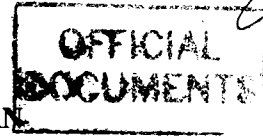


CR - 5584-PK



ISLAMIC REPUBLIC OF PAKISTAN
PROVINCE OF SINDH

March 11, 2015

International Development Association
1818 H Street NW
Washington, DC 20433
United States of America

**Re: Credit Number 5584-PK
(Sindh Public Sector Management Reform Project)
Performance Monitoring Indicators**

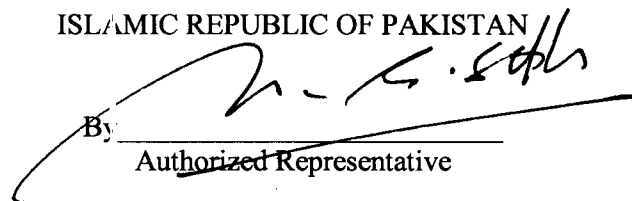
Dear Sir/Mesdames:

We refer to Section II A of Schedule 2 to the Financing Agreement (Sindh Public Sector Management Reform Project) between the Islamic Republic of Pakistan and the International Development Association and Section II A.1 of the Schedule to the Project Agreement between the International Development Association and Province of Sindh of even date herewith for the above-mentioned (Project).

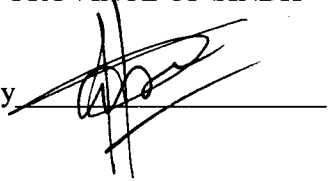
We hereby agree that the Performance Monitoring Indicators to monitor and evaluate the carrying out of the Project and the achievement of the objectives thereof are those set forth in the Attachment to this letter.

Very truly yours,

ISLAMIC REPUBLIC OF PAKISTAN


By _____
Authorized Representative

PROVINCE OF SINDH

By 

Attachment

Annex 1: Results Framework and Monitoring
PAKISTAN: Sindh Public Sector Management Reform Project

Project Development Objectives		Target Values							Frequency	Data Source/ Methodology	Responsibility for Data Collection
PDO Statement		FY 14-15	FY 15-16	FY 16-17	FY 17-18	FY 18-19					
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											
Indicator Name	Unit of Measure	Baseline	FY 14-15	FY 15-16	FY 16-17	FY 17-18	FY 18-19	Frequency	Data Source/ Methodology	Responsibility for 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%	Annually	Annual Financial Statements	SRB	
2	Improved credibility of the budget	Percentage	Variance is 13.48% for FY 2011/12	13%	13%	12%	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 STC collection is 34 billion.	FD has publicly disclosed the Sindh Tax Revenue Mobilization Reform Plan. i) 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)	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) 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) 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)	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 (iii) carried out a	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 through	SRB has issued all notices to at least 90% of non-compliant registered taxpayers in FY2018/19 through	SRB documents/TPV reports	SRB reports	SRB	

	Increased tax base	Percent	4800	not exist; No third party linkages	5%	third party review of the automation systems.	15%	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.	25%	automated systems.	Annually	SRB reports	SRB
4	Risk-based audits of taxpayers implemented (DLI)	Process/percentage	System absent.	SRB has developed a risk-based criteria for the carrying out of taxpayer audits and fraud investigations.	10%	SRB has (i) conducted audits of taxpayers as per the risk-based criteria; and (ii) established a <i>hit rate</i> benchmark (baseline).	15%	SRB has: (i) conducted audits of taxpayers as per the risk-based criteria, resulting in: (A) a hit rate of 85%, or (B) a <i>hit rate</i> increase of at least 5% (against the benchmark), during the initial nine months of FY2016/17; and (ii) when applicable, corresponding fraud investigations.	20%	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' <i>hit rate</i> .	Annually	SRB reports	SRB
5	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	Four quarterly and one annual report published	Four quarterly and one annual report published	Annually	SRB website	SRB
6													

Area 2: Enhancing performance of public financial management systems

	Debt management systems instituted.	Process	Debt Management Systems do not exist.	External debt management procedure and operation manual for GoS notified.	<p>a) FD conducts sensitivity analysis of debt servicing estimates w.r.t. exchange rate and interest rate</p> <p>b) Publication of the above in the Budget Analysis for FY2015/16.</p>	<p>a) FD debt database captures 100% information on debt servicing and disbursements</p> <p>b) FD constructs the debt stock based on this information and publishes it in the Budget Analysis for three years (FY16: Actual, FY17: R.F. FY18: BE).</p>	<p>a) FD publishes annual debt statistics bulletin in-line with international best practices having a lag of not more than six months.</p> <p>b) SN debt sustainability analysis approved by the Cabinet and published in the Budget Analysis</p>	<p>a) Complete loan by loan debt stock (opening and closing) and flow details included in budget documents for FY 2017/18.</p> <p>b) Publication of annual debt statistics bulletin in-line with international best practices having a lag of not more than three months.</p>	Annually	FD monitoring reports	FD
7	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.	<p>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.</p>	<p>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.</p> <p>ii) At least three (3) PAOs have undertaken actions in response to the ongoing internal audit reports, within a month of receipt of such</p>	<p>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.</p> <p>ii) At least five (5) PAOs have undertaken actions in response to the foregoing internal audit reports, within a month of</p>	Annually	FD monitoring & audit report/Govt. documents	FD

	<p>Transparency in budget formulation, allocation and execution (DLI)</p>	<p>Process</p>	<p>a) Budget Strategy Paper not prepared b) One quarterly report submitted to the provincial assembly</p>	<p>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.</p>	<p>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.</p>	<p>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.</p>	<p>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.</p>	<p>receipt of such reports.</p>	<p>Monthly / Annually</p>	<p>FD documents/ website documents</p>	<p>FD</p>
<p>10</p>	<p>Area 3: Strengthening public procurement performance</p>										
<p>11</p>	<p>Contracts data entered in the procurement MIS</p>	<p>Percentage</p>	<p>MIS does not exist.</p>	<p>MIS developed, and tested.</p>	<p>25%</p>	<p>25%</p>	<p>50%</p>	<p>75%</p>	<p>Annually</p>	<p>SPPRA reports</p>	<p>SPPRA</p>
<p>12</p>	<p>Contracts processed through e-procurement modules</p>	<p>Percentage</p>	<p>E-procurement systems do not exist.</p>	<p>E-procurement action plan developed and adopted.</p>	<p>System designed</p>	<p>System tested with major contracts of one department.</p>	<p>25%</p>	<p>50%</p>	<p>Annually</p>	<p>SPPRA reports</p>	<p>SPPRA</p>
<p>13</p>	<p>Procurement officials certified (DLI)</p>	<p>Number</p>	<p>No certification mechanism exists.</p>	<p>SPPRA has: (i) developed a procurement certification action plan setting forth contents, and delivery mechanisms; and (ii) notified the mandatory certification requirements.</p>	<p>SPPRA has certified at least fifty (50) officers of grade BPS-16 of above.</p>	<p>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.</p>	<p>SPPRA has certified at least three hundred (300) officers of grade BPS-16 of above</p>	<p>SPPRA has certified at least five hundred (500) officers of grade BPS-16 of above.</p>	<p>Annually</p>	<p>SPPRA reports/TPV reports</p>	<p>SPPRA</p>
<p>Area4: Strengthening management and transparency of the development portfolio</p>											

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 with good tagging of development schemes is implemented and information published.	Number	Zero	Good practice 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 arranging 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 DeMPPA 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)	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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 centre or email. A third party service centre 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

	<p>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.</p> <ul style="list-style-type: none"> • 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	<p>Risk based audits of taxpayers implemented</p> <ul style="list-style-type: none"> • 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	<p>Establishment of internal audit</p> <ul style="list-style-type: none"> • 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	<p>Transparency in budget formulation, allocation and execution</p> <ul style="list-style-type: none"> • 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.

	<ul style="list-style-type: none"> • 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.
<p>7 Procurement officials certified.</p>	<ul style="list-style-type: none"> • 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.
<p>8 Quarterly departmental development plan monitoring reports prepared and published</p>	<ul style="list-style-type: none"> • 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 DL are education, agriculture, irrigation, and one other department. • Development plan is annual development plan schemes and any other W.D-finance 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.