

PROJECT INFORMATION DOCUMENT (PID) APPRAISAL STAGE

Report No.: PIDA2837

Project Name	PK Sindh Public Sector Management Reform Project (P145617)
Region	SOUTH ASIA
Country	Pakistan
Sector(s)	Sub-national government administration (50%), General public administration sector (50%)
Theme(s)	Public expenditure, financial management and procurement (40%), Tax policy and administration (40%), Other accountability/anti-corruption (20%)
Lending Instrument	Investment Project Financing
Project ID	P145617
Borrower(s)	Islamic Republic of Pakistan
Implementing Agency	Economic Reform Unit, Finance Department
Environmental Category	C-Not Required
Date PID Prepared/Updated	15-Dec-2014
Date PID Approved/Disclosed	16-Dec-2014
Estimated Date of Appraisal Completion	11-Aug-2014
Estimated Date of Board Approval	16-Feb-2015
Decision	

I. Project Context

Country Context

In spite of its enormous economic, geographic, and resource advantages, recent growth and social development trends indicate that the Sindh province is not realizing its full potential. Over the last decade growth has been erratic and declining, 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 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.

Sectoral and institutional Context

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. To meet these needs, Sindh has 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.

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.

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 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 39.4 billion (US\$ 394 million) during the third year, 2013-2014, and is targeting PKR 49 billion (US\$ 490 million) during FY 2014-15. STRMP goal now targets an increase in tax collection to PKR 100 billion (approx US\$ 1 billion) within the next five years, starting FY 2014-15.

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. These assessments identify a range of weaknesses in the Public Financial Management Systems (PFM) systems, including critical shortcomings in budget execution processes as well as in internal and external controls. 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 by the Sindh Provincial Assembly and to prevent the build-up of any new backlogs. Formal Coordination of PFM Reforms also needs to be improved.

Expenditure management is further constrained by inefficiencies in provincial procurement processes. Disconnect between budget releases and procurement plans, and limited capacity of local suppliers and procurement officials, are major contributory factors. Certification of procurement officers will help improve capacity. E-procurement also offers a viable solution for improving procurement transparency and increasing competition. An e-procurement system in Sindh Province would incorporate the tendering process into the procurement system - integrating transparency and competition into the procurement process, and creating a reliable source of data which can be used to improve procurement performance and inform the public about results.

Inadequate monitoring and evaluation hampers management of development expenditure. A clear picture of the provincial portfolio, major bottlenecks, and field results does not exist. Monitoring of quality of construction and maintenance, the chief concern of the senior political and administrative leadership because of widespread reports about poor quality of civil works, remains limited. The quality and timeliness of execution could be improved by using information collection,

communication and decision-making innovations.

Government Program

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 Government PFM reform strategy, approved by the Sindh cabinet in October 2014, uses PEFA findings as a foundation. The Bank's engagement in Sindh province is premised upon these two reform plans.

Other Development Partners

In addition to the proposed Bank support, the European Union has committed approximately Euro 9 million of technical assistance to PFM reform in Sindh province over a five-year period. EU PFM TA, with specific interventions to be finalized in close collaboration with WB 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 SPPRA under its Assessment and Strengthening Program.

Relationship to CPS

The proposed operation has direct relevance to the Pakistan CPS. One of the pillars of the Country Partnership Strategy for FY 2015-2019 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 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. Proposed Development Objectives

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

III. Project Description

Component Name

Component 1: Results-based financing to provide an incentive for achieving eligible PSM reforms

Comments (optional)

Component Name

Component 2: Technical Assistance

Comments (optional)

IV. Financing (in USD Million)

Total Project Cost:	282.00	Total Bank Financing:	50.00
Financing Gap:	0.00		
For Loans/Credits/Others			Amount
BORROWER/RECIPIENT			220.00
International Development Association (IDA)			50.00
EC European Commission			12.00
Total			282.00

V. Implementation

Lending Instrument and Components

The proposed operation will be financed by an Investment Project Financing (IPF) loan of US\$ 50 million to the Government of Sindh in Pakistan and will use a results-based financing modality to support project implementation. 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.

Project Description

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.

The results-based component will include the following 4 focus areas

1. Increasing Tax Revenue Mobilization: The objective of this sub-component is to increase 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.

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

3. **Strengthening Public Procurement Performance:** This sub-component aims to strengthen public procurement performance by improving capacity of staff, improving monitoring and evaluation and enhancing 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.

4. **Improving Management of the Development Portfolio:** This sub-component aims to improve monitoring of the development portfolio. The project interventions include: the development of a 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.

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). Technical Assistance will be used to support all four eligible PSM reform areas: tax collection, PFM, procurement, and development monitoring.

VI. Safeguard Policies (including public consultation)

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

Comments (optional)

VII. Contact point

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