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Report No: PAD3622

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROGRAM APPRAISAL DOCUMENT

ON A

PROPOSED LOAN

IN THE AMOUNT OF

US\$304 MILLION

TO THE

ISLAMIC REPUBLIC OF PAKISTAN

FOR THE

PUNJAB RESOURCE IMPROVEMENT AND DIGITAL EFFECTIVENESS (PRIDE)

PROGRAM-FOR-RESULTS

September 30, 2020

Governance Global Practice
South Asia Region

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CURRENCY EQUIVALENTS

(Exchange Rate Effective August 31, 2020)

Currency Unit = Pakistani Rupee (PKR)

US\$1 = PKR. 165.62

FISCAL YEAR

July 1 - June 30

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**ABBREVIATIONS AND ACRONYMS**

| | | | |
|-------|--|--------------|---|
| ACG | Anti-Corruption Guidelines | PEFA | Public Expenditure and Financial Accountability |
| ADP | Annual Development Plan | PFC | Provincial Finance Commission |
| AGP | Auditor General of Pakistan | PFM | Public Financial Management |
| BoR | Board of Revenue | PFMASD | Public Financial Management for Accountability and Service Delivery Program |
| CPS | Country Partnership Strategy | PFMU | Public Financial Management Unit |
| DLI | Disbursement-Linked Indicator | PFMRS | Public Financial Management Reform Strategy |
| DLR | Disbursement-Linked Result | PFMRU | Public Financial Management Reform Unit |
| DRFS | Disaster Risk Financing Strategy | PforR | Program for Results |
| DSSI | Debt Service Suspension Initiative | PGS | Punjab Growth Strategy |
| ESSA | Environment and Social Systems Assessment | PIM | Public Investment Management |
| ETNCD | Excise, Taxation and Narcotics Control Department | PITB | Punjab Information Technology Board |
| FBR | Federal Board of Revenue | PPMRP | Punjab Public Management Reform Program |
| FD | Finance Department | PPP | Public-Private Partnership |
| GDP | Gross Domestic Product | PPR | Punjab Procurement Rules |
| GoPb | Government of Punjab | PPRA | Punjab Procurement Regulatory Authority |
| ICT | Information and Communication Technology | PRA | Punjab Revenue Authority |
| IFMIS | Integrated Financial Management Information System | PRIDE | Punjab Resource Improvement and Digital Effectiveness |
| IPF | Investment Project Financing | PRR | Pakistan Raises Revenue |
| IRI | Intermediate Results Indicator | PSU | Program Support Unit |
| IT | Information Technology | RISE Program | Resilient Institutions for Sustainable Economy Program |
| LG | Local Government | RISE Punjab | Responsive Investment for Social Protection and Economic Stimulus - Punjab |
| M&E | Monitoring and Evaluation | SBD | Standard Bidding Document |
| MOU | Memorandum of Understanding | SGBV | Sexual and Gender-Based Violence |
| MSMEs | Micro, Small and Medium Enterprises | SOP | Standard Operating Procedure |
| MTFF | Medium-term Fiscal Framework | STS | Sales Tax on Services |
| NPV | Net Present Value | TA | Technical Assistance |
| OSR | Own-Source Revenue | TPVA | Third-Party Verification Agency |
| P&DB | Planning and Development Board | | |
| PAP | Program Action Plan | | |
| PDO | Program Development Objective | | |



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DATASHEET

BASIC INFORMATION

| | | | |
|--------------|---|--|--|
| Country(ies) | Project Name | | |
| Pakistan | Punjab Resource Improvement and Digital Effectiveness | | |
| Project ID | Financing Instrument | Does this operation have an IPF component? | Environmental and Social Risk Classification (IPF Component) |
| P171417 | Program-for-Results Financing | Yes | Low |

Financing & Implementation Modalities

| | |
|--|---|
| <input type="checkbox"/> Multiphase Programmatic Approach (MPA) | <input type="checkbox"/> Fragile State(s) |
| <input type="checkbox"/> Contingent Emergency Response Component (CERC) | <input type="checkbox"/> Fragile within a non-fragile Country |
| <input type="checkbox"/> Small State(s) | <input type="checkbox"/> Conflict |
| <input type="checkbox"/> Alternate Procurement Arrangements (APA) | <input type="checkbox"/> Responding to Natural or Man-made Disaster |
| <input type="checkbox"/> Hands-on Enhanced Implementation Support (HEIS) | |
| Expected Project Approval Date | Expected Closing Date |
| 22-Oct-2020 | 25-Aug-2025 |

Bank/IFC Collaboration

No

Proposed Program Development Objective(s)

To increase own source revenue, and improve reliability of resource allocation and access to digital services for people and firms in the province of Punjab.

Organizations

Borrower : Islamic Republic of Pakistan

Implementing Agency : Finance Department, Government of Punjab



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COST & FINANCING**SUMMARY**

| | |
|--------------------------------|----------|
| Government program Cost | 1,650.00 |
| Total Operation Cost | 554.00 |
| Total Program Cost | 524.00 |
| IPF Component | 29.24 |
| Other Costs | 0.76 |
| Total Financing | 554.00 |
| Financing Gap | 0.00 |

Financing (USD Millions)

| | |
|---|---------------|
| Counterpart Funding | 250.00 |
| Borrowing Agency | 250.00 |
| International Bank for Reconstruction and Development (IBRD) | 304.00 |

Expected Disbursements (USD Millions)

| Fiscal Year | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
|-------------------|-------|--------|--------|--------|--------|--------|
| Absolute | 90.00 | 75.00 | 50.00 | 40.00 | 30.00 | 19.00 |
| Cumulative | 90.00 | 165.00 | 215.00 | 255.00 | 285.00 | 304.00 |



INSTITUTIONAL DATA

Practice Area (Lead)

Governance

Contributing Practice Areas

Climate Change, Digital Development, Gender, Macroeconomics, Trade and Investment

Climate Change and Disaster Screening

This operation has been screened for short and long-term climate change and disaster risks

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 | ● Moderate |
| 6. Fiduciary | ● Substantial |
| 7. Environment and Social | ● Low |
| 8. Stakeholders | ● Moderate |
| 9. Other | ● Moderate |
| 10. Overall | ● Moderate |

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



Legal Operational Policies

| | Triggered |
|---|-----------|
| Projects on International Waterways OP 7.50 | No |
| Projects in Disputed Areas OP 7.60 | No |

Environmental and Social Standards Relevance Given its Context at the Time of Appraisal

| E & S Standards | Relevance |
|---|------------------------|
| Assessment and Management of Environmental and Social Risks and Impacts | Relevant |
| Stakeholder Engagement and Information Disclosure | Relevant |
| Labor and Working Conditions | Relevant |
| Resource Efficiency and Pollution Prevention and Management | Relevant |
| Community Health and Safety | Relevant |
| Land Acquisition, Restrictions on Land Use and Involuntary Resettlement | Not Currently Relevant |
| Biodiversity Conservation and Sustainable Management of Living Natural Resources | Not Currently Relevant |
| Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities | Not Currently Relevant |
| Cultural Heritage | Not Currently Relevant |
| Financial Intermediaries | Not Currently Relevant |

NOTE: For further information regarding the World Bank’s due diligence assessment of the Project’s potential environmental and social risks and impacts, please refer to the Project’s Appraisal Environmental and Social Review Summary (ESRS).

Legal Covenants

Sections and Description

The Implementing Entity shall:

- (a) prepare and furnish to the Bank for its review, an Implementation Manual setting out detailed institutional, administrative, financial, technical and operational standards and procedures for the implementation of the



Operation, Program Action Plan, and including: (i) detailed disbursement calculation formula; (ii) detailed safeguards, financial management (including funds flow and budgeting), personal data collection/processing and procurement arrangements; and (iii) a monitoring and verification system for the Program, in accordance with good international practice, roles and responsibilities for the implementation of the Operation and such other arrangements and procedures as shall be required for the effective implementation of the Operation, in form and substance satisfactory to the Bank;

(b) within three (3) months after the Effective Date, adopt such Implementation Manual as shall have been approved by the Bank and thereafter, implement the Operation in accordance with the Implementation Manual; and

(c) shall not amend, abrogate or suspend, or permit to be amended, abrogated or suspended any provision of the Implementation Manual without the prior written agreement of the Bank.

Sections and Description

The Implementing Entity shall maintain, throughout the period of implementation of the Operation, the Public Financial Management Reform Steering Committee comprised of officials of various government entities, in adequate numbers and under terms of reference satisfactory to the Bank, vested with the responsibility of overseeing the implementation of the Operation in their respective agencies.

Sections and Description

The Implementing Entity shall vest the overall responsibility for the implementation of the Project in its Finance Department and shall maintain, throughout the period of implementation of the Project, the Public Financial Management Unit with the composition, resources and terms of reference satisfactory to the Bank and adequate for successful implementation of the Project.

Sections and Description

The Implementing Entity shall carry out the Program Action Plan in accordance with the schedule set out in the said Program Action Plan in a manner satisfactory to the Bank.

Sections and Description

The Implementing Entity shall ensure that collection, storage, usage or processing of personal data are carried out with due regard to appropriate data protection and privacy standards and practices.

Sections and Description

The Implementing Entity shall monitor and evaluate the progress of the Program and the Project and prepare Program Reports in accordance with the provisions of Section 5.08 of the General Conditions. Each Project Report and Program Report shall cover the period of one calendar semester, and shall be furnished to the Borrower not later than thirty (30) days after the end of the period covered by such report for incorporation and forwarding by the Borrower to the Bank of the overall Project Report and Program Report.



Sections and Description

For purpose of verifying the achievement of the DLRs, the Implementing Entity shall engage, not later than six (6) 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 Bank, to undertake the verification process.

Sections and Description

P&DB and FD shall prioritize annual development plan schemes supporting program result areas and ensure continuous and predictable release of funds for program activities, which shall be assessed at the time of third-party review of program expenditure framework.

Conditions



I. STRATEGIC CONTEXT

A. Country Context

- 1. Pakistan is at a crossroads as it deals with the the coronavirus (COVID-19) pandemic.** Periodic macroeconomic crises and a low human capital basis have constrained the country's growth prospects. Over the last two decades, economic growth in Pakistan has averaged 4.4 percent a year, below the South Asian annual average of 6.3 percent.¹ Low investment in human capital, slow progress of structural reforms, low private investment, and slow export growth due to an overvalued currency, among others, have hindered growth prospects.² The country was making good progress in stabilizing its economy and implementing much needed structural reforms. However, the COVID-19 pandemic will have significant negative impacts on the economy. The closure of businesses and disruption to the supply chains are significantly affected the services and manufacturing sectors, which account for nearly 80 percent of total gross domestic product (GDP). The economy is expected to contract in the range of 2.6 percent and 3.3 percent in fiscal year (FY) 20, and between 0.2 percent and 4.0 percent in FY21.
- 2. The consistent and significant decline in poverty since 2001 is likely to be negatively impacted by the COVID-19 pandemic and its containment measures.** The challenges of poverty reduction can be further exacerbated by climate change and disaster risk-related vulnerabilities. The economic contraction is expected to contribute to a sizeable increase in poverty, reversing the trend of sustained poverty reduction observed between 2001 and 2015. Urban workers employed in the informal sector and daily wage workers employed in the formal sector will bear the brunt of the slowdown. In rural areas, expected decline in off-farm employment opportunities is also likely to increase vulnerability to shocks of households relying on agriculture.
- 3. Punjab is Pakistan's largest province, accounting for 55 percent of the country's population and around 60 percent of its economy.** It is also one of the two provinces most affected by the COVID-19 pandemic. The economic downturn is projected to increase unemployment in Punjab by five to eight million, pushing many households below the poverty line. Punjab depends on federal transfers from the divisible pool of revenue for the bulk of its budget resources. The province has made efforts to increase its own source revenues (OSR), mainly from provincial taxes, to increase investment in development priorities. The economic fallout from the pandemic is, however, expected to reduce the province's OSR, leaving it with fewer resources to finance its emergency response and to sustain the already modest investment in human capital and infrastructure.

B. Sectoral and Institutional Context

- 4. The Program is an integral part of the World Bank's whole-of-country approach to strengthen PFM systems and revenue mobilization at the federal and provincial levels to promote coherent national systems.** The Program will also support the Government of Punjab's development response to Covid-19 challenges. The fiscal institutions and intergovernmental coordination arrangements have also

¹ World Bank estimate.

² World Bank. 2019. Pakistan at 100: Shaping the Future. Washington, DC: World Bank.
<https://openknowledge.worldbank.org/handle/10986/31335>



constrained the effective management of the consolidated finances. The development of a coherent medium-term fiscal framework (MTFF) and fiscal risk analysis are hampered by the absence of these functions at both the federal and provincial levels. The result is incremental budgeting, lack of coherence between the objectives of the federal and provincial finance divisions, a build-up of debt, and lax fiscal discipline, as evidenced by the country's persistently high fiscal deficits (at 6.4 percent of GDP on average in the last decade). These challenges limit the country's ability to respond effectively to the COVID-19 crisis and its ability to recover quickly and remain resilient.

5. **The Government of Punjab (GoPb) has made significant progress in public financial management (PFM) reforms.** Based on the GoPb's Public Financial Management Reform Strategy (PFMRS) for 2015–2020, the GoPb expanded the sales tax on services (STS) base and increased STS collections from PKR 43 billion in FY13 to PKR 106 billion in FY18, completed digitization of urban immovable property tax (UIPT) records with the addition of more than 1 million new properties to the tax net, automated the property tax invoice system and rural land records, and digitized stamp duty payments. The GoPb has also introduced citizen budgets; implemented a management information system for registering and processing contracts of more than 153 agencies; and enhanced accountability for service delivery through the innovative use of smart management tools to monitor district services in health, education, and agriculture sectors. The GoPb intends to deepen these successes through additional investment to address three recurring problems: weak systems for managing fiscal risks, low levels of OSR, and inefficiencies caused by limited use of technology in the delivery of public services.
6. **Fiscal risk exposure remains a fundamental PFM challenge in Punjab.** This is the result of a large pension spend which currently stands at 12.3 percent of the provincial revenues and is projected to rise to 23 percent of the total provincial revenues by 2060 (using both wage and inflation indexation). There is also considerable uncollateralized debt stock arising from trade in agricultural commodities — worsened by the lack of transparency on the policy, operation, and the actual debt numbers. Finally, the large number of state-owned enterprises and public-private partnership (PPP) projects, with increased provincial guarantees, and the lack of capacity to assess the impact of these guarantees only heighten Punjab's fiscal risks. The capacity of the Finance Department (FD) and the Planning & Development Board (P&DB) to prepare a realistic budget is compromised by the incremental nature of budget formulation, weak budget contestation, separation of recurrent and development budgets, and an inadequate public investment management (PIM) process.
7. **Punjab's own tax receipts currently account for only 0.8 percent of the province's estimated economic output, indicating that the province may be collecting only a quarter of its tax potential.** The World Bank estimates Punjab's tax potential at PKR 400 billion, with the largest revenue potential in STS, UIPT and stamp duty.³ In the medium term, the province can capture much of this potential revenue by broadening its tax base through improvements in tax administration and policy—without imposing new taxes or raising rates. To do this, Punjab would have to enhance cooperation between its three tax authorities to facilitate compliance; tackle tax evasion (for example, by data integration, third-party data links, and audit); and reduce the cost of tax collection. Likewise, streamlining tax instruments by abolishing some minor taxes with low revenue potential and combining the collection of similar taxes would simultaneously reduce compliance costs for taxpayers and administrative costs for tax authorities. Simplification of business processes and increased automation in the province's three revenue collection

³ World Bank. 2017. *Pakistan Development Update: Managing Risks for Sustained Growth*. Washington, DC: World Bank.



authorities can also contribute to the province’s goal of improving the business environment through taxpayer facilitation measures, including online filing of tax returns, e-payments, and refunds system. Another source of significant nontax revenue is in an improved valuation system and effective management of public property assets.

8. **Finally, technology platforms for service delivery are still not integrated and not interoperable, despite some progress in simplifying government procedures and use of technology.** If COVID-19 related restrictions on face-to-face service delivery continue, the GoPb will need to expand its existing citizen feedback model, accelerate the use of technology in procurement and digitize key services both for citizens and for routine administrative operations of government business. In addition to significant efficiency gains, a combination of services digitization and accompanying measures to encourage services uptake and utilization by women could help mitigate the gendered impacts of natural disasters and public health emergencies. Such impacts include increased exposure to sexual and gender-based violence (SGBV), livelihoods losses in the informal sector, and greater constraints on women’s mobility. Digitizing can also facilitate business continuity during future emergencies.
9. **To address these problems, the GoPb has prepared a strategic framework aligned with the themes of its Punjab Growth Strategy (PGS) 2020.** This includes the newly launched PFMRS 2023 and the Responsive Investment for Social Protection and Economic Stimulus - Punjab (RISE Punjab) designed to respond to the COVID-19 pandemic. This strategic framework is designed to tackle the upstream structural weaknesses in the management of public resources as well as the downstream operational issues in PFM to achieve efficiency savings, timely budget execution, and accountability mechanisms to reduce the risk of mismanagement of funds. In addition, the strategy envisions accelerated digitization of business processes, including e-procurement, and delivery of e-services to citizens and firms to ensure business continuity during emergencies.

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

Impact of the COVID-19 Pandemic on the Country Program and Government Response

10. **Pakistan is vulnerable to the impacts of the COVID-19 pandemic due to a weak and chronically underfunded public health system, concentrated poverty, and a weakening economy.** The COVID-19 pandemic and its containment measures have affected the delivery of essential health services due to supply chain disruptions and redeployment of health care workers. Restrictions on movement, lost income, and fear of infection have kept people away from primary health care facilities. There is likely to be a reversal of the decade-long poverty reduction trend,⁴ especially in urban areas which account for a third of Pakistan’s population. The pandemic has also exacerbated macroeconomic and fiscal risks, with the closure of nonessential businesses and the disruption to the domestic supply chains significantly affecting the services and manufacturing sectors which account for nearly 80 percent of total GDP. Crisis-response expenditures (see below) and lower revenues are expected to increase the fiscal deficit from the pre-COVID-19 estimate of 6.3 percent to 9.4 percent. The country’s main industrial sector—textiles and apparel—is highly exposed to COVID-19 related disruptions because of its labor-intensive nature. The

⁴ The period between 2001 and 2015 was characterized by an uninterrupted and significant decline in poverty, from 64.3 percent in 2001 to 24.3 percent in 2015. World Bank. 2019. *Pakistan@100:Shaping the Future*.



economy is expected to contract between 2.6 percent and 3.3 percent in FY20, and between 0.2 percent and 4.0 percent in FY21, while pre-COVID-19 projections for growth stood at 2.4 percent for FY20 and 3.0 percent for FY21.

- 11. In response to the outbreak of COVID-19 in Pakistan, the Government announced a fiscal stimulus package of approximately US\$7.5 billion⁵ (equivalent to 2.6 percent of GDP).** This is aimed to (a) support the medical health sector in combating the spread of the virus and providing relief to those affected, (b) implement social welfare measures to support the poor and vulnerable whose livelihoods have been affected by the economic slowdown and partial lockdowns across the country, and (c) provide stimulus to businesses and industries to protect productive assets during the economic downturn. The financing of the response package comprises approximately US\$2.5 billion of additional resources and a reappropriation from the existing budget. Pakistan has also availed of the Debt Service Suspension Initiative (DSSI) and expects US\$ 2 billion to US\$2.7 billion in temporary fiscal space⁶ from bilateral creditors due to the debt service standstill during May 1–December 31, 2020, including the G20. The country has committed to use the created fiscal space for additional social, health, or economic spending and follow the disclosure and other requirements of the DSSI.
- 12. The World Bank Group’s engagement in Pakistan is guided by the Country Partnership Strategy (CPS) for FY2015–20.⁷** The CPS, now extended to FY21, is built on four result areas: energy, private sector, inclusion, and service delivery. In response to the COVID-19 pandemic over the next 18 months, the World Bank Country Team has also prepared an Operational Framework aligned with the World Bank Group Crisis Response Approach Paper. The framework will help Pakistan respond to the crisis and prepare to bounce back stronger and faster. The framework has four pillars: (a) protecting lives, (b) protecting the poor, (c) protecting livelihoods, and (d) securing the future. The IFC strategy (FY21–FY24) was delivered in FY20 and focuses on stepping up engagement in critical sectors and opening of new markets by leveraging reforms in the following areas: housing; inclusion (digital/micro, small and medium enterprises [MSMEs]); urban; and energy. The Systematic Country Diagnostic report was distributed to the Board on September 23, 2020 and has been published and disclosed.
- 13. The World Bank Group’s ongoing and planned support to Pakistan has been realigned with the Government’s pandemic response.** The World Bank’s immediate support included a US\$200 million Pandemic Response Effectiveness in Pakistan project and repurposing of US\$40 million from eight ongoing projects for urgently needed equipment and supplies. Two Development Policy Operations (US\$1 billion) supported Pakistan to (a) enhance human capital accumulation and improve federal safety nets to respond to shocks, including those from the COVID-19 pandemic and (b) strengthen the fiscal framework, promote growth and transparency, and provide foundational energy sector investments which are critical to build resilience and support recovery from the effects of the COVID-19 pandemic on the economy.⁸ Two human

⁵ Estimated US dollar equivalent for PKR 1.2 trillion stimulus package.

⁶ This includes non-G20 creditors. Specific amount will be determined after data reconciliation has been completed.

⁷ World Bank. 2014. *Islamic Republic of Pakistan: Country Partnership Strategy, 2015-2020* (Report No. 84645-PK) and the Performance and Learning Review (Report No. 113574).

⁸ Securing Human Investment to Foster Transformation (SHIFT, P170568) and Resilient Institutions for Sustainable Economy (RISE Program, P171850).



capital projects provided US\$236 million to support the response in some of the poorest districts in the country.⁹

- 14. The pipeline for FY21 has been revised to frontload investments that support immediate needs as identified by the framework across the four pillars.** Priority will be given to projects with (a) direct COVID-19 interventions contributing to the pillars of the operational framework; (b) high likelihood of disbursing quickly, within 12 to 24 months; (c) simplified implementation arrangements; and/or (d) direct link to medium-term priorities that increase resilience to exogenous shocks. Two emergency projects totaling US\$400 million were approved by the Board on July 31 responding to the impacts on education and the compounded impact of COVID-19 and spread of locusts on the agriculture sector and on food security.¹⁰ Preparation of six projects which meet the objectives of the framework and the selectivity criteria above is being prioritized. Four projects are direct responses to COVID-19 and will create jobs to address unemployment due to COVID-19 through emergency public works initiatives coupled with microenterprises, support COVID-19 related enhancement to the delivery systems for social protection across the country, support Karachi to address the structural vulnerabilities exacerbated by flooding which have been compounded by COVID-19, and contribute to reducing vulnerability to disasters and public health emergencies in Sindh.¹¹ Two projects, including this one, will support medium-term priorities.¹²
- 15. IFC has also engaged with banks to provide nonfinancial services to support their MSME portfolios.** This includes risk assessments and stress testing. Going forward, IFC is looking to support MSMEs in key sectors affected by COVID-19, such as textiles, auto, pharma, and agro-processing through risk sharing facilities and credit enhancement with local banks. IFC is also in discussion with businesses in the manufacturing and infrastructure sectors to support their investment needs in the post COVID-19 recovery phase. Additionally, IFC has initiated four upstream projects to support PPPs in health care, water, and access to finance women entrepreneurs which will provide the necessary impetus for medium-term economic recovery. IFC, under its global COVID-19 facility, has approved an increase of US\$30 million under existing short-term trade facilities with five banks to support small and medium enterprises affected by the pandemic.
- 16. MIGA has continued to support cross-border investors and lenders during these challenging times.** MIGA's US\$318 million gross outstanding exposure in Pakistan comprises four projects in the manufacturing, finance and energy sectors. MIGA is monitoring developments in Pakistan, particularly in the energy sector, where the agency is currently supporting two hydropower projects. MIGA's US\$6.5 billion fast-track facility to help investors and lenders tackle COVID-19, launched in April 2020, is available to Pakistan, but has not yet been utilized.
- 17. Cross-sectoral coordination is maintained with multilateral and bilateral institutions through forums such as the Development Partner Meetings hosted by the World Bank.** Aligned with the World Bank's

⁹ Khyber Pakhtunkhwa Human Capital Project (P166309, US\$200 million) and Balochistan Human Capital Investment Project (US\$36 million, P166308) approved on June 23, 2020.

¹⁰ Actions to Strengthen Performance for Inclusive and Responsive Education (ASPIRE, P173399) and Locust Emergency and Food Security (LEAFS, P174314), approved on July 31, 2020.

¹¹ Community Assets and Reviving Employment (CARE, P174368), Crisis-Resilient Social Protection (P174484), Karachi Solid Waste Emergency and Efficiency Project (SWEEP, P173021), Sindh Resilience Additional Financing (P173087).

¹² Khyber Pakhtunkhwa Hydropower and Renewable Energy Development (P163461).



initial COVID-19 emergency response, the Asian Development Bank approved a US\$300 million emergency assistance loan to strengthen Pakistan's public health response to the COVID-19 pandemic and is also providing US\$500 million from its Comprehensive Pandemic Response Option. The International Monetary Fund disbursed US\$1.4 billion under the Rapid Financing Instrument to address the economic impact of the COVID-19 shock. An online Partners Platform is managed by United Nations Children's Fund that coordinates additional financing requirements of the Government, as articulated in the Pakistan Preparedness and Response Plan which estimates US\$595 million in additional external financing requirements for the medical health response.

- 18. The proposed Punjab Resource Improvement and Digital Effectiveness (the Program) supports the twin goals by helping Pakistan's largest province to increase efficiency in its public expenditure, close its large tax gap, and create fiscal space for growth-enhancing expenditures on infrastructure and human capital.** It supports CPS Result Area 4 on Service Delivery, and specifically Objective 4.1: Improved Public Resources Management, which aims to help the Government mobilize revenue and improve public expenditure to create fiscal space for spending on public services and infrastructure.¹³ In the wake of COVID-19, the Program has incorporated the use of Information and Communication Technology (ICT) to support service delivery during the pre and post recovery while also supporting reforms to improve the management of emergencies.
- 19. The use of the Program for Results (PforR) instrument will help reinforce the results orientation of the GoPb program by providing milestones for timely implementation, incentives for behavioral change, and flexibility for complex tasks.** It will facilitate sustained dialogue and coordination of support by development partners active in PFM and enhance collaboration between various stakeholders in Punjab. The technical assistance (TA) component will finance specific expenditures for ICT investments and institutional capacity building in critical areas including business process reengineering, database integration, and risk-based audit. The TA will also support the rollout of accompanying measures that address the skills gaps and risks that limit women's utilization of ICT tools.¹⁴

II. PROGRAM DESCRIPTION

A. Government Program

- 20. The government's program is anchored on three key strategic documents.** These are the *PGS*, the *PFMRS*, and the *RISE Punjab*. The *PGS* sets the broader growth framework that directs the rest of the provincial growth agenda, while the *RISE Punjab* and *PFMRS* provide specific activities to advance the objectives of the *PGS*. The *PGS* comprises five pillars; (a) enhancing the focus on sectors in which Punjab has comparative advantage, (b) creating an enabling environment for private sector led growth; (c) investing in quality formation of human capital and its utilization, (d) making public investment and Annual Development Plan (ADP) sectoral priorities to maximize impact on growth, and (e) coordinating with the federal government

¹³ World Bank Group. 2014. *Islamic Republic of Pakistan: Country Partnership Strategy, 2015-2020* (Report No. 84645-PK), discussed by the Executive Directors on May 1, 2014, and extended by the Performance and Learning Review (Report No. 113574) distributed to the Executive Directors on an absence-of-objection basis with a closing date of June 15, 2017.

¹⁴ OECD. 2018. *Bridging the Digital Gender Divide: Include, Upskill, Innovate*. OECD: Paris. <http://www.oecd.org/internet/bridging-the-digital-gender-divide.pdf>.



on managing policy variables that affect Punjab’s economy.¹⁵ The PGS prioritizes expansion of the revenue base, increase in budget allocation and employment creation, and the use of ICT to build a more efficient and transparent governance model in Punjab.

- 21. The objective of the PFMRS is to develop "a robust PFM system for equitable growth and improved service delivery" in Punjab.**¹⁶ The strategy is intended to support the implementation of government policies, improve service delivery, and reduce fiduciary risks. The strategy has nine pillars covering elements of the entire PFM cycle. Underlying these pillars is the focus on disaster risk financing in the wake of COVID-19 and a focus on local government (LG) financing to facilitate improved service delivery and responsiveness in emergency situations. The PFM strategy builds on several reforms already undertaken and fills the remaining gaps, while also responding to the immediate growth needs as spelled out in the PGS. These reforms include restructuring of the FD, budget transparency and accessibility, participatory budgeting, reforming of sales tax and automation of property records, among others.
- 22. The RISE Punjab responds to the COVID-19 pandemic through interventions across eight pillars.** Of these, Pillar D on Public Financial Management and Disaster Risk Financing and Pillar E on Governance Reforms, focus on strengthening the PFM to respond to COVID-19, digitization of government systems (such as e-procurement), and actions to strengthen transparency and accountability. Pillar D of the RISE Punjab advances the PFMRS to: enhance fiscal space; mitigate fiscal risks; improve budgeting, planning and monitoring; reform PIM; improve management of funds at the LG level; and enhance the use ICT in PFM. Similarly, Pillar E supports the Punjab Information Technology (IT) Policy 2018 to utilize ICT for improved government efficiency and transparency with a focus on government-wide investment in ICT.

B. PforR Program Scope

- 23. The Program will support selected actions under RISE Punjab and the Public Financial Management Reforms Strategy amounting to US\$524 million** (Table 1). The expected results correspond with the Government’s expenditure framework (details in the Technical Annex 4) across three Result Areas as follows:

Part 1: The Program

The Program supports the Public Financial Management Reforms Strategy and public finance management and governance pillars (pillars D and E) of RISE Punjab, which are the subsets of Punjab Growth Strategy, in the following areas:

(a) Strengthened Budget Formulation and Fiscal Risk Management

Activities include the support for: (i) organizational reforms in FD and P&DB; (ii) development of a medium-term fiscal framework incorporating fiscal impact of climate change; (iii) development of a regulatory framework to facilitate integration of recurrent and development budgets; (iv) improvements in public investment management; (v) management of fiscal risks, in addition to a framework of minimum standards that reflect the concerns of women, girls and vulnerable groups in disaster preparedness and response; (vi) development of a legal framework for disaster risk financing; (vii) strengthening capacity of LGs for disaster

¹⁵ Government of Punjab (2020). *Punjab Growth Strategy 2023*. Lahore: Planning and Development Board.

¹⁶ Government of Punjab (2020). *Public Financial Management Strategy, 2020*. Lahore: Finance Department.



response; and (viii) establishment of the Disaster Risk Fund.

(b) Increased Use of Digital Technology for Delivery of Selected Public Services

Activities include the support for (i) review of existing business processes to identify redundant procedures; (ii) simplifying business processes to remove redundancies; (iii) digitization of public services for citizens and firms; (iv) improving women's utilization of newly digitized services; (v) development of a legal framework for electronic payments, mobile money, digital identification, geospatial systems and cloud-based computing; and (vi) revision of PFC award to introduce a need-based formula for transfers from the Provincial Government to LGs and a performance grants scheme for targeted support to LGs for the vulnerable population of Punjab.

(c) Improved Collection of OSR

Activities include the support for: (i) coordination of revenue policy and implementation measures; (ii) impact assessment of COVID-19 and climate events of recent past (recurrent) on revenue, to inform the design of related revenue policies and the revenue mobilization strategy and plan of the Provincial Government; (iii) expansion of the service sales tax base and increased taxpayer compliance; (iv) integration of taxpayers' data across three (3) tax authorities (selected taxes) and linkage with third party data; (v) simplification of tax administration processes and adoption of performance framework; (vi) development of online and mobile functionalities for tax payment; and (vii) building the capacity of ETNCD to modernize property valuation system to enhance revenue potential from public and private real estate.

Part 2: The Project

The Project consists of the following:

(a) Business Process Re-engineering

Provision of technical assistance to support, among others: (i) functional reviews of the Finance Department, P&DB, and the three (3) tax authorities; (ii) mapping, redesign and automation of business processes in three (3) tax authorities; (iii) assessment of database location and source to inform climate-based procurement decisions under Part 1(c)(iv) above, related to energy efficiency and capacity to avoid climate and geological impacts; (iv) development of e-service capabilities such as e-procurement and e-payments to vendors, e-filing and e-payment of taxes and e-submission of taxpayer appeals; (v) development of Provincial Government's public financial management regulatory framework and guidelines for their implementation; (vi) designing framework for property valuation system based on international practice; (vii) strengthening of the tax policy function within the PFMU, including building capacity within FD to develop contingency budgets to safeguard finances in case of potential climate-related incidents; (viii) establishment of research and intelligence units in the tax authorities; (ix) design of performance framework, and implementation of improved tax audit techniques by the PRA; (x) development of monitoring and accountability framework for LG gender-specific disaster preparedness and response; (xi) revision of the rules and regulations as well as the revisions in the Provincial Finance Commission Award and (xii) establishment of a digital reforms implementation unit within PITB.



(b) Business Continuity, Monitoring and Safeguards

Provision of technical assistance to support, among others: (i) development of standard operating procedures on e-waste management; (ii) development of a comprehensive inter-operability framework and associated rules and regulations to enable integration of databases; (iii) strengthening of monitoring and evaluation systems in P&DB; (iv) development of rules and regulations to facilitate e-government; (v) development of sector masterplans, linked with overall provincial growth strategy; (vi) revision of annual development plan guidelines and rules (vii) conducting business process review for the preparation, monitoring and evaluation of public investment projects; (viii) training and capacity building for public investment management; (ix) development of legal framework for digital identity management (including adequate online privacy and safety protections for end-users); and (x) Program impact assessment.

PforR Program Expenditure Framework

24. Program expenditures are estimated at US\$524 million, of which US\$274 million is IBRD financing over a five-year period (Tables 1 & 2). IBRD will also finance the TA component to the amount of US\$29.24 million.

Table 1: PRIDE Financing

| Source | Amount (US\$ Million) | % of Government Program |
|---|--------------------------|-------------------------|
| Government Financing | 250 | 48 |
| International Development Association (IDA) | 274 | 52 |
| Total Program Financing | 524 | 100 |
| IPF Financing (TA component) | 29.24 | |
| (other cost) | 0.76 | |
| Total IBRD Financing | 304 | |

Table 2: PRIDE Expenditure Framework (PKR, million)

| Nature of expense | Economic Code | Budget for next 5 years | % | Budgeted Cost. | Un-budgeted Cost | Program Years | | | | |
|--|---------------|-------------------------|------------|----------------|------------------|---------------|---------------|---------------|---------------|---------------|
| | | | | | | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-25 |
| Recurrent Budget | | | | | | | | | | |
| Employee related expenses (pay and allowances) | A01 | 18,968 | 22 | 18,968 | | 3,107 | 3,418 | 3,759 | 4,135 | 4,549 |
| Operating expenses | A03 | 8,867 | 10 | 3,867 | 5,000 | 1,633 | 1,697 | 1,766 | 1,843 | 1,927 |
| Physical assets | A09 | 9,179 | 11 | 43 | 9,136 | 1,120 | 1,525 | 1,617 | 2,160 | 2,759 |
| Grant, subsidies, transfers**(LQ4784) | A05 | 12,907 | 15 | 12,907 | | 2,114 | 2,326 | 2,558 | 2,814 | 3,095 |
| Performance Based Grants through PFC Awards to LGs | A05 | 15,737 | 18 | - | 15,737 | 3,477 | 3,477 | 3,477 | 2,653 | 2,653 |
| Development Budget (Existing Schemes with enhanced scope) | various | 20,845 | 24 | 10,845 | 10,000 | 3,595 | 3,855 | 4,140 | 4,454 | 4,800 |
| Program EF in PKR | | 86,503 | | 46,630 | 39,873 | 15,046 | 16,298 | 17,317 | 18,059 | 19,783 |
| <i>In USD Million</i> | | 524 | 100 | 283 | 241 | | | | | |
| | | | | 54% | 46% | | | | | |

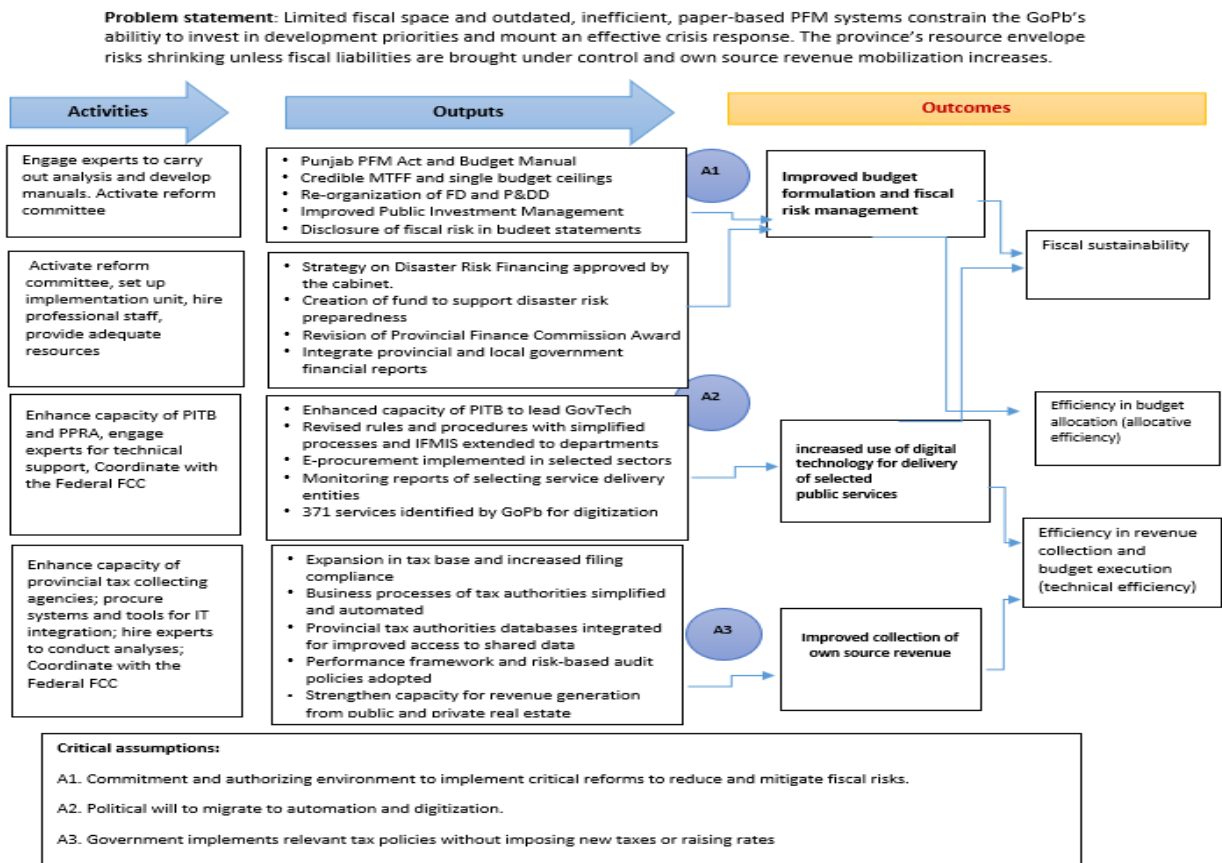


C. Program Development Objective (PDO) and PDO Level Results Indicators

25. The PDO is: "To increase own source revenue; and improve reliability of resource allocation and access to digital services for people and firms in the Province of Punjab". Three Result Areas will drive the achievement of this PDO, namely: (a) strengthening budget formulation and fiscal risk management; (b) increased use of digital technology for delivery of selected public services; and (c) improved collection of OSR (Fig. 1). The following results indicators will measure the achievement of the PDO:

- a) Variance between original budget and actual expenditure composition (Result Area 1);
- b) Citizens accessing government services through digital platforms, of which 20 percent are female (Result Area 2); and
- c) Value of Own Source Tax Revenue (Result Area 3).

Figure 1: Theory of Change





D. Disbursement Linked Indicators and Verification Protocols

26. The Program comprises seven (DLIs) that represent critical milestones to achieve the PDO (table 3). Three of these DLIs are PDO level indicators, while the other four are intermediate results indicators (IRIs). A third-party verification agent (TPVA) will verify the achievement of DLI targets (annex 2).

Table 3: DLIs and Rationale for Selection

| DLI | Cost \$ million | Rationale |
|---|-----------------|--|
| Results area 1: Strengthened budget formulation and fiscal risk management. | | |
| DLI 1. Moderate and reduce the annual pension cost of GoPb | 35 | This DLI will support increased transparency and improved management of the GoPb's fiscal risk, associated with pension cost. Key parametric reforms will be implemented which will reduce the annual pension cost of GoPb (Scalable). |
| DLI 2. Variance between original budget and actual expenditure composition. | 45 | This DLI will measure the credibility of the budget and estimate whether the budgeting process is robust, especially for core public functions e.g. education (Scalable). |
| Result Area 2: Increased use of digital technology for delivery of selected public services | | |
| DLI 3. Operational budget expenditure processed through e-procurement. | 35 | The DLI will support measures to increase the use of e-procurement in government transactions (Scalable). |
| DLI 4. Citizens accessing government services through digital platforms. | 45 | This DLI measures the impact of digitizing government services. The DLI complements the efforts of the federal government to establish a Pakistan Business Portal and an e-payment system (Scalable). |
| DLI 5. Punjab Urban Local Areas reporting on revenues and expenditure position, especially related to disaster risk management, core public social services, and gender | 37 | The DLI will support publishing budgets and bi-annual revenue and expenditure reports of 319 Urban Local Areas, on the basis of implementation of Integrated Financial Management Information System (IFMIS) or similar expenditure recording system in those Urban Local Areas (ULAs) (Scalable). |
| ResultsArea 3: Improved collection of OSR | | |
| DLI 6. Value of own-source tax revenue (from PKRs. 191billion to PKRs 300billion). | 40 | This DLI measures total amount of the province's taxes collected annually. These include Punjab's direct and indirect taxes collected by (PRA, Board of Revenue (BoR) and Excise Taxation and Narcotic Control Department (ETNCD) (Scalable). |
| DLI 7. Database integration in tax administration | 37 | This DLI supports measures to strengthen the capacity of the tax authorities to broaden the tax base and tax compliance measures (Scalable). |

III. PROGRAM IMPLEMENTATION

A. Institutional and Implementation Arrangements

27. The FD will oversee overall Program implementation. The Minister of Finance will preside over the PFM Reform Steering Committee overseeing Program implementation. The PFMU in the FD will be responsible for day to day Program management in collaboration with other implementing agencies.¹⁷ The Program Support Unit PSU in the P&DB will coordinate implementation of activities under the P&DB.

¹⁷ PRA, ETNCD, BoR, Punjab Procurement Regulatory Authority (PPRA), PITB and P&DB.



Results Monitoring and Evaluation

28. The Results Framework defines the indicators and the institutional arrangements for data collection. The M&E arrangements are designed to reflect the shared responsibility for implementation of the two strategies that support this Program. The P&DB is responsible for monitoring the implementation of the RISE Punjab, while the FD is responsible for monitoring the implementation of Punjab's PFMRS. The P&DB has experience in carrying out monitoring of similar Programs and adequate capacity to monitor Program performance. Whenever necessary, the PFMU will augment its capacity for M&E with additional staff.

Disbursement Arrangements

29. The Program will disburse funds upon verification of disbursement linked indicators (DLIs) achievement and approval by the World Bank. Achievement of DLRs will be verified by the TPVA according to the agreed verification protocol. Withdrawals on account of advance payment up to an aggregate amount of US\$30 million can be made against agreed DLRs that represent key milestones toward achieving the DLIs. If the DLRs are not achieved by the end of the Program implementation, advanced funds will be reimbursed to the World Bank. At the end of the Program, the total disbursed amount must be less than or equal to the overall government program costs.

Capacity Building

30. The Program is designed to sustainably develop institutional capacity to mobilize and manage public resources in line with best practice. The TA component will provide specialized expertise to implementing entities for key interventions. It will finance necessary ICT investments to embed the new business processes and provide specialized technical support to implement capacity-enhancing innovations, including fiscal planning, monitoring and management of fiscal risks, business process improvement, advanced revenue forecasting and tax audit techniques, and database integration and change management (see annex 7).

IV. ASSESSMENT SUMMARY

A. Technical (including program economic evaluation)

31. Strategic relevance. This Program primarily addresses three challenging areas of fiscal risk management, revenue mobilization and expenditure management through better use of information systems. Efficiency improvements in public expenditure and increased fiscal space for growth-enhancing expenditure on infrastructure and human capital could contribute to the country's goal of reaching middle income status by 2047.

32. Technical Soundness. The Program and the strategic framework that it anchors are based on the findings of Public Expenditure and Financial Accountability (PEFA) assessment of 2019. In addition, Program design is based on extensive analytical work on revenue mobilization, ADP and PIM system. The World Bank is well placed to support Punjab in the reform program due to extensive analytical work, a strong partnership with federal and provincial governments in PFM, and the availability of technical expertise drawing from country



knowledge and from similar operations. The Program builds on the successful implementation of the PPMRP which closed with “Satisfactory” rating in 2018.¹⁸

- 33. There is a strong rationale for the World Bank’s support.** Efficiency improvements in public expenditure and increased fiscal space for growth-enhancing expenditure on infrastructure and human capital could contribute to the country’s goal of reaching middle income status by 2047. The World Bank is well placed to support Punjab in the reform program due to extensive analytical work, a strong partnership with federal and provincial governments in PFM, and the availability of technical expertise drawing from country knowledge and from similar operations. The Program also tackles key reform actions that are not amenable to private sector financing, further justifying the World Bank’s involvement. The Program is an integral part of the World Bank’s whole-of-country approach to strengthen PFM systems and revenue mobilization at the federal and provincial levels. The Program builds on the successful implementation of the PPMRP which closed with “Satisfactory” rating in 2018.¹⁹
- 34. Economic rationale.** The expected net economic impact of the Program is positive, resulting in additional fiscal space of US \$ 1.263 billion (PKR274 billion) by FY2025 (annex 3). Improvement in OSR is expected to add US\$626 million over the baseline by FY2025. Increases in pension fund footing are expected to provide US\$597 million (using an 11-year average pension growth rate assumption-- average per annum growth rate of 28.8 percent) and the estimated gains from e-procurement and digitization of LG service delivery are estimated to be US\$314 million in the "medium scenario" that assumes 10 percent efficiency gains. The total projected net benefits realized through the efficiency gains from improvements in Punjab pension fund management, adoption of e-procurement and digitization of local service delivery and increase in own source collection are valued at US\$1.26 billion. To estimate the value of net benefits of PRIDE, a cost - benefit Analysis was conducted by assessing costs and benefits of the Program.

B. Fiduciary

- 35. An integrated fiduciary assessment (Procurement and Financial Management) concluded that the Program systems, complemented by the mitigation measures will provide adequate support for Program implementation.** The residual fiduciary risk is rated “Substantial”. The program reflects better than average capacity for financial management and that mitigation measures are in place. The assessment covered the FD, P&DB, PPRA; PRA, BoR, ETNCD, and PITB. These agencies have enough staff strength and technical capacity to manage Program funds. Residual FM risk is moderate, whereas, Procurement risks remain substantial given the lack of effective procurement management. The PPRA does not have adequate staff, and is yet to notify standard bidding documents (SBDs), and develop guidance for contract management and regulations. The Program Actional Plan (PAP) details measures to mitigate the risk of inadequate funding, delay in releases, lack of fiduciary capacity, non-transparent reporting and non-compliance with the World Bank’s guidelines on preventing and combating Fraud and corruption (see annex 6). The Program’s annual financial statements will be prepared in accordance with the Cash Basis International Public Sector Accounting Standards (IPSAS) and audited by the Auditor General of Pakistan (AGP). The audited financial statements of the Program and the technical assistance component for each fiscal year will

¹⁸ Punjab Public Management Reform Program (P132234).

¹⁹ Punjab Jobs and Competitiveness Program (P155963), Punjab Cities Program (P156972; currently under implementation), and Punjab Urban Land System Enhancement Project (P172945; currently being designed).



be submitted to the World Bank within nine months of the close of the financial year. Similarly, the Punjab Procurement Rules of 2009 (PPR-09) and updated in 2014, will guide procurement under the Program (See Annex 4 for details).

C. Environmental and Social

36. The Environment and Social Systems Assessment (ESSA) concluded that the Program poses low environmental and social risks (see annex 5). Program activities will result in multiple environmental and social benefits linked to equitable distribution of resources to LGs and improvement in municipal services - public and natural resources health. The PAP also details appropriate actions to advance these benefits while mitigating risks. The environment and social risk for the IPF component under the Environment and Social Framework is assessed as low. There are minor environmental and social risks associated with the TA component, primarily related to e-waste, impact of taxation on vulnerable people, and possible exclusion of individuals and businesses with low IT literacy.

D. Climate Co-benefits

37. Punjab is highly vulnerable to climate-induced hydro-meteorological hazards. In 2010, Punjab suffered major floods across the province, causing damages and losses worth US\$2.5 billion (in 2010 terms). Erratic and intense rainfall patterns have made urban and flash flooding a regular feature of the annual monsoon season in Punjab, with urban centers such as Lahore and Rawalpindi at high risk. On the other hand, parts of South Punjab are affected by moderate to severe drought conditions, leading to food insecurity and displacement. Further, emissions from coal-fired power plants and industries, coupled with loss of forestation, have led to a high prevalence of smog in the province during winters.

38. Several activities in the Program support mitigation and adaptation to climate change. First, the proposed medium-term macro-fiscal framework of the GoPb will include environmental cost (DLI 2). Second, the GoPb will prepare a Disaster Risk Financing Strategy (DRFS) to provide the framework for establishing a disaster risk management fund to finance investments for disaster risk reduction and risk mitigation and adaptation and a mechanism for disaster response and recovery. Third, the Program will support improvements in the regulatory framework to support LG responsiveness to disaster risks. This will be augmented by a performance grant mechanism through the PFC to incentivize LGs for disaster risk mitigation by promoting adaptation activities. The Program will also support preparation of SOP for environmental management of e-waste. (For details, please refer to Climate Co-Benefits note. It has been reviewed by Climate Focal Points for Pakistan).

E. Citizen Engagement & Treatment of Personal Data

39. The Program will support citizen engagement through implementation of citizen budgets and citizen-friendly budget execution reports at the provincial and LG levels. Activities will include publication of gender disaggregated budgetary and expenditure data to support better outcomes for women in budget formulation and execution. The Program will support transparency in fiscal risk reporting. Fiscal risk reports will be printed and shared with citizens on the website of the FD (DLI 1). Citizens will also have access to an integrated system of monitoring of development budget to provide firsthand information on the status of development projects, including those that support pro-women outcomes. Citizens will use mobile technology to monitor service delivery (DLIs 4 and 5).



- 40. Pakistan’s constitution recognizes the right to privacy under Article 14 (1) but does not have a legal framework for data protection.** The proposed Personal Data Protection Bill, 2020 currently under review, is expected to address this gap. This bill will be enacted at the federal level but shall be applicable to all the provinces. In 2016, Pakistan enacted the Prevention of Electronic Crimes Act 2016 which provides for preventative (and punitive) measures necessary to maintain cyber security but does not have provisions for personal data protection. The proposed Program will support the GoPb to develop and adopt a framework for the treatment of personal data of citizens collected under the Program. The GoPb will design a data integrity protocol to periodically obtain reporting on any data breaches. The Bank will work closely with the GoPb to ensure strict adherence to prepare and adhere to a framework for data protection for the duration of the Program. The provision of a framework for data protection will be included in the implementation manual. The data protection protocol and the implementation manual will be revised as needed, to incorporate the national standards introduced through the proposed federal Personal Data Protection Bill.

F. Gender

- 41. Despite marked long-term growth in pro-poor allocations, the pattern of budget execution in Punjab often disadvantages women.** Between 2004–05 and 2011–12, growth in pro-women expenditures was about 20 percent lower than the increase in overall pro-poor public spending. During the same period, pro-women allocations, such as in female education and population welfare, were also more frequently cut as a result of midyear budgetary reallocations.
- 42. The Program will address these gaps through the publication of accurate, up-to-date sex disaggregated data on budgetary allocations and public spending on vulnerable populations,** including women and girls (DLI 5). It will also address the digital gender divide in Punjab under Result Area 2 which promotes the targeting of women to access digitized government services after emergencies. These include social protection and economic support services, enterprise support services, SGBV support services, skills development programs, and employment support services for women under the Women Development Department. PDO 2 (citizens accessing government services through digital platforms, of which 20% are women) will track progress on overcoming certain barriers to women’s uptake of services digitized under the Program. This indicator will remove barriers to the use of digital services by women. Finally, the Program will provide women greater opportunities to participate in the planning and execution of disaster response actions due to their increased proximity. The TA component will support the rollout of reporting, verification, and accountability mechanisms at the FD, with technical and operational support by the Provincial Disaster Management Authority’s Gender and Child Cell. The IRI (At least 70 percent of districts achieve minimum standards for disaster risk reduction, as specified in DRFS, including guidelines pertaining to at least one of its gender-related themes/areas) will track the implementation of such standards in participating LGs.

G. World Bank Grievance Redress

- 43. 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 World Bank’s Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Affected communities and individuals may submit their complaint to the World Bank’s independent Inspection Panel



which determines whether harm occurred, or could occur, as a result of World Bank 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. The information on how to submit complaints to the WB's corporate Grievance Redress Service (GRS) is available at <http://www.worldbank.org/GRS>. For information on how to submit complaints to the World Bank's Inspection Panel, please visit www.inspectionpanel.org.

H. Risk Assessment

44. The overall risk rating for the Program is “Moderate”. **Political and Governance** risks are Substantial given the constraints of a coalition government in the province. There is risk of election year disruption during implementation which may affect the achievement of Program objectives. To mitigate these risks, implementation will focus on laying a strong foundation for results by tackling the most difficult reforms in the early years. **Macro-economic** risks are “Substantial” because the GoPb remains vulnerable to shocks due to exposure to fiscal risks and due to COVID-19 pandemic. To mitigate the fiscal risk, the Program will support the FD to strengthen budget credibility, and reform pension payments and commodity financing. **Fiduciary** risk is “Substantial” due to the risk assigned to procurement as the PITB, which will be responsible for most of the procurement under the Program, lacks experience in large procurements. To mitigate the risk, the Program will support adoption of SBDs and implementation of e-procurement system. In the absence of a data protection legislation, there is a risk of data breaches. This risk will be mitigated by the implementation of guidelines for **data protection** to be approved by the Provincial Cabinet within six months of Program effectiveness.



ANNEX 1. RESULTS FRAMEWORK MATRIX

Results Framework

COUNTRY: Pakistan

Punjab Resource Improvement and Digital Effectiveness

Program Development Objective(s)

To increase own source revenue, and improve reliability of resource allocation and access to digital services for people and firms in the province of Punjab.

Program Development Objective Indicators by Objectives/Outcomes

| Indicator Name | DLI | Baseline | Intermediate Targets | | | | End Target |
|--|-------|--|---|---|---|---|---|
| | | | 1 | 2 | 3 | 4 | |
| Strengthened budget formulation and fiscal risk management | | | | | | | |
| Variance between original budget and actual expenditure composition (Text) | DLI 2 | Average of three years variance is 18%. (2015-18). | Cabinet approves Fiscal Management Policy and Rules | a)Joint Priorities Committee notified and b) single ceiling to departments approved by the Cabinet. | Average of three years variance (FY20 – FY22) is <15% | Average of three years variance (FY21 – FY23) is <13% | Average of three years variance (FY22 – FY24) is <10% |
| Increased use of digital technology for delivery of selected public services | | | | | | | |
| Citizens accessing government services through digital platforms, of which 20% are female (Text) | DLI 4 | 500,000, of which 9% female | 550,000, of which 10% female | 900,000, of which 12% female | 1,200,000, of which 15% female | 1,500,000, of which 17% female | 1,800,000, of which 20% female |
| Improved collection of own source revenue | | | | | | | |



| Indicator Name | DLI | Baseline | Intermediate Targets | | | | End Target |
|--|-------|-----------------------------|--|---|---|---|--|
| | | | 1 | 2 | 3 | 4 | |
| Value of own-source tax revenue (Text) | DLI 6 | PKRs 191 billion (FY20, RE) | a)COVID impact assessment on revenue; and b) Punjab Revenue mobilization strategy and implementation plan approved and published | Own-source tax collection of Rs 215 billion | Own-source tax collection of Rs 230 billion | Own-source tax collection of Rs 250 billion | Own-source tax collection of Rs.300 billion. |

Intermediate Results Indicator by Results Areas

| Indicator Name | DLI | Baseline | Intermediate Targets | | | | End Target |
|---|-------|--|---|--|--|--|---|
| | | | 1 | 2 | 3 | 4 | |
| Strengthening budget formulation and fiscal risk management | | | | | | | |
| Moderate and reduce the annual pension cost of GoPb (Text) | DLI 1 | In FY19 (30th June), Punjab civil service pension cost 15% of budget | Punjab Cabinet approves the Policy Framework for Improved Management of Fiscal Risks. | Pension reform plan (including changes in parametric defined benefits) is prepared and approved by the Punjab Cabinet. | At least two key parameters implemented of pension reform plan. | At least four (cumulative) key parameters implemented of the Pension Reform Plan | At least six (cumulative) key parameters implemented of the Pension Reform Plan |
| Enhance transparency of commodity debt stock by detailed reporting and gradual reduction in flow of commodity debt by GoPb (Text) | | In FY20 (30th June), no policy guidelines on contracting & monitoring of commodity debt exist along with strategy to reduce commodity debt flow as well as no detailed | Punjab cabinet approves guidelines for contracting and monitoring of commodity debt stock | Semi-annual publication of (a) commodity debt stock, with breakdown by commodity and creditors, together with outstanding mark-up position, and (b) annual | Punjab FD publishes a detailed plan approved by cabinet for gradual reduction of commodity debt. | Punjab FD ensures declining path in flow of commodity debt. | Punjab FD ensures no more than PKR20 billion flow in commodity debt stock. |



| Indicator Name | DLI | Baseline | Intermediate Targets | | | | End Target |
|--|-------|--|---|--|---|---|---|
| | | | 1 | 2 | 3 | 4 | |
| | | disclosure of commodity debt stock. | | interest cost and subsidy provided against commodity operations. | | | |
| Districts achieving minimum standards for Disaster Risk Reduction (Text) | | GoPb does not have Disaster Risk Financing Strategy (DRFS) | DRFS approved by the Punjab Cabinet. | 10% | 30% | 50% | 70% |
| Strengthened cash management function of Government of Punjab (Text) | | GoPb does not have cash management policy. | Cash Management Unit established in FD | Cash Management Policy and Accounting Framework approved by Punjab Cabinet | Cash forecasting reports published on quarterly basis by FD | Cash forecasting reports published on quarterly basis by FD | Cash forecasting reports published on quarterly basis by FD |
| Increased use of digital technology for delivery of selected public services | | | | | | | |
| Operational budget expenditure processed through e-procurement (Text) | DLI 3 | e-procurement system does not exist. | PPRA publishes SBDs, and revises Punjab Procurement Rules 2014 to support e-procurement | e-Procurement piloted in one department. | 15% | 30% | 50% |
| Additional services provided to citizens and firms online, through a single identity platform (Text) | | 10 services are provided to citizens online | 15 services provided to citizens online | 20 services provided to citizens online | 30 services provided to citizens online | 40 services provided to citizens online | 50 Services provided to citizens and firms online |
| Citizen satisfaction with online services (Percentage) | | 50.00 | 50.00 | 55.00 | 60.00 | 65.00 | 75.00 |
| Number of Punjab Urban Local Areas reporting on revenues and expenditure position (Number) | DLI 5 | 16.00 | 17.00 | 19.00 | 119.00 | 219.00 | 319.00 |
| Improved collection of own source revenue | | | | | | | |
| Increase in number of registered services sales | | 82,285.00 | 86,000.00 | 95,000.00 | 105,000.00 | 125,000.00 | 145,000.00 |



| Indicator Name | DLI | Baseline | Intermediate Targets | | | | End Target |
|--|-------|--|---|--|---|---|--|
| | | | 1 | 2 | 3 | 4 | |
| taxpayers (Number) | | | | | | | |
| Increase in registered taxpayers who filed STS returns in previous year (Number) | | 23,947.00 | 26,500.00 | 32,000.00 | 40,000.00 | 53,500.00 | 77,500.00 |
| Database integration in tax administration (Text) | DLI 7 | No linkages among Punjab tax authorities' databases or with third-parties; PRA & FBR signed MOU for data sharing | Plan for database integration approved by Punjab Cabinet | PRA's linkages with three (3) third parties databases operational. | PRA's linkages with six (6; cumulative) third parties databases operational. | FD confirms readiness of databases of BoR and ETNCD (selected key taxes) for linkage with PRA. Functional data warehouse for 3 tax authorities of Punjab. | Punjab tax authorities have access to shared data with links to third parties (at least total 10 for PRA), |
| Key business processes for tax administration simplified and automated (Text) | | Selected BPs automated in few tax authorities (e-payment for 8 taxes of Punjab) | Punjab Cabinet approves the plan for BPR and feedback system for tax administration in Punjab. | Taxpayers registration, payment (streamlining other payment options, incl. timely transfer of revenue collections to the Treasury), and feedback system simplified and automated | Monitoring of arrears and processing of refunds simplified and automated | Taxpayers' appeal process simplified and automated | BP's of taxpayer registration, payment, arrears monitoring and refunds, appeals, litigation and feedback systems simplified and automated. |
| Enhanced capacity for revenue generation from real estate (Text) | | Substantial difference between official and market values of properties; No market valuation study conducted for public and private properties | Review of legal framework and procedures for valuation of properties to align it with modern techniques | Establish a property valuation unit | Complete properties' market valuation studies for 2 cities using modern valuation methodology | Complete properties' market valuation studies for 4 cities (cumulative) using modern valuation methodology | Complete properties' market valuation studies for 6 cities (cumulative) using modern valuation methodology. |



Monitoring & Evaluation Plan: PDO Indicators

| Indicator Name | Definition/Description | Frequency | Datasource | Methodology for Data Collection | Responsibility for Data Collection |
|---|--|-----------|-----------------------------------|--|------------------------------------|
| Variance between original budget and actual expenditure composition | Variance in expenditure composition out turn by function (PEFA 2.1) | Annual | Budget Execution Reports | Methodology for PEFA Indicator 2.1 applies. | FD |
| Citizens accessing government services through digital platforms, of which 20% are female | Increased number of citizens using specific public digital services. | Annual | System Generated Reports by PITB. | Digital Services include government's online portals, call centers, mobile APPs and on counter digital services. (Gender dis-agregated data) | PITB |
| Value of own-source tax revenue | Total taxes collected by GoPb | Annual | Punjab Civil Accounts data | Review of source data (July to June) | FD |

Monitoring & Evaluation Plan: Intermediate Results Indicators

| Indicator Name | Definition/Description | Frequency | Datasource | Methodology for Data Collection | Responsibility for Data Collection |
|--|---|-----------|---------------------------|--|------------------------------------|
| Moderate and reduce the annual pension cost of GoPb | Implementation of parametric pension reform plans | Annual | Budget documents of GoPb. | Analysis of impact of pension parametric reform. | FD |
| Enhance transparency of commodity debt stock by detailed reporting and gradual | Reduction in CFDS | Annual | Review of Source | Review of source documents and data | FD |



| | | | | | |
|---|--|--------|-------------------------------------|---|------------|
| reduction in flow of commodity debt by GoPb | | | documents and data | analysis | |
| Districts achieving minimum standards for Disaster Risk Reduction | Minimum standards for DRR shall be defined in the DRFS. | Annual | DRFS and district reports. | Review of source documents and data | FD |
| Strengthened cash management function of Government of Punjab | Supporting GoPb in strengthening its cash management function | Annual | Source documents and reports by FD | Review of source documents and data | FD |
| Operational budget expenditure processed through e-procurement | e-procurement system means an end to end system. | Annual | Procurement data | Analysis of procurement data | PPRA, PITB |
| Additional services provided to citizens and firms online, through a single identity platform | Increased public services provided online through a single identity platform | Annual | Reports on usage of online services | Assessment of online services and usage. | PITB; FD |
| Citizen satisfaction with online services | Target population is number of citizens using the online services (gender dis-aggregated) | Annual | System generated data reports | Review of source reports and data | PITB |
| Number of Punjab Urban Local Areas reporting on revenues and expenditure position | Supporting digital web based financial reporting solutions to Urban Local Areas for enhanced financial transparency. | Annual | Web based system generated reports | Review of notifications, source documents and system walkthrough | FD, PITB |
| Increase in number of registered services sales taxpayers | Expansion of tax base by increasing number of registered taxpayers with PRA. | Annual | PRA, PRAL database | Review of source data. Targets are cumulative, as reported on June-end. | PRA |



| | | | | | |
|---|--|--------|---|---|---------------------------|
| Increase in registered taxpayers who filed STS returns in previous year | Increase in average number of STS filers in previous fiscal year (July-June) with PRA. Baseline is as reported on July 24, 2020 | Annual | PRA, PRAL database | Review of source data | PRA |
| Database integration in tax administration | Supporting integration of databases | Annual | Source documents and system reports | Review of source documents, data, datawarehouse and system walk-through. Data accessible with taxpayer's CNIC/Name/STN. | FD, PRA, ETNCD, BoR, PITB |
| Key business processes for tax administration simplified and automated | Supporting simplified and automated business processes of the tax administration of PRA, ETNCD and BOR in Punjab. | Annual | BPR plan and reports about simplified and automated processes of tax administration | Review of source documents and assessment of automated BPs | PRA, ETNCD, BoR, and PITB |
| Enhanced capacity for revenue generation from real estate | Building capacity for tax and non-tax revenue generation from public and private property by improving the valuation system in six zones | Annual | official record and properties market valuation studies | Review of source documents and data | FD, ETNCD, BOR |

ANNEX 2. Disbursement Linked Indicators and Verification Protocols



Disbursement Linked Indicators Matrix

| Disbursement Linked Indicators Matrix | | | | |
|---------------------------------------|---|------------------------|------------------------------|--|
| DLI 1 | Moderate and reduce the annual pension cost of GoPb | | | |
| Type of DLI | Scalability | Unit of Measure | Total Allocated Amount (USD) | As % of Total Financing Amount |
| Intermediate Outcome | Yes | Text | 35.00 | 12.77 |
| Period | Value | Allocated Amount (USD) | | Formula |
| Baseline | In FY19 (30th June), Punjab civil service pension cost 15% of budget | | | |
| FY2020/21 | DLR 1.1: Punjab Cabinet approves the Policy Framework for Improved Management of Fiscal Risks to ensure annual presentation of fiscal risk statement to the Provincial Assembly as part of the annual budget. | 5.00 | | |
| FY2021/22 | DLR 1.2: Pension reform plan (including changes in parametric defined benefits) is prepared and approved by the Punjab Cabinet. | 10.00 | | |
| FY2022/23 | DLR 1.3 At least two key parameters implemented of pension reform plan. | 10.00 | | \$5M for each key parameter of pension reform plan implemented, upto a maximum of \$10M |
| FY2023/24 | DLR 1.4: At least four (cumulative) key parameters implemented of the Pension Reform Plan | 5.00 | | \$2.5M for each additional parameter of pension reform plan implemented, up-to a maximum of \$5M |
| FY2024/25 | DLR 1.5: At least six (cumulative) key parameters | 5.00 | | \$2.5M for each additional parameter of pension reform plan |



| | | | | |
|--------------------|---|------------------------|--------------------------------------|---|
| | implemented of the Pension Reform Plan | | implemented, up-to a maximum of \$5M | |
| DLI 2 | Variance between original budget and actual expenditure composition | | | |
| Type of DLI | Scalability | Unit of Measure | Total Allocated Amount (USD) | As % of Total Financing Amount |
| Outcome | Yes | Text | 45.00 | 16.00 |
| Period | Value | | Allocated Amount (USD) | Formula |
| Baseline | Variance in original budget and actual expenditure composition by function was an average of 18% during last three years. (2015-16, 2016-17 and 2017-18). | | | |
| FY2020/21 | DLR 2.1. Punjab Cabinet approves: (a) establishment of fiscal management function within the Finance Department; and (b) the fiscal management policy and rules to support annual preparation of MTFP and its publication with budget | | 10.00 | |
| FY2021/22 | DLR 2.2. (a) Issuance of a single ceiling (for both current and development budgets) to line departments in accordance with the DLR 2.1 above; and (b) the Finance Department establishes a joint priorities committee for regular evaluation of budget proposals | | 10.00 | |
| FY2022/23 | DLR 2.3. During Year 3, the variance of the average of the previous three years between original budget and actual expenditure | | 10.00 | \$4M for 17% and thereafter \$3M per additional reduction of 1% with maximum up to \$6M in year 3 |



| | | | | |
|----------------------|---|------------------------|-------------------------------------|--|
| | composition is less than 15%, by program administrative or functional classification | | | |
| FY2023/24 | DLR 2.4. During Year 4, the variance of the average of the previous three years in original budget and actual expenditure composition is less than 13% by program administrative or functional classification | | 10.00 | \$4M for 14% thereafter \$1.5M per additional reduction of 0.25% with a maximum up to \$6M in year 4 |
| FY2024/25 | DLR 2.5. During Year 5, the variance of the average of the previous three years in original budget and actual expenditure composition is less than 10% by program administrative or functional classification | | 5.00 | \$1M for 12% thereafter \$1M per additional reduction of 0.5 % with maximum up to \$4M in year 5 |
| DLI 3 | Operational budget expenditure processed through e-procurement. | | | |
| Type of DLI | Scalability | Unit of Measure | Total Allocated Amount (USD) | As % of Total Financing Amount |
| Intermediate Outcome | Yes | Text | 35.00 | 13.00 |
| Period | Value | | Allocated Amount (USD) | Formula |
| Baseline | e-procurement system does not exist. | | | |
| FY2020/21 | DLR 3.1. PPRA publishes standard bidding documents on its website. DLR 3.2: PPRA revises Punjab Procurement Rules 2014 that support implementation of e-procurement | | 10.00 | |
| FY2021/22 | DLR 3.3. PPRA pilots e-procurement in one department | | 10.00 | |



| | | | |
|-----------|--|------|---|
| FY2022/23 | DLR 3.4. Implementing Entity processes 15% of operational budget expenditures through e-procurement | 5.00 | |
| FY2023/24 | DLR 3.5. Implementing Entity processes cumulatively 30% of operational budget expenditures through e-procurement | 5.00 | \$2.5M for 20%, and thereafter \$0.25M per additional 1%, with maximum up to \$2.5M |
| FY2024/25 | DLR 3.6. Implementing Entity processes cumulatively 50% of operational budget expenditures through e-procurement | 5.00 | \$2.5M for 40%, and thereafter \$0.25M per additional 1%, with maximum up to \$2.5M |

| | | | | |
|--------------------|---|------------------------|-------------------------------------|---|
| DLI 4 | Citizens accessing government services through digital platforms. | | | |
| Type of DLI | Scalability | Unit of Measure | Total Allocated Amount (USD) | As % of Total Financing Amount |
| Outcome | Yes | Text | 45.00 | 16.42 |
| Period | Value | | Allocated Amount (USD) | Formula |
| Baseline | 500,000 | | | |
| FY2020/21 | 550,000 | | 10.00 | |
| FY2021/22 | 900,000 | | 10.00 | \$2M for 700,000 citizens, and thereafter \$2M per additional 50,000 citizens, with maximum up to \$8M |
| FY2022/23 | 1,200,000, | | 10.00 | \$2M for 1,000,000 citizens, and thereafter \$2M per additional 50,000 citizens with maximum up to \$8M |



| | | | | |
|----------------------|---|------------------------|-------------------------------------|---|
| FY2023/24 | 1,500,000 | | 10.00 | \$2M for 1,300,000 citizens and thereafter \$2M per additional 50,000 citizens, with maximum up to \$8M |
| FY2024/25 | 1,800,000 | | 5.00 | \$1M for 1,600,000 citizens and thereafter \$1M per additional 50,000 citizens with maximum up to \$4M |
| DLI 5 | Punjab Urban Local Areas reporting on revenues and expenditure position, especially related to disaster risk management, core public social services, and gender | | | |
| Type of DLI | Scalability | Unit of Measure | Total Allocated Amount (USD) | As % of Total Financing Amount |
| Intermediate Outcome | Yes | Text | 37.00 | 13.50 |
| Period | Value | | Allocated Amount (USD) | Formula |
| Baseline | Web based MIS implemented in 16 Urban Local Areas (ULAs) for accounting and reporting. System not integrated with Government IFMIS | | | |
| FY2020/21 | DLR 5.1: The Punjab Cabinet approves revised Provincial Finance Commission Formula with clear incentives for improving LG revenue and expenditure recording (including disaster risk financing and targeted grants for vulnerable population) | | 10.00 | |
| FY2021/22 | DLR 5.2: Implementing Entity rolls-out an expenditure recording systems (compatible with FABS) to 19 Urban Local Areas, with the CGA | | 10.00 | |



| | | | | |
|--------------------|---|------------------------|-------------------------------------|---|
| | notified Chart of Accounts | | | |
| FY2022/23 | DLR 5.3: After achieving DLR 5.2, Finance Department publishes budgets and bi-annual revenue and expenditure reports of 119 Urban Local Areas (cumulative) and the provincial government. | | 7.00 | \$1.75M for each 25 ULAs (up to total of 119 ULAs) |
| FY2023/24 | DLR 5.4: After achieving DLR 5.3, Finance Department publishes budgets and bi-annual revenue and expenditure reports of 219 Urban Local Areas (cumulative) and the provincial government. | | 5.00 | \$1.25M for each additional 25 ULAs (up to total of 219 ULAs) |
| FY2024/25 | DLR 5.5: After achieving DLR 5.4, Finance Department publishes budgets and bi-annual revenue and expenditure reports of 319 Urban Local Areas (cumulative) and the provincial government | | 5.00 | \$1.25M for each additional 25 ULAs (up to total of 319 ULAs) |
| DLI 6 | Value of own-source tax revenue | | | |
| Type of DLI | Scalability | Unit of Measure | Total Allocated Amount (USD) | As % of Total Financing Amount |
| Outcome | Yes | Text | 40.00 | 13.50 |
| Period | Value | | Allocated Amount (USD) | Formula |
| Baseline | Rs. 191 billion (FY20, RE) | | | |
| FY2020/21 | DLR 6.1: Finance Department finalized assessment of impact of COVID-19 on revenue; DLR 6.2: Punjab Cabinet approves Punjab revenue mobilization strategy and | | 5.00 | |



| | | | |
|----------------------|---|-------------------------------|---|
| | implementation plan (informed by DLR 6.1) and Finance Department publish these documents. | | |
| FY2021/22 | DLR 6.3: Implementing Entity’s own-source tax collection of Rs 215 billion | 10.00 | \$4M for tax collection of Rs. 200 billion and thereafter \$2M for each additional collection of Rs. 5 billion, up to a maximum of \$6M |
| FY2022/23 | DLR 6.4: Implementing Entity’s own-source tax collection of Rs 230 billion | 10.00 | \$4M for tax collection of Rs. 220 billion and thereafter \$3M for each additional collection of Rs. 5 billion, up to a maximum of \$6M |
| FY2023/24 | DLR 6.5: Implementing Entity’s own-source tax collection of Rs 250 billion | 10.00 | \$4M for tax collection of Rs.240 billion and thereafter \$3M for each additional Rs.5 billion collected with the maximum up to \$6M |
| FY2024/25 | DLR 6.6: Implementing Entity’s own-source tax collection of Rs 300 billion | 5.00 | \$1.25M for tax collection of Rs.270 billion, and thereafter \$1.25M for each additional Rs.10 billion up to a maximum of \$3.75M |
| DLI 7 | Database integration in tax administration | | |
| Type of DLI | Scalability | Unit of Measure | Total Allocated Amount (USD) |
| Intermediate Outcome | Yes | Text | 37.00 |
| Period | Value | Allocated Amount (USD) | Formula |
| Baseline | No linkages among Punjab tax authorities’ databases or with third-parties; PRA & FBR signed | | |



| | | | |
|-----------|--|-------|--|
| | MOU for data sharing. | | |
| FY2020/21 | DLR 7.1: Plan for database/systems integration approved by Punjab Cabinet | 5.00 | |
| FY2021/22 | DLR 7.2: PRA's linkages with 3 third parties' databases operational | 10.00 | \$ 4M for linkage with 1 third party, and thereafter \$3M for each additional third party up to a maximum of \$6M |
| FY2022/23 | DLR 7.3: PRA's linkages with 6 (cumulative) third parties' databases operational. | 10.00 | \$ 4M for linkage with 1 additional third party database, and thereafter \$ 3 for each additional third party upto a maximum of \$6M |
| FY2023/24 | DLR 7.4: Finance Department confirms readiness of BoR and ETNCD databases (selected taxes) for linkage with PRA; DLR 7.5: Functional data warehouse for 3 tax authorities of Punjab. | 7.00 | |
| FY2024/25 | DLR 7.6: Punjab tax authorities have access to shared data with links to third parties (total 10 for PRA), accessible with taxpayer's CNIC/Name/STN. | 5.00 | |

**Verification Protocol Table: Disbursement Linked Indicators**

| | |
|----------------------------|--|
| DLI 1 | Moderate and reduce the annual pension cost of GoPb |
| Description | The indicator supports implementation of key parametric pension reforms in GoPj |
| Data source/ Agency | Finance Department |
| Verification Entity | TPVA |
| Procedure | Review of approved fiscal risks policy framework (including Pension Reform Action Plan, commodity financing policy and plan; and Fund Management Rules) (approved by the Punjab Cabinet), approved pension reform plan (including changes in parametric defined benefits), fiscal risk statements (FY22 on wards). |
| DLI 2 | Variance between original budget and actual expenditure composition |
| Description | This indicator assesses budget credibility by calculating through reduced variance between the original budget and actual expenditure, by program administrative or functional classification. |
| Data source/ Agency | Finance Department |
| Verification Entity | TPVA |
| Procedure | Review of notifications, Fiscal Policy Rules, published MTF, budget call circular, and data on original budget and actual expenditure composition, by program administrative or functional classification. Methodology of PEFA Indicator 2.1 will be applied in assessing variance between budgeted and actual expenditure. Numerator is variance between original budget and actual expenditure, and denominator is original expenditure. |
| DLI 3 | Operational budget expenditure processed through e-procurement. |
| Description | The indicator supports implementation of e-procurement in major provincial procuring entities. Operational budget includes all those procurable activities within recurrent and development heads of accounts on which Punjab Public Procurement Rules are applicable. |
| Data source/ Agency | PPRA, PITB |
| Verification Entity | TPVA |



| | |
|----------------------------|---|
| Procedure | Review of SBDs published on PPRA's website; notification of revised Punjab procurement rules, and system reports/data on processing of operational budget expenditure through e-procurement |
| DLI 4 | Citizens accessing government services through digital platforms. |
| Description | Indicator supports enhanced citizens' access to digital government services. |
| Data source/ Agency | PITB |
| Verification Entity | TPVA |
| Procedure | Review of system generated reports on public services provided to citizens, including women (based on gender segregated data), through digital means - including online portal, call center, mobile phone-based services (APPs), and on-counter digital services. For assessing female beneficiaries targets (PDO Indicator), the numerator is number of females who benefit from government's digital platforms for public service, and the denominator is total number of persons/citizens who have accessed digital platforms for services. The government will incorporate measures to support the development of data protection guidelines, establishment of systems for data protection, and notification of rules on data security. |
| DLI 5 | Punjab Urban Local Areas reporting on revenues and expenditure position, especially related to disaster risk management, core public social services, and gender |
| Description | Indicator supports enhanced transparency in LG revenues and expenditures (especially related to disaster risk management, core public social services and gender dis-aggregated allocations) on the basis of implementation of web-based financial reporting system in Urban Local Areas. |
| Data source/ Agency | Punjab Finance Department, PITB |
| Verification Entity | TPVA |
| Procedure | Review of approved revisions in PFC formula, implementation of expenditure recording systems in LGs, CGA notified charts of accounts, published budget documents and bi-annual revenue and expenditure reports of LGs and provincial government. |
| DLI 6 | Value of own-source tax revenue |
| Description | Total amount of province's taxes (direct and indirect) collected annually. RE is revised estimate. |



| | |
|----------------------------|---|
| Data source/ Agency | Punjab Civil accounts, Punjab Finance Department |
| Verification Entity | TPVA |
| Procedure | Review of source data (Punjab civil accounts; July-June) |
| DLI 7 | Database integration in tax administration |
| Description | Integration of databases of 3 tax agencies of Punjab and linkage with third party data, based on an approved plan |
| Data source/ Agency | FD, PRA, ETNCD, BoR, PITB |
| Verification Entity | TPVA |
| Procedure | Review of approved database integration plan, MOUs with third parties, data warehouse and system reports |



ANNEX 3. TECHNICAL ASSESSMENT

Program Description

1. The Program is designed to support the PFMRS of the GoPb. It also supports the PFM and governance pillars of the RISE Punjab and IT Policy of the GoPb. The PFMRS is based on the findings of Punjab PEFA assessment of 2019. In addition, the PFMRS also addresses post COVID-19 priorities of the GoPb as reflected in the RISE Punjab. The World Bank support to Punjab’s abovementioned reforms is based on extensive analytical work—which includes tax studies, PIM/ADP analysis, and PEFA assessment. They identify key challenges of PFM at both the federal and provincial government levels.

Table 3.1: The Government Program and the PforR Boundary

| PFMRS | Other strategies | Reform areas covered under the Program | Responsibility |
|--|--------------------------------------|--|---------------------|
| Pillar 1: Strengthened revenue mobilization | (RISE PUNJAB – PILLAR E) | (a) Expanding the tax base and filing compliance; (b) Integrating tax databases; (c) Simplifying and automating business processes for tax administration; and (d) modernizing property valuation system (public and private) to enhance related tax and non-tax revenue potential. | FD, ETNCD, PRA, BoR |
| Pillar 2: Improved quality of budgeting | (RISE PUNJAB – PILLAR E) | (a) Formulation of a MTF; (b) regulatory framework to facilitate integrated budgets, linked with procurement plans; (c) citizen-based budgets and citizen friendly execution reports; and (d) monitoring of recurrent and development budget. | FD, P&DB |
| Pillar 3: Budget Creditability and Fiscal Risk management. | (RISE PUNJAB – PILLAR E) | (a) Fiscal risk management, for three major risks faced by the GoPb, including: (i) pension payments; (ii) uncollateralized debt to the scheduled banks as a result of purchase of commodities; and (iii) contingent liabilities, including guarantees from PPP projects and from commercial loans extended to autonomous bodies | FD |
| Pillar 4: Reformed development Budget Systems | (RISE PUNJAB – PILLAR D) | (a) Integrated systems established for monitoring of development funds; and (b) e-Procurement system implemented | P&DB, PITB, PPRA |
| Pillar 5: Disaster Risk Financing | (RISE PUNJAB – PILLAR E) | Establishment of a disaster mitigation fund and support to disaster risk financing. | FD |
| Pillar 6: Improved Management of funds in Local Governments | (RISE PUNJAB – PILLAR D. Governance) | (a) Legislation to introduce mandate for emergency response in LG (b) improvements in PFC Award; and (c) establishment of performance grants to support LGs | FD |
| Pillar 7. Regulatory Framework | (RISE PUNJAB – PILLAR D.) | (a) PFM Act; (b) update Financial Rules and Treasury Rules; (c) review system of delegation of Financial Powers Rules, 2016; and (d) Budget Manual | FD, P&DB |
| Pillar 8. Capacity enhancement in PFM | | (a) support to PFM capacity building initiatives; (b) capacity enhancements of tax departments. | FD |
| Pillar 9. ICT based PFM systems. | (RISE PUNJAB – PILLAR D. Governance) | (a) Inter-operable PFM systems; (b) Inter-operable digital service delivery; (c) Integration of provincial tax data bases (and links with third party data) | PITB |

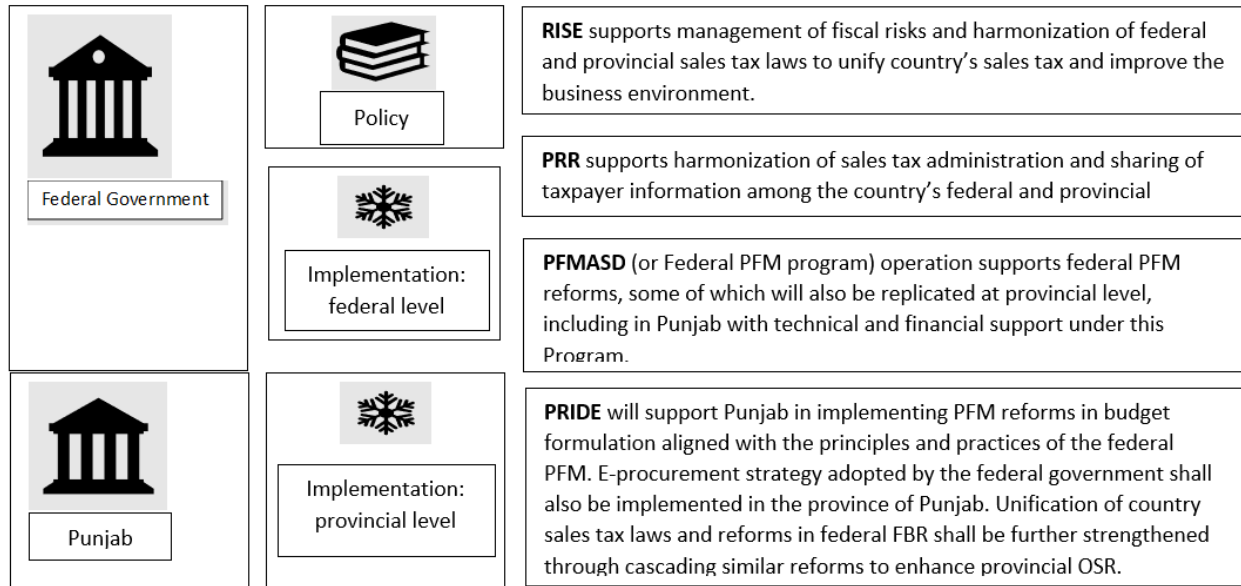
Strategic Relevance

2. The Program is an integral part of the World Bank’s whole-of-country approach to strengthen PFM systems and revenue mobilization at the federal and provincial levels to promote coherent national systems (Figure 3.1). This approach is anchored in the federal *Resilient Institutions for Sustainable Economy* (RISE Program) Development Policy Financing, which supports high-level policy reforms to improve federal-provincial coordination in the management of fiscal risks and federal-provincial harmonization of tax laws to unify the country’s tax space and improve the business



environment; and in two ongoing federal results-based operations, the *Public Financial Management for Accountability and Service Delivery Program (PFMASD)* and *Pakistan Raises Revenue project (PRR)*, which support improvements in the federal PFM and tax administration systems respectively and are complemented by provincial operations in these areas.²⁰

Figure 3.1: World Bank-financed operations under whole-of-country support to PFM and revenue mobilization



Technical Soundness

3. The Program is based on extensive analytical work and draws heavily on lessons learned from recently completed relevant operations in Punjab. The Program design is informed by revenue potential and tax administration analyses conducted under Trust Fund for Accelerating Growth and Reforms, the 2019 PEFA report, detailed reviews of Punjab’s ADP during 2016–2019, and other technical assessments. In addition, the Program design benefits from the findings of the Implementation Completion and Results Report of the recently completed PPMRP, which supported several successful initiatives digitizing and improving the service delivery.

4. The Program design addresses three binding constraints of the GoPb: (a) to create fiscal space by incorporating elements of economy and efficiency in the government expenditure management, (b) to uniformly implement fiscal risk financing across provincial and district governments, and (c) to adapt revenue targets in the short run which correspond with the realities of post COVID-19 environment while still enhancing the collection of OSR in the medium term. The PforR is the most suitable instrument for this operation which supports institutional strengthening and provides incentives for behavioral change and reengineering of business processes through a clearly articulated results chain, rather than focusing on inputs. It will also fund specific expenditures to provide substantial investments to modernize the ICT

²⁰ For example, the ongoing *KP Revenue Mobilization and Public Resource Management Program (P162302)* supports the province’s efforts to improve cash management, Treasury Single Account extension to local governments, Public Investment Management, pension fund management, and revenue mobilization by broadening tax base and integrating data and processes among the province’s three tax authorities.



systems in revenue and resource management. The PforR will also provide an opportunity to carry out a sustained dialogue with other development partners who are involved in these reform areas. The TA component of the Program will support the institutional capacity-building activities.

Ownership and Sustainability

5. The Program has widespread buy-in at the strategic level of the PFMRS which supports the GoPb’s RISE Punjab. The GoPb has established a PFM Reforms Oversight Committee, headed by the Minister of Finance, which acts as a PFM Reforms Steering Committee to provide high-level leadership for PFM reforms. The GoPb has an extensive experience of managing PforRs as evidenced by the satisfactory completion of the PPMRP.

Program Expenditure Framework and Boundary

6. The GoPb program: The overall program cost for 2020-2025 is estimated at US\$1,650 million. The government program supported by this operation is implemented by seven entities: FD, P&DB, PITB, ETNCD, PRA, BoR and PPRA. The entities cover the full scope of core functions and activities needed to deliver on the outcomes of this operation.

7. Program (PforR) expenditure boundary: The implementation of the government program primarily requires compensation of staff, operating expenses of the entities, purchase of assets, repair and maintenance costs and expenditure of relevant projects included in the ADP. The IBRD financing for the Program is US\$274 million (52 percent), and the GoPb contribution is US\$250 million (48 percent). For details refer paragraph 34 and 35 and table 4 and 5 of the technical assessment and paragraph 6 and table 1 of fiduciary systems assessment.

Economic Analysis

8. The cost of implementing the Program is US\$274 million (excluding the TA component cost of US\$29.24 million). The expected net economic impact of the Program is US \$ 1.5 billion over the five-year implementation period. The projected net benefits from improvements in Punjab pension fund management; adoption of e-procurement and digitization of local service delivery; and increase in own source collection are valued at US\$1.26 billion This represents the sum of estimated net benefits arising from Program implementation (Table 3.2). The cost-benefit analysis assumes a discount rate of 7.0 percent during 2021-2025.

Table 3.2: Summary Economic Analysis (in US\$ million)

| Fiscal Year | | 2021 | 2022 | 2023 | 2024 | 2025 | Total |
|--|----------|------|------|------|------|------|-------|
| Result Area 1: Strengthened budget formulation and fiscal risk management | Costs | 15 | 15 | 20 | 20 | 10 | 80 |
| | Benefits | 116 | 113 | 149 | 146 | 72 | 597 |
| Result Area 2: Increased use of digital technology for delivery of selected public services | Costs | 30 | 25 | 27 | 20 | 15 | 117 |
| | Benefits | 71 | 58 | 62 | 45 | 78 | 314 |
| Result Area 3: Improved collection of own source revenue | Costs | 10 | 15 | 20 | 17 | 15 | 77 |
| | Benefits | 85 | 124 | 163 | 136 | 119 | 626 |



| Fiscal Year | 2021 | 2022 | 2023 | 2024 | 2025 | Total |
|-------------------------------|------|------|------|------|------|-------|
| Total Costs | 55 | 55 | 67 | 57 | 40 | 274 |
| Total Benefits | 272 | 296 | 373 | 327 | 269 | 1,537 |
| NET BENEFITS | 217 | 241 | 306 | 270 | 229 | 1,263 |
| Net Present Value (NPV) at 7% | | | | | | 637 |

9. Improvement in OSR collection is expected to add PKR109 billion over the baseline by FY2025, after adjusting for the economic impact of the COVID-19. Increases in pension fund footing are expected to provide PKR103.5 billion (using an 11-year average pension growth rate assumption-- average per annum growth rate of 28.8 percent) and the estimated gains from e-procurement and digitization of LG service delivery are estimated to be PKR46.4 billion in the “medium scenario” (assuming a 10 percent efficiency gains). The benefits to be gained from other interventions to improve fiscal management (such as fiscal integration with the federal government; and improved transparency of LG resources) cannot be quantified effectively in the absence of a benchmark.



ANNEX 4. INTEGRATED FIDUCIARY SYSTEMS ASSESSMENT

- 1. The integrated fiduciary assessment has concluded that the Program fiduciary systems complemented by the program-specific mitigation measures will provide adequate support to the operation.** The overall residual fiduciary risk is Substantial. Procurement assessment of the major implementing entities has been commenced and there are no identified activities in the Program that would meet or exceed the Operational Procurement Review Committee thresholds. The Program boundaries are well defined. The entire Program budget is financed by the provincial government. Implementing entities include four provincial departments—FD, ETNCD, P&DB, and BoR—and three autonomous bodies—PPRA, PITB and PRA.
- 2. The Program activities are well integrated with the overall government’s program.** However, as noted in the PEFA assessment of 2019, the GoPb has weak budget credibility. Result Area 1 of this Program addresses this deficiency. The Public Financial Management Unit (PFMU) in the FD will ensure that adequate resources are available for Program activities. In addition, the P&DB should prioritize those development schemes, which directly relate to the achievements of DLIs. A uniform chart of account exists at all levels of governments in Pakistan, including Punjab. All implementing entities have access to the government IFMIS. The PITB²¹ has adopted customized documents for procurement of goods and all relevant procurement documents are published on the website of the PITB. The PITB may use the World Bank’s SBDs for large contracts to be awarded under the Program until such time that the GoPb adopts SBDs. The FD and P&DB will hire or deploy dedicated fiduciary resources for Program activities in the PFMU and PSU.
- 3. The internal control framework of the Government is defined in the Accounting Policies and Procedures Manual.** The GoPb’s internal control framework applicable to implementing agencies include General Financial Rules, Fundamental Rules, Supplementary Rules, Federal Treasury Rules, and other regulations, instructions, and orders issued by the FD and Accountant General Pakistan Revenues from time to time. The assessment noted that the internal control environment in autonomous bodies could be further strengthened.
- 4. The World Bank’s Anti-Corruption Guidelines (ACG).** The PFMU will report to the World Bank on the compliance with ACG once a year. However, each implementing agency will report to the PFMU on the compliance of the ACG twice a year. The PFMU will ensure that any person or entity debarred or suspended by the World Bank is not awarded a contract under, or otherwise allowed to participate in, the Program during the period of such debarment or suspension. The implementing entities have an adequate delegation of power structure for procurements and decision-making. There are PPR 2014 stipulations requiring adequate dissemination and disclosures before award (see Fiduciary Assessment).

²¹ PITB is the major procuring entity of the Program.



ANNEX 5. SUMMARY ENVIRONMENTAL AND SOCIAL SYSTEMS ASSESSMENT

- 1. This ESSA was conducted by the World Bank team for the Program.** Consistent with the requirements of the World Bank PforR policy, the Program does not support activities that pose high social and environmental risks. The activities to be supported by the Program are likely to provide significant social benefits and pose low environmental and social impacts and risks.
- 2. Result Area 1 deals with budget credibility and fiscal risk management.** Activities under this result area will not pose any environmental risk. Mitigating the fiscal risks will improve capacity of the GoPb to provide basic services to its population in future.
- 3. Result Area 2 deals with enhanced use of information systems.** Implementation of activities will require procurement of IT systems for use by different implementing entities and some e-waste is expected to be generated at the start of the Program. In the long run, paperless office space will result in positive environmental impact in the form of reduction in resource use and carbon footprints. The introduction of e-governance in the public sector will allow citizens' access to information and address an existing barrier for citizen engagement, especially in remote and marginalized areas.
- 4. Result Area 3 supports improved collection of OSR.** Increased availability of funds will create financial space for the provincial and local governments to invest in the improvement of quality of municipal services and development of municipal infrastructure. This will ultimately contribute to the improvement of environmental and public health. There is a downstream probability of social exclusion of individuals and businesses with low IT literacy, which can lead to nontax compliance on their part, leading to punitive actions by the authorities. Also, persons with disabilities can be further marginalized if the automation and computerization processes are not sensitive to their requirements. Increasing the ambit of sales tax on services and commodities will affect the poor segment of the society. The GoPb may explore the possibility of tax exemptions/minimum tax rates on those services and commodities which are considered essential by the low-income poor, women, and the elderly.
- 5. A stakeholders' meeting on this ESSA was held on March 17, 2020, at Lahore.** Rounds of consultations with the implementing departments were held on October 18 and November 29, 2019. Following incorporation of the feedback received from these meetings, and other sources, a revised ESSA has been disclosed in-country and on the World Bank's external website.



ANNEX 6. PROGRAM ACTION PLAN

| Action Description | Source | DLI# | Responsibility | Timing | | Completion Measurement |
|--|----------------------------------|------|--------------------|-----------|-------------|--|
| | | | | Due Date | | |
| 1. Establish PFM Unit | Technical | | Finance Department | Due Date | 30-Jun-2021 | Notification of unit establishment and staffing |
| 2. Standard Operating Procedures for E-waste management approved by the GoP | Environmental and Social Systems | | P&D Department | Due Date | 30-Jun-2021 | Procedures notified by Environment Protection Agency |
| 3. Reporting on the compliance of the Bank ACG. | Fiduciary Systems | | Finance Department | Recurrent | Yearly | Annual reporting by the Finance Department to the Bank |
| 4. PFM Reforms Steering Committee meeting held at least once in three months | Other | | Finance Department | Recurrent | Continuous | Minutes of the PFM Reforms steering committee meeting |
| 5. A robust grievance redress mechanism in place and integrating all existing GRM systems under one focal point (PITB) | Environmental and Social Systems | | P&D Department | Due Date | 30-Jun-2021 | Complaints' log available for each tier of complaints |
| 6. Publication of guidelines on collection, storage, usage, or processing of personal data. | Technical | | PITB | Due Date | 29-Oct-2021 | Approval by the Cabinet |
| 7. Establish a Program Support Unit in P&DD with in three months of project effectiveness | Technical | | P&DD | Due Date | 01-Mar-2021 | Program Support Unit shall be staffed with M&E specialist, procurement specialist, financial management specialist and a safeguard specialist. |
| 8. Increase participation of women in workforce | Environmental and Social Systems | | Finance Department | Due Date | 30-May-2025 | Bringing the women participation to aggregate 15% of the workforce of selected GoPb departments including two implementing agencies. |



ANNEX 7. INVESTMENT PROJECT FINANCING COMPONENT

1. The GoPb intends to implement several programs aimed at improving business processes for tax administration and financial management, streamlining PIM, and modernizing service delivery. The TA component will finance ICT investments and TA to accelerate the implementation of these objectives. The TA-financed activities are necessary to embed the new business processes and provide specialized support to implement capacity-enhancing innovations including fiscal planning, monitoring and management of fiscal risks, business process improvement, advanced revenue forecasting and tax audit techniques, designing of a modern property valuation system, database integration, and change management.

Financial Management and Disbursement Arrangement

2. Staffing arrangements. Within three months of effectiveness, a dedicated financial management specialist with relevant experience and qualifications will be appointed at the PFMU—either competitively selected from the market or seconded from the Office of the Accountant General. The financial management specialist will be responsible for ensuring that the financial management arrangements being applied are acceptable to the World Bank and that the funds are used for the intended purposes.

3. Budgeting. The PFMU will prepare annual budgets based on its work plans and will submit these to the World Bank at least one month before the beginning of the 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 World Bank within 45 days after the end of the semester.

4. Internal controls. The IPF component will be implemented using internal control processes consistent with the requirements of GoPb rules and regulations (General Financial Rules, Delegation of Financial Power, Project Management Manual, and Accounting Policies and Procedures Manual).

5. Funds flow and disbursement arrangements. All disbursement methods—advance, reimbursement, special commitments and direct payments—will be permissible. The implementing agency will maintain a Designated Account²² at the National Bank of Pakistan and will submit an online Withdrawal Application to the World Bank via BankSystem Client Connection, supported by a six-monthly cash forecast (embedded in the IFRs). Table 7.1 lists the amount allocated to a single disbursement category for financing out of the proceeds of the credit in respect of the TA component. Withdrawal upto an aggregate amount not to exceed US \$ 300,000 can be made for payments made prior to signature date but on or after September 15, 2020, for eligible expenditure.

6. Fraud and corruption. The PFMU will report to the World Bank on the compliance with ACG once a year. Each implementing agency will report to the PFMU on ACG compliance twice a year.

²² As notified in Foreign Currency Revolving Fund Assignment Account Procedures, issued by the MoF, August, 2013



Table 7.1. Disbursement Categories and Financing

| Categories | Amount of the Credit Allocated (US\$, millions) | Percentage of Expenditures to Be Financed (inclusive of taxes) |
|--|---|--|
| Goods, consulting and non-consulting services, training, operating costs | 29.24 | 100 |
| Total amount | 29.24 | 100 |

Procurement Arrangements

7. Procurement for the IPF component of the Program will be carried out in accordance with the World Bank’s Procurement Regulations for IPF Borrowers for Goods, Works, Non-Consulting and Consulting Services dated July 1, 2016, and revised August 2018 (Procurement Regulations). The Program will be subject to the World Bank’s ACG, 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 Assessment

8. 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.