate which is 0.25% higher than the growth rate of GDP, while under moderate and (high) scenarios tax revenues will increase at a rate which is 0.5% (1%) higher than the growth rate of GDP. Further, in all scenarios, it is assumed that after five years from the start of intervention, tax revenues would increase at the growth rate of GDP. The growth rates of GDP are taken as real and PKR/US$ exchange rate is assumed constant because of purchasing power parity. The future values of the difference in revenues (with and without Project's intervention) are discounted assuming a 5% discount rate. It can be seen from the table below that the cumulative benefits over the next five years, in present value terms, are estimated at $13.9 million under the low scenario, $28 million under the moderate scenario and $56.3 million under the high scenario. These figures over the next 25 years are estimated at $ 101.9 million under the low scenario, $204.8

[23] The historical average growth rate of real GDP in Pakistan is 4.5%. So if tax revenues are assumed to be unit elastic with respect to GDP then tax revenues will increase at the GDP growth rate. Furthermore, if Purchasing Power Parity holds, real values of revenues can be converted into US $ at the current exchange rate. Any change in inflation rate will be offset by an equal change in exchange rate.

million under the moderate scenario and $413.3 million under the high scenario. Hence, the benefits of the single intervention outweigh the cost of the whole Project. It is important to note that even the benefits of this single intervention are underestimated as PPP does not hold (at least in the short run). For instance, Pak rupee has appreciated, in real terms, at 4.5 % per annum over 2003 to 2010. The benefits would be significantly higher if adjusted for this real appreciation.

Enhancing performance of PFM

5. The implementation of results-based budgeting for priority areas and monitoring and evaluation schemes are expected to improve the allocation of public money. It will give rise to the efficient mode of public management.

6. The Project intends to enhance predictability of annual development program, increase in the extra-budgetary releases that are captured in FMIS, implement debt management practices, establish Quality Assurance Cells at Finance Department (FD) and the office of Accountant General (AG); establish internal audit, and increase the number of DAC meetings held for identified departments. All these measures will increase the credibility of annual budget and will reduce uncertainty among the stake holders, which in turn will improve their decision making. Moreover, efficiency in the public financial management will make more funds available for development activities in the priority areas.

Strengthening public Procurement performance

7. The Project proposed e-procurement processing and training of the procurement staff and envisage a 20% improvement from the baseline. The gains, though difficult to estimate, are expected to be significant in terms of improved transparency and financial savings. Different countries underwent procurement reforms and the evidence of success is heterogeneous. For instance, implementation of an electronic auction system for decentralized management generated significant savings for purchases of medicine and medical supplies in Paraguay and there is evidence of a 20% cost saving in Australia due to procurement reforms. The e-procurement, if implemented, will definitely result in significant cost savings for GoS.

Strengthening management of development portfolio

8. Finally, strengthening the management of development portfolio will enhance the efficiency of public investments in four priority areas; education, health, agriculture, and irrigation. The objective of this sort of intervention is to enhance operational efficiency which should increase economic returns of these investments and ultimately improve public service delivery. The improvement in health and education sectors will contribute to the accumulation of human capital which results in higher productivity of the workers and ultimately leads to more prosperous life. Moreover, investment in these sectors, especially in health is appreciated as it redistributes wealth and deprived segments of the society get more benefits. Similarly, the improved service delivery in agriculture and irrigation would lead to improved standard of living as the livelihood of most households, especially in rural Sindh, is dependent on agriculture.

9. The overall net present value of the Project is expected to be positive. After Project implementation, Sindh province will benefit from additional provincial tax revenue. Its public financial management will be based on results-based management tools and there will be a more efficient information system; trained and more qualified workforce; greater internal capacity; improved audit system; efficient and transparent procurement process; and more funds available for development projects. All these improvements will bring prosperity and will improve the living standards of the people of Sindh.

Table A10.1: Expected Benefits of Project in terms of Increased Revenues (Million US $)

Years	Revenue without Project	Revenue with Project	Difference	PV of Difference	Cumulative PV of Difference
	Low Scenario				
1	411.7	412.7	1.0	0.9	0.9
5	491.0	496.9	5.9	4.6	13.9
10	611.9	619.2	7.4	4.5	36.7
15	762.5	771.7	9.2	4.4	59.0
20	950.2	961.6	11.4	4.3	80.7
25	1184.1	1198.4	14.2	4.2	101.9
	Medium Scenario				
1	411.7	413.7	2.0	1.9	1.9
5	491.0	502.9	11.9	9.3	28.0
10	611.9	626.6	14.8	9.1	73.8
15	762.5	780.9	18.4	8.9	118.5
20	950.2	973.2	23.0	8.6	162.2
25	1184.1	1212.7	28.6	8.4	204.8
	High Scenario				
1	411.7	415.7	3.9	3.8	3.8
5	491.0	514.9	23.9	18.8	56.3
10	611.9	641.7	29.8	18.3	148.8
15	762.5	799.7	37.2	17.9	239.1
20	950.2	996.6	46.3	17.5	327.2
25	1184.1	1241.9	57.8	17.1	413.3