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Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 05-Feb-2020 | Report No: PIDC201813

BASIC INFORMATION

A. Basic Program Data

Country	Project ID	Parent Project ID (if any)	Program Name
Pakistan	P171417		Punjab Public Resource Management Program
Region	**Estimated Appraisal Date**	**Estimated Board Date**	**Does this operation have an IPF component?**
SOUTH ASIA	12-May-2020	11-Aug-2020	Yes
Financing Instrument	**Borrower(s)**	**Implementing Agency**	**Practice Area (Lead)**
Program-for-Results Financing	Economic Affiars Division	Finance Department	Governance

Proposed Program Development Objective(s)

"Modernizing institutions and systems for efficient, accountable and transparent PFM."

COST & FINANCING

SUMMARY (USD Millions)

Government program Cost	400.00
Total Operation Cost	304.00
Total Program Cost	274.00
IPF Component	30.00
Total Financing	304.00
Financing Gap	0.00

FINANCING (USD Millions)

Total World Bank Group Financing	180.00
World Bank Lending	180.00
Total Government Contribution	124.00

B. Introduction and Context

Country Context

1. **With an increasing population, the investment needs of Pakistan are also increasing.** Pakistan is the sixth most populous country in the world. Poverty declined from 64.3 percent in 2001 to 24.3 percent in 2015, but inequality persists—and is widening. The country ranks low on the Human Development Index (HDI)--at 134 out of 157 countries. Access to education remains low and completion rate for primary education is among the lowest in the world. Health outcomes have improved, but at a slow pace while nutritional outcomes have **not** improved over the last two decades and have even deteriorated for some indicators. Gender disparity in social outcomes continues, and female labor force participation stands at 20.1 percent in 2018. In addition, natural disasters and unreliable water and power supply constrain progress. The 18th amendment to the constitution of Pakistan (passed in 2010) expanded policy making and tax-raising powers and devolved delivery of key services to the provinces. The federal government retains core or shared responsibility for tertiary education, tax and trade policy regulation, and transmission and distribution of power. The World Bank works with both federal and provincial governments and their entities.

Sectoral (or multi-sectoral) and Institutional Context of the Program

2. **The Government of Punjab (GoPj) launched an ambitious roadmap for Public Financial Management (PFM) Reforms and showed impressive results in some areas**. The roadmap launched in 2015 sets out immediate priorities of the GoPj with respect to key reforms in PFM namely: a) enhancing own source revenue; b) reducing transaction cost of government and; c) maximizing return on investments. This roadmap has provided the impetus for encouraging reform in some strategic areas. The result of the reforms has been impressive: Punjab has expanded its Services Sales Tax base from Rs.43 billion in FY13 to Rs.106 billion in FY18); completed digitization of urban property tax records with the addition of more than 1 million new properties to the tax net; automated property tax invoice system and rural land records; and digitized stamp duty payments. Transparency and efficiency in government spending was enhanced through implementation of citizen budgets; use of Punjab Procurement Regulatory Authority's Management Information System (MIS) for registering and processing contracts of more than 153 agencies; and innovative use of smart management tools to monitor district services in health, education and agriculture sectors. Despite this progress, there are several outstanding areas (binding constraints) that Punjab must now tackle to achieve fiscal stability and efficient use of resources. The capacity of finance department and planning department to prepare a realistic budget is compromised due to incremental nature of budget formulation; weak budget contestation function; absence of integration between recurrent and development budget at the time of budget preparation and weak public investment management leading to inclusion of unapproved projects in the ADP. Cumbersome and archaic rules and lack of automation of procurement and payment functions have severely hampered ability of the GoPj to efficiently utilize the scarce resources allocated for service delivery. In addition, the weak ability to monitor and prudently manage fiscal risks puts GoPj vulnerable to heightened fiscal imbalances.

3. **Punjab has the largest civil service in the federation and therefore, has a large fiscal cost associated with it.** Pensions are currently 12.3 percent of the provincial revenues and are projected to be approximately 23 percent of the total provincial revenues 2060 -- using both inflation and wage indexation which is the current trend). Second, through its operations in purchase and sale of wheat and other agricultural commodities, the Government of Punjab has built up considerable uncollateralized debt to the scheduled banks. The build-up of these liabilities poses a significant fiscal risk to the provincial and federal governments. Lack of transparency on the policy, operation, and the actual debt numbers, makes it a very risky liability that is difficult to address. Third, Punjab has increased the number of Section

42 companies (State-Owned Enterprises) and Public-Private Partnership (PPP) projects, which can increase the number of provincial guarantees. However, the fiscal risk, associated with these guarantees, has not been properly assessed by the Debt Management Unit of Punjab owing to capacity constraints[1]. The existence of large number of companies in Punjab has also weakened capacity of the Finance Department to address cash management issues.

4. **Punjab's own tax receipts currently account for only 0.8 percent of the province's estimated economic output**, indicating that the province may be collecting only a quarter of its tax potential. A recent analysis of the province's tax potential by the World Bank indicates that the largest revenue potential is in services sales tax, urban immoveable property tax (UIPT), stamp duty and Capital Value Tax (CVT).[2] In the medium term, the province can capture much of this potential revenue by broadening its tax base through improvements in tax administration and policy – without imposing new taxes or raising rates. To do this Punjab would have to enhance integration of three tax authorities to facilitate compliance**,** tackle tax evasion, and reduce the cost of tax collection. Likewise, streamlining tax instruments by abolishing some minor taxes with low revenue potential and combining the collection of similar taxes would simultaneously reduce compliance costs for taxpayers and administrative costs for tax authorities. Simplification of business processes, increased automation and data integration in the province's three revenue collection authorities can also contribute to the province's goal of improving the business environment through taxpayer facilitation measures, including online filing of tax returns, e-payments and refunds system. Additional source of significant non-tax revenue is in effective management of public property assets.

Relationship to CAS/CPF

5. The proposed Program is consistent with the World Bank's Pakistan Country Partnership Strategy (CPS) FY15-20 and with the Bank's twin goals of ending extreme poverty and promoting shared prosperity. It supports CPS Results Area 4 on *Service Delivery*, and specifically Objective 4.1: *Improved Public Resources Management*, which aims to help the Government mobilize revenue to create fiscal space for spending on public services and infrastructure. The operation also focuses on the key IDA 18 themes of governance, and commitment to improve public expenditure, financial management and procurement and contributes to achievement of Sustainable Development Goal (SDG) 16 on governance and institutions. The Program is also informed by the country analytics Pak@100 (see chapter on Governance)[3].

Rationale for Bank Engagement and Choice of Financing Instrument

6. The rationale for the World Bank to support Punjab's PFM and revenue mobilization efforts as well as improve the efficient and effective use of resources is compelling. By helping Pakistan's largest province (in population and contribution to national GDP) to increase efficiency in its public expenditure, close its large tax gap and create fiscal space for growth-enhancing expenditures on infrastructure and human capital, the Program can contribute to a transformational change in the country, given that the other provinces tend watch, replicate, and emulate Punjab's

[1] The Unit maintains a stock of the guarantees, but it has not yet utilized a proper mechanism for guarantee valuation and assessing related fiscal risk.

[2] World Bank.

[3] https://www.worldbank.org/en/region/sar/publication/pakistan100-shaping-the-future

lead in reforms[4]. The World Bank is well placed to support Punjab in above reforms, mainly due to its extensive analytical work (including tax studies, PIM/Annual Development Plans analysis, and Public Expenditure and Financial Accountability (PEFA) assessment) that informed the design of the provincial PFM strategy/roadmap, shared understanding and engagement with the federal and provincial governments about key PFM challenges[5], and presence of a strong multi-GP task team (Governance, MTI and FCI).

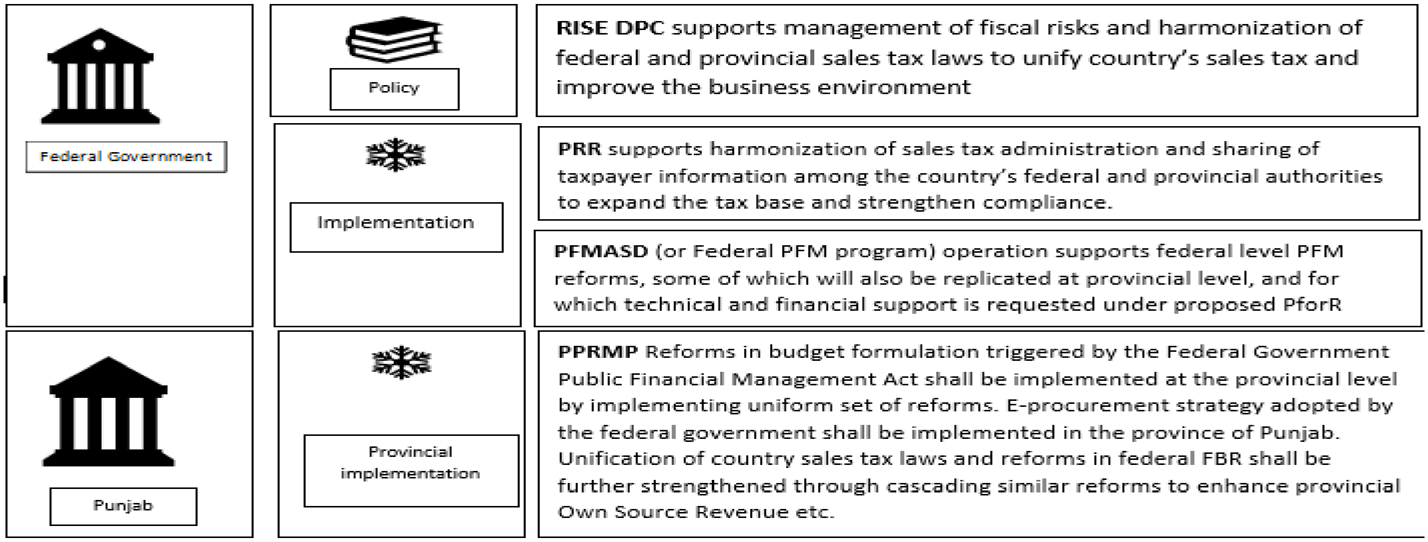
7. The proposed Program is an integral part of the World Bank's whole-of-country approach to strengthen PFM systems and revenue mobilization at both the federal and provincial levels to promote coherent national systems. This approach is anchored in the federal DPC Program *Resilient Institutions for Sustainable Economy* (RISE), which supports high-level policy reforms to improve federal-provincial coordination in the management of fiscal risks and federal-provincial harmonization of tax laws to unify the country's tax space and improve the business environment; and in two ongoing federal results-based operations, the *Public Financial Management for Accountability and Service Delivery Program* (PFMASD) and *Pakistan Raises Revenue*, which support improvements in the federal PFM and tax administration systems respectively and are complemented by provincial operations in these areas.[6] The proposed Program will be the most important of these provincial operations because it will support the government of the largest province to align its PFM and tax systems with the federal frameworks and augment the impact of new PFM and tax administration practices through implementation and results at the level that most affects the citizens.

Figure 1. World Bank-financed operations under whole-of-country support to PFM and revenue

[4] For example, on the achievement of positive results, Punjab's citizens' feedback model and smart performance management system have been replicated in other provinces to improve quality delivery and accountability of public services. Similarly, learning from Punjab's experience in automating property tax records (supported under World Bank financed program) and stamp duty collection, other provinces are also planning to do the same.

[5] At federal level, World Bank operations that support high-level reforms are: federal PFM, Pakistan Raises Revenue, and RISE.

[6] For example, the ongoing *KP Revenue Mobilization and Public Resource Management Program* supports the province's efforts to strengthen its public resource management systems (cash management, Treasury Single Account extension to local governments, Public Investment Management and pension fund management) and to collect more taxes by broadening its tax base and integrating data and processes among the province's three tax authorities.



8. **The proposed Program builds on the lessons learnt from successful implementation of Punjab Public Management Reform Program,** which was the first PforR for Pakistan. As per the independent evaluation, Implementation Completion Results Report (ICRR) and IEG reports, the Program was successfully and timely implemented, achieving all its PDO and intermediate targets. The Program implementation benefited from the presence of a strong Bank team on ground, active coordination and strong implementation capacity among the key implementing entities, including Planning and Development Board, Excise and Taxation Department, Punjab Procurement Regulatory Authority (PPRA), and Punjab Information Technology Board (PITB). Despite the change of government in the last year of Program implementation, the GoPj has sustained the reforms, as key ICT-based interventions have been internalized through the support of PITB. Building on these initiatives, the GoPj (together with Government of Sindh) was able to introduce other Govtech innovations that contributed to improvement in Pakistan's ranking on Ease of Doing Business by 28 notches. Learning from these experiences and to leverage islands of excellence, the GoPj has requested Bank's financial and technical support for customized, government-wide reforms, with strong results orientation.

9. **The proposed operation will utilize Program for Results (PforR) instrument with a Technical Assistance component**. The Program supports implementation of the Government's PFM reforms strategy (draft), which has strong ownership of the Government of Punjab. The selection of Program areas/interventions is also informed by recent PFM reforms of the GoPj and its extensive engagement with the World Bank and other development partners in related areas over past several years. The PforR is the most suitable instrument for this operation, which supports institutional strengthening, together with incentives for behavioral change, and re-engineering of business processes through a clearly articulated results chain, rather than focusing on inputs. It will also fund specific expenditures, which is especially beneficial for substantial investment in ICT based modernization of public revenue and resource management systems. The US$150million, provided by the PforR, will co-finance a much larger government program of US$ 274 million (see Table 1). The PforR instrument will allow the Government to use and strengthen its implementation systems, thereby building Government's ownership of the reforms agenda and ensuring longer term sustainability. This PforR will also create a unique window of dialogue with other development partners. A technical assistance component will support institutional capacity building activities.

C. Program Development Objective(s) (PDO) and PDO Level Results Indicators

Program Development Objective(s)

Modernizing institutions and systems for efficient, accountable and transparent PFM.

PDO Level Results Indicators

14. **The following key results indicators will be used to measure success of the PDO**:

1. Percentage deviation between original budget and actual expenditure[7] *(linked with Result Area 1)*
2. Quantification and publication of liabilities (including contingent liabilities and fiscal risks of the Government of Punjab[8]. *(linked with Result Area 1)*
3. Percentage of KPI (Provincial and District) achieved.[9] *(linked with Result Area 2)*
4. Percentage of transactions in GoPj digitized[10] (linked to Results Area 2)
5. Percentage of own-source tax revenue[11] *(linked with Results Area 3)*.

15. This is a hybrid Program for Results (PforR) operation with three key result areas under the Results Component and a Technical Assistance Component to support investment in infrastructure and capacity building activities.

D. Program Description

PforR Program Boundary

16. The proposed Program is anchored in the Government of Punjab's strategic development plans, as guided by the Punjab Growth Strategy 2023 and the PFM Reform Strategy (currently being updated based on the findings of PEFA Assessment). In its growth strategy, the GoPj highlights the need to increase budget allocation to priority sectors, enhance its resource envelope (about 20% average annual increase in Own-Source Revenue; OSR) to be able to allocate substantial amounts annually to meet its development priorities. The program comprehensively covers all challenging milestones of PFM reform strategy. This includes upstream, midstream and down-stream reforms. Some of the key reform areas which will be covered under the program is given in the table below. The updated PFM strategy will be implemented by the Finance department and Planning & Development (P&D) Board, together with other relevant departments.

[7] According to the draft Punjab PEFA report, "*Variance in expenditure composition by functional classification was 20, 25 and 8 percent in the FY 2015-16, 2016-17 and 2017-18".*

[8] Fiscal Risk Reports related to Pension Liabilities, Contingent Liabilities and Commodity Financing are not reported in the budget documents.

[9] Performance information is not included in the budget document.

[10] Only 15% of non-salary budget (recurrent and development) of GoPJ is processed through the NIFMIS.

[11] Punjab's own tax receipts currently account for only 0.8 percent of the province's estimated economic output,

Table.1: Key Outcomes and Outputs of Punjab PFM Reform Strategy

Key Outcomes	Outputs	Responsibility	Linkage with PforR Result Area
Mobilize Revenue Potential	• Increase Own Source Revenue through improving revenue policy making and better administration; Tax expansion and institutional capacity building through integration of tax payer database and audit facilitation. • Straitening administration of non-tax revenues and better use of government assets.	FD, PRA, ETNCD, BoR	**Revenue Mobilization and Administration.**
Maximize returns on public spending.	• Policies and systems to develop a link between policy and budget (Budget Strategy Paper and MTFF; Performance Orientation and monitoring of budget; Costed sector plans covering recurrent and development budget • Fiscal risk mitigation; establishment of Tax policy unit, Debt management unit and Fiscal Policy unit.	FD, P&DD	**Strengthening Budget Formulation and Fiscal Risk Mitigation**
Reduce Transaction Cost of Government	• Simplifying rules and regulations and business process for efficient service delivery and timely releases and disbursement of funds; Digitizing procurement, payment and government systems; Reforming District Accounts Offices.	FD, P&DD, PITB	**Improved Budget Execution through innovation use of technology**

17. **The Program is transformational yet realistic as to what can be achieved during its timeframe**, considering the capacity constraints and complexities to implement the proposed reforms, which in some cases, require legal changes. In this regard, the Program interventions have been selected from a menu of government reforms on the basis of prior analytical work, their possible strategic/cross-cutting/government-wide impact, Bank's comparative advantage, linkage with other provincial and federal operations and the Government's request. As mentioned before, the Program uses the lessons learnt from the previous PforR in Punjab. It is closely aligned with/complements other World Bank-funded projects, including Public Financial Management and Accountability to Support Service Delivery (PFMASD) Program, Pakistan Raises Revenue (PRR) project, RISE DPC, and Punjab Cities Improvement Program (PCIP). The proposed Program would also support results in other Bank operations in health, education, and agriculture sectors of Punjab, by addressing the cross-cutting constraints these sectors face.

18. **Expenditure Framework:** The **overall program expenditure framework** as translated by Punjab Growth Strategy and PFM Reform Strategy is estimated at US$ 274 million. The government program supported by this operation is implemented by the following key entities: Finance Department; Planning and Development Board; Punjab Revenue Authority, Board of Revenue, Excise and Taxation Department and Punjab Information Technology Board. The entities cover the full scope of core functions and activities needed to deliver on the outcomes of this operation. The expenditure framework of the Program, thus, constitute recurrent spending of these institutions, including employee related expenditure, operating expenses of the entities, cost of physical assets which includes purchase of IT hardware and

software and repairs and maintenance including necessary cost for income tax facilitation centers in the revenue authorities. Preliminary analysis of the program expenditure framework highlighted the need for additional resource allocation for purchase of hardware and software in the government budget. The government of Punjab has agreed to increase the allocation for IT investment in the budget of the implementing entities. It is expected that government share in the PforR financing may further increase during preparation.

E. Initial Environmental and Social Screening

Social Impacts

19. **The Program design by default does not have high social risks and resulting impacts at the PCN stage.** It does not involve any land acquisition, resettlement, or engagement with indigenous people. Suggested result areas have positive social impacts and have the potential to improve social service delivery as a result of improved fiscal space. However, there is a chance of disproportionate taxation while expanding taxable services (UIPT, Services, etc.), while digitizing tax levying and collection procedures can have the tendency to exclude technologically challenged segment of the society, etc., all of which will be investigated during the project preparation phase. For the P4R component, in accordance to Operational Policy 9.00 on Program for Results Financing, an Environment and Social Systems Assessment (ESSA) exercise will be conducted for PPRRMP, to assess clients' current systems in place to manage and respond to environmental and social impacts in a manner consistent with OP 9.00. ESSA will help identify such risks and advise the Program on remedial measures.

20. **The Program also includes a technical assistance component to support the implementing entities with investment and interventions that require specialized expertise and capacity building.** This would result in investments into IT systems and infrastructure such that implementing agencies can manage large data, integrate their intelligence functions, assist in designing improved use of public resources for revenue generation, designing taxpayer services and feedback mechanisms, GST surveys, automation of systems, e-procurement and e-documents. The TA resources will also be used to conduct relevant institutional assessments, improve coordination, stakeholder engagement and capacity building, and to support Program coordination, change management, workshops, and training (to support staff in using new systems, introduce forecasting techniques, and specialize in other technical areas). As a result, no social safeguards policy is triggered for these activities/IPF component. However, the Program presents opportunities for advancing the Bank's corporate mandates, i.e. enhancing social development outcomes of projects through gender and citizen engagement, which will be further enhanced.

Environmental Impacts

21. **The Program design by default does not have high environmental and social risks and resulting impacts at the PCN stage.** As per environmental aspects, it does not involve any civil works, as determined during the PCN stage and mostly focuses on transforming Public Financial Management system by facilitating a simpler and productive business process and adoption of IT systems and tools for transparent and efficient service delivery in Punjab. Furthermore, the program activities are foreseen to have positive environmental impact due to automation of service delivery which would thus, result in resource efficient offices, and decrease in paper use, leading to a lower in carbon footprint. Similarly, from social aspects it does not involve any land acquisition, resettlement, or engagement with indigenous people. Suggested result areas have positive social impacts and have the potential to improve social service delivery as a result of improved fiscal space. However, there is a chance of disproportionate taxation while expanding taxable services (UIPT, Services, etc.), while digitizing tax levying and collection procedures can have the tendency to exclude technologically challenged segment of the society, etc., all of which will be investigated during the project preparation phase. The program's

environmental and social risk rating is therefore determined as Low.

22. **For the P4R component, in accordance to Operational Policy 9.00 on Program for Results Financing, an Environment and Social Systems Assessment (ESSA) exercise will be conducted** to assess clients' current systems in place to manage and respond to environmental and social impacts in a manner consistent with OP 9.00. ESSA will help identify such risks and advise the Program on remedial measures.

23. **The Program also applies Environmental and Social Framework (ESF) under component 2**: Investment Project Financing which include technical assistance to support the implementing entities with investment and interventions that require specialized expertise and capacity building. Under the ESF guidelines the environment and social task team will prepare require ESF documents including PCN and appraisal stage ESRS, ESCP, SEP, LMP, and mandatory E&S documents as per relevant ESSs. The ESF documents will be processed in the ESMS portal with due clearances and approvals by ESSA, and E&S Practice Managers. However, the Program presents opportunities for advancing the Bank's corporate mandates, i.e. enhancing social development outcomes of projects through gender and citizen engagement, which will be further enhanced.

Legal Operational Policies	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Areas OP 7.60	No

Summary of Screening of Environmental and Social Risks and Impacts of the IPF Component

CONTACT POINT

World Bank

Name :	Akmal Minallah		
Designation :	Sr Financial Management Specialist	Role :	Team Leader(ADM Responsible)
Telephone No :	5722+151 / 9	Email :	aminallah@worldbank.org

Name :	K. Migara O. De Silva		
Designation :	Senior Economist	Role :	Team Leader
Telephone No :	473-2303	Email :	kdesilva@worldbank.org

Name :	Muhammad Waheed		
Designation :	Senior Economist	Role :	Team Leader

Telephone No :	5722+208	Email :	mwaheed@worldbank.org

Borrower/Client/Recipient

Borrower :	Economic Affiars Division		
Contact :	Shahnaz Maqbool	Title :	Joint Secretary
Telephone No :	923006809100	Email :	JSWB@ead.gov.pk

Implementing Agencies

Implementing Agency :	Finance Department		
Contact :	Ubaid Rana	Title :	Additional Secretary
Telephone No :	923006809100	Email :	drranaobaid32@yahoo.com

FOR MORE INFORMATION CONTACT

The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 473-1000
Web: http://www.worldbank.org/projects