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IDA/R2017-0363/1

November 30, 2017

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<p><b>Closing Date: Tuesday, December 19, 2017 at 6 p.m.</b></p>
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FROM: Vice President and Corporate Secretary

**Pakistan**

**Public Financial Management and Accountability to Support Service Delivery  
Program-for-Results**

**Program Appraisal Document**

Attached is the Program Appraisal Document regarding a proposed credit to Pakistan for a Public Financial Management and Accountability to Support Service Delivery Program-for-Results (IDA/R2017-0363), which is being processed on an absence-of-objection basis.

**Distribution:**

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Report No: 121796-PK

PROGRAM APPRAISAL DOCUMENT  
ON A  
PROPOSED CREDIT  
IN THE AMOUNT OF US\$400 MILLION

TO THE  
ISLAMIC REPUBLIC OF PAKISTAN  
FOR A  
PROGRAM-FOR-RESULTS  
PUBLIC FINANCIAL MANAGEMENT AND ACCOUNTABILITY  
TO SUPPORT SERVICE DELIVERY

November 28, 2017

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## CURRENCY EQUIVALENTS

(Exchange Rate Effective November 5, 2017)

Currency Unit = Pakistani Rupee (PKR)

PKR 1 = US\$0.01

SDR 1 = US\$1.40

FISCAL YEAR

July 1 – June 30

Regional Vice President:	Annette Dixon
Country Director:	Patchamuthu Illangovan
Senior Global Practice Director:	Deborah Wetzel
Global Practice Directors:	Edward Olowo-Okere / Vinay Sharma
Practice Managers:	Fily Sissoko / Felipe Goya
Task Team Leader:	Winston Percy Onipede Cole
Co-Task Team Leaders:	Akmal Minallah and Asif Ali

## ABBREVIATIONS AND ACRONYMS

AGP	Auditor General of Pakistan	KPI	Key performance indicator
AMIS	Audit Management Information System	KRAs	Key Results Areas
BPO	Budget Performance Observatory	M&E	Monitoring and evaluation
CCI	Council for Common Interests	MIS	Management Information System
CDNS	Central Depository of National Savings	MoF	Ministry of Finance
CGA	Controller General of Accounts	MTBF	Medium-term Budgetary Framework
CL4D	Collaborative Leadership for Development	NADRA	National Database and Registration Authority
CPA	Citizen Participatory Audit	NAM	New Accounting Model
CPS	Country Partnership Strategy	NBP	National Bank of Pakistan
CSO	Civil society organization	NFC	National Finance Commission
DAGP	Department of Auditor General of Pakistan	OAGP	Office of the Auditor General of Pakistan
DCS	Direct Credit Scheme	OBG	Output-based budget
DDOs	Drawing and Disbursing Officers	OCGA	Office of the Controller General of Accounts
DLI	Disbursement-linked indicator	OGP	Open Government Partnership
EAD	Economic Affairs Division	PAAA	Pakistan Audit and Accounts Academy
EFT	Electronic funds transfer	PAC	Public Accounts Committee
EMIS	Education Management Information System	PAP	Program Action Plan
ESSA	Environment and Social Systems Assessment	PDO	Project Development Objectives
FABS	Financial Accounting and Budgeting System	PEFA	Public Expenditure and Financial Accountability
FBR	Federal Bureau of Revenue	PFM	Public financial management
FCC	Fiscal Coordination Committee	PforR	Program-for-Results
FCC	Fiscal Coordination Committee	PIC	Project Implementation Cell
FD	Finance Division	PIFRA	Projects to Improve Financial Reporting and Auditing
F-PPRA	Federal Public Procurement Authority	PKR	Pakistani Rupees
FRAI	Fiscal Responsibility and Accountability Index	PPOD	Pakistan Post Office Department
GDP	Gross domestic product	PPP	Public-private partnership
GoP	Government of Pakistan	PPRA	Public Procurement Regulatory Authority
HMIS	Health Management Information System	RFP	Request for Proposals
IBRD	International Bank for Reconstruction and Development	SBP	State Bank of Pakistan
ICT	Information and communication technology	SMEs	Small and medium-sized enterprises
IDA	International Development Agency	SORT	Systematic Operations Risk Rating Tool
IFMIS	Integrated Financial Management Information System	TOR	Terms of reference
ISDR	Integrated Service Delivery Reporting	TSA	Treasury single account
ISP	Implementation Support Plan	WDR	World Development Report
IVA	Independent verification agent		



# ISLAMIC REPUBLIC OF PAKISTAN

## Public financial management and accountability to support service delivery

### Table of Contents

	Page
<b>I. STRATEGIC CONTEXT .....</b>	<b>1</b>
A. COUNTRY CONTEXT.....	1
B. MULTI-SECTORAL AND INSTITUTIONAL CONTEXT .....	1
C. RELATIONSHIP TO THE COUNTRY PARTNERSHIP STRATEGY AND RATIONALE FOR USE OF INSTRUMENT .....	2
<b>II. PROGRAM DESCRIPTION.....</b>	<b>2</b>
A. GOVERNMENT PROGRAM.....	2
B. PROGRAM DEVELOPMENT OBJECTIVE (PDO) AND KEY RESULTS .....	3
C. PROGRAM SCOPE.....	4
D. DISBURSEMENT-LINKED INDICATORS AND VERIFICATION PROTOCOLS .....	5
E. CAPACITY BUILDING AND INSTITUTIONAL STRENGTHENING .....	7
<b>III. PROGRAM IMPLEMENTATION .....</b>	<b>7</b>
A. INSTITUTIONAL AND IMPLEMENTATION ARRANGEMENTS .....	7
B. RESULTS MONITORING AND EVALUATION .....	8
C. DISBURSEMENT ARRANGEMENTS.....	8
<b>IV. ASSESSMENT SUMMARY.....</b>	<b>9</b>
A. TECHNICAL (INCLUDING PROGRAM ECONOMIC EVALUATION).....	9
B. FIDUCIARY .....	10
C. CITIZEN ENGAGEMENT .....	11
D. GENDER.....	11
E. ENVIRONMENTAL AND SOCIAL EFFECTS .....	12
F. WORLD BANK GRIEVANCE REDRESS .....	13
G. RISK ASSESSMENT .....	13
H. PROGRAM ACTION PLAN.....	14
ANNEX 1. DETAILED PROGRAM DESCRIPTION .....	15
ANNEX 2. RESULTS FRAMEWORK MATRIX.....	21
ANNEX 3. DISBURSEMENT LINKED INDICATORS, DISBURSEMENT ARRANGEMENTS, AND VERIFICATION PROTOCOLS .....	25
ANNEX 4. SUMMARY TECHNICAL ASSESSMENT .....	36
ANNEX 5. SUMMARY FIDUCIARY SYSTEMS ASSESSMENT (FSA).....	43
ANNEX 6. SUMMARY ENVIRONMENTAL AND SOCIAL SYSTEMS ASSESSMENT (ESSA) .....	45
ANNEX 7. SYSTEMATIC OPERATIONS RISK RATING TOOL (SORT) .....	47
ANNEX 8. PROGRAM ACTION PLAN .....	48
ANNEX 9. IMPLEMENTATION SUPPORT PLAN .....	49





**PAD DATA SHEET**

**ISLAMIC REPUBLIC OF PAKISTAN**

**Public financial management and accountability to support service delivery**

**PROGRAM APPRAISAL DOCUMENT**

*South Asia Region  
Governance Global Practice*

Basic Information			
Date: November 28, 2017		Sectors: Central government administration, subnational government administration.	
Country Director:	Patchamuthu Illangovan	Themes: Public expenditure, financial management and procurement; managing for development results, other accountability/anticorruption.	
Practice Manager	Fily Sissoko / Felipe Goya		
Global Practice Vice President:	Jan Walliser		
Program ID: P157507			
Team Leader(s): Winston Cole/Akmal Minallah/Asif Ali			
Program Implementation Period:		Start Date: Dec 2017	End Date: Nov 2021
Expected Financing Effectiveness Date:		Dec 2017	
Expected Financing Closing Date:		Nov 2021	
Program Financing Data			
<input type="checkbox"/> Loan	<input type="checkbox"/> Grant	<input type="checkbox"/> Guarantee	
<input checked="" type="checkbox"/> Credit			
<b>For Loans/Credits/Others (US\$M):</b>			
Total Program Cost:		Total Bank Financing:	US\$400
US\$982			
Total Co-financing:		Financing Gap:	US\$0
US\$582			
Financing Source		Amount US\$	
RECIPIENT		575	
IDA		400	

Other Donor

7

**Total****982**

Recipient: Islamic Republic of Pakistan

Responsible Agency: Ministry of Finance, Federal Government of Pakistan

Contact: Mr. Shahid Mahmood

Title: Finance Secretary

Telephone No.: +92 51 9202373

Email: [secretary@finance.gov.pk](mailto:secretary@finance.gov.pk)

Responsible Agency: Department of Auditor General of Pakistan (AGP)

Contact: Mr. Javaid Jehangir

Title: Auditor General of Pakistan

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Contact: Ms. Shagufta Khanum

Title: Controller General of Accounts

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Responsible Agency: Federal Public Procurement Authority (F-PPRA)

Contact: Mr. Khizer Hayat Khan

Title: Managing Director

Telephone No.: +92 51 9224824, 9216996

Email: [mdppra@ppra.org.pk](mailto:mdppra@ppra.org.pk)**Expected Disbursements (in \$ Million) for IDA**

Fiscal Year	2017-18	2018-19	2019-20	2020-21					
Annual	130	110	85	75					
Cumulative	130	240	325	400					

**Program Development Objective**

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

**Compliance****Policy**

Does the program depart from the CAS in content or in other significant respects?

Yes [ ]

No [ x ]

Does the program require any waivers of Bank policies applicable to Program-for-Results operations?

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 ]

**Overall Risk Rating: Substantial****Legal Covenants**

Name	Recurrent	Due Date	Frequency
1. Implementation arrangement for the Program.		30 days after Effectiveness Date	
<b>Description of Covenant</b>			

The Recipient shall ensure that, within 30 days after the Effective Date, an appropriate arrangement for the timely and effective implementation of the Program will be in place at the Finance Division under the Office of the Finance Secretary.

Name	Recurrent	Due Date	Frequency
2. Implementation Arrangement for the eProcurement system		90 days after Effectiveness Date	
<b>Description of Covenant</b>			
The Recipient shall ensure, through PPRA, that an appropriate arrangement for the timely and effective support to implement the e-Procurement system will be in place within 90 days after the Effective Date.			
Name	Recurrent	Due Date	Frequency
3. Sufficient appropriation and timely release of funds	Recurrent		Continuous
<b>Description of Covenant</b>			
The Recipient has provided sufficient appropriation and timely release of funds to the program implementing entities – Department of Auditor General of Pakistan; Office of Controller General of Accounts; Federal Public Procurement Authority; and Finance Division.			
Name	Recurrent	Due Date	Frequency
4. Verification of DLIs		3 months after Effectiveness Date	
<b>Description of Covenant</b>			
The Recipient to no later than 3 months after Effectiveness Date, appoint an independent verification agency (IVA) under terms and reference satisfactory to the Association, to carry out the verification of compliance of DLIs.			
Name	Recurrent	Due Date	Frequency
5. Program Reports	Recurrent		Continuous
<b>Description of Covenant</b>			
The Recipient shall furnish to the Association the corresponding verification reports in form and substance acceptable to the Association, not later than thirty (30) days after the end of each period under review, in order to submit evidence satisfactory to the Association of the achievement of said DLIs for disbursement.			
Name	Recurrent	Due Date	Frequency
6. MIS Directorate in Office of Controller General of Accounts		60 days after Effectiveness Date	
<b>Description of Covenant</b>			
Within 60 days after Effectiveness Date, the Management Information System Directorate in the Office of the Controller General of Accounts of the Recipient shall have been granted a sustainable status to attract and retain suitably qualified experts to maintain the financial accounting and budgeting system.			
Name	Recurrent	Due Date	Frequency
7. Appointment of External Auditor		6 months after Effectiveness Date	
<b>Description of Covenant</b>			
Within six (6) months of the Effective Date, the Recipient shall hire an accredited external audit firm, satisfactory to the Association, for the audit of its Department of Auditor General of Pakistan for the Program.			
Name	Recurrent	Due Date	Frequency
8. Advance	Recurrent		Continuous
<b>Description of Covenant</b>			
The Recipient may withdraw: (i) an amount not to exceed US\$40,000,000 as an advance; provided, however, that if, in the opinion of the Association, the DLIs are not achieved (or only partially achieved) by the Closing Date, the Recipient shall refund such advance to the Association promptly upon notice thereof by the Association. Except as otherwise agreed with the Recipient, the Association shall cancel the amount so refunded. Any further withdrawals requested as an advance under any Category shall be permitted only on such terms and conditions as the Association shall specify by notice to the Recipient.			
Name	Recurrent	Due Date	Frequency

9. Reversal of DLIs	Recurrent		Continuous
<b>Description of Covenant</b>			
In the event that: (i) a reversal of a previous DLI has occurred in a manner that would, in the opinion of the Association, adversely affect the achievement of the objectives of the Program; and (ii) said previous DLI has already been vetted by the IVA(s) using the Verification Protocol agreed with the Association, and for which the corresponding disbursements have been already made by the Bank; the Recipient shall refund the disbursements already made by the Association for said previous DLIs.			
<b>Team Composition</b>			
<b>Bank Staff</b>			
<b>Name</b>	<b>Title</b>	<b>Specialization</b>	<b>Unit</b>
Winston Percy Onipede Cole	Sr. Financial Management Specialist	Task Team Leader	GGO24
Akmal Minallah	Sr. Financial Management Specialist	Co-Task Team Leader	GGO24
Asif Ali	Sr. Procurement Specialist	Co-Task Team Leader	GGO06
Akram El-Shorbagi	Sr. Financial Management Specialist	Country FM Coordinator	GGO24
Syed Waseem Abbas Kazmi	Sr. Financial Management Specialist	Technical Assessment	GGO24
Khuram Farooq	Sr. Financial Management Specialist	Integrated Financial Management Information Systems	GGO25
Qurat ul Ain Hadi	Financial Management Specialist	Integrated Fiduciary Assessments	GGO24
Rehan Hyder	Sr. Procurement Specialist	Procurement Rules	GGO06
Uzma Sadaf	Sr. Procurement Specialist	Country Focal Point for Procurement	GGO06
Khalid Bin Anjum	Sr. Procurement Specialist	Technical support for e-procurement and Procurement Specialist	GGO06
Abid Khan	Program Assistant	Expenditure Framework Analysis	SACPK
Amelia Veronica C. Yuson	Program Assistant	Program Assistant	GGO24
Yodit Teamir Rezene	Program Assistant	Program Assistant	GGO06
Pragya Shrestha	Consultant	Consultant	GGO24
Mohammad Farhanullah Sami	Sr. Water and Sanitation Specialist	Water and Sanitation	GWA09
Tayyeb Masud	Sr. Health Specialist	Health service delivery	GHN06
Umbreen Arif	Sr. Education Specialist	Education service delivery	GED06
Amjad Zafar Khan	Sr. Social Protection Specialist	Social Protection	GSP06
Siambhaivan Sisombat	Senior Leadership Development Specialist	Collaborative Leadership for Development (CL4D)	GGO28
Muhammad Waheed	Sr. Economist	Fiscal analysis	GMF06
Georgiana Pop	Sr. Economist	Trade and Competitiveness	GCTCT
Graciela Miralles Murciego	Sr. Economist	Trade and Competitiveness	GCTCT
Saadia Refaat	Sr. Economist	Fiscal	GMFO6
Clelia Rontoyanni	Lead Public Sector Specialist	Public Sector	GG018
Ahmad Imran Aslam	Environmental Specialist	Environmental safeguards	GENO6

Salma Omar	Senior Social Safeguard Specialist	Social Safeguards	GSU06
Maha Ahmed	Operations Officer	Monitoring and Evaluation	SACPK
Junko Funahashi	Lead Counsel	Counsel	LEGES
Daisy Lopez Zita	Finance Analyst	Finance Analyst	WFALN
Sana Shahid Ahmed	ET Consultant	Operations	SACPK
Anwar Ali Bhatti	Financial Analyst	Disbursement	SACPK
Syed Usman Javaid	Operations Officer	Operations	SACPK
Namesh Nazar	Operations Analyst	Operations	SACPK

Non-Bank Staff		
Name	Title	City
Ali Hashim	IFMIS International Expert	Washington, D.C.
Hassan Khawar	Lead Consultant	Islamabad
Shabbir Ahmed	Program Design	Islamabad
Mike Eldon	Organizational Development Specialist	Nairobi
Sumaira Sagheer	Communication Specialist	Nairobi



## I. STRATEGIC CONTEXT

### A. Country Context

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

### B. Multi-sectoral and Institutional Context

2. **Pakistan's twin challenge: centralized public financial management and decentralized service delivery.** Pakistan's public financial management (PFM) structure is different from most federal countries in that it is highly centralized in nature: this means that addressing bottlenecks by the federal government is critical to service delivery. The four general functions of a PFM system, auditing, accounting, budgeting, and expenditure management, are split between provincial and federal institutions in Pakistan. Budgeting and expenditure management are responsibilities of the provincial government. Accounting and auditing functions remain federal mandates and are managed by the Controller General of Accounts (CGA) and Auditor General of Pakistan (AGP) respectively. Furthermore, Provincial Accountant Generals, are all employees of federal CGA and have direct responsibility for transaction processing for payroll, pension and vendors. These functions have direct bearing on provincial governments' capacity for service delivery.

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

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

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

### **C. Relationship to the Country Partnership Strategy and Rationale for Use of Instrument**

5. **The proposed Program is consistent with the World Bank Group's Country Partnership Strategy (FY15-20), and with the twin goals of ending extreme poverty and promoting shared prosperity.** A citizen-centered approach to service delivery, focusing on results and fully exploiting the potential of emerging technologies will provide opportunities for achieving CPS Result Area 4: "*Service Delivery*" in a transparent and accountable manner and thereby contribute to the WBG's twin goals of ending extreme poverty and boosting shared prosperity. The Program also responds to the IDA18 commitment to improve public expenditure, financial management and procurement and contributes to the achievement of Sustainable Development Goal (SDG) 16 on governance and institutions. The Program also operationalizes the World Development Report 2017: Governance and the Law recommendation on *commitment, coordination, and cooperation* necessary to ensure that PFM institutions and service delivery units carry out their functions to yield desired policy outcomes.

6. **The proposed Program involves an IDA credit of US\$400 million using the Program for Results (PforR) instrument.** The PforR is the most suitable instrument for this operation which supports a coherent package of policy change, institutional strengthening accompanied by incentives for behavioral change, and re-engineering of business processes through a clearly articulated results chain. The US\$400m provided by the PforR will co-finance a much larger government program of US\$982m. The PforR allows the Government to use and strengthen its own systems, thereby ensuring longer term sustainability. It also creates a unique window of dialogue with other development partners. By contrast, a traditional investment project would add to existing coordination challenges and would risk duplication and a narrow focus on inputs and processing of transactions instead of on results.

## **II. PROGRAM DESCRIPTION**

### **A. Government Program**

7. **The Government has developed a six- pillar PFM Reform Strategy (2018-2027) that has been jointly approved by the federal and provincial finance secretaries.** Its purpose is to consolidate PFM progress and make incremental improvements to ensure that systems deliver to

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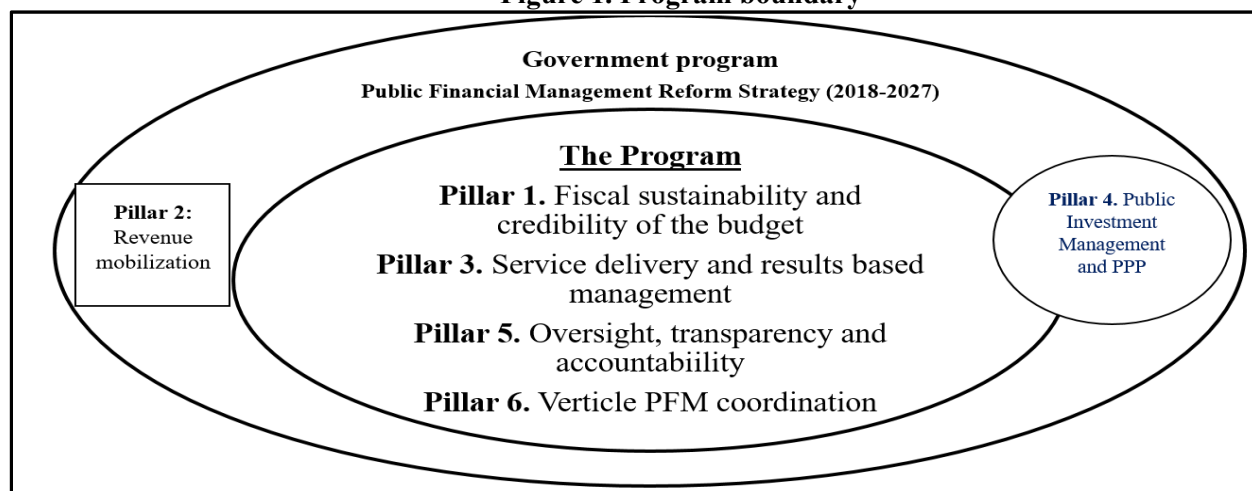
<sup>2</sup> (i) Expenditure and Quantity of Service Delivery Survey (EQSDS) in Primary School Sector (2015), based on findings from primary data collected through three integrated surveys at provincial, district, primary school and household levels; (ii) The Punjab Service Delivery Assessment Report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



their full potential in an accountable and transparent manner. The PFM Reform Strategy is further supported by the National Procurement Strategy and Training Plan (2017-2021<sup>3</sup>).

8. **The Program supports five of the six pillars of the PFM Reform Strategy** (see Figure 1; the related DLIs are shown in Table 1<sup>4</sup>). This Program will not support Pillar 2 on revenue mobilization and will partially support Pillar 4. The Program covers all other Pillars. The delineation between the Government program and this Program is shown in Table 2 of the Technical Assessment. Details of this Program, the Government program, the responsible institutions and the rationale for selection of the DLIs can be found in the Technical Assessment.

**Figure 1. Program boundary**



## **B. Program Development Objective (PDO) and Key Results**

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

10. Progress toward achieving the PDO will be measured by the following intermediate result indicators, all DLIs. Key result area 3 does not have a PDO indicator but has two sets of disbursement linked indicators.

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

<sup>3</sup> In addition, the Strategy is complemented by the Department of the Auditor General of Pakistan's Strategic Plan (2015-2019) and the CGA action plan

<sup>4</sup> Annex 13 of the Technical Assessment provides the line of sight between the Problem Statement, the Government PFM Reform Program, the reform actions/processes and outputs, PforR DLIs, and PDO elements.

## C. Program Scope

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

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

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

12. **This Program complements other ongoing Bank-financed health and education operations which aim to improve service delivery outcomes directly.** See Table 2. The achievement of DLIs through this Program will strengthen the results of the Bank's engagement across health and education sectors.

**Table 2. Bank-financed Health and Education Sector Projects**

Project name	Project-specific activities	Relevant Program actions
Pakistan: Third Punjab Education Sector Project (P154524) - \$300m	Improved access to and quality and management of education system.	PFM law and improved regulatory framework, cash management to enhance budget allocation, shifting from highly centralized expenditure control system to empowering the front-line service delivery units, e-procurement, open-budget, citizen participatory audits, audit management information systems, improved integration between the Federal Government and the provinces, integrated financial management information systems, professional training of audit and accounts staff.
Pakistan: Sindh Education Sector Project- \$400m	School monitoring, school budgeting, human resource management information system.	
Enhanced Nutrition for Mothers and Children (P131850) – \$47.9m	Addressing malnutrition in women and children, building institutional capacity.	
Punjab Health Sector Reform Project (P123394) – \$100m	Improving health service delivery, strengthening institutional capacity of provincial department of health.	
National Immunization Support Project (P132308) – \$89.68m	Strengthening management, governance, and stewardship function, improving technical capacity to manage immunization function.	

13. **This Program will finance about 41 percent of the Government program.** The expenditure framework for this Program excludes Pillar 2 and part of Pillar 4 of the Government program. (See Table 10). Expenses are grouped under these categories: ICT-related infrastructure, hardware and software, consultant services for change management, capacity building and training, communications and outreach, operating expenses, employee-related emoluments and performance grants.

**Table 3. Program financing**

Source	Amount (\$ million)	% of total
Government	575	58
IDA	400	41
Other development partners	7	1
<b>Total Program financing</b>	<b>982</b>	<b>100%</b>

14. **The design of this Program has benefited from consultation with development partners.** This Program will complement the support from other projects such as the European Union’s Public Financial Management Support Program for Pakistan; the United States Agency for International Development’s support to the AGP; and the United Kingdom Department for International Development’s Sub-National Governance program, which has successfully implemented an Innovation Fund in Punjab to improve services in the health sector.

#### **D. Disbursement-Linked Indicators and Verification Protocols**

15. **Progress will be measured through eight disbursement linked indicators (DLIs),** each involving one or more specific actions required for removing PFM bottlenecks (see Table 4). DLIs were selected based on: (a) the criticality of the activity, output, or outcome in the results chain; (b) the need to introduce a financial incentive to deliver the activity, outcome, or output; (c) measurability and ease of verification; and (d) the capacity of the Government to achieve the DLIs

over the period that the Program is implemented. The Results Framework (Annex 2) is aligned with the output based budgeting (OBB) of the implementing agencies. OBB allows the Government program to better track achievements of expenditures and efficiency of services. Achievement of DLIs will be reported using the Government's reporting systems which have found to be reliable and will be complemented with additional data that reconciles expenditure and outputs.

16. **An independent verification agent (IVA) will be appointed by the Government to validate the achievement of the DLIs.** The Government will appoint the IVA within 3 months of the effectiveness date. The Government will carry out a verification process guided by the verification protocol agreed with the Association and furnish to the Association the corresponding verification reports in form and substance acceptable to the Association, not later than thirty (30) days after the end of each of the periods under review In order to submit evidence satisfactory to the Association of the achievement of said DLIs for disbursement. However, if DLIs are met ahead of schedule, the IVA will undertake the verification based on which the Association will consider disbursement. The data sources for verifying DLI achievement and the procedure for verification are set out in Annex 3. The IVA will rely on a desk review of documentation provided by responsible institutions and will conduct field visits when physical verification of evidence is required. The IVA will validate the baseline data in the first year of implementation. Upon completing the annual verification exercise, the IVA will submit a verification report to the Finance Department. Disbursement requests to the Association will be accompanied by a copy of the verification report, which will be used as the basis for determining the amount to be disbursed.

**Table 4. Summary of DLIs**

DLIs	Type <sup>a</sup>	Meeting the DLI criteria	
		Critical milestone to achieve PDO	Incentives for performance
<b>DLI 1:</b> Reduction of variance in functional expenditure composition for health and education to improve reliability of the budget <b>(\$70m)</b>	Outcome	☒	☒
<b>DLI 2:</b> Reduction in cash held outside the Recipient's Treasury Single Account <b>(\$70m)</b>	Outcome	☒	☒
<b>DLI 3:</b> Percentage of vendor contracts processed through the Recipient's e-procurement system <b>(\$50m)</b>	Output	☒	☒
<b>DLI 4:</b> Percentage of alignment of information and identification numbers for individual primary school teachers and health workers related to their place of work and salaries <b>(US\$30m)</b>	Output	☒	☒
<b>DLI 5:</b> Percentage of pensioners, disaggregated by gender, authenticated against NADRA computerized national identity card, paid through the Direct Credit Scheme no later than the following pension payment cycle after retirement. <b>(\$30m)</b>	Outcome	☒	☒
<b>DLI 6:</b> Percentage of audit recommendations processed through the Audit Management Information System <b>(\$40m)</b>	Process/ Output	☒	☒
<b>DLI 7:</b> Increased citizen access to key fiscal information on health and education. <b>(\$30m)</b>	Outcome	☒	☒
<b>DLI 8:</b> Percentage of fiscal performance and service delivery indicators met by the provinces. <b>(\$80m)</b>	Outcome	☒	☒

<sup>a</sup> Outcomes, Outputs, Process Indicators, or Key Actions.

## **E. Capacity Building and Institutional Strengthening**

17. **The interventions of this Program (systems, processes, and human) will build the capacity of key PFM institutions and service delivery units.** Support will be provided to the Pakistan Audit and Accounts Academy (PAAA) to operate as a PFM Centre of Excellence. This will enable continuous training of PFM practitioners using the qualification framework of the Pakistan Institute of Public Finance Accountants. The framework will be strengthened as part of this Program. The capacity of the Public Procurement Authority will be enhanced to enable them to provide extensive trainings in Public Procurement Rules across Government departments.

18. **This Program will also support behavioral change in recipient agencies.** The attitudinal barriers to achieving the reform program objectives will be addressed by applying the overarching principles of (i) leadership and political commitment to change; (ii) policy space for implementing suggested reforms; and (iii) adaptive, iterative, and inclusive processes. Specific training modules on collaborative leadership will be developed with the PAAA so that officials who attend the technical training on PFM develop ownership, strive for excellence in service delivery, and improve their capacity to work across ministries/departments at various levels of government.

## **III. PROGRAM IMPLEMENTATION**

### **A. Institutional and Implementation Arrangements**

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

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

## B. Results Monitoring and Evaluation

21. **A robust monitoring and evaluation framework for tracking DLIs and achievement of the PDO is in place.** The intermediate indicators and DLIs are aligned with the PDO and are elaborated on in the Results Framework (see Annexes 2 and 3). The standard practice in the Federal Government is that monitoring is done through the OBB by evaluating the attainment of previous year's targets at the time of preparing the next year's budget. As noted earlier the IVA will verify achievement of results.

## C. Disbursement Arrangements

22. **Disbursement will be based on achievement of the DLIs.** Annex 3 shows the proposed annual financial allocations across DLIs. As noted, achievement of DLIs will be verified by the IVA according to the agreed verification protocol. On verification, FD will communicate the achievement of the DLIs to the Association and, on the basis of the Association's approval letter, disbursement requests will be processed using the Association's e-Business platform. For the scalable DLI 8, funds will be disbursed according to the proportion of achievement. For all DLIs, where expected results are not achieved in any year, the allocated amount will be carried over to the subsequent year. Conversely, if results are reached ahead of target/time, disbursement may be made earlier after verification by the IVA and concurrence of the Association.

23. **A one-time advance of 10 percent (US\$40 million) will be provided upon Program effectiveness, spread across DLIs 3, 4, 5, 6, 7.** These DLIs are IT-intensive and would therefore need up-front funding to secure contracts for server upgrade, secured connectivity, end-user devices, collaborative leadership, change management, and strategic communication to kick-start the reform activities. Should the results associated with the DLIs not be achieved by the end of the Program, these funds would be reimbursed to the Association.

24. **The Program is front-loaded with some of the most challenging DLIs that require support at the strategic level, with adequate reward, to follow through.** Withdrawal up to US\$60 million can be made against prior results achieved between the date of the program concept review and the date of the Financing Agreement. In the past decade, Pakistan has implemented numerous reforms, including implementing FABS across the Government, which have not translated to improved management of service delivery because some difficult and overdue policy decisions had to be made. The prior results in Table 5 are critical for timely operationalization of the Program and implementation of the activities because they address up front the key policies and reengineered business processes that will be supported by a robust legal framework to ensure sustainability of the Program.

**Table 5. Prior Results**

Prior results / Rationale	US\$
<b>DLR 1.1:</b> National Assembly of the Recipient approves the Federal Consolidated Fund and Public Accounts (Maintenance and Operations) Act. <i>Rationale: The proposed PFM Law will provide a coherent and comprehensive PFM legal framework to generate certainty about the mandated PFM practices leading to efficiency, accountability, and transparency. The Law will also provide the broad principles relating to the roles, responsibilities, and reporting obligation of budget actors and clarify the authority of the legislature and the executive.</i>	20

<b>DLR 2.1:</b> Auditor General of Pakistan (AGP) to complete special survey of government accounts in commercial banks.	10
<b>DLR 2.2:</b> The Recipient's Ministry of Finance adopts accounting framework for daily consolidation of all government cash balances as part of the TSA. <i>Rationale: Reduction in the number of commercial bank accounts will reduce the cost of borrowing and free up fiscal space for allocation to service delivery. Timely bank reconciliation will uphold the integrity of financial information by reducing the perennial statistical discrepancy reported in fiscal operation reports.</i>	10
<b>DLR 8.1:</b> Establishment of Fiscal Coordination Committee (FCC) by the Council for Common Interests (CCI).	10
<b>DLR 8.2:</b> Establishment and approval of an incentive system by the FCC to improve fiscal performance and service delivery in selected areas. <i>Rationale: To strengthen Federal-provincial intergovernmental fiscal relationship with an incentive system to reward good fiscal performance and service delivery outcomes. The pilot of the proposed incentive system is transformational as it will inform policy to introduce performance measures in future NFC fiscal transfers. The Association will contribute \$80 million against a total Government commitment of \$384 million for development grants to provinces.</i>	10
<b>Total</b>	<b>60</b>

#### IV. ASSESSMENT SUMMARY

##### A. Technical (including program economic evaluation)

25. **The economic and social rationale for this Program is compelling.** The Program is expected to add US\$ 1.276 million in economic gains for an overall program cost of US\$982m which more than justifies the public investment. Below are some justifications for this analysis:

- Upgrading FABS as a decision-support tool will improve efficiency. Improved cash management is expected to lead to recoveries of 5 percent of the funds lying outside TSA and the reduced cost of borrowing could lead to efficiency gains of \$721 million over the Program life. By curtailing pension leakages equal to 2 percent of pension expenditure, the government could save approximately US\$65 million over a four-year period. Furthermore, drawing from the Uganda example of reduction of 60 percent leakage in school funds, transparency and access of information to citizens in a user-friendly manner will lead to reduction in instances of fraud and corruption
- It is expected that introduction of online bill submission and e-procurement will result in increase in revenues. The increase in revenue will contribute to defraying the cost of SAP licenses. Within one year of interfacing FABS with FBR systems in 2015, goods and services tax revenues from government suppliers increased by US\$ 4.40 million (with Sindh posting an increase of 128 percent and Balochistan 115 percent).
- Gains from an improved public procurement framework make available additional resources for development and lead to better expenditure outcomes. An Asian Development Bank report states that procurement reforms improve spending efficiency by 1 percent of GDP. Pakistan's GDP was US\$304 billion in 2016-17. Assuming the annual expenditure on health and

education to be at 4 percent of GDP, approximately US\$ 486 million could be allocated to other pressing sectors like education and health<sup>5</sup> over the Program period.

26. **The Program is technically sound for the following reasons:** (i) it builds successfully on the previous PFM reform efforts and investments by consolidating disparate pieces of the PFM institutional and systems regime and working toward coordination, sustainability, and deepening of reforms; (ii) it successfully identifies cross-cutting constraints to service delivery at the provincial level and aims at addressing them; (iii) it takes into account the structure of the Government since the 18<sup>th</sup> Constitutional Amendment and proposes to build synergy and alignment through appropriate incentives; (iv) while it focuses on improving external audit and legislative scrutiny, it also provides room for innovation that may be needed, given the wide scale of service delivery; and (v) the program envisages reform efforts driven by the federal Ministry of Finance and jointly approved by the federal and provincial finance secretaries.

27. **Potential for improving climate co-benefits:** (i) *mitigation*: as part of DLI 3, the requirement for publication of mandatory standard bidding documents will include specific clauses to integrate energy efficiency cost-savings in procurement decisions; and (ii) *adaptation*: as part of DLI 8, the fiscal performance and service delivery indicators will include criteria to build resilience of the population to climate change-related health risks.

## **B. Fiduciary**

28. **The fiduciary systems assessment was prepared using the Program-for-Results, Fiduciary Systems Assessment Guidance Note (June 30, 2017).** The Program envisages using the country's PFM systems (including procurement) to provide reasonable fiduciary assurance. The Recipient will be required to undertake not to allow parties on the Association's debarment or suspension lists to be awarded contracts under, or otherwise to participate in, the Program during their debarment/suspension period.

29. **This is the first PforR experience for the implementing agencies.** However, the AGP has proven its project implementation capacity during PIFRA, despite the frequent changes of the project directors. The Federal budget for the implementing agencies is prepared with detailed functional and object classifications. Separate financial reports will not be prepared for the Program, as no separate budget lines will be created: the program budgets are contained in the medium-term OBB, against which entity-level financial reports will be prepared and audited. The Government internal control framework applicable to the implementing agencies is comprehensively laid out in rules and regulations. An internal audit function does not exist in any of the implementing entities; however, under PIFRA a monitoring and evaluation cell was established in the CGA and the AGP. The Program will be audited as part of the financial, compliance, and performance audit work program of the AGP for the implementing entities, and the reports will be submitted to the Association by December 31 each year. Consistent with acceptable good practices for supreme audit institutions, the AGP audit report will be subjected to audit by an independent audit firm.

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<sup>5</sup> <http://www.adb.org/sites/default/files/pub/2002/GovernanceBrief03.pdf>



30. **The Procurement Rules 2004 require that the budget be linked with the procurement plan.** Procurement plans are prepared; however, there is a lag in the implementation of activities. The procurement outlays of the three implementing entities will include goods, services, and small works and will not exceed the Operational Procurement Review Committee threshold for Pakistan. No standard manual for procurement is available; however, an internal Procurement Procedure and Inventory manual adopted by PIFRA is being considered for implementation after review and some updates to reflect the Government rules. CGA has experience in handling procurement activities for IT equipment, servers, networks, and SAP license. A Grievance Redressal Committee is responsible for handling any concerns or complaints raised by suppliers/contractors.

31. **Pakistan's systems to combat fraud and corruption are evolving and this program will provide transparency and accountability to support this evolution.** Arrangements to deal with issues of potential fraud and corruption will follow the requirements of the Association's Anti-Corruption Guidelines on Preventing and Combating Fraud and Corruption in PforR Lending.

32. **The conclusion of the assessment is that the PFM system, complemented by program-specific mitigation measures, is adequate to support the Program.** Because of the nature of the challenges, the conclusion of the Fiduciary Systems Assessment is that the combined overall fiduciary risk for the program is Substantial. The Program Action Plan (PAP) contains risk mitigation measures to increase capacity and improve systems and procedures. These measures are reinforced by relevant DLIs that will be monitored during Program implementation.

### C. Citizen Engagement

33. **The Program has widespread buy-in at the strategic level through the Government's ownership of the PFM Reform Strategy.** On March 15, 2016, the Ministry of Finance held a workshop with stakeholders who emphasized that the reforms should be geared towards ensuring accountability and transparency for service delivery. They highlighted that while the Government's current financial management system provides a state-of-the-art technological backbone, its full potential and capabilities need to be better used to improve decision-making and accountability. In October 2016, a workshop was held with AGP and CGA to identify the formal and informal drivers of and constraints to the reforms needed to meet the overall reform objectives and the DLIs. To ensure the sustainability of the reforms, a structured change management and communication plan will be implemented. Also, the citizen participatory audit and feedback mechanisms embedded in the Program will complete the feedback loop on the effectiveness of the program. Feedback from pensioners, especially females, and from smaller-sized contractors/vendors (including females) will be made an intrinsic part of the citizen engagement exercise, and particularly the review of the effectiveness of the Direct Credit Scheme (DCS) and e-procurement.

### D. Gender

34. **Gender gaps persist in Pakistan: The Environmental and Social Systems Assessment (ESSA) has established that widows face challenges in pension payments and can be marginalized from the pension payment process.** In addition, fewer than 3 percent of women in Pakistan have an account at a formal financial institution, far below the regional average of over

25 percent.<sup>[1]</sup> Furthermore, only a little over 2 percent of women use a mobile phone for banking purposes.<sup>[2]</sup> While data for pensions are being transferred online, there is no data entry field for gender, which makes it difficult to analyze whether widows face major delays. The Program incorporates strategically defined actions to resolve the issues highlighted above. For example, adding a gender field in the pension database will facilitate tracking, recognition, and resolution of any problems women may be facing in pension collection. In addition, female-only counters at pension facilitation centers will be further improved to address the needs of women. Similarly, the DCS will incentivize financial inclusion of women as it conditions access to its simplified mechanism of pension collection on holding an account at a formal financial institution. Moreover, the Citizen Participatory Audit (CPA) will provide opportunities for women to have a voice on public finance matters and openness and transparency through e-procurement will provide fair access to public contracts, increasing job possibilities for women. Lastly, in addition, the ESSA found evidence that many pension applicants, especially women, submit their complaints online because they are unable to travel to Islamabad. The Pension Management Information System will provide an enhanced channel for women to continue doing so. It will be linked to a portal with a window for complaints, reducing women's need to rely on male family members to either accompany them to the facilitation center for required changes, or do it entirely on their behalf, with the attendant risk of rent-seeking, fraud, and abuse.

#### **E. Environmental and Social Effects**

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

**36. The Program was assessed to have potential adverse environmental risks related to treating electronic waste (e-waste).** This is because the Program will buy such hardware as desktop computers, printers, servers, and scanners. However, the E-waste generated over time from the equipment procured by CGA will not be significant enough to have a major adverse impact. Therefore, the relevance of the e-waste issue to this project is very limited. The PAP includes an action specific to this risk: “mechanism for proper management of E-Waste implemented.”

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<sup>[1]</sup> Global Financial Development Database, World Bank 2014.

<sup>[2]</sup> Ibid.

<sup>6</sup> The Core Principles guiding this assessment are more fully described in the ESSA Report

## **F. World Bank Grievance Redress**

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

## **G. Risk Assessment**

38. **The overall risk rating is Substantial** (Annex 7). The Program's key areas of substantial risk are as follows.

- (i) **Substantial political and governance risks** stem both from the broader political and security situation in Pakistan, which may distract policymakers, and from political resistance to the reform program itself. Also, administrative opposition could emerge from those who will be adversely affected by specific reforms. The program interventions will provide space to mobilize citizen/beneficiary engagement to demand good governance with regard to the quality of policy formulation and implementation, and to the credibility of the Government's commitment to the policies articulated in the PFM Reform Strategy.
- (ii) **Substantial macroeconomic risks** stem from possible domestic and external shocks. Tight fiscal space and a history of variation between the approved budget, the actual allocation, and spending may affect the adequate allocation of funds to undertake the Program activities. The Financing Agreement will include a covenant for adequate provision of resources to the implementing entities.
- (iii) **Substantial technical design risks.** The PFM Reform Strategy, AGP Strategic Plan, and National Procurement Strategy and Training Plan are technically sound. The reform program is stretched across the PFM cycle and goes beyond the central finance agencies to the line ministries that are responsible for service delivery; it also has a vertical reach at the subnational level, introducing the sort of relatively advanced technology and business process reengineering that often faces resistance. The risk of complication is mitigated by alignment with the Government-owned reform strategy and ownership of the proposed DLIs by the responsible implementing entities.
- (iv) **Substantial fiduciary risks.** Given the Government's commitment to overall PFM reform—demonstrated by actions already taken at the federal and provincial levels and the objectives of the PFM Reform Strategy—the risks to this Program will be well mitigated. Annex 5 highlights specific mitigation measures (part of the Fiduciary Systems Assessment) that are reinforced by relevant DLIs.

- (v) **Substantial stakeholder risks.** The shift from a centralized to a decentralized payment process will face resistance from those holding approval authority, and training will be required for the new decentralized users. The Program will induce behavioral change by implementing Collaborative Leadership for Development activities to strengthen the leadership capacities for change of individual leaders and through effective management of teams and participatory engagement with stakeholders (citizens/beneficiaries). The Program will disseminate the reform benefits through extensive communication campaigns.
- (vi) **Other.** The Climate and Disaster Risk Screening Tool used to screen the Program revealed that climate and geophysical hazards pose no risk to this operation.

## **H. Program Action Plan**

39. **Assessments during preparation of this Program (technical, fiduciary, and environmental and social) evaluated the capacity of the executing and implementing entities, identified and rated risks, and specified key actions that the Government should undertake to enhance Program systems and mitigate risks.** Some of those risks and actions have been highlighted in the foregoing discussion. All key actions are detailed in the PAP (Annex 8).

## Annex 1. Detailed Program Description

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

### *Description*

40. **The Program will remove PFM bottlenecks and enhance procurement systems through simplified procedures, greater accountability, and enhanced transparency for service delivery.** The Program is composed of five mutually reinforcing key results areas (KRAs) that are priorities of the Government program (PFM Reform Strategy) and contribute to achieving the PDO. The achievement of the KRAs and their benefits to the citizens of Pakistan will depend on embedding collaborative leadership, behavioral change management, and strategic communication throughout the Program. The objective is to improve budget reliability within an enhanced PFM legal framework and institute sound cash management practices to ensure the predictability of funds to undertake service delivery activities in an accountable manner.

**KRA 1: Strengthening the legal framework and internal management systems in line ministries and service delivery units.**

41. ***DLI 1: Reduction of variance in functional expenditure composition for health and education to improve the reliability of the budget.*** The variance in functional expenditure composition in health and education is due to such factors as a robust regulatory framework to promote fiscal discipline, linkage between plans and budgets, efficiency in procurement systems, and ad-hoc and arbitrary reallocation of resources from service delivery sectors to other competing sectors. DLI 1 will specifically address the need to adopt a robust PFM regulatory framework. Following activities will contribute to achievement of the DLI.

- (a) *Provision of technical support underpinning the draft legislation of public financial management and accountability in the form of systems, structures and processes, prior to its submission to the Parliament of the Recipient for approval;*
- (b) *Modernization of internal audit arrangements and simplifying procedures related to pre-audit and empowering service delivery practitioners in financial matters;*
- (c) *Introduction of integrated service delivery reporting to improve timeliness and comprehensiveness of financial and non-financial reporting by configuring the Budget Estimates for Service Delivery into the FABS systems and making the system inter-operable with other systems;*
- (d) *Professionalization of public financial management specialist organizations;*

42. ***DLI 2: Reduction in cash held outside the Recipient's Treasury Single Account.*** As of June 2017, there are 753,084 Government accounts in commercial/scheduled banks<sup>7</sup> with a total balance of PKR 1.584 trillion. Furthermore, substantial cash outflows on revolving payments and servicing of domestic debt could otherwise be channeled to service delivery. Two factors incentivize Government departments to keep cash outside the TSA: first, given the highly-

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<sup>7</sup> [http://www.sbp.org.pk/reports/stat\\_reviews/Bulletin/2017/Nov/BankingSystem.pdf](http://www.sbp.org.pk/reports/stat_reviews/Bulletin/2017/Nov/BankingSystem.pdf)

centralized payment authorisation system and the absence of a legal framework, the departments tend to keep unspent balances in private commercial bank accounts; and second, lack of sufficient IT infrastructure makes it difficult to set up a seamless system of e-payment. Under this DLI a two-pronged strategy will be adopted: enacting a legal framework to ensure that all funds are remitted to the TSA, and empowering service delivery practitioners to spend timely resources by simplifying the rules for expenditure authorisation. Following activities will contribute to achievement of the DLI.

(e) *Improvement of cash management policy and practices* through a comprehensive TSA.<sup>8</sup> AGP will undertake a comprehensive special survey that will inform the formulation of a cash management policy and scope of the TSA.

- *Developing an accounting framework for daily consolidation of cash balances* to meet the operational targets of fiscal policy, the public debt management strategy, and monetary policy. If accounts are held in commercial banks, they should be linked to the TSA and balances swept daily.
- *Processing payments through online bill submission.* The shift from a manual to an online billing system will reduce the lead time for payments to vendors through electronic funds transfer (EFT).
- *Improving the integrity of financial information for decision-making and accountability.* Reconciliation of transactions in the CGA ledger with bank statements provides assurance about the completeness and accuracy of financial reports for decision-making and accountability.

## **KRA 2: Improved procurement performance**

43. ***DLI 3: Percentage of vendor contracts processed through the Recipient's e-procurement system.*** This DLI will be achieved through reform activities that will improve transparency, efficiency, and competition in procurement practices for better value for money in selected federal ministries and provincial departments. Key procurement bottlenecks that affect the management of service delivery include lack of linkage between procurement plans and budget, gaps in procurement rules that limit the scope of competitive bidding, the manual system of procurement that results in inefficiencies, and the need for qualified personnel to carry out procurement in departments. Because of these factors, the funds service delivery units need to meet their payment obligations are often late and inadequate, and the resulting delay in receipt of essential inputs required by service delivery frontline units hampers health and education outcomes. Following key activities will contributed to achievement of Key Result Area:

- (a) *Support to the amendment to the Public Procurement Rules 2004 to improve transparency and competition;*
- (b) *Alignment of procurement plans with the approved budget.* This activity will be complemented by downstream processes to strengthen the value chain through seamless integration with the Supplier Relationship Management module of FABS.

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<sup>8</sup> TSA is a banking arrangement for the consolidation of government financial resources in one bank account or multiple bank accounts linked to one main account through which the government transacts all its receipts and payments.

- (c) *Establishment of the price norm and standard definition and coding of commonly-used terms; and*
- (d) *Creation of opportunities for small and medium enterprises in public procurement.* Support will be provided for examining the role of SMEs in public procurement, with a view to expanding their access to public contracts, thereby increasing job creation and using downstream interventions to support marginalized groups by providing preference to SMEs that either are owned by or employ such groups.

### **KRA 3: Payroll and pension payment systems**

44. ***DLI 4: Percentage of alignment of information and identification numbers for individual primary school teachers and health workers related to their place of work and salaries.*** The fact that education management information system (EMIS) and the health management information system (HMIS) are not linked with FABS makes it challenging to track resources to the point of use. For example, the bulk budget received by a DDO is not disaggregated by school or health center level. This creates problems in tracking the attendance of front-line service delivery personnel to specific facilities and tracking postings/transfers, making manpower planning and census of teachers and health workers for payroll audit difficult. Following activities will support achievement of this DLI.

- (a) *Improvement of controls in human resource management.* Implementation of the human resource management features of the Organizational Module of FABS and enforcement of establishment/position control and dashboards linking payroll and sanctioned positions will aid better management of human resources, especially for manpower planning for the health and education sectors when the FABS is linked with specialized databases such as the EMIS and HMIS.

45. ***DLI 5: Percentage of pensioners, disaggregated by gender, authenticated against NADRA computerized national identity card, paid through the Direct Credit Scheme no later than the following pension payment cycle after retirement.*** The largest proportion of pensioners come from the health and education systems, and their service history/records are largely manual and held in each office location where an employee has served. The pension payment system is replete with inefficiencies. Following activities will support achievement of the DLI.

- (a) *Expansion of Direct Credit Scheme and digitization of employee records and validation of employees and pensioners by:*
  - a. better use of technology in payment of cash grants, pensioners will be paid through a DCS through financial institutions/payment service providers.
  - b. Digitizing employee records and biometric validation of employees and pensioners. The existence of pensioners will be verified by authentication against updated/new Computerized National Identity Card<sup>9</sup> numbers of NADRA. Existing pension forms will be simplified, and biometric verification for proof of life will be applied.

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<sup>9</sup> <https://www.nadra.gov.pk/> - The *Computerized National Identity Card* includes name, father's name, address, date of issue, and expiry. The 13th and last digit shows the gender (male cardholders are awarded odd numbers, while females are issued even numbers).

- (b) *Utilization of the pension management information system by designated pension facilitation centers Assigning designated pension facilitation centers.* To support pensioners, welfare officers would be deputed in relevant ministries/departments with access to a Pension Management Information System linked to a portal showing the status of each workflow. Facilitation centers for pensioners will reduce leakages through an improved pension audit system; when a life certificate/non-marriage certificate is not received for six months, generated system alerts will block payments. The facilitation centers will support the digitization of the employee service books.
- (c) Producing gender disaggregated pensions data through necessary configurations in FABS.

#### **KRA 4: External audit, legislative scrutiny, and social accountability**

##### **46. *Following key activities will contribute to achievement of Key Result Area:***

- (a) *Strengthening of the technical capacity of the DAGP;*
- (b) *Development and implementation of social accountability strategies, tools and guidelines for citizen participatory audit;*
- (c) *Improvement of comprehensive financial reporting and adoption of open data principles; and*
- (d) *Improvement of transparency of information through combining the Budget Performance Observatory with Big Data Analytics.*

These activities will be implemented through DLI 6 and DLI 7.

**47. *DLI 6: Percentage of audit recommendations processed through the Audit Management Information System.*** As has been discussed, the mandate of the AGP cuts across all three levels of government. This huge mandate requires AGP to conduct risk-based audit and largely use the AMIS for audit instead of continuing with an archaic system of compliance audit that over time is losing its relevance. Recently, Computer-Aided Audit Techniques were performed on payroll data of the education department, highlighted several weaknesses in payroll data. This program will support AGP in three main areas: (i) developing auditors' capacity to undertake risk-based audits; (ii) using Citizen Participatory Audit (CPA) to enhance the audit coverage of health and education units scattered across the country, and (iii) setting up a comprehensive Audit Management Information Systems (AMIS).

**48. *DLI 7: Increased citizen access to key fiscal information on health and education.*** According to the Open Budget Index, the GoP provides the public with limited budget information. The GoP expressed its commitment<sup>10</sup> to respect the Open Government Partnership (OGP) Principles. A literature review on PFM and health service delivery conducted by the Overseas Development Institute<sup>11</sup> found strong evidence of a positive relationship between various indicators of transparency and health service delivery-related outcomes. Also, a report from Uganda shows that public financial information can enhance service delivery and improve accountability; while schools on average were still not receiving the entire government grant (and there were delays), leakage (theft) had been reduced from an average of 78 percent in 1995 to 18

<sup>10</sup> [http://www.opengovpartnership.org/sites/default/files/Pakistan\\_LOI.png](http://www.opengovpartnership.org/sites/default/files/Pakistan_LOI.png)

<sup>11</sup> <https://www.odi.org/publications/10787-public-financial-management-and-health-services-delivery> - Bryn Welham, Tom Hart, Shakira Mustapha and Sierd Hadley (April 2017)



percent by 2001, because the public had access to financial information. Following activities will contribute to achievement of the DLI.

- (a) Open public finance data (fiscal transparency). Dashboards will be complemented by data-mining of KPIs that would be frequently updated and released to decision-makers, service delivery managers, and the public through a Budget Performance Observatory (BPO). The key characteristics of the BPO, as explained in detail in the Technical Assessment, are scope, accessibility, reliability, and feedback. FD will undertake an Open Data Readiness Assessment and will adopt an implementation plan for the Fiscal Transparency Theme of the OGP National Action Plan.
- (b) Combining transparency of information through the BPO with Big Data analytics will push the frontier of accountability by helping to track service delivery and will lead to gains in the efficiency and effectiveness of Government policies.

#### **KRA 5: Performance-based grant**

49. ***DLI 8: Percentage of fiscal performance and service delivery indicators met by the provinces.*** This is the most important aspect of the program, as it will address the issues of shared responsibilities between the federal and provincial governments. Three developments have had a profound effect on PFM systems and service delivery: (i) responsibility for service delivery has mainly shifted to the provinces; (ii) the AGP's role of holding provinces and subnational governments accountable for the efficient and effective use of resources has been enhanced; and (iii) the provinces' share of the federal resource pool has significantly increased. These developments have empowered the provinces to improve service delivery in their domains. At the same time, however, a need has arisen for more collaborative leadership by the general Government to ensure seamless implementation of national goals and Sustainable Development Goal commitments. To ensure this implementation, a Fiscal Coordination Committee (FCC) will be approved by the Council for Common Interests (CCI), which is a constitutional body chaired by the Prime Minister with the Chief Minister of each province as members. The FCC will steer and monitor PFM and service delivery reforms in the provinces and will provide opportunities for cross-learning among the provinces. In agreement with the provincial government, the FCC will identify a set of indicators, and a system of performance-based grants will be established to support the provinces in achieving these indicators. The Federal Government will allocate PKR 40 billion for performance grants to the provinces. Following activities will contribute to achievement of the DLI.

- (a) *Establishing forum for the effective federal-province coordination.* This forum will be established to coordinate and strengthen the federal-provincial fiscal relationship. The CCI will provide the required mandate for the FCC to approve an incentive scheme to reward good fiscal performance and service delivery outcomes. A two-pronged approach will be considered: (i) *Minimum Conditions* will examine the functional capacities of the service-delivery departments/units in terms of delivering their functions at an acceptable standard and will assess/review compliance with existing laws and regulations that guide the governance process; and (ii) *Performance Measures* will assess service-delivery departments/units' operational proficiency in terms of effectively using established structures/institutions in delivering services and supporting good governance, transparency, and accountability in the use of public funds. The incentive scheme will provide flexibility to provide capacity-building

interventions for lower performing provinces. Box 1 provides a set of indicators which the FCC can consider in designing criteria for the performance-based grant. The indicators will incorporate criteria to build resilience of the population to climate change-related health risks.

- (b) *Piloting of innovation awards to promote innovative service delivery and accountability ideas.* Innovation awards would provide resources for rewarding innovative service delivery and accountability ideas in the PFM domain to serve as a catalytic fund for a whole-of-government approach to socioeconomic development. The objective of this intervention would be to identify innovations supporting any part of the PFM cycle that can be scaled up or replicated across government and to create wider ownership for such innovations. An example of acceleration of innovation is the Sindh School Monitoring System ([Smart Solutions to Improve Pakistan's Education](#) - [Video](#)), used in 15 districts and the remotest parts of the province, which has resulted in a substantial increase in student enrollment and decline in fake enrollments.

### **Box 1: Menu for Fiscal Responsibility and Service Delivery Barometer**

#### **Minimum Conditions**

1. Approved budget and actual expenditure for targeted sectors is not less than (% tbd) of the total budget
2. Adequate financial management staffing at local government level and 'fit-for-purpose' financial management information system in place
3. Public access to key fiscal information including audit reports
4. Action taken on audit findings and PAC recommendations
5. Procurement dimension: open contracting; members of procurement committee have certificate in procurement proficiency

#### **Performance Measures**

6. **Health** - children immunization coverage; proportion of deliveries assisted by a trained professional; ratio of medical personnel over 100,000 population and over service area; share of population with access to clean water and proper sanitation
7. **Education** – net enrolment rate for elementary; junior secondary completion rate for 16-18-year-old; literacy rate for 15-24 years
8. Personnel expenditure as % of internally generated revenue (IGR)
9. Non-personnel recurrent expenditure as % internally generated revenue (IGR)
10. Development expenditure as % total expenditure
11. Outstanding debt as % of Total Revenue

## Annex 2. Results Framework Matrix

Results areas supported by PforR	PDO/Outcome Indicators (Key indicators to measure the achievement of each aspect of the PDO statement)	Intermediate Results (IR) Indicators (Critical processes, outputs, or intermediate outcome indicators needed to achieve each aspect of the PDO)	DLI #	Unit of Measure	Baseline (2016/17)	End Target (2020/21)
KRA 1: Strengthening the legal framework and internal management systems in line ministries and service delivery units.	<b>PDO Indicator 1</b> Reduction of variance in functional expenditure composition for health and education to improve reliability of the budget		<b>1</b>	%	Health - 43% Education - 30%	5
		IR Indicator 1.1: Notification of revised New Accounting Model (NAM 2.0): Accounting Policies and Procedures Manual; Chart of Accounts (6) compliant with IMF-GFSM 2014; and Government Financial Rules.	<b>NA</b>	Yes/No	No	Yes
		IR Indicator 1.2: Internal Audit arrangements modernized in health and education departments.	<b>NA</b>	Number	0	2
		IR Indicator 1.3: Improve the timeliness of comprehensive financial and nonfinancial reporting by linkage or interface of FABS to Departmentalized Accounts and establish interface with SBP, NBP, FBR, CDNS, EAD, PPOD, Pakistan Railways, PWD/C&W <sup>12</sup> .	<b>NA</b>	Months	6	2
	<b>PDO Indicator 2</b> Reduction in cash held outside the Recipient's Treasury Single Account		<b>2</b>	%	0	15
		IR Indicator 2.1: Approved Cash Management Policy with accounting framework for daily consolidation of all government cash balances as part of the TSA.	<b>NA</b>	Yes/No	No	Yes
		IR Indicator 2.2: Percentage of vendor claims for basic health units and schools paid at District Accounts Offices within five days of online bill submission by Drawing and Disbursing Officer (DDO).	<b>NA</b>	%	0	90
		IR Indicator 2.3: Bank reconciliation of all active government bank accounts in the TSA takes place at least weekly at aggregate and detailed levels.	<b>NA</b>	Weeks	8	1
	<b>PDO Indicator 3</b> Percentage of vendor contracts processed through the Recipient's e-procurement system		<b>3</b>	%	0	90
KRA 2: Improved procurement performance.		IR Indicator 3.1: Percent of budget derived from procurement plans in federal ministries and provincial departments.	<b>NA</b>	%	0	90
		IR Indicator 3.2: Databases or records are maintained for contracts, including data on what has been procured, value of procurement, and who has been awarded contracts for targeted entities.	<b>NA</b>	%	0	75

<sup>12</sup> State Bank of Pakistan (SBP), National Bank of Pakistan (NBP), Federal Board of Revenue (FBR), Central Depository of National Savings (CDNS), External Affairs Division (EAD), Pakistan Post Office Department (PPOD), Pakistan Railways, Public Works Department (PWD), Communication and Works (C&W)

		IR Indicator 3.3: E-procurement guidelines issued and Supplier Relations Management Module operational in health and education sectors, with Supplier Web-portal established.	NA	Number	0	2
		IR Indicator 3.4: Mandatory certification of procurement officers and procurement committee members in selected federal ministries and provincial departments.	NA	%	0	80%
KRA 4: External audit, legislative scrutiny, and social accountability.	<b>PDO Indicator 4</b> Percentage of audit recommendations processed through the Audit Management Information System.		6	%	%	80%
		IR Indicator 4.1: PAC hearings on audit report on annual financial statements conducted in public, except for strictly limited circumstances such as discussions related to national security or similar sensitive discussions, within six months after financial year-end issues recommendations on actions to be implemented by the executive and systematically follows up on their implementation.	NA	Months	36	6
		IR Indicator 4.2: Financial transactions of health and education function recorded in FABS audited through Computer Aided Audit Techniques, using risk based methods.	NA	%	0	80
		IR Indicator 4.3: Citizen Portal set up to facilitate Citizen Participatory Audits, including fraud hotline for feedback on performance of auditors in addition to fraud information.	NA	Yes/No	No	Yes
		IR Indicator 4.4: Citizen Participatory Audit reports that cover indicators in the ISDR published.	NA	Number	0	8
KRA 5: Performance-based grant.	<b>PDO Indicator 5</b> Percentage of fiscal performance and service delivery indicators met by the provinces		8	%	0	75
		IR Indicator 5.1: Incentive system by the FCC to improve fiscal performance and service delivery in selected areas approved.	NA	Yes/No	No	Yes
		IR Indicator 5.2: Innovative applications used to report and account for funds utilized.	NA	Number	0	4

### Indicator Description

Indicator Name (#)	Description (Clear definition etc.)	Frequency	Data source	Methodology for data collection	Responsibility for data collection	DLIs	
						Responsibility for data verification	Scalability of disbursement (Yes/No)
<b>PDO Indicator 1</b>	Reduction of variance in functional expenditure composition for health and education to improve reliability of the budget.	Annual	FABS	Outturn reports generated from the FABS. <i>PEFA PI 2.1</i>	CGA	IVA	No
IR Indicator 1.1	The revised New Accounting Model (NAM 2.0): Accounting Policies and Procedures Manual; Chart of Accounts; and Government Financial Rules to reflect the reengineered business processes.	Annual	NAM 2.0	Notification of updated NAM 2.0	AGP	IVA	NA
IR Indicator 1.2	Internal audit arrangements modernized: health and education departments to adopt risk-based audit methods, concentrating on systemic issues, with the objectives of ensuring (i) conformity to the Government's strategy; (ii) effectiveness and efficiency of operations; (iii) reliability of financial reporting; and (iv) compliance with applicable laws and regulations.	Annual	New System of Financial Control and Budgeting	Internal audit reports	CGA	IVA	NA
IR Indicator 1.3	Improve the timeliness of comprehensive financial and nonfinancial reporting by linkage or interface of FABS to Departmentalized Accounts and establish interface with SBP, NBP, FBR, CDNS, EAD, PPOD, Pakistan Railways, PWD/C&W.	Annual	FABS	Notification	CGA	IVA	NA
<b>PDO Indicator 2</b>	Reduction in cash held outside the Recipient's Treasury Single Account	Annual	FABS	Reports generated from the FABS.	FD	IVA	No
IR Indicator 2.1	Approved Cash Management Policy with accounting framework for daily consolidation of all Government cash balances as part of the TSA to ensure that adequate cash is available to pay for expenditures when they are due; pooling revenues in TSA; to borrow only when needed; and to minimize Government borrowing costs and maximize returns on idle cash.	Annual	FABS	Cash Management Policy Document	FD	IVA	NA
IR Indicator 2.2	Percentage of vendor claims for basic health units and schools paid at District Accounts Offices within five days of online bill submission by Drawing and Disbursing Officer (DDO).	Annual	FABS	Reports from FABS.	CGA	IVA	NA
IR Indicator 2.3	Bank reconciliation for all active Government bank accounts in the TSA takes place at least weekly at aggregate and detailed levels.	Annual	FABS	<i>PEFA PI 21.1</i> - bank reconciliation reports from FABS.	CGA	IVA	NA
<b>PDO Indicator 3</b>	Percentage of vendor contracts processed through the Recipient's e-procurement system	Annual	E-procurement	Reports generated from the e-procurement.	F-PPRA and P-PPRA	IVA	No

IR Indicator 3.1	Percent of budget derived from procurement plans in federal ministries and provincial departments.	Annual	FABS	Reports generated from the FABS.	F-PPRA and P-PPRA	IVA	NA
IR Indicator 3.2	Databases or records are maintained for contracts, including data on what has been procured, value of procurement, and who has been awarded contracts for targeted entities. The data are accurate and complete for most (75% by value) procurement methods for goods, services, and works.	Annual	FABS	Reports generated from the e-procurement.	F-PPRA and P-PPRA	IVA	NA
IR Indicator 3.3	E-procurement guidelines issued and Supplier Relations Management Module operational in health and education sectors, with Supplier Web-portal established.	Annual	FABS	Reports generated from the FABS.	CGA	IVA	NA
IR Indicator 3.4	Mandatory certification of procurement officers and procurement committee members in selected federal ministries and provincial departments.	Annual	Training report	Training report	F-PPRA and P-PPRA	IVA	NA
<b>PDO Indicator 4</b>	Percentage of audit recommendations processed through the Audit Management Information System	Annual	AGP Annual Report	AGP Annual Report (PEFA 30.3)	AGP	IVA	No
IR Indicator 4.1	Assesses the extent to which the legislature issues recommendations and follows up on their implementation. The responsible committee may recommend actions and sanctions to be implemented by the executive, in addition to adopting the recommendations made by the external auditors, refer to PI-30, and would be expected to have a follow-up system to ensure that such recommendations are appropriately considered by the executive.	Annual	AGP Annual Audit Plan	AGP Annual Report (PEFA 31.3)	AGP	IVA	NA
IR Indicator 4.2	Financial transactions of health and education functions recorded in FABS audited using risk-based methods through Computer-Aided Audit Techniques, such as Audit Command Language and Electronic Working Paper.	Annual	AGP Annual Report	AGP Annual Report	AGP	IVA	NA
IR Indicator 4.3	Citizen Portal set up to facilitate Citizen Participatory Audits, including fraud hotline for feedback on performance of auditors in addition to fraud information.	Annual	AGP Annual Report	AGP Annual Report	AGP	IVA	NA
IR Indicator 4.4	Citizen Participatory Audit reports that cover indicators in the ISDR published.	Annual	AGP Annual Report	AGP Annual Report	AGP	IVA	NA
<b>PDO Indicator 5</b>	Percentage of fiscal performance and service delivery indicators met by the provinces	Annual	CCI Report	CCI Report	FD	IVA	<b>Yes</b>
IR Indicator 5.1	Incentive system by the FCC to improve fiscal performance and service delivery in selected areas approved.	Annual	CCI Report	CCI Report	FD	IVA	NA
IR Indicator 5.2	Innovative application used to report and account for funds used.	Annual	CCI Report	CCI Report	FD	IVA	NA

**Annex 3. Disbursement Linked Indicators, Disbursement Arrangements, and Verification Protocols**  
**PROGRAM-FOR-RESULTS**  
**PUBLIC FINANCIAL MANAGEMENT AND ACCOUNTABILITY TO SUPPORT SERVICE DELIVERY**  
**Disbursement-Linked Indicator Matrix**

	Total financing allocated to DLI	As % of total financing amount	DLI baseline	Indicative timeline for DLI achievement			
				FY2017/18	FY2018/19	FY2019/20	FY2020/21
<b>DLI 1</b> Reduction of variance in functional expenditure composition for health and education to improve reliability of the budget.			(FY 2016/2017) Health - 43% Education – 30%	<b>DLR 1.1:</b> National Assembly of the Recipient approves the Federal Consolidated Fund and Public Accounts (Maintenance and Operations) Act. <i>(prior result) (US\$20m)</i>  <b>DLR 1.2:</b> Auditor General of Pakistan (AGP) in accordance with Article 170 of the Pakistan Constitution 1973, notifies a standardized expenditure control procedure for online bill submission. <i>(US\$10m)</i>	<b>DLR 1.3:</b> Less than 25 percent variance in functional expenditure composition for health and education as measured by variation between original approved budget and actual expenditures.	<b>DLR 1.4:</b> Less than 15 percent variance in functional expenditure composition for health and education as measured by variation between original approved budget and actual expenditures.	<b>DLR 1.5:</b> Less than 10 percent variance in functional expenditure composition for health and education as measured by variation between original approved budget and actual expenditures.
Allocated Amount (\$ million):	70	18%		30	20	10	10
<b>DLI 2</b> Reduction in cash held outside the Recipient's Treasury Single Account.			(FY 2016/2017) 753, 084 commercial bank accounts with total balance of PKR 1.584 trillion in Recipient's cash	<b>DLR 2.1:</b> Auditor General of Pakistan (AGP) to complete special survey of government accounts in commercial banks. <i>(prior result) (US\$10m)</i> <b>DLR 2.2:</b> The Recipient's Ministry of Finance adopts accounting framework for daily consolidation of all government cash balances as part of the TSA. <i>(prior result) (US\$10m)</i>	<b>DLR 2.3:</b> 5 percent reduction in cash held outside the TSA.	<b>DLR 2.4:</b> additional 5 percent reduction in cash held outside the TSA.	<b>DLR 2.5:</b> additional 5 percent reduction in cash held outside the TSA.

Allocated Amount (\$ million):	<b>70</b>	18%		20	20	20	10
<b>DLI 3</b> Percentage of vendor contracts processed through the Recipient's e-procurement system.			PPRA to establish baseline data based on selected methodology for assessing procurement systems indicators by March 2018.	<b>DLR 3.1:</b> PPRA approves the notification for the amendment to the Recipient's Public Procurement Rules 2004 (Rules 10, 19, 24, and 33).	<b>DLR 3.2:</b> Publication of mandatory standard bidding documents for goods and request for proposal for consultancy services and contracts for specialized procurements, e.g., ICT, pharmaceuticals, framework contracts.	<b>DLR 3.3:</b> 50 percent of targeted procurement packages (whose contract amount is more than PKR 5 million for goods and services and more than PKR 50 million for works) to be processed through e-procurement for health and education sectors.	<b>DLR 3.4:</b> 90 percent of targeted procurement packages (whose contract amount is more than PKR 5 million for goods and services and more than PKR 50 million for works) processed through e-procurement for health and education sectors. (\$5m)  <b>DLR 3.5:</b> 50 percent of targeted procurement packages (whose contract amount is more than PKR 5 million for goods and services and more than PKR 50 million for works) processed through e-procurement for additional five selected procuring entities. (\$5m)
Allocated Amount (\$ million):	<b>50</b>	13%		20	10	10	10
<b>DLI 4</b> Percentage of alignment of information and identification numbers for individual primary school teachers and health workers related to their place of work and salaries.			Individual data in the OM are not aligned with the ones in the EMIS and HMIS.	<b>DLR 4.1:</b> Completion of mapping of DDO codes to unique primary schools and basic health units in pilot districts. ( <i>US\$5m</i> ) <b>DLR 4.2:</b> Completion of standardization of sanctioned position codes between the budget and payroll in pilot districts. ( <i>US\$5m</i> )	<b>DLR 4.3:</b> 40 percent of primary school teachers and health workers tagged against unique primary schools and basic health units in pilot districts.	<b>DLR 4.4:</b> 60 percent of primary school teachers and health workers tagged against unique primary schools and basic health units in pilot districts.	<b>DLR 4.5:</b> 80 percent of primary school teachers and health workers tagged against unique primary schools and basic health units in pilot districts.
Allocated Amount (\$ million):	<b>30</b>	8%		10	10	5	5
<b>DLI 5</b>				<b>DLR 5.1:</b>	<b>DLR 5.2:</b>	<b>DLR 5.3:</b>	<b>DLR 5.4:</b>



Percentage of pensioners, disaggregated by gender, authenticated against NADRA computerized national identity card, paid through the Direct Credit Scheme no later than the following pension payment cycle after retirement.			DCS paid 35%	50%	70%	80%	90%
Allocated Amount (\$ million):	30	8%		10	10	5	5
<b>DLI 6</b> Percentage of audit recommendations processed through the Audit Management Information System.			AMIS does not exist.	<b>DLR 6.1:</b> AMIS Competency Wing established and audit and PAC staff trained.	<b>DLR 6.2:</b> 40 percent of PAC recommendations for health sector effectively followed up and reports published on an official website or by any other means easily accessible to the public.	<b>DLR 6.3:</b> 60 percent of PAC recommendations for health and education sectors effectively followed up and reports published on an official website or by any other means easily accessible to the public.	<b>DLR 6.4:</b> 80 percent of PAC recommendations for health and education sectors effectively followed-up and reports published on an official website or by any other means easily accessible to the public.
Allocated Amount (\$ million):	40	10%		10	10	10	10
<b>DLI 7</b> Increased citizen access to key fiscal information on health and education.			FY 16/17 Budget execution report by economic classification in .pdf format.	<b>DLR 7.1:</b> Submission of an action plan, which includes the Fiscal Transparency theme, by the Recipient to the Open Government Partnership.	<b>DLR 7.2:</b> Integrated Service Delivery Report (ISDR) for education sector uploaded in Open Public Finance Data Portal.	<b>DLR 7.3:</b> ISDR for education and health sectors uploaded in Open Public Finance Data Portal.	<b>DLR 7.4:</b> ISDR for education and health sectors uploaded in Open Public Finance Data Portal.
Allocated Amount (\$ million):	30	8%		10	10	5	5
<b>DLI 8</b> Percentage of fiscal performance and service delivery indicators met by the provinces.			No existing coordination mechanism.	<b>DLR 8.1:</b> Establishment of Fiscal Coordination Committee (FCC) by the Council for Common Interests (CCI). (US\$10m) (prior result) <b>DLR 8.2:</b> Establishment and approval of an incentive system by the FCC to improve fiscal performance and service delivery in selected areas. (US\$10m) (prior result)	<b>DLR 8.3:</b> Innovation award provided from the Ministry of Finance of the Recipient to the provincial governments for at least 10 percent up to 20 percent of fiscal performance and service delivery indicators met.  (scalable in proportion to percentage achieved)	<b>DLR 8.4:</b> Innovation award provided from the Ministry of Finance of the Recipient to the provincial governments for at least 25 percent up to 50 percent of fiscal performance and service delivery indicators met.  (scalable in proportion to percentage achieved)	<b>DLR 8.5:</b> Innovation award provided from the Ministry of Finance of the Recipient to the provincial governments for at least 35 percent up to 70 percent of fiscal performance and service delivery indicators met.  (scalable in proportion to percentage achieved)
Allocated Amount (\$ million):	80	20%		20	20	20	20

<b>Total financing allocated:</b>	<b>400</b>	<b>100%</b>		<b>130</b>	<b>110</b>	<b>85</b>	<b>75</b>
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**DLI Verification Protocol Table**

#	DLI	Definition/ description of achievement	Scalability of disbursements (Yes/No)	Protocol to evaluate achievement of the DLI and data/result verification		
				Data source/agency	Verification entity	Procedure
1.	Reduction of variance in functional expenditure composition for health and education to improve reliability of the budget.	<b>Year 1</b> (i) National Assembly approves the Public Financial Management and Accountability Act; and (ii) Auditor General of Pakistan (AGP) in accordance with Article 170 of the Pakistan Constitution 1973, notifies a standardized expenditure control procedure for online bill submission.	No	PFM Law.  AGP Notification	IVA	(i) Review the PFM Law and ascertain comprehensiveness of the PFM cycle from fiscal planning; budget preparation and execution; fiscal risk management; cash management and banking arrangements; internal controls and internal audit; accounting and reporting; external audit and accountability to the public for service delivery. (ii) Review AGP Notification and verify clarity of procedures for online bill submission.
		<b>Year 2</b> Less than 25 percent variance in functional expenditure composition for health and education.	No	Reports from FABS showing originally approved budget and actual expenditure composition by program, administrative, or functional classification.	IVA	Review the FABS report and calculate variance using PEFA 2.1 methodology by functional classification. The verification will be based on calculation for individual provinces and the Forum to be established under DLI 8 will be used to ensure ownership of the provincial targets.
		<b>Year 3</b> Less than 15 percent variance in functional expenditure composition for health and education.	No	Reports from FABS showing originally approved budget and actual expenditure composition by program or functional classification.	IVA	Review the FABS report and calculate variance using PEFA 2.1 methodology by functional classification. The verification will be based on calculation for individual provinces and the Forum to be established under DLI 8 will be used to ensure ownership of the provincial targets.
		<b>Year 4</b> Less than 10 percent variance in functional expenditure composition for health and education.	No	Reports from FABS showing originally approved budget and actual expenditure composition by program classification.	IVA	Review the FABS report and calculate variance using PEFA 2.1 methodology by functional classification. The verification will be based on calculation for individual provinces and the Forum to be established under DLI 8 will be used to ensure ownership of the provincial targets.
2.	Reduction in cash held outside the Recipient's Treasury Single Account	<b>Year 1</b> (i) Auditor General Pakistan (AGP) to complete special survey of Government accounts in scheduled		AGP special survey report on Government bank accounts.		Review the AGP special survey report on Government bank accounts held in SBP and scheduled/commercial banks and verify adequacy of coverage, including accounts

		banks; and (ii) adopt accounting framework for daily consolidation of all government cash balances as part of the TSA.	No	CGA Accounting Framework for consolidation of cash balances from various funding sources.	IVA	held by line ministries/divisions/agencies; public sector enterprises, and autonomous and semiautonomous agencies; and Assignment Accounts, Revolving Fund Accounts, Personal Ledger Accounts, and Public Accounts. Review cash ledger in FABS and verify fiscal reports to ascertain consolidation of cash balances with the approved TSA structure.
		<b><u>Year 2</u></b> 5 percent reduction in cash held outside the TSA.	No	Approved Cash Management Policy FD	IVA	Review State Bank of Pakistan Bulletin on classification of scheduled banks' deposits, fiscal operations report, and FABS bank reconciliation reports.
		<b><u>Year 3</u></b> 5 percent reduction in cash held outside the TSA.	No	EFT instructions CGA	IVA	Review State Bank of Pakistan Bulletin on classification of scheduled banks' deposits; fiscal operations report, and FABS bank reconciliation reports.
		<b><u>Year 4</u></b> 5 percent reduction in cash held outside the TSA.	No	EFT instructions CGA	IVA	Review State Bank of Pakistan Bulletin on classification of scheduled banks' deposit; fiscal operations report, and FABS bank reconciliation reports.
3.	Percentage of vendor contracts processed through the Recipient's e-procurement system	<b><u>Year 1</u></b> PPRA approves the notification for the amendment to the Recipient's Public Procurement Rules 2004 (Rules 10, 19, 24, and 33).	No	PPRA Notification	IVA	Review the Notification to ascertain that amendments to the Public Procurement Rules 2004 (Rules 10, 19, 24, and 33) meet transparency and fair competition requirements.
		<b><u>Year 2</u></b> Publication of mandatory standard bidding documents for goods and request for proposal for consultancy services and contracts for specialized procurements, e.g., ICT, pharmaceuticals, framework contracts.	No	PPRA Notification	IVA	Review the notified Standard Bidding Documents for goods and RFP.
		<b><u>Year 3</u></b> 50 percent of targeted procurement packages (whose contract amount is more than PKR 5 million for goods and services and more than PKR 50 million for works) to be processed through e-procurement for health and education sectors.	No	Procurement plans and reports from e-procurement system.  PPRAs	IVA	Review procurement plans and transaction reports from e-procurement system and verify end-to-end use of e-procurement, which requires linkage to approved budget, purchase requisition, online advert, evaluation, publication of award, and last mile payment through the accounting system.

		<p><b>Year 4</b> (i) 90 percent of targeted procurement packages (whose contract amount is more than PKR 5 million for goods and services and more than PKR 50 million for works) processed through e-procurement for health and education sectors. (\$ 5m)</p> <p>(ii) 50 percent of targeted procurement packages (whose contract amount is more than PKR 5 million for goods and services and more than PKR 50 million for works) processed through e-procurement for additional five selected procuring entities. (\$5m)</p>	<p>No</p> <p>No</p>	<p>Procurement plans and reports from e-procurement system.</p> <p>PPRAs</p>	<p>IVA</p>	<p>Review procurement plans and transaction reports from e-procurement system and verify end-to-end use of e-procurement, which requires linkage to approved budget, purchase requisition, online advert, evaluation, publication of award, and last mile payment through the accounting system.</p> <p><b>Federal</b> – (i) Water and Power Development Agency; (ii) National Highway Authority; (iii) Railway; (iv) Postal.</p> <p><b>Provinces</b> – (i) Works &amp; Services; (ii) Health, (iii) Education; (iv) Irrigation; (v) Local Government.</p>
4.	Percentage of alignment of information and identification numbers for individual primary school teachers and health workers related to their place of work and salaries	<p><b>Year 1</b> (i) Complete of mapping of DDO codes to unique primary schools and basic health units in pilot districts; and (ii) complete standardization of sanctioned position codes between the budget and payroll.</p>	No	Organization Management module CGA	IVA	Review extracts from Organization Management module to ascertain linkage of payroll and sanctioned positions.
		<p><b>Year 2</b> 40 percent of primary school teachers and health workers tagged against unique primary schools and basic health units in pilot districts.</p>	No	Organization Management module CGA	IVA	Review extracts from Organization Management module to ascertain linkage of payroll and sanctioned positions.
		<p><b>Year 3</b> 60 percent of primary school teachers and health workers tagged against unique primary schools and basic health units in pilot districts.</p>	No	Organization Management module CGA	IVA	Review extracts from Organization Management module to ascertain linkage of payroll and sanctioned positions.
		<p><b>Year 4</b> 80 percent of primary school teachers and health workers tagged against unique primary schools and basic health units in pilot districts.</p>	No	Organization Management module CGA	IVA	Review extracts from Organization Management module to ascertain linkage of payroll and sanctioned positions.
5.	Percentage of pensioners, disaggregated by gender, authenticated against NADRA	<p><b>Year 1</b> DCS 50%</p>	No	Extracts from payroll and pension systems CGA.	IVA	Review employee records in HR/Payroll database. Ensure gender disaggregation.

	computerized national identity card, paid through the Direct Credit Scheme no later than the following pension payment cycle after retirement.	<b><u>Year 2</u></b> DCS 70%	No	Extracts from payroll and pension systems CGA.	IVA	Scalable in proportion to percentage achievement. Review employee records in HR/Payroll database. Ensure gender disaggregation.
		<b><u>Year 3</u></b> DCS 80%	No	Extracts from payroll and pension systems CGA.	IVA	Review employee records in HR/Payroll database. Ensure gender disaggregation.
		<b><u>Year 4</u></b> DCS 90%	No	Extracts from payroll and pension systems CGA.	IVA	Review employee records in HR/Payroll database. Ensure gender disaggregation.
6.	Percentage of audit recommendations processed through the Audit Management Information System.	<b><u>Year 1</u></b> AMIS Competency Wing established and audit and PAC staff trained.	No	AMIS implementation plan.  AGP	IVA	Review AMIS implementation and training plan.
		<b><u>Year 2</u></b> 40 percent of PAC recommendations for health sector effectively followed up and reports published on an official website or by any other means easily accessible to the public.	No	DAGP Annual Audit Report  AGP	IVA	Review DAGP Annual Audit Report to verify evidence of effective follow-up of the audit findings; includes the issuance by the executive or audited entity of a formal written response to the audit findings indicating how they will be or have been addressed—for example, a management letter. Reports on follow-up may provide evidence of implementation by summing up the extent to which the audited entities have cleared audit queries and implemented audit recommendations or observations. For every recommendation, the executive and the legislature are notified during subsequent hearings whether recommendations have or have not been implemented.
		<b><u>Year 3</u></b> 60 percent of PAC recommendations for health and education sectors effectively followed up and reports published on an official website or by any other means easily accessible to the public.	No	DAGP Annual Audit Report  AGP	IVA	Same as Year 2.
		<b><u>Year 4</u></b> 80 percent of PAC recommendations for health and education sectors effectively followed-up and reports published	No	DAGP Annual Audit Report  AGP	IVA	Same as Year 2.

		on an official website or by any other means easily accessible to the public.				
7.	Increased citizen access to key fiscal information on health and education.	<b>Year 1</b> Submission of Open Government Partnership National Action Plan that includes <i>Fiscal Transparency</i> theme.	No	Open Government Partnership National Action Plan	IVA	Review and verify that the OGP National Action Plan includes Fiscal Transparency theme embracing open data – “data that can be freely used, re-used and redistributed”.
		<b>Year 2</b> Integrated Service Delivery Report (ISDR) for education sector uploaded in Open Public Finance Data Portal.	No	ISDR.  MIS Directorate	IVA	Review and verify use of the ISDR for budget monitoring and accountability, showing financial and nonfinancial information. At the minimum, budget execution reports should show spending against budget by department, scheme, sector/subsector, and fund.
		<b>Year 3</b> ISDR for education and health sectors uploaded in Open Public Finance Data Portal.	No	Service delivery unit ISDR.  MIS Directorate	IVA	Same as Year 2
		<b>Year 4</b> ISDR for education and health sectors uploaded in Open Public Finance Data Portal.	No	Open Public Finance Data portal  FD	IVA	Same as Year 2
8.	Percentage of fiscal performance and service delivery indicators met by the provinces.	<b>Year 1</b> (i) Notification of Fiscal Coordination Committee (FCC) by the Council for Common Interests (CCI); (ii) establishment and approval of an incentive system by the FCC to improve fiscal performance and service delivery in selected areas.	Yes	FD report	IVA	Review FCC Notification issued by the CCI.  Review the established incentive system for performance-based grants approved by the FCC as mandated by the CCI.
		<b>Year 2</b> Innovation award provided from the Ministry of Finance of the Recipient to the provincial governments for at least 10 percent up to 20 percent of fiscal performance and service delivery indicators met. <i>(scalable in proportion to percentage achieved)</i>	Yes	FD report	IVA	Scalable in proportion to percentage achievement. Review and verify attainment of Fiscal Responsibility and Service Delivery Barometer to determine the level of innovation award.
		<b>Year 3</b> Innovation award provided from the Ministry of Finance of the Recipient to the provincial governments for at	Yes	FD report	IVA	Scalable in proportion to percentage achievement.  Same as Year 2

		least 25 percent up to 50 percent of fiscal performance and service delivery indicators met. (scalable in proportion to percentage achieved)				
		<b>Year 4</b> Innovation award provided from the Ministry of Finance of the Recipient to the provincial governments for at least 35 percent up to 70 percent of fiscal performance and service delivery indicators met. (scalable in proportion to percentage achieved)	Yes	FD report	IVA	Scalable in proportion to percentage achievement. Same as Year 2

**Bank Disbursement Table**

#	DLI	Bank financing allocated to the DLI (\$400)	Of which financing available for prior results (\$60m)	Of which financing available for advance (\$40m)	Deadline for DLI achievement <sup>1</sup>	Minimum DLI value to be achieved to trigger disbursements of Bank financing <sup>2</sup>	Maximum DLI value(s) expected to be achieved for Bank disbursements purposes <sup>3</sup>	Determination of financing amount to be disbursed against achieved and verified DLI value(s) <sup>4</sup>
1	Reduction of variance in functional expenditure composition for health and education to improve reliability of the budget.	\$70m	\$20m	-	Results will be verified annually and reported starting from December 31, 2018, up to December 31, 2022	Disbursements will be triggered on achievement of results in any period (duly verified).	(i) Passage of PFM Law by National Assembly; and (ii) less than 5 percent variance in expenditure composition by program classification.	All/Nothing
2	Reduction in cash held outside the Recipient's Treasury Single Account	\$70m	\$20m	-	Results will be verified annually and reported starting from December 31, 2018, up to December 31, 2022	Disbursements will be triggered on achievement of results in any period (duly verified).	Cash Management Policy adopted with TSA structure for revenue collection and payments processing and accounting framework for daily consolidation of government cash balances.	All/Nothing
3	Percentage of vendor contracts processed through the Recipient's e-procurement system.	\$50m	-	\$10m	Results will be verified annually and reported starting from December	Disbursements will be triggered on achievement of	Data on value of e-procurement for the year and system usage	All/Nothing

					31, 2018, up to December 31, 2022	results in any period (duly verified).	reports from e-procurement system.	
4	Percentage of alignment of information and identification numbers for individual primary school teachers and health workers related to their place of work and salaries.	\$30m	-	\$10m	Results will be verified annually and reported starting from December 31, 2018, up to December 31, 2022	Disbursements will be triggered on achievement of results in any period (duly verified).	80 percent of primary school teachers and health workers tagged against unique primary schools and basic health units.	All/Nothing
5	Percentage of pensioners, disaggregated by gender, authenticated against NADRA computerized national identity card, paid through the Direct Credit Scheme no later than the following pension payment cycle after retirement.	\$30m	-	\$10m	Results will be verified annually and reported starting from December 31, 2018, up to December 31, 2022	Disbursements will be triggered on achievement of results in any period (duly verified).	80 percent of biometrically authenticated pensioners with NADRA paid through the Direct Credit Scheme no later than the following pension payment cycle after retirement.	All/Nothing
6	Percentage of audit recommendations processed through the Audit Management Information System.	\$40m	-	\$5m	Results will be verified annually and reported starting from December 31, 2018, up to December 31, 2022	Disbursements will be triggered on achievement of results in any period (duly verified).	80 percent of PAC recommendations effectively followed up and reports published on an official website or by any other means easily accessible to the public.	All/Nothing
7	Increased citizen access to key fiscal information on health and education.	\$30m	-	\$5m	Results will be verified annually and reported starting from December 31, 2018, up to December 31, 2022	Disbursements will be triggered on achievement of results in any period (duly verified).	Open Public Finance Portal publication of Integrated Service Delivery Reporting (ISDR) with at least budget execution reports should show spending against budget by department, scheme, sector/ subsector, and fund.	All/Nothing
8	Percentage of fiscal performance and service delivery indicators met by the provinces.	\$80m	\$20m	-	Results will be verified annually and reported starting from December	Disbursements will be triggered on achievement of	75 percent of fiscal performance and service delivery	Scalable



					31, 2018, up to December 31, 2022	results in any period (duly verified).	indicators met by the provinces.	
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## Annex 4. Summary Technical Assessment

### *Program Description*

1. **The Federal Government has recognized the country’s three core PFM challenges—fiscal sustainability, budget credibility, and lack of PFM systems to support public service delivery—**and has approved a PFM Reform Strategy (2018-2027) “to consolidate PFM progress and make incremental improvements to ensure that systems deliver to their full potential in an accountable and transparent manner.” The proposed Program is designed to support the PFM Reform Strategy.

### *Strategic Relevance*

2. **The proposed program is strategically relevant and reflects the Government’s priorities.** Vision 2025 articulates the Government’s resolve to simplify procedures and thereby facilitate access to public services, ensure accountability of public officials, and enhance the Government’s transparency through institutional reforms, especially in the areas of e-governance, open government, and anticorruption. Some of the initiatives outlined in Vision 2025 include strengthening audit functions to improve resource allocation while making embezzlement more easily detected; procurement reforms while reducing transaction costs, making fraud more difficult to perpetrate; streamlining regulations that improve public management and introducing preventive tools and a code of conduct to reduce opportunities for corruption; increasing citizens’ access to IT tools and improved government-to-citizen interfaces; and ensuring complete openness, transparency, engagement, and inclusiveness in governance to earn people’s maximum trust.

### *Technical Soundness*

3. **The program is assessed as technically sound for the following reasons:** (i) it builds successfully on the previous PFM reform efforts and investments by consolidating disparate pieces of the PFM institutional and systems regime and working toward coordination, sustainability, and deepening of reforms; (ii) it successfully identifies cross-cutting constraints to service delivery across various provincial governments and aims at addressing them; (iii) it takes into account the Government’s post-18<sup>th</sup> Constitutional Amendment structure and proposes to build synergy and alignment through appropriate incentives, while working across various levels of government (federal and provincial); (iv) while focusing on improving external audit and legislative scrutiny, it also provides room for innovation, keeping in view the fact that given the wide scale of service delivery, there may be need for outside-the-box solutions; and (v) it envisages reform efforts driven by the federal Ministry of Finance (MoF), which has the necessary convening influence to drive change while building partnerships with other key players such as Controller General of Accounts, Auditor General of Pakistan, PPRA, Parliament, and line ministries responsible for service delivery. Furthermore, the proposed reform activities and objectives will contribute to the Government’s good governance agenda and enhance citizens’ ability to hold leaders and public organizations to account for the use of public funds in delivery services.

### *Ownership and Sustainability*

4. **The Program has widespread buy-in at the strategic level through ownership of the PFM Reform Strategy, which is supportive of Vision 2020.** In 2016 the MoF held a workshop with a wide

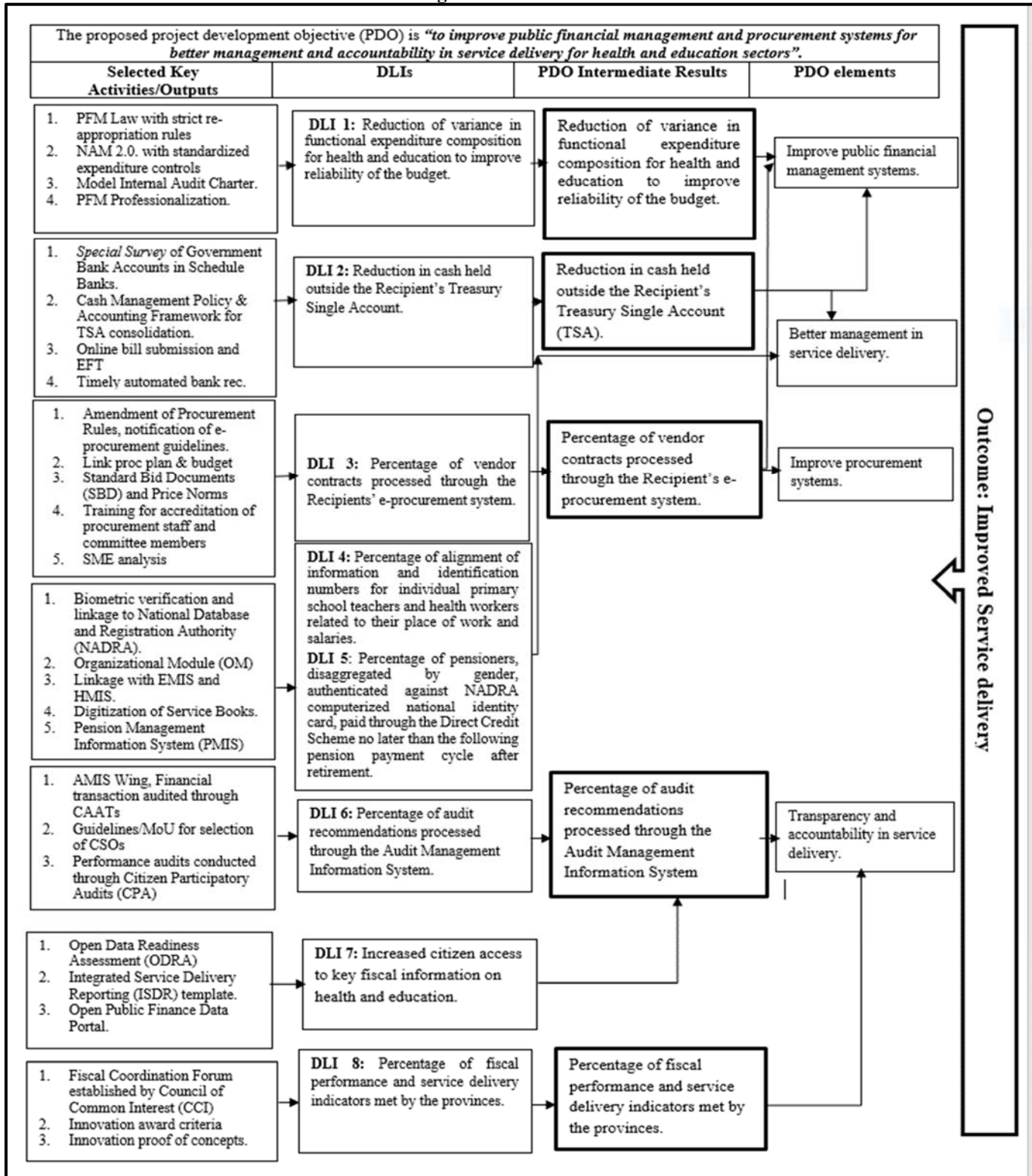
array of stakeholders. The workshop resulted in a broad consensus that the Government should undertake a reform program aimed at simplifying and improving financial management systems in line ministries and service delivery units, including payroll and pension management systems; enhancing accountability for results with strengthened social accountability and improved external audit; and ensuring better governance and financial management. The PforR considers these immediate priorities articulated by the Government. Three additional workshops were held in 2017 (Burbhan, Islamabad) for the implementing agencies to articulate behavioral and change management concepts for the reform program. There was high interest in the adaptive leadership approach to sustain and further spread the PFM reform ownership and the positive attitude about the program.

**5. At the operational level, since the program is built on earlier reforms, there is a strong level of support within AGP and CGA, with adequate capacity available to undertake these reforms.** PIFRA-II had two dedicated components (2 and 3) related to building the capacity of CGA and AGP, by developing the requisite human resources and improving the IT environment. The Government also hired the SAP consultants working in PIFRA to further augment its capacity. These investments eliminate the need for substantial new investment in capacity. What is especially important is that earlier reforms, while they resulted in successful establishment of state-of-the-art systems, were pegged in AGP and CGA and did not lead to wider reforms at the service delivery level. However, the MoF wields substantial influence in Government as the provider of resources and the custodian of managing fiscal space. While the PforR is expected to involve a number of institutional players, it is anchored in the MoF, which will drive the overall reform agenda.

#### ***Scope, Results Areas, and Proposed DLIs***

**6. The program is underpinned by the PFM Reform Strategy (2018-2027).** The theory of change provides a logical connection to achieve the project development objectives through selected key activities/outputs, as shown in the figure 2 below. **DLI 1:** strengthening of the legal framework will limit the current level of re-appropriation that undermines the reliability of the whole budget, including health and education, and will contribute to improved fiscal discipline. **DLI 2** will contribute to improved cash management to ensure predictability of funds to perform health and education service delivery functions. **DLI 3** will contribute to improved procurement systems, leading to equitable and efficient execution of funds for service delivery. **DLI 4** will contribute to improved payroll controls in health and education for better management of service delivery. **DLI 5** will contribute to improving pension payment services and contribute to financial inclusion, especially for women, through a direct credit scheme. **DLI 6** will help enhance transparency and accountability by supporting the Auditor General of Pakistan in systematically following up on audit queries and PAC recommendations. **DLI 7** will also contribute to transparency and accountability through public disclosure of financial and nonfinancial information and citizen participation in fiscal affairs. **DLI 8** will contribute to better coordination between the federal and provincial governments and incentivize achievement of human development goals. These DLIs feed directly into the PDO elements: (a) improved financial management systems; (b) better management in service delivery; (c) improved procurement systems, and (d) transparency and accountability in service delivery.

Figure 2: Results Chain



### ***Benefits and Behavior Change***

7. **The attitudinal barriers to achieving the objectives of the PFM reform program include resistance and knowledge gaps to fully leverage the gains from PIFRA; lack of confidence in the decentralization of decision-making to the service delivery tier; lack of awareness, ownership, and alignment of roles and responsibility.** Thus, the success of the reform program depends on how well it addresses the complex nature of reforms that involve political leadership and multiple stakeholders who have varying dispositions toward embracing change. The program is therefore embracing a multilayered behavioral change approach that can help optimize and leverage the PFM systems and processes to improve service delivery. At a deeper level, the program will induce behavioral change through the entire PFM cycle by implementing Collaborative Leadership for Development (CL4D) activities to strengthen the leadership capacities for change of individual leaders and through effective management of teams and participatory engagement with stakeholders (citizens/beneficiaries). The attitudinal barriers to achieving the reform program objectives will be addressed by applying the overarching principles of (i) leadership and political commitment to change; (ii) policy space for implementing the suggested reforms; and (iii) adaptive, iterative, and inclusive processes. The PforR will enhance collaborative leadership skills and strengthen the cohesiveness and effectiveness of leadership teams in the context of the program. This will help provide an authorizing environment for central and subnational reform teams as well as system-level reforms that require ownership and support by multiple ministries.

### ***Institutional Arrangements***

8. **The PforR will use existing formal country systems structures through the Program Implementation Cell to ensure that responsibility for meeting the DLIs is within the mandate of the assigned implementing agencies.** A Procurement Advisory Group is working as a platform to coordinate and align provincial and federal PPRAs. The implementation will be supervised by the Controller General of Accounts (KRA 1 & 3), F-PPRA (KRA 2), DAGP (KRA 4) and FD (KRA 5). The FD will have overall responsibility for coordinating, monitoring, and reporting on the Program's results indicators.

### ***Program Expenditure Framework***

9. **Output-based budgets (OBBs) are prepared in all the implementing agencies and are linked with policy priorities and the current budget through outcomes, outputs, and inputs.** The following additional budgetary allocations have been made: CGA—PKR 50 million; DAGP—PKR 20 million; and F-PPRA—PKR 25 million. The federal budgets for the implementing agencies are prepared with detailed functional and object classifications. The approved budget is fed into the FABS, which is fully operational at the federal, provincial, and district levels. FABS-generated reports are produced for comparison of budget and actual expenditure.

10. **There is an in-built mechanism in the government budgeting system that links budgetary provisions with outputs and expected outcomes as expressed in the *Medium-Term Budget Estimates for Service Delivery*<sup>13</sup> - the “Green Book”.** The Expenditure Framework includes only the outputs related to the Program for which budget approval is made against key performance indicators

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<sup>13</sup> [http://www.finance.gov.pk/budget/mtbf\\_2017\\_20.pdf](http://www.finance.gov.pk/budget/mtbf_2017_20.pdf)

and targets that are relevant for the DLIs (Table 10). The Program objectives are coherent with the implementing agencies' output and key performance indicators, on the basis of which the expenditure framework has been devised for the Program.

**Table 10. Program Expenditure Framework: Budget Estimates 2017-18 & MTBF 2017-2020 (in '000s)**

Budget by Outputs	Budget Estimates (PKR) 2017-2018	Budget Estimates (PKR) 2018-2019	Budget Estimates (PKR) 2019-2020	Budget Estimates (PKR) 2020-2021	Total (\$)	%
<b>Controller General of Accounts (CGA)</b>						
Output 1: Administration, Policy Formulation/Revision and overall, implementation Services: <b>DLI 1, DLI 2</b>	74,799	82,279	90,507	99,557	\$ 3,338	0.3%
Output 2: Pre-audit payment, accounting and internal control services: <b>DLI 1, DLI 4, DLI 5</b>	1,742,226	1,916,449	2,108,093	2,318,903	\$ 77,747	7.9%
Output 3: Development of System for Public Financial Management, Financial Reporting and Internal Control Services: <b>DLI 2, DLI 3, DLI 4, DLI 5, DLI 7</b>	2,308,068	2,538,875	2,792,762	3,072,039	\$ 102,998	10.5%
<b>Sub-total</b>	<b>4,125,093</b>	<b>4,537,602</b>	<b>4,991,363</b>	<b>5,490,499</b>	<b>\$ 184,082</b>	<b>18.8%</b>
<b>Auditor General of Pakistan (AGP)</b>						
Output 1: Administration, co-ordination, and policy formulation: <b>DLI 1, DLI 6</b>	1,112,725	1,223,997	1,346,397	1,481,036	\$ 49,655	5.1%
Output 2: Provision of public sector auditing services at various tiers of Government: Federal, Provincial, District and State Owned Corporations: <b>DLI 6</b>	1,201,218	1,321,340	1,453,474	1,598,821	\$ 53,604	5.5%
Output 3: Staff training and capacity building: <b>DLI 1, DLI 6</b>	79,898	87,887	96,676	106,344	\$ 3,565	0.4%
<b>Sub-total</b>	<b>2,393,840</b>	<b>2,633,224</b>	<b>2,896,546</b>	<b>3,186,201</b>	<b>\$ 106,825</b>	<b>10.9%</b>
<b>Finance Division (FD)</b>						
Output 2: Management of Public Finances (including Budgeting, Accounting & Auditing, Public Debt etc.): <b>DLI 1, DLI 2, DLI 7</b>	1,032,506	1,135,757	1,249,333	1,374,266	\$ 46,076	4.7%
Output 3: Incremental cost of pension reforms: <b>DLI 5</b>	3,000,000	3,900,000	5,850,000	5,000,000	\$ 170,673	17.4%
Output 6: Performance Based Grants <b>DLI 8</b>	10,000,000	10,000,000	10,000,000	10,000,000	\$ 384,615	39.2%
<b>Sub-total</b>	<b>14,032,506</b>	<b>15,035,757</b>	<b>17,099,333</b>	<b>16,374,266</b>	<b>\$ 601,364</b>	<b>61.3%</b>
<b>Federal Public Procurement Authority (F-PPRA)</b>						
Output 1: Monitoring of application of laws, rules, regulations, policies and procedures in respect of, or relating to procurement of goods, services and works in the public sector including implementation of e-procurement: <b>DLI 3</b>	2,000,000	2,200,000	2,420,000	2,662,000	\$ 89,250	9.1%
<b>Sub-total</b>	<b>2,000,000</b>	<b>2,200,000</b>	<b>2,420,000</b>	<b>2,662,100</b>	<b>\$ 89,250</b>	<b>9.1%</b>
<b>Grand Totals</b>	<b>22,551,439</b>	<b>24,406,583</b>	<b>27,407,242</b>	<b>27,713,066</b>	<b>\$ 981,522</b>	<b>100.0%</b>
(US\$1/Pkr104)	216,841	234,679	263,531	266,472		

11. **The nature of the underlying expenditure to deliver the outputs required for the DLIs is shown in Table 11.** The basic ICT infrastructure is already in place through the previous PIFRA projects. This Program—using the Government workforce by covering the employee-related expenses and benefits and by contracting consultants as needed—will embark on extensive training, change management, and collaborative leadership, which is funded under operating costs. Repairs and maintenance will be done for some offices, and pension facilitation centers will be equipped. Upgrades will be done to the primary and secondary data centers with latest secured technology, and skills will be transferred to civil servants for system administration and maintenance. FD will as part of output 6 of their Output Based Budget, allocate PKRs 10 billion each year for performance grants to the provinces based on the Fiscal Responsibility and Service Delivery Barometer to meet the performance measure in health and education. Grants provided through DLI8 will support specific activities essential to the achievement of the performance measures (examples of which are contained in Box 1 in the main text). The introduction of the Integrated Service Delivery Reporting, which will include expenditures made and actual results achieved compared to the OBB targets that will be audited, is expected to ensure the efficiency and effectiveness of Program expenditure.

**Table 11. Nature of expenditure: Budget Estimates 2017-18 & MTBF 2017-2020 (in '000s)**

Object/economic classification	CGA	AGP	PPRA	FD	Total (\$)	%
Employee related expenses (payroll)	5,427,696	2,862,778	-	590,736	\$ 85,396	8.70%
Operating expenses (incl. consultancies, trainings, workshops, CL4D, change management etc.)	5,996,432	4,277,888	2,320,500	3,692,008	\$ 156,604	15.96%
Physical Assets	5,263,980	2,438,214	6,961,500	424,364	\$ 145,077	14.78%
Repairs	2,456,449	1,530,931	-	84,754	\$ 39,155	3.99%
Incremental Cost of Pension Reforms	-	-	-	17,750,000	\$ 170,673	17.39%
Performance Grants to Provinces	-	-	-	40,000,000	\$ 384,616	39.19%
<b>Grand Totals</b>	<b>19,144,557</b>	<b>11,109,811</b>	<b>9,282,000</b>	<b>62,541,862</b>	<b>981,522</b>	<b>100.00%</b>
(US\$1/Pkr104)	\$ 184,082	\$ 106,825	\$ 89,250	\$ 601,365		

12. **The MoF will lead the implementation of DLIs 1, 2, and 8** The expenditure framework covers salary of staff in relevant sections, additional staff to be employed for additional services, consultancies, and trainings required to complete the activities envisaged under the program.

13. **The Controller General of Accounts (CGA) will lead the implementation of DLIs 4, 5, 6, and 7.** The relevant cost includes salaries of relevant officials, additional salary requirements, consulting, training, renovation of sites, and the purchase of hardware and software necessary for rollout of the IFMIS across service delivery entities. This expenditure will be incurred at the federal, provincial, and district entities under the control of the CGA.

14. **The Public Procurement Regulatory Authority will lead the implementation of DLI 3.** The expenditure framework includes salaries of relevant officials and cost required for implementation of e-procurement across Government departments.

15. **The Auditor General of Pakistan (AGP) will lead the implementation of DLI 4 and a portion of DLI 3.** The expenditure framework includes relevant salary expenditure, incremental salary expenditure, operations expense and necessary cost of implementing the Audit Management Information System, upgrade of training institutions, enhancing the scope of audit, and expenses required for implementing citizen participatory audits.

16. **Pension costs are scattered across Government entities at all levels of Government.** This includes the incremental cost of the pension reforms arising from implementing biometric verification for 2.2 million active pensioners, establishing pension facilitation centers in all departments across the country, hardware and software required for DCS, and actuarial and consulting services.

17. **Senior Joint Secretary National Finance Commission will lead DLI 8 in collaboration with the Planning Commission.** The NFC wings will release a sum of PKR 40 billion to the provinces as performance-based grants using the proposed FRAI.

### ***Program Results Framework and M&E***

18. **The results framework primarily captures direct benefits associated with the program and aligned with the OBB.** The development objective indicators, intermediate indicators, and DLIs are aligned with the DO and are elaborated on in the Results Framework (see Annexes 2 and 3 of the PAD). Furthermore, the theory of change explains the logical connection between activities, results, and outcomes along each result area. The results indicators are designed to be SMART (specific, measurable, achievable, relevant, and time-bound). Indicators are realistic and reflect a coherent theory of change for the five key result areas based on improvements due to business process reengineering to simplify and standardize procedures to eliminate discretion, coverage of FABS extended to budget-holders and decision-makers, and enhanced transparency and capacity due to professionalization. The MoF will regularly measure and report on the Program Key Result Areas, DLIs, and intermediate DLIs. While the MoF will have overall responsibility for coordinating, monitoring, and reporting on the Program's results indicators, it will coordinate closely with various agencies and will conduct regular reporting on progress in each of the results areas, including collecting output milestones for intermediate or disbursement-linked indicators.



19. **With the increased need for compliance with internationally acceptable accounting and auditing standards that promote segregation and objectivity, the Finance Division will appoint an independent verification agent (IVA) to validate the achievement of the DLIs.** The promulgation of the Controller General of Accounts Ordinance 2001 and the Auditor General Ordinance 2001 separated the roles and responsibilities of the offices of the CGA and the AGP regarding accounting and auditing, respectively. However, administrative separation has not taken place as the officers responsible for the accounting and auditing functions belong to the same cadre—the Pakistan Audit and Accounts Service—which is under the administrative control of the AGP.

### *Program Economic Evaluation*

20. **Although direct attribution of economic and financial benefits of PFM reform programs is difficult because the outcomes are often affected by external factors, FABS, an integral tool for the PFM system, will contribute to efficiency and effectiveness in government operations, improving the social agenda/state-citizen compact over the medium to long term.** Using FABS to improve openness in budget information will provide signals to the private sector to plan better for supplying goods and services for public service delivery. The introduction of human resource management features in the payroll and pension will improve the consistency between nominal roll and payroll and reduce opportunities for ghost workers and pensioners. The comprehensiveness of the TSA will help reduce the cost of borrowing. Improved transparency in the use of public finance will increase public confidence and willingness to pay taxes in return for public services. Specifically, within one year of interfacing FABS with Federal Board of Revenue systems, goods and services tax deducted from government suppliers increased by over 90 percent between 2015 and 2016, and it is expected that introducing e-procurement and online bill submission will result in a further increase in collection at source. Also, a strengthened PFM system is an enabler for implementation of social services and infrastructure investments, and it increases donor confidence in the use of country PFM systems.

21. **Judging from the previous investments through PIFRA, the economic rationale for a follow-on operation is compelling.** Through the PIFRA efforts, in one year, the audit process uncovered financial irregularities of about PKR19 billion, which was recovered. This would pay for the total costs of the entire PIFRA reform program for 10 years (WBG, Ali Hashim, 2014, *A Handbook on Financial Management Information Systems for Government—A Practitioners Guide for Setting Reform Priorities, Systems Design and Implementation*). The system has delivered major benefits to the Government: enhanced operational efficiencies, strengthened controls, and improved expenditure management. Because of these improvements, the time required to certify audited financial statements has been reduced from 33 to 8 months.

22. **The digital transformation of CGA will be accomplished in three broad phases: *operate better, expand services, and innovate*.** By adopting a digital transformation, CGA can achieve significant benefits. Based on the best practices benchmarks of entities in similar public sector enterprises, the proposed solutions to achieve the DLIs have been designed to ensure significant business value and return on investment. CGA will specifically achieve high-level benefits in operational excellence, improved transparency and accountability, enhanced regulatory compliance, standardization and scalability, security, and IT simplification.



## Annex 5. Summary Fiduciary Systems Assessment (FSA)

1. **The Fiduciary Systems Assessment was prepared using the Program-for-Results Fiduciary Systems Assessment Guidance Note of June 30, 2017.** The program envisages use of the country PFM systems (including procurement) to provide reasonable fiduciary assurance. This is the first PforR experience for the Implementing Agencies. However, DAGP has proven its project implementation capacity during the PIFRA, despite its frequent changes of the project directors. The summary Fiduciary Systems Assessment is provided below.
2. **Grievance and Complaints Mechanisms.** A Grievance Redress Committee in CGA is responsible for handling any concerns or complaints raised by suppliers/contractors. AGP also has a Complaint Handling process handled by the Deputy AG Inspection, and a complaint phone number is available on the AGP website. Only one procurement-related complaint was filed and handled by the Director (Admin) in last calendar year.
3. **Fraud and Corruption.** Pakistan has laws and institutional mechanisms to combat corruption: the Pakistan Penal Code, the Prevention of Corruption Act, and the National Accountability Ordinance. The Office of the AGP has the constitutional responsibility to audit public funds, supported by the Public Accounts Committee (PAC) of the National Assembly. The public procurement regulatory authorities are responsible for implementing the public procurement rules in both the Federation and the provinces. The offices of the Federal and Provincial Ombudsmen exist provide relief to the citizens against maladministration. There are also the National Accountability Bureau, the Federal Investigating Agency, and Anti-Corruption Establishments. While a detailed anticorruption assessment will follow, a desk review of existing instructions, institutions, and systems to combat fraud and corruption indicates that the systems are satisfactory. However, arrangements to deal with issues of fraud and corruption will follow the requirements of the Anti-Corruption Guidelines on Preventing and Combating Fraud and Corruption in PforR Lending.
4. **Fiduciary Risks.** The table below summarizes key FM and procurement risks. Further details are provided in the Fiduciary Systems Assessment.

**FM Risks and Mitigation Measures**

<i>Findings</i>	<i>Risk</i>	<i>Mitigation measure</i>	<i>Residual risk</i>
<b>Entity and Program Level</b> Lack of coordination between MoF, CGA, and AGP; unsustainable institutional base for managing IT infrastructure human resources.	H	Well-thought-out governance structure with multiple forums leading on different components under an umbrella committee with balanced representation. Mechanism for sustainability of MIS Directorate in Office of the CGA.	M
<b>Legal and Institutional Framework</b> A separate PFM law is not in place.	H	National Assembly approval of a PFM law is a prior result for the program.	M
<b>Planning and Budgeting</b> Inadequate budgetary allocation for Program activities by the Government.	H	Commitment by Finance Division. Budgetary allocations for CGA, AGP, and PPRA have been approved by Finance Secretary for FY17-18	M
<b>Funds Flow</b> MoF may fail to release funds on time to entities because of inadequate cash forecast.	S	Program DLIs aim at improving cash management.	M

<b>Accounting and Financial Reporting</b> Delay in invoice processing.	M	Program DLI supports on-line automated bill submission, which will improve bill processing and ultimately service delivery.	L
<b>Internal Control</b> Lack of internal audit functions and documented IT controls.	S	ISO certification for IT risk management. Institutionalize internal audit system.	M
<b>Audit and Oversight</b> No external audit arrangement exists for AGP.	H	Hiring an international audit firm under terms of reference agreed with the World Bank	M

#### Procurement Risks and Mitigation Measures

Findings	Risk	Mitigation Measure	Residual Risk
<b>Procurement Planning</b> Inadequate procurement planning with no linkage with the release of budget	S	Procurement Plans to be prepared before the start of fiscal year with proper linkage to the budget	M
<b>Standard Procedures</b> There are no standard procedures or manual available for procurement	S	A Procurement Manual is to be developed for implementing entities	M
<b>Procurement Documents</b> The documents like bidding documents/RFP are very basic and cannot support the processing of complex or large procurement activities under the project.	S	Procurement documents to be revisited and improved for handling the large procurement activities under the project.	M
<b>Procurement Capacity</b> There is no specific function for procurement or well-experienced and qualified procurement-specific staff.	H	A specific procurement function needs to be established with adequate staffing.	S
<b>Compliance and Oversight</b> Since the amount of procurement activities is not significant, the compliance and oversight mechanism is not adequate.	S	An annual third-party compliance review of the procurement function as per the Procurement Manual is required.	M

#### Conclusion

5. **The conclusion of the assessment is that the PFM system, complemented by the program-specific mitigation measures, is adequate to support the operation.** Due to the nature of the challenges, the conclusion of the Fiduciary Systems Assessment is that the combined overall fiduciary risk for the program is Substantial. The PAP contains risk mitigation measures to increase capacity and improve systems and procedures. These specific mitigation measures are reinforced by relevant disbursement-linked indicators (DLIs) that will be monitored during the Program's implementation.

## **Annex 6. Summary Environmental and Social Systems Assessment (ESSA)**

1. **Environment and Social Systems Assessment (ESSA) was conducted to assess environmental and social risks associated with the proposed program. This assessment was carried out as per core principles set forth in the Bank Policy: Program-for-Results Financing and corresponding directive.** In an ESSA, the Bank assesses the Borrower's capacity to achieve environment and social objectives against the range of environmental and social impacts that may be associated with the Program. The risk matrix established that using the PforR instrument is appropriate as no major environmental or social risks are expected from the implementation of the program. The main social risks to the Program operation are per Principles 5 and 6 on marginalization and inclusion of vulnerable groups and social conflict. These risks cover DLIs 2, 3, 5, 6, 7 and 8. On the environmental side, the Program was assessed to have potential adverse environmental risks as per Principles 1 and 3 related to adverse impacts and exposure to e-waste. There are no activities leading to risks mapped to Core Principle 4.

2. **The ESSA found that there are several laws and rules providing the underpinning for the social aspects of the Program.** These include the Pensions Act 1871 and federal and provincial Rules, Right to Information Acts, Establishment of the Office of Wafaqi Mohtasib (Federal Ombudsman) Order 1983, Federal Ombudsmen Institutional Reforms Act 2013. Other relevant legislation includes Public Procurement Regulatory Authority Ordinance 2002 followed by promulgation of Public Procurement Rules in 2004. On the environment side, relevant regulations cover national and provincial environmental acts, hazardous waste and substances and penal codes. However, the existing regulations deal more with hazardous waste and do not specifically deal with e-waste and related issues.

3. **An organizational capacity assessment of the relevant implementing agencies revealed that the CGA's Office through the AGPR is responsible for all pensions and payroll payments as well as payments to vendors.** Regarding payments to vendors, there are no clear and transparent Grievance Redress Mechanism or its record available. However, complaints can be made online and are received by CGA. For pensions, there is a Pensions Facilitation Centre that accepts and deals with pension complaints. However, it does not have a dedicated supervision from a Director. On Performance Audit, the AGP's Office does not have any expertise on management or technical oversight of a Citizen-inclusive Performance Audit.

4. **The key risks with respect to DLI 2 on online processing of bills to vendors were lack of clarity for vendors on processes and lack of a transparent Grievance Redress Mechanism.** In this respect, the ESSA proposes that clear guidance is established and communicated to vendors about the change.

5. **In relation to DLI 5 on pension payments and digitization of service records, the ESSA concurred that the Program's interventions will reduce marginalization and social conflict by expediting payments to pensioners.** Further, the ESSA endorses the Direct Credit Scheme (DCS) that allows pension payments to be made to the retirees account rather than through pension books. Pensions Officers must be trained and made aware of the need to expedite cases related to female employees and low cadre staff to ensure that they are not marginalized from the pension process. Further, pension database/digitization of pension records must be expedited with special

entries according to cadre and gender. The ESSA also found that the pensions eligibility process is somewhat biased against women. Widows are not eligible for pension if they remarry which is questionable.

6. **Considering the high quantities of e-waste in Pakistan annually, e-waste generated by this Program from the IT equipment procured by implementing agencies/partners will not be significant enough to have a major adverse impact.** Therefore, the relevance of e-waste issue to this Program for Results is very limited. However, issue of e-waste in Pakistan remains significant and the issue of e-waste is being addressed through other World Bank initiatives and programs such as Punjab Green Development Program.

7. **Percentage of audit recommendations processed through the Audit Management Information System (AMIS). (DLI 6) is a comprehensive exercise and requires technical and managerial rigor. The ESSA endorses that this initiative as an innovative one that has the potential to include marginalized people and voice their concerns regarding service delivery.** The ESSA recommends that the Performance Audit is undertaken by a Performance Audit Cell based within the AGP's Office with technical specialists who can determine the scope, scale, coordination and uptake of the lessons.

### Annex 7. Systematic Operations Risk Rating Tool (SORT)

ISLAMIC REPUBLIC OF PAKISTAN : Public financial management and accountability to support service delivery  
Stage: Appraisal

Systematic Operations Risk-Rating Tool (SORT)	
Risk Category	Rating (H, S, M, L)
1. Political and Governance	Substantial
2. Macroeconomic	Substantial
3. Sector Strategies and Policies	Moderate
4. Technical Design of Project or Program	Substantial
5. Institutional Capacity for Implementation and Sustainability	Moderate
6. Fiduciary	Substantial
7. Environment and Social	Moderate
8. Stakeholders	Substantial
9. Other	Moderate
<b>OVERALL</b>	<b>Substantial</b>

## Annex 8. Program Action Plan

1. The Program Action Plan (PAP) seeks to improve the Program based on the results of the technical, fiduciary, environmental, and social impact and integrated risk assessments.

Action description	DLI	Covenant	Due date	Responsible party	Completion measure
1. Complete third surveillance audit for ISO 27001:2013 Information Security Management Services Certification.	<input type="checkbox"/>	<input type="checkbox"/>	June 2018	Finance Division	Contract signed with External Auditor.
2. Undertake Open Data Readiness Assessment and adopt an implementation plan.	<input type="checkbox"/>	<input type="checkbox"/>	June 2018	CGA	ISO 27001:2013 Information Security Management Services Certification.
3. Undertake pension sustainability analysis: pension liabilities to be informed by sound actuarial analysis, coupled with a system in place for funding these liabilities.	<input type="checkbox"/>	<input type="checkbox"/>	June 2018	Auditor General of Pakistan	Template adopted for Integrated Service Delivery Reporting (ISDR) and sample reports from FABS
4. Sustaining activities for collaborative leadership, change management, and strategic communication, including media outreach to citizens presenting the benefits of the reform program and seeking feedback for course correction.	<input type="checkbox"/>	<input type="checkbox"/>	June 2018	FD	Pension liability report.
5. PPRAs to ascertain KPIs and baselines to monitor the reform progress.	<input type="checkbox"/>	<input type="checkbox"/>	Continuous	PPRAs	This is a key milestone for DLI 1.
6. A robust grievance redress mechanism in place improving upon the current practices, and available to each ministry, vendors, contractors and pensioners	<input type="checkbox"/>	<input type="checkbox"/>	June 2018	CGA, AGP, FD	Complaints' log available for each tier of complaints
7. A mechanism for enhanced citizen engagement in measuring program performance/improvement in service delivery (specifically in education), participating in Performance Audits and endorsing open data	<input type="checkbox"/>	<input type="checkbox"/>	October 2018	CGA, AGP, FD	Citizens engagement based project ratings and performance audit reports

## Annex 9. Implementation Support Plan

### Strategy and Approach for Implementation Support

1. **The implementation support plan (ISP) for the program has been developed to reflect the nature of the reform activities and the specific needs identified by the various assessments.** The plan will be regularly reviewed and revised as required. The ISP also identifies the requirements to meet the Bank's fiduciary obligations. Although the overall responsibility for Program implementation rests with the Federal Government, the Bank will provide necessary and continuous implementation support in the following areas:

- (i) Reviewing implementation progress towards achieving Program results to meet DLI disbursement requirements;
- (ii) Monitoring implementation of the PAP;
- (iii) Monitoring changes in Program risks and compliance with the provisions of legal covenants; and
- (iv) Providing hands-on institutional capacity building as may be required.

### Implementation Support Plan and Resource Requirements

2. **Regular implementation support missions will cover technical, institutional, safeguards, M&E, and fiduciary aspects.** Formal implementation support missions will be carried out three times during the first year, and every six months in subsequent years. During the first year of the program, it is envisaged that support will focus on operationalizing the PIC; reviewing applications for Innovation Awards; business process re-engineering; and deepening of CL4D. Subsequent years will include support for implementation of reform activities and sustaining change management, including media outreach on benefits of the reforms.

3. **The volume of support is expected to be particularly high in the first two years of program implementation.** An ISP for the first year of the program and for the following years is provided in the table below.

**Main Focus of Implementation Support**

Time	Focus	Role	Number of staff weeks per year
First 12 months	Task team leadership	Task Team Leader and co-Leaders	20 staff weeks
	Leadership, Change Management, and Communication Specialists	Social Development Specialists	4 staff weeks
	Technical support	PFM Specialists	4 staff weeks
	Assisting MIS Directorate with implementation	IFMIS and e-procurement specialists	8 staff weeks
	Operational - Procurement	Procurement specialist	2 staff weeks
	Operational - FM	FM specialist	2 staff weeks
12 to 48 months	Task team leadership	Task Team Leader and co-Leaders	15 staff weeks
	Leadership, Change Management, and Communication Specialists	Social Development Specialists	2 staff weeks
	Technical support	PFM Specialists	2 staff weeks
	Assisting MIS Directorate of Office of the CGA with implementation	IFMIS and e-procurement specialists	4 staff weeks

<b>Time</b>	<b>Focus</b>	<b>Role</b>	<b>Number of staff weeks per year</b>
	Operational - Procurement	Procurement specialist	2 staff weeks
	Operational - FM	FM specialist	2 staff weeks
	M&E	M&E Specialist	2 staff weeks

#### **Role of Partners in Program implementation**

<i>Name</i>	<i>Institution</i>	<i>Role</i>
European Union “Public Financial Management Support Programme”	European Union	Upstream PFM issues and Federal-province vertical coordination.