



May 24, 2019

**Closing Date: Thursday, June 13, 2019
at 6:00 p.m.**

FROM: Vice President and Corporate Secretary

Pakistan

Khyber Pakhtunkhwa Revenue Mobilization and Public Resource Management

Program-for-Results

Program Appraisal Document

Attached is the Program Appraisal Document regarding a proposed credit to Pakistan for a Khyber Pakhtunkhwa Revenue Mobilization and Public Resource Management - Program-for-Results (IDA/R2019-0156), which is being processed on an absence-of-objection basis.

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Report No: PAD2852

PROGRAM APPRAISAL DOCUMENT

ON A

PROPOSED CREDIT

IN THE AMOUNT OF SDR 85 MILLION

(US\$118 MILLION EQUIVALENT)

TO THE

ISLAMIC REPUBLIC OF PAKISTAN

FOR A

PROGRAM FOR RESULTS

KHYBER PAKHTUNKHWA REVENUE MOBILIZATION AND PUBLIC RESOURCE MANAGEMENT

(P162302)

May 8, 2019

Governance Global Practice

South Asia Region

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CURRENCY EQUIVALENTS

(Exchange Rate Effective March 31, 2019)

Currency Unit = Pakistani Rupee (PKR)

US\$ 1 = PKR 140.80

US\$ 1 = SDR 0.72

FISCAL YEAR

July 1 – June 30

Regional Vice President: Hartwig Schafer

Practice Group Vice President: Ceyla Pazarbacioglu

Country Director: Patchamuthu Illangovan

Practice Managers: Ismaila B. Ceesay; Manuela Fransisco

Task Team Leader(s): Raymond Muhula, Mehwish Ashraf

**ABBREVIATIONS AND ACRONYMS**

ADP	Annual Development Program
AGP	Auditor General of Pakistan
BoR	Board of Revenue
CCFF	Climate Change Financing Framework
CGA	Controller General of Accounts
CNIC	Computerized National Identification Card
CPS	Country Partnership Strategy
DDO	Drawing and Disbursing Officer
DLI	Disbursement-Linked Indicator
ESSA	Environment and Social Systems Assessment
ETNCD	Excise, Taxation, and Narcotics Control Department
FATA	Federally Administered Tribal Areas
FBR	Federal Board of Revenue
FD	Finance Department
IFSA	Integrated Fiduciary Systems Assessment
GDP	Gross Domestic Product
GoKP	Government of Khyber Pakhtunkhwa
GPIF	General Provident Investment Fund
GPP	Governance and Policy Project
GRS	Grievance Redress Service
GSTS	General Sales Tax on Services
HDF	Hydroelectricity (Hydel) Development Fund
ICT	Information and Communication Technology
IFR	Interim Financial Report
IPF	Investment Project Financing
IRI	Intermediate Result Indicator
KP	Khyber Pakhtunkhwa
KPI	Key Performance Indicator
KPITB	Khyber Pakhtunkhwa Information Technology Board
KPRA	Khyber Pakhtunkhwa Revenue Authority
LG	Local Government
M&E	Monitoring and Evaluation
MDTF	Multi-Donor Trust Fund
MoF	Ministry of Finance
MoU	Memorandum of Understanding
MTBF	Medium-Term Budget Framework
NFMIS	National Financial Management Information System
OBBS	Output-Based Budgeting
OC	Operation Coordinator
OSR	Own-Source Revenues
OSU	Operations Support Unit



PAP	Program Action Plan
PATA	Provincially Administered Tribal Areas
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PFMRS	Public Financial Management Reform Strategy
P&DD	Planning and Development Department
PDO	Program Development Objective
PforR	Program for Results
PIFRA	Project for Improving Financial Reporting and Auditing
PIM	Public Investment Management
PRAL	Pakistan Revenue Automation Ltd
RWG	Reform Working Group
SBP	State Bank of Pakistan
SSU	Shared Services Unit
TFC	Taxpayer Facilitation Center
TMA	Tehsil Municipal Administration
ToR	Terms of Reference
TPVA	Third-Party Verification Agent
TSA	Treasury Single Account
UIPT	Urban Immoveable Property Tax
VCs/NCs	Village/Neighborhood Councils



BASIC INFORMATION

Is this a regionally tagged project?		Financing Instrument
No		Program-for-Results Financing
Bank/IFC Collaboration	Does this operation have an IPF component?	
No	Yes	
Environmental Assessment Category (IPF Component)		
C-Not Required		

Proposed Program Development Objective(s)

To increase the collection of Khyber Pakhtunkhwa's own source revenues and improve the management of public resources

Organizations

Borrower:	Islamic Republic of Pakistan
Implementing Agency:	Finance Department - Khyber Pakhtunkhwa

COST & FINANCING

FIN_SUMM_WITH_IPF

SUMMARY (USD Millions)

Government program Cost	330.00
Total Operation Cost	175.00
Total Program Cost	157.00
IPF Component	18.00
Total Financing	175.00
Financing Gap	0.00
Financing (USD Millions)	
Counterpart Funding	57.00



Borrower	57.00
International Development Association (IDA)	118.00
IDA Credit	118.00

Expected Disbursements (USD Millions)

Fiscal Year	2019	2020	2021	2022	2023	2024	2025
Absolute	1.52	7.46	9.97	17.00	27.99	38.57	15.48
Cumulative	1.52	8.98	18.95	35.96	63.95	102.52	118.00

INSTITUTIONAL DATA

Practice Area (Lead)

Governance

Contributing Practice Areas

Macroeconomics, Trade and Investment

Climate Change and Disaster Screening

Yes

Private Capital Mobilized

No

Gender Tag

Does the program plan to undertake any of the following?

a. Analysis to identify Project-relevant gaps between males and females, especially in light of country gaps identified through SCD and CPF

Yes

b. Specific action(s) to address the gender gaps identified in (a) and/or to improve women or men's empowerment

Yes

c. Include Indicators in results framework to monitor outcomes from actions identified in (b)

Yes



SYSTEMATIC OPERATIONS RISK-RATING TOOL (SORT)

Risk Category	Rating
1. Political and Governance	● Substantial
2. Macroeconomic	● Substantial
3. Sector Strategies and Policies	● Moderate
4. Technical Design of Project or Program	● Moderate
5. Institutional Capacity for Implementation and Sustainability	● Substantial
6. Fiduciary	● Substantial
7. Environment and Social	
Environmental Risk rating from Specialist:	
● Low as of 25-Sep-2018	● Low
Social Risk rating from Specialist:	
● Low as of 25-Sep-2018	
8. Stakeholders	● Substantial
9. Other	
10. Overall	● Substantial

COMPLIANCE

Policy

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

[] Yes [✓] No

Does the program require any waivers of Bank policies?

[] Yes [✓] No



Safeguard Policies Triggered

Safeguard Policies	Yes	No
Projects on International Waterways OP/BP 7.50		✓
Projects in Disputed Areas OP/BP 7.60		✓

Safeguard Policies Triggered (IPF Component)

Safeguard Policies	Yes	No
Environmental Assessment OP/BP 4.01		✓
Performance Standards for Private Sector Activities OP/BP 4.03		✓
Natural Habitats OP/BP 4.04		✓
Forests OP/BP 4.36		✓
Pest Management OP 4.09		✓
Physical Cultural Resources OP/BP 4.11		✓
Indigenous Peoples OP/BP 4.10		✓
Involuntary Resettlement OP/BP 4.12		✓
Safety of Dams OP/BP 4.37		✓

Legal Covenants

Sections and Description

Establish, by no later than three (3) months after the Effective Date, and thereafter maintain throughout the period of implementation of the Operation, a Shared Services Unit ("SSU") and an Operation Support Unit ("OSU") within Finance Department ("FD"), which units shall be: (i) headed by a director (SSU)/Operation coordinator (OSU), assisted by experienced and qualified staff, in adequate numbers, under terms of reference satisfactory to the Association; and (ii) shall be responsible for carrying out financial management, procurement and manage environmental and social safeguards (SSU in coordination with OSU)/the implementation of the Operation (OSU in coordination with the SSU)."

Sections and Description

Maintain throughout the period of implementation of the Operation, a working group ("Reform Working Group"), comprised of officials of various government entities, in adequate numbers and under terms of reference satisfactory to the Association, vested with the responsibility of overseeing the implementation of the Operation in their respective agencies.



Sections and Description

For purpose of verifying the achievement of the DLRs, engage, not later than three (3) months after the Effective Date, an independent third-party entity or entities (the “Third-Party Independent Verification Agent”), with qualifications, experience and terms of reference satisfactory to the Association, to undertake the verification process.

Sections and Description

Undertake, at least semi-annually, through the Third-Party Verification Agent, a verification process, in a manner and substance satisfactory to the Association, and pursuant to the verification protocol agreed with the Association, to ascertain the Khyber-Pakhtunkhwa’s achievement/fulfillment of Disbursement-Linked Results during the period under review.

Conditions

TASK TEAM

Bank Staff

Name	Role	Specialization	Unit
Raymond Muhula	Team Leader(ADM Responsible)	Public Sector Management	GGOAP
Mehwish Ashraf	Team Leader	Economist	GMTSA
Rehan Hyder	Procurement Specialist(ADM Responsible)	Procurement	GGOPZ
Akram Abd El-Aziz Hussein El-Shorbaji	Financial Management Specialist(ADM Responsible)	Financial Management	GGOAP
Babar Naseem Khan	Social Specialist(ADM Responsible)	Safeguards	GSU06
Lulwa N GH H Ali	Environmental Specialist(ADM Responsible)	Safeguards	OPSES
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Hanna Jang	Team Member	Counsel	LEGES
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Pragya Shrestha	Team Member	Public Sector Management	GGOAP



Qurat ul Ain Hadi	Team Member	Financial Management	GGOAP
Raul Felix Junquera-Varela	Team Member	Public Sector Management	GGOGT
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Sajid Maqsood	Team Member	Information Technology	ITSCR
Victor Manuel Ordonez Conde	Team Member	Disbursement	WFACS
Zehra Aslam	Team Member	Economist	GMTSA
Extended Team			
Name	Title	Organization	Location
Vladimir Calderon	Consultant	IBRD	Bolivia



Pakistan
Khyber Pakhtunkhwa Revenue Mobilization and Public Resource Management

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I. STRATEGIC CONTEXT

A. Country Context

1. Pakistan, the sixth most populous country in the world, is at a crossroad. The economy accelerated with GDP growth of 5.8 percent in FY18 but is projected to slow to 3.4 percent in FY19 as fiscal and external imbalances are addressed. Poverty declined from 64.3 percent in 2001 to 24.3 percent in 2015, but inequality persists. The country ranks low on the 2018 Human Capital Index, at 134 out of 157 countries. Gender disparities continue, and female labor force participation was only 20.1 percent in 2018. Natural disasters and unreliable water and power supply constrain progress. After the onset of another boom and bust cycle, a new IMF program is under discussion. Growth is expected to gradually recover as structural reforms take effect and macroeconomic conditions improve. Pakistan will need to protect its poor and those just above the poverty line in the next few years through targeted safety nets. Over the medium to long term, Pakistan needs to invest more and better in human capital, raise more revenue, simplify ease of doing business, expand regional trade and exports, and manage its natural endowments sustainably.

2. Pakistan is a federation, with responsibilities shared between the federal and four provincial governments. The 18th amendment to the constitution of Pakistan (2010) expanded powers and devolved delivery of key services to the provinces. The federal government retains core or shared responsibility for functions including tertiary education, tax and trade policy regulation, and transmission and distribution of power. The World Bank works with both federal and provincial governments and their entities.

3. Khyber Pakhtunkhwa (KP) province—Pakistan’s third-largest region, by population—has over the past eight years made progress in transitioning out of vulnerability and crises, leading to substantial poverty reduction. KP’s incidence of poverty fell from 73.8 percent in FY02 to 27 percent in FY14, the largest decrease in any province in Pakistan. KP is expanding its digital economy to create jobs for youth by building their skills and is investing in an enabling environment for digital entrepreneurs. However, parts of KP remain vulnerable to crises, and KP’s human development outcomes remain low, with 40 percent of the children below the age of five stunted, and 36 percent of children out of school. To address this challenge, KP has prioritized investment in human capital. In FY18, the Government of KP (GoKP) allocated 28 percent of its total budget to education, a larger share than any other province. KP is also highly vulnerable to climate change, as it has been facing extreme precipitation events in the Indus catchment areas, particularly during the annual monsoon season since 2010. Being an upper riparian province in Pakistan, KP received the shortest lead time for early warnings on climate induced hydro-meteorological disasters.

4. The integration of the former Federally Administered Tribal Areas (FATA) with KP creates new challenges and opportunities for the province. The challenge for KP will be to expand its development expenditures to cover the needs of both KP and FATA. Given that FATA is one of the poorest regions of Pakistan and is expected to retain its tax-exempt status for the next five years, this merger will affect KP’s fiscal situation and increase the need for development financing. The Khyber Pakhtunkhwa Tribal Districts Transition Framework, estimated to cost US\$1.38 billion over three years (2018-2020), has a funding gap of US\$726 million—nearly three-quarters of its financing requirement.



5. **Since 2010, the World Bank has been engaging in KP and FATA through a multi-donor trust fund (MDTF).** Initial activities supported the implementation of the Post-Crisis Needs Assessment. As noted in the Performance and Learning Review of the Pakistan Country Partnership Strategy, the Bank is now scaling up interventions through IDA building on lessons learned from the MDTF-financed operations. The proposed IDA program for KP includes strengthening of institutions for revenue mobilization, agriculture, hydropower, tourism, digital economy, and urban management. Collectively, these interventions are expected to improve overall development outcomes in the province as it returns to normalcy.

6. **Mobilizing additional domestic revenue is crucial for Pakistan to realize its development priorities, including better human development outcomes.** A two-pronged approach is being taken to strengthen domestic revenue mobilization in Pakistan. First, the federal and provincial governments need to expand their respective resource envelopes to generate more fiscal space to finance development priorities. Second, the provinces, and particularly KP, need to reduce their dependence on federal transfers. The GoKP shares the Federal Government's priority to narrow the tax gap by making tax administration more efficient and equitable, and strengthening compliance.

B. Sectoral and Institutional Context

7. **The GoKP's Public Financial Management (PFM) Reform Strategy for 2017-2020 provides the strategic underpinning for the GoKP's objective of strengthening the province's PFM system in the short to medium term.** The strategy underscores the priority of increasing the province's own-source revenues (OSR) and better allocation of existing resources to finance investments in infrastructure and public services, especially education, health, and water supply and sanitation.¹

8. **Although KP has a high potential for increasing revenue, its OSR remains low—the result of a complex institutional set-up with three different institutions collecting various taxes.** The Excise, Taxation, and Narcotics Control Department (ETNCD) collects the Urban Immovable Property Tax (UIPT), the Motor Vehicle Tax, and professional taxes and provincial excise; the Board of Revenue (BoR) collects the taxes on real estate transactions and land and the Agricultural Income Tax; and the KP Revenue Authority (KPRA) collects the General Sales Tax on Services (GSTS). Because of the lack of integration—for example, to facilitate using shared databases on taxpayers to enhance compliance, tackle tax evasion, and reduce the cost of tax collection—KP has not been able to mobilize the full scope of OSR at its disposal. Moreover, the province has not taken advantage of its non-tax revenues by making better use of its natural resources and property assets and optimizing commercial utilization of Government-owned real estate assets. A 2018 analysis of the GSTS indicates that by improving tax compliance from today's estimated 23 percent to 75 percent, KP could triple its tax revenue and reduce its dependence on federal transfers, which accounted for 86 percent of provincial revenue in FY17.

9. **Inadequate systems and practices for managing public resources undermine the prudent allocation of budget resources for capital development.** Outdated processes and a fragmented legal and regulatory framework for PFM lead to uneven practices, ineffective controls, delays in budget execution,

¹ OSR is defined as all **tax and non-tax revenues collected by the provincial government itself**. This excludes net hydel profit and royalties on oil and gas, which are collected by the federal government and transferred to KP. It also excludes grants from the federal government over and above the province's share of the divisible pool of revenues.



and limited information on development and local government (LG) expenditures. The bifurcation of the budget expenditures into “recurrent” and “development” categories and the absence of their integration makes it difficult to measure the cost of public service delivery and allocate financing accordingly. The incomplete utilization of the National Financial Management Information System (NFMIS) and the uneven implementation of a Treasury Single Account (TSA) hinder cash management, as the practice of depositing Government funds into commercial banks compromises the accuracy of the Government’s cash positions. In addition, the GoKP cannot forecast the timing of non-salary expenditures because new expenditure commitments are registered in the NFMIS only at the time of payment. Finally, the lack of transparency in managing dedicated funds makes it difficult to ensure financial performance and adequate coverage of liabilities, as well as to estimate the risk profile of these funds.

10. The GoKP has made progress in revenue mobilization and management of public finances, but several challenges remain to be addressed through the PFM Strategy: policy-driven planning and budgeting; comprehensive, credible, and transparent budget; predictability and control in budget execution; resource mobilization; asset and liability management; and accountability for results. The GoKP is already taking steps to address issues related to mobilizing resources and managing public resources through both legislation (for example, the Local Government Act 2013) and policy (for example, through a notification requiring the consolidation of Government funds into the TSA). The proposed Program will advance several of these actions to create synergy between ongoing and future reforms.

11. Although women make up half of KP’s population, there is a large disparity between women and men in human development outcomes in the province. An analysis of the GoKP’s Women’s Empowerment Policy of 2015 shows strong measures targeted at women empowerment, but lack of budgetary support has undermined the prospects for turning this commitment into successful outcomes. The GoKP plans to introduce gender-sensitive planning and budgeting to ensure better allocation of budgetary resources in education, health, social services, and agriculture. Having introduced output-based budgeting (OBB), the Government can now clearly show how budgetary resources are allocated to women-specific interventions. A key **action** of the Program is to support Government to collect data and track gender-related Key Performance Indicators (KPIs) across its 32 departments in service delivery to women to support the analysis of expenditure patterns. Another action of the Program will be support for conducting an analysis on the impact of GSTS and property taxes on women to inform gender responsive policy making. The result matrix includes a dedicated intermediate **indicator** which is *OBB departments with measurable gender KPIs, reporting number of females reached by their services*.

C. Relationship to the CPF and Rationale for Use of Instrument

12. The proposed KP Revenue Mobilization and Public Resource Management Program is aligned with the World Bank’s Country Partnership Strategy (CPS) FY15-20 and with the twin goals of ending extreme poverty and promoting shared prosperity.² It supports CPS Results Area 4, specifically Objective 4.1: *Improved Public Resources Management*, which aims to help the Government mobilize revenue to create fiscal space for spending on public services and infrastructure. The operation also focuses on the

² World Bank Group (2014). *Pakistan: Country Partnership Strategy, 2015-2020* (Report No. 84645-PK), approved by the Executive Directors on April 4, 2014, extended by a Performance and Learning Review (Report No. 113574), as approved by the Executive Directors on June 15, 2017.



key IDA 18 themes of governance, climate and gender. In addition, the operation is aligned with the Government's Public Financial Management Reform Strategy (PFMRS), 2017-2020.

13. The Program addresses a fundamental challenge for Pakistan's development prospects: a chronic shortfall of revenues. *Pakistan at 100*, a new flagship study by the World Bank, highlights the imperative need to raise the tax-to-GDP ratio to 18 percent by 2030. As the study notes, the country spends less on public investment than other lower-middle-income countries (LMICs), and only 3.5 percent of GDP on education and health, below the averages for LMICs (5.6%) and low-income countries (5.2%).^[1] With a growing population, Pakistan needs more fiscal space for basic services to raise the quality of the labor force, reduce poverty, and increase shared prosperity.

14. The Program-for-Results (PforR) instrument reinforces the performance orientation of the Government's program. The Program will support the GoKP's PFMRS, which is a well-defined program whose strong ownership is reflected in the GoKP's achievements in PFM (for example, budget preparation and development budget execution through the NFMIS) and exemplified in the positive outcomes of the extensive policy dialog between the World Bank and the GoKP over the past three years. The PforR instrument will facilitate a strategic focus on the specific results that the GoKP aims to achieve; strengthen the GoKP's implementation systems without creating parallel systems; and ensure the sustainability of results by building Government ownership of the reform agenda.

II. PROGRAM DESCRIPTION

A. Government Program

15. The GoKP's PFMRS covers the whole PFM cycle at the provincial and LG levels. The strategy is organized around six objectives: (a) ensuring policy-driven planning and budgeting; (b) facilitating a comprehensive, credible, and transparent annual budget; (c) improving predictability and control in budget execution; (d) enabling resource mobilization and enhancing provincial OSR; (e) improving asset and liability management; and (f) fostering accountability for results. The GoKP has established a PFM Reforms Oversight Committee, headed by the Minister of Finance, that acts as a Steering Committee to provide high-level leadership for PFM reforms. The following entities are implementing the GoKP program: Finance Department (FD); Excise, Taxation and Narcotics Control Department (ETNCD); Planning and Development Department (P&DD); Revenue and Estate Department (RED); and Science Technology and Information Technology (ST&IT). The Government's program will cost US\$330 million (table 1).

Table 1. Overall Government Program (PKR, millions) by Economic Classification

Major Object Description	2018/19	2019/20	2020/21	2021/22	2022/23	Total
A01: Employee related expenses	2,529	2,584	2,644	2,707	2,771	13,235
A02: Project pre-investment analysis	—	—	—	—	—	—
A03: Operating expenses	1,088	1,218	1,364	1,527	1,682	6,879
A04: Employee retirement benefits	70	78	87	98	109	442
A05: Grants, subsidies/write-off loans	508	569	637	713	799	3,226
A06: Transfers	74	82	92	103	116	467

^[1] The average for South Asia is 4.3 percent of GDP. Source: *World Development Indicators*.



A09: Physical assets	57	64	72	80	90	363
A13: Repairs and maintenance	36	40	45	50	56	227
A14: Development/Capital	5,872	4,421	3,880	3,998	765	18,936
Total (PKR, millions)	10,234	9,056	8,821	9,277	6,388	43,776
Total (US\$, millions)	77.2	68.3	66.6	70.0	48.2	330.0

B. PforR Program Scope

16. The proposed PforR will support selected reforms under the six objectives of the PFMRS. This choice is based on the GoKP's own prioritization, the potential to impact fiscal space and budget execution, and the World Bank's technical expertise in revenue mobilization and public resource management. The selected areas also expand specific areas of engagement under other Bank operations, notably the Governance and Policy Project (P156410), and support the work of other development partners such as DFID, GIZ, and USAID. The Program is divided into two parts.

Part 1: Program-for-Results (US\$100 million)

17. This component comprises two results areas: Efficient revenue mobilization and effective public resource management.

- **Results Area 1: Efficient revenue mobilization.** This results area will support KP's revenue mobilization by (a) expanding its tax base by, among other things, increasing the number of taxpayers, reducing tax exemptions, and expanding the range of taxable economic activities and assets; (b) enhancing its institutional capacity for tax collection, including through compiling and analyzing taxpayer information and reducing tax evasion; (c) facilitating taxpayer voluntary compliance by automating and simplifying processes and by establishing one-stop taxpayer facilitation centers; and (d) mobilizing non-tax revenues, including by developing asset maps of Government-owned real estate (including valuation and geo-tagging data), and by optimizing the revenue potential of such real estate.
- **Results Area 2: Effective public resource management.** This results area will support: (a) consolidating Government cash balances in the TSA, minimizing the outflow of budget funds from the TSA into commercial banks, and introducing regular cash planning in spending entities; (b) strengthening accountability for local government expenditures by expanding the NFMIS to Tehsil Municipal Administrations (TMAs); (c) strengthening the performance orientation of departments and budgets, and supporting the introduction of OBB in service delivery sectors; (d) improving investment planning, appraisal, and Annual Development Plan (ADP) expenditure reporting; and (e) increasing transparency and capacity in the management of financial assets.

Part 2: Investment Project Financing (US\$18 million)

18. The second part will support technical assistance (TA) and capacity building to enhance e-government functionality. The TA will support integrating the databases of the three tax authorities and simplifying and automating business processes in seven large GoKP departments that together account for 80 percent of GoKP's business. The proposed Program will assist the Government's "Kill the File"



initiative, which aims to improve productivity, transparency, and efficiency by automating administrative processes. The TA will also support the use of big data in tax administration and the expansion of the NFMIS to TMAs. The GoKP considers automation in the public administration and development of e-government applications to be critical for improving productivity, cost-efficiency, transparency, and service delivery. However, because the GoKP has limited technical capacity to design and implement ICT solutions, TA support is critical to the success of the related interventions. Under this TA, the diagnostic work on business processes will build a foundation for strengthening and/or introducing e-government functionality in GoKP administration. The TA resources will also be used to improve coordination, stakeholder engagement and capacity building, and to support Program coordination, change management, workshops, and training. In terms of addressing climate vulnerability, TA resources would support implementation of Climate Change Financing Framework (CCFF) through the FD. This would involve efforts to integrate a climate change lens in the Medium-Term Budgetary Framework (MTBF), including an amendment in the Budget Call Circular (BCC), capacity building for climate change expenditure tracking, operationalizing a climate budget coding and tracking system and promoting climate adaptation and mitigation in the planning process.

PforR Program Expenditure Framework

19. The Program expenditure boundary is defined as the total estimated spending by the five entities implementing the PFMRS. The program expenditure equals to US\$157 million (table 2) and will be financed through an IDA credit of US\$100 million (table 3).

Table 2. Program Expenditure Framework (PKR, millions)

Major object description	2018/19	2019/20	2020/21	2021/22	2022/23	Total
A01: Employee expenses	2,529	2,584	2,644	2,707	2,771	13,235
A03: Operating expenses	1,088	1,218	1,364	1,527	1,682	6,879
A04: Employee retirement	70	78	87	98	109	442
A13: Repairs and maintenance	36	40	45	50	56	227
Total (PKR, millions)	3,723	3,920	4,140	4,382	4,618	20,783
Total (US\$, millions)	28	30	31	33	35	157

Table 3. Program (PforR) Financing

Source	Amount (US\$, millions)	Percentage of Total
Counterpart Funding- GoKP	57	36
Borrower	57	36
International Development Association (IDA)	100	64
IDA Credit	100	64
Total program financing	157	100

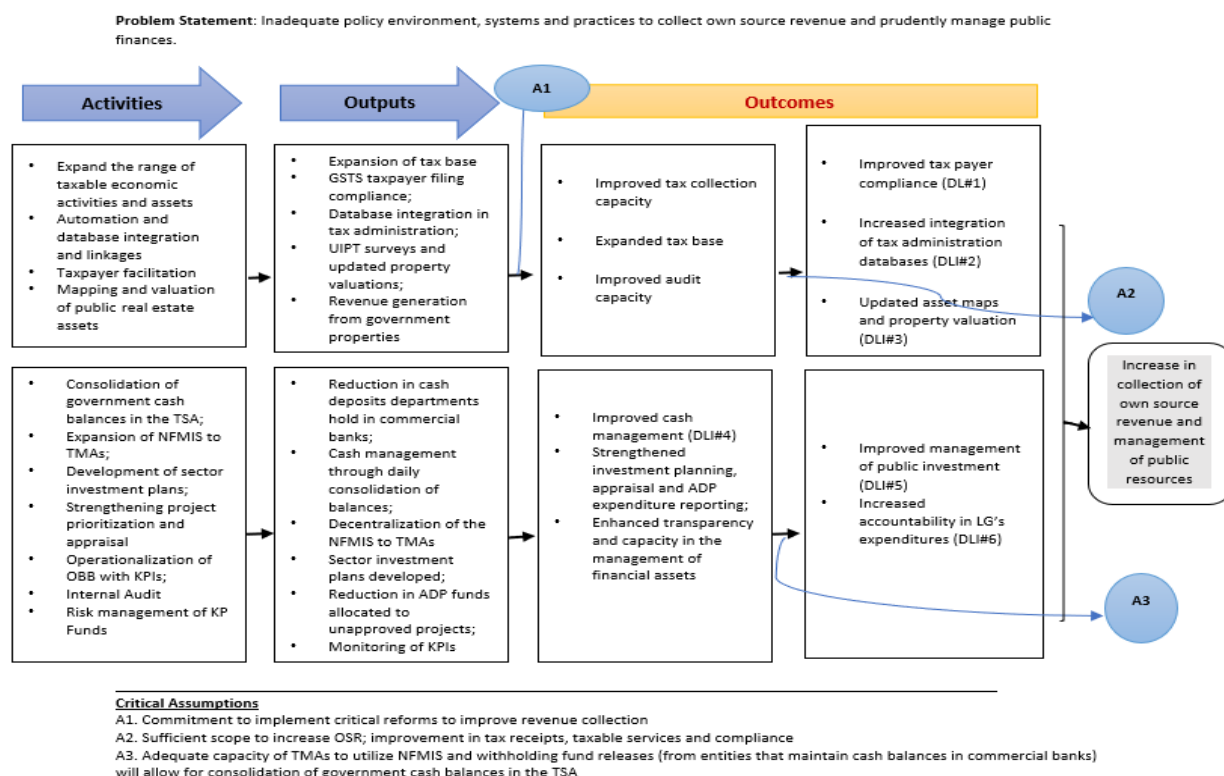
C. Program Development Objective(s) (PDO) and PDO Level Results Indicators

20. The PDO is “to increase collection of KP’s OSR and improve the management of public resources.” This objective is to be achieved through two results areas: (a) efficient revenue mobilization and (b) effective public resource management. The results are linked to six disbursement-linked indicators (DLIs) and together they contribute to the achievement of the PDO.



21. Three key results indicators have been selected to measure success in achieving the PDO: (a) increase in own source revenue (b) reduction in cash deposits held by government departments in commercial banks, and (c) increase in ADP funds spent on capital investment.

Figure 1. Theory of Change



D. Disbursement Linked Indicators and Verification Protocols

22. Six indicators have been selected as DLIs because they are critical milestones to achieve the PDO and PDO-level indicators and/or to incentivize focus on the achievement of targeted results. A total of US\$100 million will be disbursed as the five implementing departments achieve the DLIs.

23. The GoKP will appoint a third-party verification agent (TPVA) to conduct the semiannual verification of the results reported by the implementing entities. The TPVA will rely on a desk review of the documentation provided by the responsible institutions and will conduct field visits when physical verification of evidence is required. Additional details on the DLIs and the verification protocols are available in Annex 2.



III. PROGRAM IMPLEMENTATION

A. Institutional and Implementation Arrangements

24. The Finance Department (FD) will have the overall responsibility for Program coordination. A team of GoKP officials from various departments, the Reform Working Group (RWG), has supported the preparation of this Program and will continue to provide technical support during implementation. For day-to-day management of the operation, the FD will establish an Operations Support Unit (OSU) headed by an Operations Coordinator. The FD will also establish a Shared Service Unit (SSU) to oversee common functions across the portfolio including financial management, procurement, and environment and social safeguards, in conjunction with the OSU. This unit will support all KP projects in the World Bank's portfolio to ensure efficient and timely project preparation and implementation.

B. Results Monitoring and Evaluation

25. The GoKP and World Bank have agreed on a Results Framework that comprises 3 PDO indicators and 13 intermediate results indicators, 6 of which are also DLIs. The Results Framework defines the indicators and the institutional arrangements for data collection. The FD has the overall responsibility and coordination role in Monitoring and Evaluation (M&E) for the PFMRS and the Program. The FD and World Bank implementation support missions will undertake periodic tests of implementing agencies' M&E arrangements to verify that adequate systems are in place to generate the information needed for Program reporting.

26. The M&E mechanism will include progress reports and Program monitoring meetings, third-party verification of the results achieved, and implementation support missions. The OSU will provide quarterly reports on the progress toward achieving the results indicators. The progress reports will rely on information provided in subcommittee monthly progress updates and by designated Program focal points in each department. The TPVA will validate the achievement of the DLIs semiannually and will submit the verification reports to the OSU for onward submission to the World Bank. The World Bank task team will hold Quarterly Program Monitoring meetings and, at least twice a year, will carry out implementation support missions to take stock of progress and help resolve implementation bottlenecks and issues.

C. Disbursement Arrangements

27. Funds from the PforR component will be disbursed upon verification of achievement of targets and approval from the Bank. If targets are reached before deadlines, disbursement may be made after clearance from the Association. Achievement of DLIs will be verified by the TPVA according to the agreed verification protocol. The FD will then communicate the achievement of the DLIs to the World Bank and, on the basis of the World Bank's approval letter, disbursement requests will be processed using the World Bank's e-Business platform. Withdrawals up to an aggregate amount of US\$12 million can be made against agreed prior results that represent key milestones toward achieving the DLIs (see table 4). If the results associated with the DLIs are not achieved by the end of the Program implementation, advanced funds will be reimbursed to the Association. Equally, at the end of the Program, the total disbursed amount must be less than or equal to the overall Government program costs. The Association will recover any over-



disbursements. For the TA component, a designated account will be opened at the National Bank of Pakistan and will be managed by the SSU.

Table 4. Prior Results

Prior Achievements	US millions
DLI 2 - Database integration in tax administration (PR #1 : An MoU setting forth clear responsibilities for information exchange duly signed between FBR and KPRA).	4
DLI 4 - Cash management based on regular consolidation of cash balances and regular cash plans (PR #2 : Notification has been issued by GoKP).	4
DLI 6 -TMAs using NFMIS to record transactions (PR #3 : NFMIS Decentralization Plan approved by GoKP).	4
Total	12

IV. ASSESSMENT SUMMARY

A. Technical (including program economic evaluation)

28. The proposed Program is strategically and technically relevant and is aligned with the GoKP's priorities as articulated in KP's PFMRS. The PFMRS is based on sound diagnostics, most notably the KP Public Expenditure and Financial Accountability (PEFA) assessment of 2017. The GoKP laid the foundation for the successful implementation of this Program through several laws, including the Local Government Act (2013) and a plan to strengthen the tax revenue collection authorities. Several key departments have demonstrated their commitment to these reforms as members of the RWG involved in preparing this Program. The planned Program expenditure is sufficient to support the implementation of activities.

29. The Program will support strategic elements of the PFMRS and will build on the GoKP's progress in implementing the PFMRS. These early actions include the prohibition on transferring budget funds to non-TSA accounts and the proposed opening of Accounts 5 and 6 for TMAs and Village/Neighborhood Councils, respectively (pillar C, PFMRS of Strategy). The Program's interventions and targeted results have also been defined through extensive policy dialog and operational engagement between the World Bank and the GoKP.

30. The Program's net economic impact is expected to be positive and to accrue beyond the duration of the Program. While additions in revenue collection and the associated improvement in efficient and effective use of the public investment envelope can be projected, improvements in other areas—for example, institutional performance, disclosure, monitoring under OBB, and management of funds—are difficult to identify with explicit economic gains. Nonetheless, using certain assumptions, the expected benefits of the quantifiable proposed interventions have been estimated and the results show that the net impact is highly positive. The cumulative benefits for the increased OSR tax receipts over the next five years are estimated at US\$654 million under the low scenario, US\$940 million under the medium scenario, and US\$1.23 billion under the high scenario (see details in the Technical Assessment). In light of these findings, the expected gains from the first results area alone far outweigh the Program cost.



B. Fiduciary

31. An Integrated Fiduciary Systems Assessment of the Program concluded that the overall fiduciary risk is Substantial. Therefore, it is essential that the fiduciary-related activities in the Program Action Plan (PAP) be carried out to mitigate the identified risks. These measures are reinforced by relevant DLIs (such as DLI 6) that will be monitored during Program implementation. The assessment reviewed the fiduciary arrangements relevant to the SSU, and those of selected implementing agencies of the GoKP (FD, PDD and ETNCD, including KPRA) and of the KP Information Technology Board (KPITB), which is an autonomous body, to determine whether these arrangements provide reasonable assurance that Program financing proceeds will be used for the intended purposes with due attention to the principles of economy, efficiency, effectiveness, transparency, and accountability (details in the FSA).

32. The Integrated Fiduciary Systems Assessment found that existing country systems, including the legal and institutional arrangements to counter fraud and corruption, are sufficient for the Program. The GoKP has made progress on overall expenditure out-turn, fiscal transparency, and public procurement.³ Implementing agencies have sufficient sanctioned positions for the budget and accounting staff to manage the existing workload. There are, however, insufficient qualified accounting staff. Despite reasonable assurance of fiduciary safeguards, residual risks remain. Annex 4 describes mitigation measures in detail.

C. Gender

33. The Program will support the GoKP's effort to address gender disparity in development outcomes. The GoKP will strengthen the monitoring of data and accountability of its 32 departments in service delivery to women through OBB and also support the analysis of the impact of GSTS and property taxes on women as described in paragraph 11.

D. Climate

34. The Program recognizes risks posed by climate change in KP and will support measures to increase resilience to climate vulnerability. KP was the first province to announce a provincial strategy for integrating climate change in public financial and economic management. The Climate Change Financing Framework (CCFF) demonstrate GoKP's intent to tackle climate change vulnerability as described in paragraph 2. The CCFF recommends integrating climate change in the Medium-Term Budgetary Framework (MTBF) and initiatives to support climate change expenditure reporting. The Program is well-positioned to support the implementation of this framework as described in paragraph 18.

E. Citizen Engagement

35. The Program incorporates several strong citizen engagement elements. Tax facilitation centers will be a useful platform to help ensure smooth revenue collection, and they serve as an effective citizen engagement and grievance redress mechanism for related issues. The Program will leverage existing platforms to engage citizens—for example, the Citizen Integration Forum—to provide useful insights on the potential impact of the Program on citizens by bringing together 19 civil society organizations with

³ PEFA 2017.



GoKP's accountability institutions: the Right to Public Services Commission, the Right to Information Commission, the Ehtesab Commission, and the Peshawar High Court.

F. Environmental and Social

36. An Environmental and Social Systems Assessment (ESSA) was conducted to assess the capacity of the GoKP's current systems to manage and respond to environmental and social impacts in a manner consistent with the Bank's policies. The legal frameworks, institutional capacities, and instruments for the GoKP and relevant agencies were assessed against Bank requirements.

37. The Program design does not have high social or environmental risks or impacts. The ESSA framework's Core Principles 5 on Vulnerable Groups and 6 on Social Conflict are relevant from a social risks perspective, and the Government's existing legal and policy frameworks are sufficient to manage these risks. The Program would have only limited and low-level environmental impacts, attributable to the e-waste associated with the procurement and use of IT equipment (servers, computers, printers, scanners, modems, routers) to furnish the tax facilitation centers and e-government platforms as well as some of the other implementing agencies.

G. World Bank Grievance Redress

38. 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 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.

H. Risk Assessment

39. The overall risk rating is "Substantial". Political and governance risks are Substantial given the recent merger of former FATA into the larger KP province. To mitigate these risks, the ongoing World Bank engagement through the Governance and Policy Projects in both former FATA (P156412) and the larger KP Province (P156410) will support policy dialog on matters of integration and inclusion in the merged areas. Macroeconomic risks are Substantial because KP remains vulnerable to shocks, decline of forex reserves, and high debt. To mitigate this risk, the Program will be implemented gradually over a five-year period to allow for resolution of any macro-economic shocks in the short to medium term. The institutional capacity risk is rated Substantial because of low capacity in participating agencies. The risk will be mitigated through continuous support by the Task Team and augmentation with short term consultant as needed. Fiduciary risks will also be Substantial, given systemic weaknesses in PFM. The entire Program will be subject to audit by the Auditor General of Pakistan and additional controls as outlined in the Program's Anti-Corruption Protocol. The Task Team will support the Program's Financial



Management Specialist regularly during implementation to help mitigate fiduciary risks. Stakeholders risk has also been rated Substantial, given the large number of participating institutions. A Reform Working Group will support inter-agency coordination to mitigate this risk.



ANNEX 1. RESULTS FRAMEWORK MATRIX

PDO Indicators by Objectives / Outcomes	DLI	CRI	Unit of Measure	Baseline	Intermediate Targets (IT)				End Target
					Y1	Y2	Y3	Y4	
Increase in KP Own Source Revenue									
Increase in own source tax revenues (amount in PKR billion)			Number	14.30	15.70	17.20	18.60	20.00	21.50
Improved Cash Management									
Cash deposits held by Government in commercial banks			Text	PKR 185.868 billion of government cash deposits in the commercial banks (status: Jan. 2018)	Reduction by 10% in government cash deposits in the commercial banks	Reduction by 20% in government cash deposits in the commercial banks	Reduction by 30% in government cash deposits in the commercial banks	Reduction by 40% in government cash deposits in the commercial banks	Reduction by 60% in government cash deposits in the commercial banks. End Target: PKR 74.347 billion of government cash deposit commercial banks
Improved Management of Public Investments									
Share of ADP funds spent on capital investment			Text	47%	Public investment defined and ADP guidelines revised to focus on capital expenditures	>50%	>55%	>60%	>65%



Intermediate Results Indicators by Results Areas	DLI	CRI	Unit of Measure	Baseline	Intermediate Targets (IT)				End Target
					Y1	Y2	Y3	Y4	
Efficient Revenue Mobilization									
Registered taxpayers who filed GSTS in previous year	DLI 1		Percentage	51.00	55.00	60.00	65.00	70.00	75.00
Database integration in tax administration	DLI 2		Text	No linkages among KP tax authorities’ databases or with third-parties	Plan for data systems integration approved by GoKP	KPRA linkages with 3 withholding agents’ databases in place and operational	Readiness of BoR and ETNCD databases for linkage with KPRA confirmed	Shared data warehouse for the KP Tax Authorities has been established and is functional	KP tax authorities have access to shared data with links to third parties (accessible with taxpayer CNIC/Name)
Business processes for tax administration simplified and harmonized			Text	No harmonized processes	1:taxpayer registration process using CNIC/STN	2: payments process	3:monitoring of arrears	4:taxpayer appeals processes	5: litigation process
Taxpayer facilitation centers functional			Text	None	Joint plan for establishment of TFCs (services structure locations costing)	Model TFC established	6 TFCs	9 TFCs	12 TFCs
Cities with updated UIPT surveys, valuations and digitized records	DLI 3		Text	No recent survey conducted; partial digitization of tax records in some cities.	2.00	2 additonal cities	2 additional cities	2 additional cities	2 additional cities



Revenue generation from public property			Text	No asset maps of government-owned real estate.	5 asset maps prepared	10 asset maps prepared	Act on establishment of holding company	Board of members approved	Performance framework and targets for the company set in MoU with GoKP.
Effective public resource management									
Cash management based on regular consolidation of cash balances and regular cash plans	DLI 4		Text	Cash management not based on regular consolidation of cash balances and regular cash plans	Cash management policy covering, <i>inter alia</i> , the consolidation in TSA accounts and non-TSA accounts, cash forecasting and monitoring has been notified by FD and adopted by GoKP	Monthly consolidation of cash balances by all Government Departments throughout Year 2	Fortnightly consolidation of cash balances by all Government Departments throughout Year 3	Weekly consolidation of cash balances by all Government Departments throughout Year 4; Four Government Departments (Communication and Works Elementary and Secondary Education Health Irrigation) have prepared quarterly cash plans and submitted to FD throughout Year 4	Monthly cash plans by four Government Departments (Communication and Works Elementary and Secondary Education Health Irrigation) have prepared quarterly cash plans and submitted to FD throughout Year 5
Sectors with public investment plans (cumulative)			Number	0.00	1.00	3.00	5.00	7.00	9.00
ADP funds allocated to unapproved projects (excluding Foreign Project Assistance)	DLI 5		Text	Allocated funds to unapproved projects are 49% of total ADP (excluding Foreign project assistance) in FY18	DLR 5.1: Allocated funds to Unapproved Projects have not exceeded 45% of total ADP (excluding Foreign Project Assistance) in FY20	DLR 5.2: Allocated funds to Unapproved Projects have not exceeded 40% of total ADP (excluding Foreign Project Assistance)	DLR 5.3: Allocated funds to Unapproved Projects have not exceeded 35% of total ADP (excluding	DLR 5.4: Allocated funds to Unapproved Projects have not exceeded 25% of total ADP (excluding Foreign Project Assistance) in FY23	DLR 5.5: Allocated funds to Unapproved Projects have not exceeded 20% of total ADP (excluding Foreign Project Assistance)



						in FY21	Foreign Project Assistance) in FY22		in FY24
E-Government functionality strengthened in selected government departments			Text	Limited and uneven functionality of e-Government	Administrative processes of three departments are reviewed (as is and to be) and definition of reengineered functional and technical requirements and specifications finalized	Administrative processes of remaining four departments are reviewed (as is and to be) and definition of reengineered functional and technical requirements and specifications finalized	Change Management processes completed in participating departments	Implementation of e-archiving/indexing of government records in three out of the following seven departments: FD; PDD Home Health Local Government; Establishment and Education.	Implementation of e-archiving/indexing of government records in 7 targeted departments
TMA's using NFMIS to record transactions	DLI 6		Text	No NFMIS decentralization plan.	NFMIS Access System developed tested and functional	10 TMA's have used the NFMIS to record payments throughout Year 2	10 TMA's under DLR 6.2 and 10 additional TMA's have used the NFMIS to record payments throughout Year 3	20 TMA's under DLR 6.2 and 6.3 and 10 additional TMA's have used the NFMIS to record payments throughout Year 4	30 TMA's under DLR 6.2, 6.3 and 6.4 and 20 additional TMA's have used the NFMIS to record payments throughout Year 5
OBB departments with measurable gender KPIs, reporting number of females reached by their services			Percentage	0.00	6.00	12.00	18.00	24.00	32.00
Improved management of dedicated funds			Text	No reports currently published; No	Institutional framework (including rules & regulations)	Funds management policy approved (risk tolerance	Annual report on assets investment	Annual consolidated report for all KP Funds published	Annual consolidated report for all KP Funds



				estimate of pension liabilities	for HDF, GPIF and PF notified;Actuarial study for pension liabilities completed	maturities portfolio diversification investment income targets financing of PF)	portfolio & liabilities of HDF GPIF and PF published		published
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Monitoring & Evaluation Plan: PDO Indicators

Indicator Name	Increase in own source tax revenues (amount in PKR billion)
Frequency	Annual
Data Source	KP Finance Accounts/Unaudited Financial Statements/Budget Execution Reports
Methodology for Data Collection	Review of KP Finance Accounts/Unaudited Financial Statements/Budget Execution Reports
Responsibility for Data Collection	FD, KPRA, ETNCD, BoR
Indicator Name	Cash deposits held by Government in commercial banks
Frequency	Annual
Data Source	FD reports, SBP statements/reports
Methodology for Data Collection	Reports from FD detailing reconciliation of accounts by relevant departments
Responsibility for Data Collection	FD
Indicator Name	Share of ADP funds spent on capital investment
Frequency	Annual
Data Source	NFMIS report on ADP spending by economic classification
Methodology for Data Collection	Review of NFMIS report on ADP spending by economic classification
Responsibility for Data Collection	P&DD



Monitoring & Evaluation Plan: Intermediate Results Indicators

Indicator Name	Registered taxpayers who filed GSTS in previous year
Frequency	Annual
Data Source	KPRA (PRAL) database
Methodology for Data Collection	review of PRAL reports
Responsibility for Data Collection	KPRA, OSU
Indicator Name	Database integration in tax administration
Frequency	Annual
Data Source	FD, KPRA, ETNCD, BoR, ST&IT, KPITB
Methodology for Data Collection	Querying of linked database using taxpayer CNIC/Name)
Responsibility for Data Collection	KPITB, OSU
Indicator Name	Business processes for tax administration simplified and harmonized
Frequency	Annual
Data Source	KPRA, ETNCD, BoR, ST&IT, KPITB
Methodology for Data Collection	Review of system generated reports showing harmonized processes
Responsibility for Data Collection	KPITB, OSU
Indicator Name	Taxpayer facilitation centers functional
Frequency	Annual
Data Source	KPRA
Methodology for Data Collection	Review of status reports from KPRA
Responsibility for Data Collection	KPRA, ETNCD, BoR



Indicator Name	Cities with updated UIPT surveys, valuations and digitized records
Frequency	Annual
Data Source	ETNCD
Methodology for Data Collection	Review of GIS generated reports of selected cities
Responsibility for Data Collection	ETNCD, OSU
Indicator Name	Revenue generation from public property
Frequency	Annual
Data Source	ETNCD, BoR, HUD
Methodology for Data Collection	Review of property valuation reports
Responsibility for Data Collection	FD, OSU
Indicator Name	Cash management based on regular consolidation of cash balances and cash plans
Frequency	Annual
Data Source	SBP reports, FD reports, Cash plans by four departments
Methodology for Data Collection	Review of consolidation reports
Responsibility for Data Collection	FD, OSU
Indicator Name	Sectors with public investment plans (cumulative)
Frequency	Annual
Data Source	P&DD
Methodology for Data Collection	Survey of sectoral departments
Responsibility for Data Collection	P&DD, OSU



Indicator Name	ADP funds allocated to unapproved projects (excluding foreign project assistance)
Frequency	Annual
Data Source	ADP as part of the budget books
Methodology for Data Collection	Review of ADP
Responsibility for Data Collection	P&DD, OSU
Indicator Name	E-Government functionality strengthened in selected government departments
Frequency	Annual
Data Source	KPITB
Methodology for Data Collection	Progress reports from participating agencies
Responsibility for Data Collection	FD
Indicator Name	TMAAs using NFMIS to record transactions
Frequency	Annual
Data Source	NFMIS, LG reports, SBP reports
Methodology for Data Collection	Review of NFMIS, LG reports, SBP reports
Responsibility for Data Collection	FD, LGD, OSU
Indicator Name	OBB departments with measurable gender KPIs, reporting number of females reached by their services
Frequency	Annual
Data Source	FD, Performance Management and Reforms Unit dashboard
Methodology for Data Collection	Review of reports from the Performance Management and Reforms Unit dashboard
Responsibility for Data Collection	FD, OSU



Indicator Name	Improved management of dedicated funds
Frequency	Annual
Data Source	Annual Funds Reports, FD website
Methodology for Data Collection	Review of Annual Reports of the respective funds
Responsibility for Data Collection	FD



ANNEX 2. Disbursement Linked Indicators, Disbursement Arrangements and Verification Protocols

Disbursement Linked Indicators Matrix				
DLI 1	Registered taxpayers who filed GSTS in previous year			
Type of DLI	Scalability	Unit of Measure	Total Allocated Amount (USD)	As % of Total Financing Amount
Intermediate Outcome	Yes	Percentage	25,000,000.00	11.43
Period	Value		Allocated Amount (USD)	Formula
Baseline	51.00			
Prior Results	0.00		0.00	
FY19/20 (yr1)	55.00		5,000,000.00	Not scalable.
FY20/21 (yr2)	60.00		5,000,000.00	Scalable. US\$ 1,000,000 (SDR equivalent) for each percentage point increase over the target set in Year 1, up to the Allocated Amount set for Year 2
FY21/22 (yr3)	65.00		5,000,000.00	Scalable. US\$ 1,000,000 (SDR equivalent) for each percentage point increase over the target set in Year 2, up to the Allocated Amount set for Year 3



FY22/23 (yr4)	70.00		5,000,000.00	Scalable. US\$ 1,000,000 (SDR equivalent) for each percentage point increase over the target set in Year 3, up to the Allocated Amount set for Year 4
FY23/24 (yr5)	75.00		5,000,000.00	Scalable. US\$ 1,000,000 (SDR equivalent) for each percentage point increase over the target set in Year 4, up to the Allocated Amount set for Year 5
DLI 2	Database integration in tax administration			
Type of DLI	Scalability	Unit of Measure	Total Allocated Amount (USD)	As % of Total Financing Amount
Intermediate Outcome	No	Text	10,000,000.00	5.26
Period	Value		Allocated Amount (USD)	Formula
Baseline	No linkages among KP tax authorities' databases or with third parties; Data Warehouse Pilot in the Department of Science and Technology and Information and Technology (ST&IT)			
Prior Results	DLR 2.0: An MOU setting forth clear responsibilities for information exchange duly signed between FBR and KPRA		4,000,000.00	
FY19/20 (yr1)	DLR 2.1: Plan for data systems integration approved by GoKP		1,600,000.00	Not scalable



FY20/21 (yr2)	DLR 2.2: KPRA linkages with 3 withholding agents' databases in place and operational	1,400,000.00	Not scalable.	
FY21/22 (yr3)	DLR 2.3 Readiness of BOR and ETNCD databases for linkage with KPRA confirmed	800,000.00	Not scalable	
FY22/23 (yr4)	DLR 2.4: Shared data warehouse for the KP Tax Authorities has been established and is functional	1,400,000.00	Not scalable	
FY23/24 (yr5)	DLR 2.5: KP Tax Authorities have access to shared data with links to third parties (accessible with taxpayer CNIC/Name)	800,000.00	Not scalable	
DLI 3	Cities with updated UIPT surveys, valuations and digitized records			
Type of DLI	Scalability	Unit of Measure	Total Allocated Amount (USD)	As % of Total Financing Amount
Intermediate Outcome	Yes	Text	15,000,000.00	6.86
Period	Value		Allocated Amount (USD)	Formula
Baseline	No recent survey conducted; partial digitization of tax records in some cities.			
Prior Results	0.00		0.00	
FY19/20 (yr1)	2 cities		3,000,000.00	Scalable. US\$ 1.5 million per city up to US\$ 3,000,000
FY20/21 (yr2)	2 additional cities		3,000,000.00	Scalable. US\$ 1.5 million per additional city up to US\$ 3,000,000



FY21/22 (yr3)	2 additional cities		3,000,000.00	Scalable. US\$ 1.5 million per additional city up to US\$ 3,000,000
FY22/23 (yr4)	2 additional cities		3,000,000.00	Scalable. US\$ 1.5 million per additional city up to US\$ 3,000,000
FY23/24 (yr5)	2 additional cities		3,000,000.00	Scalable. US\$ 1.5 million per additional city up to US\$ 3,000,000
DLI 4	Cash management based on regular consolidation of cash balances and regular cash plans			
Type of DLI	Scalability	Unit of Measure	Total Allocated Amount (USD)	As % of Total Financing Amount
Intermediate Outcome	No	Text	20,000,000.00	10.23
Period	Value		Allocated Amount (USD)	Formula
Baseline	Cash management not based on regular consolidation of cash balances and regular cash plans			
Prior Results	DLR 4.0: Notification has been issued by FD to all government departments requesting reconciliation of government cash deposits in commercial banks with the bank statements available with FD.		4,000,000.00	
FY19/20 (yr1)	DLR 4.1: Cash management policy covering, <i>inter alia</i> , the consolidation in TSA accounts and non-TSA accounts, cash forecasting and monitoring has been notified by FD and adopted by GoKP.		1,300,000.00	Not scalable
FY20/21 (yr2)	DLR 4.2: Monthly consolidation of cash balances by all government departments throughout Year 2.		5,100,000.00	Not scalable



FY21/22 (yr3)	DLR 4.3: Fortnightly consolidation of cash balances by all government departments throughout Year 3.	4,800,000.00	Not scalable	
FY22/23 (yr4)	DLR 4.4: Weekly consolidation of cash balances by all government departments throughout Year 4. DLR 4.5: Four government departments (Communication and Works Elementary and Secondary Education Health Irrigation) have prepared quarterly cash plans and submitted to the FD throughout Year 4	2,700,000.00	Not scalable	
FY23/24 (yr5)	DLR 4.6: Four government departments (Communication and Works Elementary and Secondary Education Health Irrigation) have prepared monthly cash plans and submitted them to FD throughout Year 5	2,100,000.00	Not scalable	
DLI 5	ADP funds allocated to unapproved projects (excluding Foreign Project Assistance)			
Type of DLI	Scalability	Unit of Measure	Total Allocated Amount (USD)	As % of Total Financing Amount
Intermediate Outcome	No	Text	10,000,000.00	4.86
Period	Value		Allocated Amount (USD)	Formula
Baseline	Allocated funds to unapproved projects are 49 percent of total ADP (excluding Foreign Project Assistance) in FY18			
Prior Results	0.00		0.00	
FY19/20 (yr1)	DLR 5.1: Allocated funds to unapproved projects have not exceeded 45% of total ADP (excluding foreign project assistance) in FY20	2,000,000.00	Not scalable	



FY20/21 (yr2)	DLR 5.2: Allocated funds to unapproved projects have not exceeded 40% of total ADP (excluding foreign project assistance) in FY21		2,500,000.00	Not scalable
FY21/22 (yr3)	DLR 5.3: Allocated funds to unapproved projects have not exceeded 35% of total ADP (excluding foreign project assistance) in FY22		2,500,000.00	Not scalable
FY22/23 (yr4)	DLR 5.4: Allocated funds to unapproved projects have not exceeded 25% of total ADP (excluding foreign project assistance) in FY23		1,500,000.00	Not scalable
FY23/24 (yr5)	DLR 5.5: Allocated funds to unapproved projects have not exceeded 20% of total ADP (excluding foreign project assistance) in FY24		1,500,000.00	Not scalable
DLI 6	TMAs using NFMIS to record transactions (cumulative)			
Type of DLI	Scalability	Unit of Measure	Total Allocated Amount (USD)	As % of Total Financing Amount
Intermediate Outcome	Yes	Text	20,000,000.00	8.0
Period	Value		Allocated Amount (USD)	Formula
Baseline	No NFMIS decentralization plan			
Prior Results	DLR 6.0: NFMIS Decentralization Plan approved by GoKP		4,000,000.00	
FY19/20 (yr1)	DLR 6.1: NFMIS Access System developed, tested and functional		3,000,000.00	Not scalable.
FY20/21 (yr2)	DLR 6.2: 10 TMAs have used the NFMIS to record payments throughout Year 2		3,000,000.00	Not scalable



FY21/22 (yr3)	DLR 6.3: 10 TMAs under DLR 6.2 and 10 additional TMAs have used the NFMIS to record payments throughout Year 3	3,000,000.00	Scalable: \$300,000 per additional TMA up to \$3,000,000
FY22/23 (yr4)	DLR 6.4: 20 TMAs under DLRs 6.2 and 6.3 and 10 additional TMAs have used the NFMIS to record payments throughout Year 4	3,000,000.00	Scalable: \$300,000 per additional TMA up to \$3,000,000
FY23/24 (yr5)	DLR 6.5: 30 TMAs under DLR 6.2, 6.3 and 6.4 and 20 additional TMAs have used the NFMIS to record payments throughout Year 5	4,000,000.00	Scalable: \$200,000 per additional TMA up to \$4,000,000



Verification Protocol Table: Disbursement Linked Indicators

DLI 1	Registered taxpayers who filed GSTS in previous year
Description	Percentage of taxpayers registered with KPRA who filed their returns in the previous fiscal year.
Data source/ agency	KPRA (PRAL) database/KPRA
Verification Entity	TPVA
Procedure	Review of PRAL data on number of registered taxpayers and filers for the year and of sample of anonymized taxpayer data to ascertain filing compliance rate among registered taxpayers
DLI 2	Database integration in tax administration
Description	Automated exchange of taxpayer data (by CNIC/STN) through shared Data Warehouse for the KPRA, ETNCD, and BoR is in place; and KPRA has automated linkages (data exchange) with at least five third parties (e.g. FBR, NADRA, withholding agents such as commercial banks, telecom and utility companies)
Data source/ agency	KPRA, ETNCD, BoR databases; shared Data Warehouse/ KPRA, ETNCD, BoR
Verification Entity	TPVA
Procedure	Inspection and testing of automated data exchange in shared Data Warehouse of KPRA, ETNCD, and BoR (when established)
DLI 3	Cities with updated UIPT surveys, valuations and digitized records
Description	Urban Immovable Property Tax records updated through surveys and digitized in 10 cities; UIPT surveys include GIS mapping of properties and updated valuations with reference to market benchmarks
Data source/ agency	UIPT database/ETNCD
Verification Entity	TPVA
Procedure	Review of random sample of digitized UIPT records of targeted cities for completeness of data (property GIS location, size



	and usage, updated valuation) and functioning of MIS
DLI 4	Cash management based on regular consolidation of cash balances and regular cash plans
Description	Cash Management Policy notified by FD; GoKP cash balances (Accounts 1, 2, 3, 4, 5; zero-balance accounts for revenue receipts) consolidated in the TSA through the SBP (except balances of public accounts, endowment funds, and monies parked in courts as a result of disputes); Cash plans prepared by four provincial government departments (Communication and Works, Education, Health, Irrigation) and submitted to the FD
Data source/ agency	NFMIS, FD
Verification Entity	TPVA
Procedure	Review of sample of monthly, fortnightly and weekly consolidated balance statements (reports generated by the SBP); review of statements of zero-balance accounts; review of quarterly reports on government deposits in commercial banks available with FD; review of submitted cash plans of four provincial government departments (Communication and Works, Education, Health, Irrigation)
DLI 5	ADP funds allocated to unapproved projects (excluding foreign project assistance)
Description	Percentage of ADP funds allocated to new projects that have not been approved by the competent authority as prescribed by the rule and regulations governing the development budget except projects awaiting approval by ECNEC
Data source/ agency	ADP approved under the Annual Appropriations Act, project approval documentation/P&DD
Verification Entity	TPVA
Procedure	Review evidence of approval of new projects added to the ADP; compare percentage of total ADP funds allocated to new unapproved projects with that of the previous fiscal year based on the ADPs included in the Annual Appropriations Acts
DLI 6	TMA's using NFMIS to record transactions (cumulative)
Description	Access system developed and tested: (i) Any authorized user of NFMIS through an authentication method (user name and password) can enter data into the system, and (ii) a test report and system training is available with end user approval. Number of TMA's whose transactions are recorded in in the NFMIS; recorded transactions should include all payments



	made according to the object code of the Chart of Accounts/budget classification.
Data source/ agency	NFMIS Account 5/FD, AG
Verification Entity	TPVA
Procedure	System generated reports of expenditures according to the object code of the Chart of Accounts/budget classification of the TMAs.



ANNEX 3. TECHNICAL ASSESSMENT

COUNTRY: Pakistan

Khyber Pakhtunkhwa Revenue Mobilization and Public Resource Management

Strategic Relevance and Technical Soundness

1. **The proposed Program is designed to support the PFMRS of the GoKP.** The PFMRS is based on sound diagnostics, most notably the KP PEFA assessment of 2017. The PEFA assessment shows progress in some indicators compared to the previous PEFA of 2007, but it also identifies several areas in need of improvement. The PFMRS includes reform measures that are within the province's control.
2. **The Program targets reform measures under the PFMRS that have the highest potential impact on the two main binding constraints to GoKP's development objectives:** (a) limited fiscal space and (b) suboptimal utilization of the development budget.
3. **The Program's first results area focuses on increasing OSR to address the constraint of limited fiscal space for investment and public service provision.** OSR is critically important to the GoKP's ability to engage in meaningful fiscal planning and take on multiannual commitments for two reasons. First, the province needs to expand its resource envelope to generate additional fiscal space to finance development priorities. Second, it needs to reduce its dependence on federal fiscal transfers.
4. **Interventions in this results area are designed to capture more of the economy's untapped tax potential and leverage the province's capital assets to generate sustainable revenue streams.** The Program targets revenue sources with the largest revenue potential, economic efficiency, and prospects of delivering quick returns. Two provincial taxes fit this profile: GSTS and UIPT. The Program also targets revenue generation from the commercial use of underutilized Government real estate assets, a source of non-tax revenue with a high revenue potential and quick returns. Moreover, the Program's tax-related interventions focus on expanding the tax base without introducing any new taxes or raising tax rates.
5. **The Program's second results area deals with efficient and strategic use of the province's financial resources in five areas:** cash management through regular consolidation of cash balances; integration of local governments' budgets in the NFMIS; improved management of KP special-purpose funds; prudent management of dedicated funds; and reorientation of development spending toward infrastructure investment.
6. **The Program supports the GoKP's plan to bring the accounts for municipal governments into the TSA and the NFMIS,** making them a part of the province's consolidated cash balance and allowing the FD to monitor their budget execution to inform releases of budget funds. The Program's results also target improvements in the management of another important financial resource, the KP special-purpose funds: the Hydroelectricity Development Fund (HDF), the Pension Fund, and the General Provident Investment Fund (GPIF).
7. **Finally, the Program targets improvements in the quality of development expenditure by increasing the focus on capital investment and strengthening planning and appraisal.** Just under half of the ADP is spent on capital investment. The Program's main targeted result is therefore to increase this



share by planning regular repairs and maintenance of infrastructure assets under the recurrent budget. Another important result is to strengthen the emphasis on planning and project preparation by minimizing budget allocations to unapproved projects in the ADP.

Technical Assistance and Capacity-Building Component

8. **The TA component, which will be implemented as Investment Project Financing (IPF), is to be delivered under two subcomponents:** foundations of e-government, and program coordination and support. The first subcomponent entails automating key business processes and integrating datasets through a data warehouse solution for all three tax authorities. The TA will also include activities in e-archiving, indexing, related change management, and website and e-mail domain management for seven GoKP departments in addition to the three tax authorities. This will be informed by global experience on using ICT to facilitate taxpayer compliance, tackle tax evasion, and reduce the cost of tax collection. The second subcomponent involves capacity building, training, studies, and M&E. The full details of the TA component are contained in Annex 8.

Program Expenditure Framework and Boundary

9. **The GoKP program.** The overall program cost for 2019-2023 is estimated at PKR 43.8 billion (US\$330 million). The Government program supported by this operation is implemented by five entities: FD, ETNCD, P&DD, RED, and ST&IT. The entities cover the full scope of core functions and activities needed to deliver on the outcomes of this operation.

10. **Program (PforR) expenditure boundary.** The implementation of the Government program primarily requires compensation of staff, retirement benefits, operating expenses of the entities, and repair and maintenance costs. The expenditures, derived from the GoKP's three-year Medium-Term Expenditure Framework projections plus two forward years, add up to US\$157 million. The IDA financing for the Program is US\$100 million (64 percent), and the GoKP contribution is US\$57 million (36 percent).

Results Chain and Selection of DLIs and Prior Results

11. **The DLIs of the Program capture outputs or intermediate outcomes that are expected to contribute directly to the higher-level outcomes represented by the PDO indicator.** The selection of DLIs is informed by two additional criteria: each is (a) challenging but attainable and within the control of the GoKP; and (b) readily verifiable, measurable, and scalable (Table 3.1). The Theory of Change (Figure 1 in the main text of the PAD) highlights the problem statement, the activities and outputs, and the outcomes that the operation seeks to achieve.



Table 3.1. Disbursement-Linked Indicators – Rationale, Measurement, Verification, and Scalability

DLIs	Rationale, Measurement, Verification, and Scalability
Results Area 1: Revenue Mobilization	
Registered taxpayers who filed GSTS in previous year (DLI #1)	This intermediate outcome indicator is selected because of the high revenue potential of the GSTS and the critical importance of taxpayer compliance in capturing this potential. It is scalable, easy to measure, and verifiable. To incentivize full achievement, the target for year 1 will not be scalable.
Database integration in tax administration (DLI #2)	This output indicator is critical to the capacity of the tax authorities to broaden the tax bases and incentivize compliance. It is essential to the business intelligence function that increases the productivity of tax authorities and reduces the cost of tax collection. The targets are discrete, defined, and easy to verify. The indicator is not scalable.
Cities with updated UIPT survey, valuation and digitized records (DLI #3)	This output indicator captures the most important tool to increase UIPT receipts. The surveys have been shown to expand the tax base by adding new properties to the tax records, improving the accuracy and transparency of tax assessments, enabling digitization of tax records and issuance of automated invoices, and providing data on market values to inform the valuations used to calculate UIPT liability. This indicator is quantitative, scalable, and readily verifiable.
Results Area 2: Management of Public Resources	
Cash management with regular consolidation of cash balances and regular cash plans (DLI #4)	This indicator combines intermediate outcomes and outputs that represent critical milestones in achieving sound cash management. KP is the first province to prohibit government entities from parking budget funds in commercial banks and to bring these funds into the TSA. This is a prior result under the Program. The targets require certain GoKP departments to consolidate Government cash balances and prepare cash plans to improve the predictability of spending plans. This indicator is defined and verifiable, and it is not scalable.
ADP funds allocated to unapproved projects (excluding Foreign Project Assistance) (DLI #5)	This intermediate outcome indicator addresses a critical gap in the ADP process: unapproved projects included in the ADP. This indicator seeks to minimize budget allocations to unapproved projects, thereby allowing more funds for projects with higher implementation readiness. This indicator is quantitative, readily verifiable, but not scalable.
TMA's using the NFMIS to record transactions (DLI #6)	This outcome indicator tracks the implementation progress of another groundbreaking reform: KP will be the first province to bring the accounts of municipalities into the NFMIS. This extension will help municipalities manage their budgets by making re-appropriations within their budgets, increase the transparency of municipal financing and expenditures, and reinforce the cash management function. This indicator is quantitative, scalable, and easy to verify.

Risks and Mitigation Measures in the Program Action Plan

12. **The targeted results of the Program require consistent policies as well as institutional and behavioral changes, which present risks of partial or delayed implementation.** However, these risks are moderate since the Program builds on the Government's own strategy and priorities.

13. **Institutional capacity in KP has improved in recent years, but it varies across administrative departments, and continuity is affected by the frequent turnover of senior officials.** To mitigate this risk, the GoKP and the World Bank have worked on the Program design with the working-level officials of the RWG.



14. **The limited experience of the GoKP in results-based operations poses a risk.** The proposed Program will be the first large operation to be financed by the World Bank in KP after a gap of several years. However, by extensively engaging in formulating the results framework, GoKP officials have familiarized themselves with the PforR instrument.

15. **Potential stakeholder risks could be significant, though to date GoKP measures in the results areas of the Program have not given rise to controversy.** For example, on the prohibition on Government entities' keeping cash in commercial banks, the GoKP has so far managed the risks by withholding development funds from entities, which will lead to a gradual reduction of these balances.

16. **The Program's prospects of achieving its development objectives may be affected by country-level macro-fiscal risks.** Federal macro-fiscal policies have a direct impact on provincial finances. In addition, risks may arise from the merger of KP with FATA. To mitigate this risk, the Program will be implemented gradually over a five-year period to allow for resolution of any macro-economic shocks.

Economic Analysis

17. **The expected net economic impact of the Program is positive.** While additions in revenue collection and the associated improvement in efficient and effective use of the public investment envelope can be projected, improvements in other areas are difficult to identify with explicit economic gains. Nonetheless, using certain assumptions, the expected benefits of the quantifiable proposed interventions have been estimated and the results show that the net impact is highly positive.

18. **The revenue mobilization measures are estimated to raise OSR tax receipts by at least 50 percent from the baseline.** Three scenarios are assumed for an increase in OSR tax receipts because of the implementation of the first results area, GSTS compliance. The cumulative benefits over the next five years, in present value terms, are estimated at US\$ 654 million under the low scenario (60 percent), US\$940 million under the medium scenario (75 percent), and US\$1.23 billion under the high scenario (90 percent). Furthermore, the total benefit of this results area could keep accruing as the province is expected to generate higher revenues over a long period of time beyond the proposed Program.



ANNEX 4. INTEGRATED FIDUCIARY SYSTEMS ASSESSMENT

COUNTRY: Pakistan

Khyber Pakhtunkhwa Revenue Mobilization and Public Resource Management

1. **An Integrated Fiduciary Systems Assessment of the Program was undertaken in accordance with Bank Procedure/Operational Policy 9.00, *Program-for-Results*, and in accordance with the Program-for-Results (PforR) Guidance Notes (June 30, 2017).** The assessment concluded that existing country systems are sufficient for the Program, and the overall integrated fiduciary risk is Substantial.

Budgeting and Planning

2. **The funds for the Program will be appropriated from KP's current and development budgets.** The GoKP has a well-defined budgeting process. OBB, which it introduced on a pilot basis in 2011, was later extended to all line departments. Further reforms are under way to introduce modern practices in financial planning and budgeting in the province. The GoKP has also taken measures to link policy planning to budgeting, improve transparency, and foster accountability. The medium-term fiscal framework and medium-term budget framework provide three-year cost estimates by administrative, economic, and functional classification. The 2017 PEFA report notes that the budgetary credibility of the GoKP has improved regarding the extent of deviation on the aggregate level for revenue and expenditure out-turns.

Fraud and Corruption

3. **KP has a robust legal and institutional framework to address fraud and corruption.** The Government will implement the Program following the provisions of the World Bank's Anti-Corruption Guidelines (ACG) applicable to PforR operations. In case of an investigation by the Bank, the Recipient's/KP's obligation to ensure full cooperation of relevant persons and entities with the Bank and to allow the Bank access to accounts, records and other documents. If the Bank finds evidence of corrupt practices, the Bank will refer the case to the KP Government for investigation under the relevant criminal and civil laws. The Bank may, however, debar private individuals and firms on its own.

Accounting and Reporting

4. **The GoKP has adopted the budget classification, accounting, and reporting framework of the Government of Pakistan.** The SSU will record the transactions under the TA component and for preparing and submitting to the World Bank twice-yearly interim financial reports for the TA component. The SSU will ensure the timely annual audit of the Program-level Annual Financial Statements.

Financial Reporting, Funds Flow, and Disbursement Mechanism

5. **The IDA funds of the Program will be channeled to the GoKP Non-Food Account-1 through the State Bank of Pakistan (SBP) in accordance with the procedure notified by the Ministry of Finance, Government of Pakistan, in August 2013.** Disbursement of Program funds will be made twice a year upon achievement of the DLIs. Once the DLI targets are met, the OSU at the FD of GoKP will, in accordance with the legal agreements, provide to the World Bank the evidence that the DLI target(s) have been met. For scalable DLIs, the amount to be disbursed will be determined in accordance with the formula set forth in the verification protocol. For the TA component, a designated account in US dollars will be opened for the OSU.



Procurement Processes

6. **Procurement documentation: bids/proposals related to the Program will be consistently advertised in national daily newspapers and uploaded on KP Public Procurement Regulatory Authority (KPPRA) websites and will be easily accessible to potential bidders and consultants.** Procuring entities in the GoKP use the following procurement documents, which contain instructions to bidders and pre-qualification, shortlisting, and evaluation criteria: Standard Bidding Documents for Procurement of Works (Large Contracts), Standard Bidding Documents for Procurement of Works (Small Contracts), Standard Bidding Documents for Procurement of Goods (Large Procurements), Standard Bidding Documents for Procurement of Goods (Small Procurements), and Standard Bidding Documents for Services. Procurement complaints are reported to be rare. However, redress for any complaints is provided under KPPR-2014. The complaint management system has a formal structure, and grievance redress decisions are transparently published on the KPPRA website (<http://kppra.gov.pk/complaint-grivences/>).

Internal Controls and Internal Audits

7. **In KP, the accounting, reporting, and internal controls framework is supported by the following instruments:** Manual of Accounting Practices complemented with guidelines, handbook, and manuals for accounting and reporting; General Financial Rules; KP Government Rules of Business; Supplementary and Treasury Rules; Delegation of Financial Power rules; Procedure for Assignment Account and revolving fund accounts; KP Internal Audit Charter; and Public Procurement rules, which will be observed for Program expenditure. Internal audit cells are established in 11-line departments under the Internal Audit Charter, approved by the provincial cabinet. Staff ability affects the implementation of the internal audit programs.

Program External Audit

8. **Program auditing arrangements.** The SSU will coordinate with the implementing agencies and the Accountant General for consolidating program financial statements. The audit of the financial statements for the results component of the Program and the TA component will be carried out by the Department of Auditor General of Pakistan (AGP). The auditor will express an opinion on the Program annual financial statements and issue a management letter highlighting any internal control, compliance, and other weaknesses. For each FY, the AGP will audit the Program's financial statements, which will be submitted to the Bank within nine months after the close of the fiscal year. The Bank, under its Access to Information Policy, will request public disclosure of the audit report.

Integrated Fiduciary Risks and Mitigation Measures

9. **The overall integrated fiduciary risk assessed for this Program is Substantial.** The Assessment concludes that the Program financial management and procurement systems and fraud and corruption control measures are adequate to provide reasonable assurance that the financing proceeds will be used for the intended purposes and with due attention to the principles of economy, efficiency, effectiveness, transparency, and accountability, and for safeguarding Program assets once the proposed mitigation measures have been implemented. Detailed mitigation measures are provided in the Fiduciary Assessment.



ANNEX 5. SUMMARY ENVIRONMENTAL AND SOCIAL SYSTEMS ASSESSMENT

COUNTRY: Pakistan

Khyber Pakhtunkhwa Revenue Mobilization and Public Resource Management

1. **An Environmental and Social Systems Assessment (ESSA) was conducted to assess environmental and social risks associated with the proposed Program.** This assessment was carried out according to the core principles set forth in the Bank Policy: Program-for-Results Financing and the corresponding directive. In an ESSA, the Bank assesses the borrower's capacity to achieve environmental and social objectives against the range of environmental and social impacts that may be associated with the Program. For this Program, the major social risks are as per Principles 5 and 6 on marginalization and inclusion of vulnerable groups and social conflict, and potential adverse environmental risks are as per Principles 1 and 3—mainly the potential e-waste associated with the procurement and use of IT equipment (computers, printers, scanners, modems, routers) to furnish the tax facilitation centers in KPRA and other implementing agencies.
2. **The ESSA found that several laws and rules provide a framework to deal with the social and environmental aspects of the Program:** the Pensions Act 1871 and federal and provincial rules; Khyber Pakhtunkhwa Right to Information Act 2013; Khyber Pakhtunkhwa Right to Public Services Act 2014; Provincial Commission on Status of Women; Khyber Pakhtunkhwa Provincial Ombudsman Act 2010; and Federal Ombudsmen Institutional Reforms Act 2013. Other relevant legislation includes the KP Finance Act 2013 and the Excise and Taxation Manual 2015. On the environment side, relevant regulations include the Pakistan Environmental Protection Act 1997, and the Khyber Pakhtunkhwa Environmental Protection Act 2014. These acts provide the framework for addressing Pakistan's environmental issues, and they include provisions on handling hazardous waste and substances and on penal codes. However, the existing regulations deal more with hazardous waste in general and do not specifically deal with e-waste and related issues.
3. **An organizational capacity assessment was carried out for the following relevant implementing entities:** FD, KPRA, ETNCD, P&DD, BoR, and Local Government Department. The assessment focused on the capacity of these departments to respond to challenges and risks associated with the Program, and to respond to overall citizens' queries, complaints, and welfare, in addition to issues associated with the disposal of the IT equipment. Details of the findings are in the ESSA.
4. **The ESSA found that positive impacts are associated with most of the DLIs in terms of increased revenue mobilization and resultant fiscal space to improve service delivery**—for example, improved tax facilitation centers across KP for taxpayers of all types, coordination among various tax collecting agencies, digitization and automation of databases and critical information for business intelligence, and improved valuation procedures for properties.
5. **Screening the DLIs against Core Principles 5 and 6 yields the following key social risks.** With respect to DLI 1 on GSTS taxpayers' filing compliance, consideration will need to be given to Provincially Administered Tribal Areas (PATA) and formerly FATA districts to avoid crises if across-the-board taxation is introduced (historically taxes like the GSTS do not exist in these areas), including through proper outreach and dedicated communication campaigns. The PAP notably recommends a social risk assessment based on inclusion and equity for PATA and former FATA districts. DLI 3 on UIPT can



disproportionately affect slums and slum dwellers, so the revision in valuation processes should take these vulnerable communities into account. DLI 5 on ADP funds allocation for unapproved projects may create resistance from disadvantaged actors if such projects are removed. However, the goal is to persuade politicians that unapproved projects, which are prone to long implementation delays, are not an effective way to support their constituencies, and that it is more effective to prioritize funding for implementation-ready projects.

6. **Considering the high quantities of domestic e-waste generated in Pakistan annually, the e-waste generated by this Program from the IT equipment procured by implementing agencies/partners will not be significant.** Nevertheless, such waste will need to be managed in an environmentally sound manner, with safe disposal and/or recycling. Therefore, the PAP requires a mechanism for the proper management of e-waste. The overall issue of e-waste in Pakistan remains significant and is being addressed through other initiatives and programs.

7. **Stakeholder consultations were conducted on October 23, 2018, to share the ESSA findings and finalize the ESSA document in partnership with the client.** Concerned Government departments, private sector representatives, citizens' representatives, and civil society organizations were invited to the workshop to provide advice on the ESSA findings and the overall Program key result areas.

8. **The PAP incorporates the key recommendations of the ESSA**—primarily actions focusing on limiting and mitigating the risks of the Program and amplifying its positive impacts, especially on citizens' engagement and facilitation. A few actions have been identified and suggested at this stage. The ESSA found the Program (including the TA) suitable for a PforR operation, since the social and environmental risks have been assessed as low and can be mitigated through the actions and recommendations proposed by the ESSA.



ANNEX 6. PROGRAM ACTION PLAN

Action Description	DLI#	Responsibility	Recurrent	Frequency	Due Date	Completion Measurement
Develop annual internal audit plan and conduct internal audits of KPRA; KPITB; ETNCD; FD; PD&D and LGD in a manner and substance satisfactory to the Association		FD	Yes	Yearly		Submission of annual internal audit plan and internal audit report to the Association
Conduct communication campaigns on tax compliance, TFCs and on the benefits of commercialization of government properties		FD, KPRA, ETNCD, BoR	Yes	Semiannual		At least two communication campaigns per year to be included in the Program Reports submitted by the OSU to the Association
All commitments entered in NFMIS in four targeted provincial government departments (Communication and Works, Education, Health and Irrigation)		P&DD	Yes	Continuous		All commitments available in NFMIS in the four targeted provincial government departments
Conduct infrastructure survey based on inclusion and equity for PATA and of former FATA districts		P&DD	No		27-Dec-2019	Survey report submitted to the Association
Adopt multi-year investment plan for former FATA districts		P&DD	No		30-Jun-2020	Investment plan notified by GoKP
At least 100 DDOs in participating departments, TMAs, and former FATA districts trained in financial management		FD	No		30-Jun-2020	List of DDOs trained in financial management submitted to the Association
Simplification of the tax system evidenced by the reduction of		FD	No		30-Dec-2020	Reduction in number of OSR tax instruments from 13 to 8



the number of OSR tax instruments						
Develop annual audit plan and conduct annual risk-based audit of selected provincial government departments		KPRA	Yes	yearly		Submission of annual audit plan and annual audit report to the Association
Analyze impact of GSTS and property tax on women		P&DD	No		30-Jun-2020	Report with recommendations



ANNEX 7. IMPLEMENTATION SUPPORT PLAN

COUNTRY: Pakistan

Khyber Pakhtunkhwa Revenue Mobilization and Public Resource Management

Main focus of Implementation Support

Time	Focus	Skills Needed	Resource Estimate	Partner Role
First twelve months	Institutional and M&E; Legal Covenants Program Action Plan Fiduciary supervision Environmental and social monitoring	Technical, financial management, procurement, environmental and social, M&E		
12-48 months	PAP; DLIs; Fiduciary Environmental and social monitoring Program supervision Disbursements	Technical, FM and Procurement, environmental and social, M&E,		

Task Team Skills Mix Requirements for Implementation Support (Template)

Skills Needed	Number of Staff Weeks	Number of Trips	Comments
Task Team Leader	12	As required	Task Team leadership, overall supervision and M&E
Co-Task Team Leaders	14	As required	Cash management, Funds management, supervision
Financial Management Specialist	6	As required	Fiduciary
Procurement Specialist	4	As required	Fiduciary
Public Sector Specialists	14	As required	Revenue mobilization, ICT in tax administration; PIM: TSA
Social Development Specialist	4	As required	Safeguards, citizens engagement, gender
Environmental Specialist	2	None	Safeguards



ANNEX 8: TECHNICAL ASSISTANCE AND CAPACITY BUILDING (IPF)

1. **Weak ICT platforms and lack of interoperability hamper GoKP business.** While some departments have digitized some or all of their records or workflow processes, many still handle workflows manually. Full back-office automation with advanced online service offering is still hampered by regulations for manual signatures—in some cases requiring several official notations before action by final approvers. Most departments have not benefited from the efficiencies of digitization and automated data exchanges between related systems. For instance, the three departments involved in revenue mobilization do not have data-sharing protocols. Some departments are already providing online services—for example, for grievance redress and right to information. However, these services are limited in scope and sophistication. The GoKP has made some progress in e-government, but several challenges remain. Most of its business processes are manual and take time to complete. The GoKP has expressed interest in improving the functionality of its administrative processes and its resource management and service delivery—first by mapping and reviewing business processes in selected departments, and then by piloting implementation across key departments as a proof of concept.

2. **Records management and archiving is a significant problem.** Government transactions are paper-based and need to be digitized for digital use, preservation, and reference. Some agencies—for example, the Pensions Department—have made progress in digitizing their records. There is a need to further digitize records in several departments, automate the records management system, and improve indexing and archiving for easy document retrieval.

3. **There are no formal electronic communications protocols.** Government departments do not have any official platform for communicating within the GoKP. All systems are paper-based—a situation that slows many Government functions and consequently affects service delivery. Some offices are using free publicly available e-mail systems, (for example, Gmail and Yahoo) to communicate with non-Government entities, but there is no formal digital system for official correspondence within the GoKP. The GoKP needs a comprehensive communication system, with an auto-archiving facility, which would be backed by required legislation.

Component 2: Technical Assistance and Capacity Building (US\$18 million)

4. **The TA component of the KP hybrid PforR comprises two subcomponents.**

Component 2.1: Providing Foundational Support for e-Government Functionality (US\$12.5 million)

5. **This component is designed to improve the KP's e-government functionality and equip the GoKP to facilitate administrative processes in a few selected departments.**⁴ The Program will support the Government in reviewing the full business processes in selected departments to determine the current state, propose an action plan for the expected state, and provide end-to-end automation for administrative processes in those departments. This component will finance activities related to business process mapping, automation of Government administrative processes, and provision of the ICT

⁴ The selected departments are Finance, Planning and Development; Establishment; Health; Education; Home; and Local Government.



equipment and infrastructure needed for implementation. This component is divided into two core activities.

6. **Business Process Review and Mapping.** This core activity will support the creation of a foundational platform for e-Government functionality by funding the following activities:

- (a) **Mapping of GoKP business processes.** The Program will finance business process mapping as a first step in developing e-government functionality. A well-designed set of business processes will support the effective fulfilment of departmental missions and achievement of strategic goals. This mapping is expected to highlight critical business processes and functions; hidden processes; potential problems caused by disruption; escalations caused by problems; and essential resources required to enable continuity of critical business processes.
- (b) **Process simplification reengineering and development of functional and technical requirements.** The Program will finance activities related to process simplification and reengineering of mapped processes in the selected departments. Activities to be financed will include consulting services to define new roles and responsibilities resulting from the process mapping, new tools to undertake new functions, management control systems to safeguard and operationalize new processes, and all necessary policies, rules, guidelines, activities, and work instructions. The Program will also finance the development of functional and technical requirements to support the implementation of the recommendations of the process mapping and allow for their integration.
- (c) **Support for ICT-related interventions in Program Results Areas 1 and 2.** This component will finance TA assistance for database integration in KP tax authorities; digitization of UIPT records with GIS mapping; and extension of the NFMIS to TMAs.

7. **E-archiving, indexing, digitization, and web enhancements.** This is a critical activity of the technical assistance intervention that will facilitate the delivery of core administrative processes in the selected pilot departments and establish a durable web and transparency platform. The Program will finance the following key activities:

- (a) Revision/developing of regulations on the use of e-filing, including e-signatures.
- (b) Developing an electronic archival system/record classification, registry, and storage facilities.
- (c) Establishing document management tracking, electronic records, personal files, and databases systems.
- (d) Strengthening manual and electronic information security systems.
- (e) Developing and implementing information governance structures.
- (f) Periodic assessment, evaluation, and reporting reviews to track performance of records management system implementation.



- (g) Strengthening capacity for e-records management
- (h) Strengthening provincial website (intranet and extranet) and e-mail domain to ensure stable e-mail domain to departments.
- (i) Provision of modern ICT equipment for enhanced volumetric data storage.

8. **Change management.** The Program will finance the development and implementation of a Change Management Strategy and Action Plan to ensure that GoKP officials understand the new environment (for example, e-archiving, digitization, Web enhancements) and accept the associated new ways of conducting business.

Component 2.2: Program Coordination and Support (US\$5.5 million)

9. **This subcomponent will support Program coordination and implementing departments in undertaking their activities in a timely manner to achieve the targeted outcomes.** The subcomponent will finance the following activities:

- (a) **Program coordination.** The Program will finance the establishment of the Shared Services Unit (SSU) and an Operation Support Unit (OSU) in the FD. The SSU will comprise the SSU Director, Procurement Specialist, Financial Management Specialist, and Environmental and Social Safeguards Specialist. The OSU will comprise the Operation Coordinator (OC), M&E Specialist, Learning Specialist, and Communications Specialist. Additional staff (for example, an ICT specialist) will be brought in as needed during Program implementation.
- (b) **Coordination of capacity building.** The OSU's Learning Specialist will support the OC in coordinating learning activities with the relevant departments. The OSU will develop a Learning Strategy targeting the capacity-building areas identified in the PAP; those identified in the fiduciary risks (for example, internal auditing); and those aimed at facilitating achievement of specific DLIs. Training activities will rely on existing national-level institutions. Training will involve peer-to-peer learning, especially across various provinces and through linkages with external partners that have experience in implementing the kinds of reforms supported by this Program.
- (c) **Communications and stakeholder outreach.** The Program will finance the development and implementation of a Communication Action Plan detailing key stakeholders to be reached during Program implementation, both inside and outside of the Government. This activity will be part of the Citizen Engagement strategy and will be initiated before Program effectiveness and throughout the duration of the Program.
- (d) **Program monitoring, evaluation, and verification.** The Program will finance the strengthening of M&E systems to ensure improved tracking and assessment of Program activities. Activities to be financed will include the hiring of technical consultants as part of the OSU to undertake M&E and the design of tools for gathering pertinent data for verification and Program monitoring. The Program will also support the engagement of a TPVA for the Program.



Implementation Arrangements

10. **The FD will be the main implementing agency for the TA component.** The RWG will be the Program Steering Committee and will oversee the implementation of activities under this component as part of its strategic oversight role over the Program. The OC in the FD will be responsible for coordinating the TA component as well as for overseeing the implementation of capacity-building activities supporting all the result areas. The OC will be supported by several technical specialists either hired competitively or seconded from the GoKP.

11. **The OC will coordinate implementing departments; monitor progress and results indicators; monitor implementation of the PAP, the work of the TPVA, and compliance with fiduciary obligations; and submit withdrawal applications.** The OC will prepare a work plan covering all the components of the TA. Similarly, before the beginning of every fiscal year each department benefiting from the TA will prepare a work plan and submit it to the OC for review and onward transmission to the World Bank, before the approval of the RWG. A progress report for each department will similarly be prepared and submitted to the World Bank for review and approval.

Financial Management and Disbursement Arrangements

12. The financial management (FM) risk is assessed as Substantial.

13. **Staffing arrangements.** Within three months after loan effectiveness a dedicated Financial Management Specialist with relevant experience and qualifications will be appointed at the SSU—either competitively selected from the market or seconded from the Office of the Accountant General. The FM Specialist will be responsible for ensuring that the FM arrangements being applied are acceptable to IDA and that the funds are used for the intended purposes.

14. **Budgeting.** The SSU will prepare annual budgets based on its work plans and will submit them to the World Bank at least one month before the beginning of the Program’s fiscal year for review and “no objection.” The budgets will follow applicable Government/entity budgeting guidelines. During the fiscal year, the budgets will be monitored semiannually using Interim Unaudited Financial Reports, which are to be submitted to the Bank within 45 days after the end of each six-month period.

15. **Internal controls.** The IPF component will be implemented using internal control processes consistent with the requirements of the Institute of Internal Auditors and as adopted in KP.

16. **Funds flow and disbursement arrangements.** All the disbursement methods—advance, reimbursement, and direct payments—will be permissible. The implementing agency will maintain a foreign currency designated account at the National Bank of Pakistan and will submit an online withdrawal application to the Bank via Client Connection, supported by a six-monthly cash forecast. Table 6 sets out the amount allocated to a single disbursement category for financing out of the proceeds of the credit in respect of the TA component.

**Table 8.1. Disbursement Categories and Financing**

Categories	Amount of the Credit Allocated (expressed in SDR, millions)	Percentage of Expenditures to Be Financed (inclusive of taxes)
Goods, consulting and non-consulting services, training, operating costs	13	100%
Total amount	13	100%

17. **Audit arrangements.** The office of the Auditor General of Pakistan (AGP), which is acceptable to the World Bank, will conduct an annual audit of the TA component of the Program. The Directorate General Audit (KP), as the representative of AGP, will carry out the audit of the TA component in accordance with the terms of reference agreed between the World Bank and AGP. For each fiscal year closing on June 30, acceptable audited financial statements will be submitted to the World Bank by March 31—that is, within nine months after the close of the fiscal year.

Procurement Arrangements

18. Procurement for the IPF component of the Program will be carried out in accordance with the World Bank's Procurement Regulations for Borrowers for Goods, Works, Non-Consulting and Consulting Services dated July 1, 2016, and revised August 2018 (Procurement Regulations). The Project will be subject to the World Bank's Anticorruption Guidelines, dated October 15, 2006, and revised in January 2011 and July 2016. With the support of the World Bank, the FD will prepare a simplified Project Procurement Strategy Document that will inform the overall procurement and contract management approach. Key procurement activities under the TA and capacity-building component include Business Process Review consultancy, implementation of e-government functionality, and consultant and non-consultant services such as website enhancements (intranet), provision of related transparency portal (extranet), and related goods. The World Bank's Systematic Tracking of Exchanges in Procurement (STEP) planning and tracking system will be used to monitor procurement implementation performance.

Environmental and Social Systems

19. The Program activities are limited to technical and institutional support aimed at improving Government performance. These activities include no physical works and present no risks related to land acquisition and involuntary resettlement. Given this low risk profile, no World Bank safeguards policy is triggered. However, the Program does present opportunities for advancing the World Bank's corporate mandates—that is, enhancing the social development outcomes of projects through gender and citizen engagement.