



Public Financial Management Reform Strategy

August 2021

Finance Department
Government of Sindh



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**Economic Reform Unit,
Finance Department**





MESSAGE FROM THE

CHIEF MINISTER

The Government of Sindh has a strong commitment to openness in public sector governance, transparency in fiscal operations and reforms for better service delivery to the citizens and communities. However, we are cognizant of the fact that the realization of this transformational agenda hinges on a strong and effective public financial management (PFM) system.

To achieve these objectives, Public Financial Reform Strategy (PFM-RS) would serve as a key guiding document. It provides a framework, lays down a road map and delineates the implementation strategy and action plan for strengthening the management of public finances in the province of Sindh over the next few years. Implementation of the reforms enunciated in the strategy will be immensely helpful for putting in place a set of uniform, harmonized and standardized interventions in conformity with the international best practices.

For realizing the policy objectives laid down in the PFM-RS, my government is fully committed to provide the necessary political stewardship and support as we enter the implementation phase. Nevertheless, we are mindful of the fact that the governance reforms usually take relatively longer period to gain traction. Therefore, I would urge the stakeholders to continue pursuing the PFM reform agenda with greater zeal and commitment to bring an everlasting transformation and change.

I express my gratitude to all those who have been associated with the formulation of PFM reform strategy and action plan. It is my earnest desire that the implementation of the reforms planned in the strategy are pursued with a mechanism of regular monitoring and review. I look forward to the achievement of the objectives articulated in the strategy and implementation of the reform measures listed in the action plan.

Syed Murad Ali Shah



MESSAGE FROM THE

FINANCE SECRETARY

Efficient and effective management of public finances is a key to promote sustainable growth, ensure transparency in fiscal operations, expand economic wellbeing, reduce inequality and achieve inclusive and equitable development.

With difficult economic situation and straining budgets, especially in the post COVID 19 scenario, managing the ebb and flow of Government's fiscal fortunes is a formidable challenge. Pandemic besides dampening the demand, has resulted in economic contraction, loss of employment with decrease in labour productivity and output. Given the nature and scale of development and service delivery challenges being faced by the Province of Sindh, it is important to refine, update, and strengthen the existing PFM systems through a well thought out PFM reform strategy and action plan. The need for a new PFM Reform Strategy (PFM-RS) also emanates from the fact that better and effective PFM systems are a key to ensure financial discipline, reduce fiduciary risks, foster economic growth; improve infrastructure and provide quality public services to the people of the province.

The focus of PFM reform strategy is to strengthen the existing PFM systems and processes aiming a proficient fiscal forecasting system, policy based medium term budgetary framework, disciplined and orderly budget execution, resource allocation aligned with the priorities of the Government and efficient and effective use of public resources.

The successful implementation of this strategy will remain the collective responsibility of all the stakeholders. Therefore, I look forward to putting the identified reform areas into implementation for achieving the results as planned. This will help us in our endeavor to achieve high standards of governance in the realm of PFM in the Province.

Here, I would also like to thank all those associated with the preparation of PFM reform strategy. In this regard, the efforts of my team in the Finance Department, Economic Reform Unit, Finance Department and EU funded Public Financial Management Programme (PFM-II) are highly appreciated whose contribution and technical support was instrumental in the formulation of this strategy and action plan.

Syed Hassan Naqvi

Acronyms and Abbreviations

ACL	Audit Command Language
ADP	Annual Development Plan
BSP	Budget Strategy Paper
CoA	Chart of Accounts
DCS	Direct Credit System
ERU	Economic Reform Unit
FD	Finance Department
FABS	Financial Accounting and Budgeting Systems
GDP	Gross Domestic Product
GFMIS	Government Financial Management Information System
GFSM	Government Financial Statistics Manual
GoS	Government of Sindh
IMF	International Monetary Fund
IBCs	Indicative Budget Ceilings
IFMIS	Integrated Financial Management Information System
MTBF	Medium-Term Budgetary Framework
MTFF	Medium Term Fiscal Framework
M&E	Monitoring & Evaluation
M&R	Maintenance and Repair
NFC	National Finance Commission
NAM	New Accounting Model
OZT	Octroi Zila Tax
PAC	Public Accounts Committee
P&DD	Planning and Development Department
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PFM-RS	Public Financial Management Reform Strategy
PPP	Public Private Partnerships
PIFRA	Project to Improve Financial Reporting and Auditing
SAP	System, Applications and Products
SELD	School Education and Literacy Department
SRB	Sindh Revenue Board
SDGs	Sustainable Development Goals
SPPRA	Sindh Public Procurement Regulatory Authority
STRMP	Sindh Tax Revenue Mobilization Plan
UIPT	Urban Immoveable Property Tax
VGF	Viability Gap Fund

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Executive Summary

Public Financial Management (PFM) refers to an aggregate of institutional, organizational and management structures along with laws, regulations and processes to ensure that public sector financial resources are raised, allocated and utilized in an effective and efficient manner. As such, a well-defined public financial management (PFM) architecture and institutional framework is an important component of an effective government. Strong, robust and accountable PFM systems aim to ensure prudent fiscal decisions, credible budgets, efficient and effective resources allocation aligned with strategic priorities, along with accountability for results. To attain these overarching objectives, Public Finance Management Reform Strategy (PFM-RS) and action plan provides a framework, lays down a road map and delineates the implementation strategy for strengthening the management of public finances in the province of Sindh over the next few years.



Background and Context

In the Province of Sindh, reforms in the realm of public finance have been a priority area. For last many years, Sindh is managing its PFM systems through SAP based Integrated Financial Management Information System (IFMIS) with the support of Federal Government's Project for Improvement of Financial Reporting and Auditing (PIFRA). Besides automation of the financial management processes, the system uses the Financial Accounting and Budgeting System (FABS) for budgeting and accounting on a uniform and comprehensive coding system given in the Chart of Accounts (CoA) under the New Accounting Model (NAM). It has helped in improving the budgeting and financial reporting practices to a certain extent. However, certain inadequacies and weaknesses still exist in the budget planning, financial reporting, budget controls and execution which if corrected can further improve the efficacy of the system in place.

To refine and strengthen the PFM systems, Government of Sindh developed a PFM Reform Strategy 2014-19, along with an action plan titled 'Public Financial Management Reform System Action Plan' (PFMRS-AP) for a 10-year period. Some of the short and medium term interventions in the action plan have already been implemented, including the preparation of Budget Strategy Paper (BSP) ; introduction and implementation of Medium-term Budgetary framework in nine (9) key departments; preparation of Sindh Tax Revenue Mobilisation Plan (STRMP); strengthening of fiscal and cash forecasting regime; improvements in financial reporting through quarterly budget execution reports; and use of International Monetary Fund's (IMF) Government Finance Statistics Manual (GFSM) 1986 budget classification with some modifications. This practice, besides adding credence to the budgetary allocations, is also reflective of the importance of a multi-year rolling perspective to budgets and resource allocations. While some improvements have been witnessed, few weaknesses still persist, especially in the areas of policy formulation, preparing sector plans and translating sectoral strategies into budget formulation, performance monitoring and progress on sustainable development goals (SDGs).

Need for a PFM Reform Strategy

Given the nature and scale of development and service delivery challenges being faced by the Province of Sindh, it is important to refine, update, and strengthen the existing PFM systems through a well thought out PFM strategy and action plan. The need for a new PFM Reform Strategy (PFM-RS) also emanates from the fact that the better and effective PFM systems are a key to ensure financial discipline, reduce fiduciary risks, foster economic growth & development, improve infrastructure and provide quality public services to the people of the province.

To ascertain the efficacy of PFM systems, Public Expenditure and Financial Accountability (PEFA) Assessment, 2019 of the Government of Sindh has been undertaken by the Government with the technical assistance of the World Bank, DFID, and EU. The results of this assessment would soon be released. Some of the critical areas where some gaps have been identified include the budget reliability, transparency of public finances, management of contingent assets and liabilities, policy based budgeting and fiscal strategy, predictability and control in budget execution, accounting, financial reporting, external audit and scrutiny.

While highlighting some of the weaknesses in the PFM system, preliminary findings of PEFA assessment do acknowledge some of the improvements in the PFM systems since 2013 when such last assessment was done. These are in the area of multiyear perspective in fiscal planning, budgeting and expenditure policy. Similarly, the assessment mentions improvements in the aggregate fiscal discipline due to effectiveness of better payroll in GFMIS along with enhanced quality of information in the budget execution reports. In this backdrop, it is imperative to devise a PFM reform strategy which aims to address the prevailing weaknesses in the PFM systems.

Contours of PFM Reform Strategy

PFM Reform Strategy and action plan broadly cover the major policy areas including revenue mobilisation to improve service delivery; annual budgets driven by fiscal policy; controlled, orderly and improved budget execution; strengthened and reformed development budget regime; introduction and strengthening of performance reporting including SDGs monitoring; capacity improvement for better PFM; strengthening of legal and regulatory framework and accountability for results. To cover the wide span of PFM spectrum, the PFM-RS envisages interventions under eight (8) "Policy areas", each of which addresses a major area within PFM system. Policy areas are then broken down in different reform areas each laying down an objective, highlighting issues and proposing actions to bring the reforms under the identified area. Intended reforms under the key policy areas of the strategy are explained below.

POLICY AREA 1

Revenue maximisation to improve service delivery



The policy area focuses on the ways and means to maximise the provincial own source revenue without stifling the economic activity and growth. Increase in the provincial own source revenue is to be pursued through the broadening of tax base and net; improving the equity and fairness in the tax policy; facilitating the tax payers for better tax collection and compliance; and strengthening of tax policy and administration.

The strategy under this policy area besides suggesting reforms in the tax policy and administration identifies specific actions under different taxes to improve the existing revenue stream. These include the possibility of introducing a negative list for GST on service, effective third-party data use for identifying the new tax payers and expanding the scope of existing tax net through tax surveys. It identifies the measures to improve the tax equity by addressing the issues both of horizontal and vertical equity across different taxes. It also aims to establish an on-line system for paying major taxes with the possibility of receiving payments through a single portal after the success of this initiative. Simultaneously, revenue maximisation under the non-tax receipts will be realised through revision and rationalisation of fees, licenses /permits rationalisation of rates of licenses/ royalties/ fees, greater cost recovery from Government services along with transparent sale of Government assets.

POLICY AREA 2

Fiscal Policy drives the annual budgets



Present system for forecasting revenues and expenditures, and identifying the fiscal risks are not very well developed to put the annual budgets into a credible medium term fiscal context. There is a need to improve the quality, predictability and consistency of the budget estimates based on multiyear fiscal forecasts. This policy area proposes actions to further strengthen the 'top-down budgeting' with formulation of Medium-term fiscal framework (MTFF) and its use as a guide in the annual budget preparation process. Similarly, it advocates the continuation of preparation and use of Budget Strategy Paper (BSP) as a key policy document setting policies and priorities of the Government in medium term. It urges the departments to effectively use the 'indicative ceilings' issued to each line department as per the sectoral allocations approved by the Cabinet. Simultaneously, the strategy proposes to make the annual budgets more inclusive and participatory with greater input, involvement and contribution by the stakeholders. Besides strengthening of the provincial

budget systems, reforms at the District level especially in the deconcentrated sectors of education, health etc. are also included in the plan through improvements in the budget making and execution in the districts (extending reforms from the present pilot district of Jamshoro to two more districts).

POLICY AREA 3

Controlled, orderly and improved budget execution



In an effective PFM system, it is important to ensure that the budgets are executed as planned/ approved by the legislature. This policy area stipulates a set of reforms for orderly execution of budgets by improving the effectiveness of internal controls and proactively managing fiscal risks. The strategy emphasizes that there should be minimum changes in the approved budget estimates and it is extremely important that the budgets are executed in accordance with the approval by the legislature. To achieve this end, the focus would be to develop a well thought out policy for release of funds, improvements in cash and procurement planning, and putting in place a system of effective internal and budget controls including the budget checks on salary and pension. Further, efforts will be made to ensure that the overall budgeting processes are better organised than earlier. Similarly, improvements in the quality of budget information and financial reporting are envisaged through monitoring of budget execution, timely budget execution reports along with development of cash forecasting tools to better anticipate and manage the fiscal risks. Improved and proactive debt management is also an important reform area to improve the transparency and credibility of budgets.

POLICY AREA 4

Strengthened and reformed development budget regime



Public investments are an important instrument for building capital stock, accelerating economic growth and improving service delivery outcomes. To harness the benefits of public investments, it is important that the principles and parameters of development planning and public investments are fully adhered to improve its efficiency, effectiveness and sustainability. However, in the present planning and development budget regime certain weaknesses and gaps have been observed. Some of these include a weak link between the sectoral priorities/ plans with approved projects; by-passing of the prescribed procedures for inclusion of development schemes in ADP; steady build-up of throw-forward; appearance of un-approved schemes in ADP; block allocations and lack of effective monitoring and implementation tools to avoid cost and time overruns.

This policy area envisages reforms in development planning and execution through an improved process of development planning, identification, preparation, execution and appraisal of the development spending in the Province in conformity with the guidelines given in the Planning Manual issued by the planning commission, Government of Pakistan. Presently, in Sindh, these guidelines and set of instructions are followed for development planning and public investments. Therefore, streamlining and improving the development processes and procedures is required to improve the compliance to the planning framework and optimise the returns of public investments. To do, in the PFM reform strategy measures have been proposed to support the selected departments in formulation of sector plans, improve and strengthen the use of IFMIS in P&D, devise effective project monitoring & evaluation (M&E) system for better project management & execution and improved execution and management of PPP projects. Simultaneously, reforms for efficient and transparent public procurements have also been suggested.

POLICY AREA 5

Introduce and strengthen performance reporting including SDGs monitoring



Performance reporting refers to a formal mechanism which is used to measure and report performance, against the agreed performance standards and guidelines. In recent years, systems have been developed to strengthen the financial reporting on budget including the development of quarterly budget execution reports. PFM reform strategy proposes certain actions to develop the relationship of the budget allocation with outcomes and performance indicators to gauge the actual performance and results against the pre-identified outcome and Key Performance Indicators (KPIs). This would in turn require the framework and templates for performance measurement, reporting performance against the results at least on few of the selected and prioritised SDGs along with integration of both the financial and non-financial data. The specific measures provided in the strategy are improving the design of MTBF to introduce performance budgeting, initiation of actions to prepare KPIs by line departments and the possibility of inclusion of KPIs in budget documents. Alongside, the strategy urges to gradually introduce performance budget at least on pilot basis in few departments, introduction of SDGs and gender tagging for budgetary expenditures and systems for better monitoring of SDGs. In the long term, it is also proposed to prepare the functional classification of IFMIS upgrade in collaboration with CGA to track the performance information.

POLICY AREA 6

Capacity improvement for better PFM



Financial management is the core area for the Governments to deliver their priorities and fulfil the promises made to the citizens. As such, effective public financial management is the key for good governance. To improve the effectiveness of PFM systems, the strategy urges to enhance the individual and organizational understanding and capacity in the policies, systems, rules, regulations and procedures of Public Financial Management. For this purpose, besides ascertaining the needs for human resource development, it is proposed to develop training courses covering different dimensions of public finance delivered both at the entry level and in service to the officers/staff of various government departments including PFM certification courses.

POLICY AREA 7

Strengthening of Legal and Regulatory Framework



The PFM framework in Pakistan at the federal and provincial levels is defined in the Constitution of Islamic Republic of Pakistan (1973). Article 119 of the constitution stipulates the custody and the management of Provincial Consolidated Fund and Public Account by an act of the Provincial Assembly. To fulfill this requirement, the Sindh Financial Management and Accountability Act 2011 was promulgated. However, this act was not aligned with the modern PFM concepts. In the absence of a comprehensive law, public finances in the Province are managed by the rules. These include: - i) - Sindh Financial Rules Volume-I and II ii) - The Sindh Delegation of Financial Powers and Financial Control Rules, 2019 iii) - Treasury Orders and Subsidiary Treasury Rules. Despite the available legal and regulatory systems, there are significant gaps that result in

weaknesses in management of public finances in the Province. The PFM reform strategy under this policy area urges to develop an integrated, consistent and updated legal and regulatory framework with an overarching PFM system defined and guided by a PFM Law. For the said purpose, the Sindh Public Financial Management Administrative Act 2020 has been enacted and notified on May 24, 2021. Moving forward, the strategy emphasizes to develop comprehensive and consistent set of regulations for the public financial management along with the updated budget and planning manual as the basis for the management of budget cycle in complete harmony with the relevant provisions of the new PFM act.

POLICY AREA 8

Accountability for Results



Public accountability constitutes the pivot of democratic governance and public administration. Government authorities have the obligation to report, explain and answer the consequences and results of their decisions and actions. With a view to bring transparency in government operations, the Sindh Transparency and Right to Information Act, 2016 has been passed. The act also envisages the constitution of a Sindh Information Commission. Simultaneously, the office of Provincial Ombudsman (Mohtasib) has also been established to provide relief to the citizens aggrieved by any act or wrong doing of a public functionary. In addition, the instruments of legislative review, external audit, and Monitoring and Evaluation (M&E) of the development projects are also in place to ascertain the veracity, regularity and lawfulness of the actions of the executive.

However, there are number of weaknesses in the legislative oversight, scope and coverage of external audit, outreach and conduct of M&E activities, follow up and action on the decisions of Public Accounts Committee etc. To reform and strengthen the accountability regime, the strategy under this policy area proposes to strengthen the legislative oversight, enhance the coverage and quality of external audit and revitalise and expand the Monitoring and Evaluation (M&E) Framework with specific actions under each reform area.

WAY FORWARD



The PFM Reform Strategy is based on an ambitious reform agenda suggesting short, medium and in some cases few long term actions. Effective and timely implementation will require a well-designed structure of oversight, co-ordination across a broad spectrum of stakeholders, learning from experience and making corrections as the reform process takes its course. Some of the key measures which should be taken are as follows:-

- Broader institutional and departmental responsibilities have been mentioned in the action plan. However, while treading on the implementation path, it would be important to design an institutional responsibility matrix to minimise deviations in implementation of various components of the strategy.
- Through an effective monitoring system, progress on various components of the reform strategy should be regularly reviewed.
- Notwithstanding the fact that Finance Department will be leading the implementation effort, standalone efforts to implement the strategy are unlikely to work. Effective communication during the implementation period with continuous discussion and involvement of the stakeholders would be a key for success.
- On the basis of various progress review reports, a process may be put in place for lesson-learning during the entire period of implementation.

Section 1

Introduction & overview of PFM Reforms

1.1 Public Financial Management - An Introduction

The Chartered Institute of Public Finance and Accountancy (CIPFA) defines the Public Financial Management (PFM) as 'the system by which financial resources are planned, directed and controlled to enable and influence the efficient and effective delivery of public service goals. Accordingly, an effective and sound PFM system should be capable of managing the fiscal resources and financial management systems across different levels and tiers of the Government. This in turn requires a legal framework based on universally acclaimed financial management principles, a defined set of regulations, rules and procedures with an integrated framework of systems and processes for decision making. In this perspective, a well-defined public financial management (PFM) architecture and institutional framework is an important component of an effective government.

1.2 Background and context

Like other Provinces, federal transfers constitute the bulk of the overall resource envelop of the Government of Sindh. In FY 2020-21, with an anticipated receipt of Rs.760.30 billion, federal transfers constitutes 65% of the total revenue receipts. After the 7th NFC award, considerable increase in the resource transfer from Federal Government to Sindh have been observed. Similarly, some improvements have also been seen in the realisation of Province's own source revenue (OSR) especially in the collection of GST on services after its transfer to the Provinces in 2010. Nevertheless, the volatility and uncertainty in the federal receipts under NFC due to less than the budgeted receipts add to the vulnerabilities of the province as the actual receipts in each year are always less the budget estimates. Simultaneously, the provincial own source invariably falls short of the budget estimates. In consequence thereof, every year besides comprising the budget credibility, number of the adjustments are required in the revised budget estimates especially compromising the spending under development budget.

In this backdrop, most of the governments in the developing countries are grappled with the problems of resource constraint, budget deficits, lower level of investments in social sectors, and infrastructure deficiencies. The need would be to improve the effectiveness of the PFM systems. Strong, robust and accountable PFM systems can ensure aggregate fiscal discipline, prudent fiscal decisions, credible budgets, efficient and effective resources allocation aligned with strategic priorities, along with accountability for results. Accordingly, it is imperative to design and implement a PFM reform strategy which can help in the realization of these objectives. To better manage the provincial finances and to ensure the overall strengthening of the existing public financial management systems, this PFM reform strategy has been designed with a renewed focus on maximizing the provincial own source revenue (tax & non-tax receipts) along with reforms in planning, budgeting, fiscal reporting, legal and regulatory framework along with emphasis on improving the existing capacities in PFM.

1.3 Overview of PFM Reforms

For many years now, Sindh has been managing its PFM systems through a SAP based Integrated Financial Management Information System (IFMIS) with the support of Federal Government's Project for Improvement of Financial Reporting and Auditing (PIFRA). Besides automation of the financial management processes, the system uses the Financial Accounting and Budgeting System (FABS) framework for budgeting and accounting on a uniform and comprehensive coding system given

in the CoA under the New Accounting Model (NAM). The management of budgets, payments, and accounting is executed through an IT based integrated framework, with multiple linkages for intergovernmental financial flows, system-based reporting of government revenues and expenditures, with budget execution through budget controls and financial reports. However, certain inadequacies and weaknesses exist in financial reporting, budget control and execution which if addressed can further improve the efficacy of the system in place.

To strengthen the PFM systems in Sindh, a Public Financial Management (PFM) Reform Strategy 2014-19 was developed along with an action plan for a 10-year period. To ensure the implementation of the planned interventions in an orderly manner, the implementation of PFM Action Plan was phased out on multiple time horizons: short term: 2015-17 (2 years); medium term 2017-2020 (three years); and long term 2020-25 (five years). Some of the short-term interventions in the action plan have already been implemented. For planning and budgeting on multiyear horizon, Budget Strategy Paper (BSP) is being prepared as a top-down fiscal policy instrument containing three years rolling plan of the Government setting priorities and providing financial outlays. The BSP offers insight into the fiscal performance of the Government for the last two financial years along with the revised forecasts of the budget estimates to which it relates. BSP is refined and updated annually on the basis of prospective fiscal forecasts and by the input and discussions with the key stakeholders.

Similarly, Medium-term Budgetary Framework (MTBF) has been rolled out in 9 key departments of the Government of Sindh along with strengthened budget and fiscal reporting; increased use of IFMIS connectivity; use of CoA (2000) for budget classification, accounting, fiscal reporting aligned with International Monetary Fund's Government Finance Statistics Manual, 1986 (GFSM) with some modifications. This classification tracks expenditures according to 5 elements (entity, object, fund, function, and project). These reforms besides adding credence to the fiscal assumptions and budgetary allocations, are also reflective of the importance of a multi-year rolling perspective to budgets and resource allocation. While some improvements have been witnessed due to the implementation of this framework, weaknesses still persist, especially in the areas of policy-based budget formulation, translating sectoral strategies into budget formulation, performance monitoring and progress on sustainable development goals (SDGs).

In the last few years, to address these deficiencies, number of reforms in the PFM systems have been undertaken by the Government of Sindh in collaboration with development partners. An overview of some of the reforms which have already been implemented and others which are likely to be executed are summarised below:-

i. Establishment of Specialised Units in Finance Department

a. Economic Reform Unit

The Economic Reform Unit (ERU) was established in the Finance Department in December, 2008. Over the years, the role of ERU has expanded manifold and is now the most important unit steering and overseeing the PFM reform activities especially those assisted by the development partners. Besides facilitating and supporting PFM reforms under EU funded PFM Support Programme (PFM SPP II), ERU is currently implementing 'Public Financial Management and Accountability to Support Service Delivery Program' (PforR), a program of Government of Pakistan with certain targets assigned to four provinces. ERU also implemented 'Sindh Public Sector Management Reform Project' (SPSMRP) which closed on 28th February, 2021. Both were World Bank assisted initiatives. In addition, ERU also supervises and supports the Medium-Term Budgetary Framework (MTBF) in nine departments of the Government of Sindh. Similarly, ERU is actively engaged in the capacity building, training and SAP certification programmes to improve the existing capacities of the civil servants in Sindh in the realm of PFM.

b. Tax Reform and Debt Management Units

Starting in 2014-15, two specialised units namely Tax Reform and Debt Management Units have been created in the Finance Department under the SPSMRP. Tax Reform Unit (TRU) is the key unit responsible for lending support to the provincial tax collecting agencies for better tax policy and tax administration. TRU is also mandated to conduct periodic simulations and modelling of different revenue forecasts and collection scenarios for consideration by the revenue collecting agencies through Finance Department. In doing so, the ultimate objective is to find ways to promote efficiency, equity and transparency in tax policy and administration. The Debt Management Unit (DMU) is mandated to manage the provincial debt portfolio of the Government of Sindh including debt evaluation, framing policies for domestic and foreign debt, financial negotiations for foreign debt in co-ordination with P&DD, debt settlement and reporting. DMU is also responsible for preparing quarterly statistics for aggregate debt portfolio. The unit is also involved in preparing Bi-annual Debt Bulletin (since FY 2016/17), Sindh External Debt Management Manual (notified in FY 2016/17), and Annual Debt Sustainability Analysis etc. To strengthen the legal framework and for better debt management, DMU has drafted Sindh Fiscal Responsibility and Debt Limitation Act and it will soon be considered by the Government.

c. Public Private Partnership Unit

Public Private Partnerships (PPPs) are now a well-recognised mode of procurement being used by the Governments all the world. To provide an enabling legal and regulatory framework for PPP projects, Sindh has enacted the Sindh Public Private Partnership Act 2010. A Public Private Partnership (PPP) unit in the Finance Department has been established to facilitate, oversee and encourage this mode of procurement. The unit besides assisting the Government in the overall procurements process; extending support to the consultants; also undertakes the review of the design and execution of the PPP projects. It lends technical support to the PPP Board, which is a high-powered body headed by the Chief Minister, Sindh. PPP guidelines have been developed to supplement the legal and regulatory framework for PPPs. Going forward, PPP mode is being encouraged as an alternative mode of procurement with clearly defined responsibilities both for the public and private sector. However, for the sustained development of this mode, it will have to be mainstreamed rather than being used for few special projects.

d. Sindh Fund Management House

To manage the government investments in a professional manner, Government of Sindh created a fund management house in 2008 in the Finance Department. A dedicated team of professionals is in place to manage the portfolio of government investments. Currently, the fund manages 16 various investment funds including mainly the Pension and GP fund with separate investment committees for each fund. Initially, the fund worked as a unit. Thereafter, to refine and improve the legal framework, Sindh Fund Management House Act 2013 was passed by the Provincial Assembly. The conversion of Sindh Fund Management Unit as a body corporate fund management house was envisioned under the act. However, after stakeholder's consultation and for better management of investments, it has been found expedient to allow the continuation of Sindh Fund Management Unit in its present form. For the said purpose, the amendments in the Sindh Fund Management House Act, 2013 are being contemplated to align it with the international best practices along with detailed rules and regulations of the house.

ii. Introduction of the Internal Audit Function

In Sindh, the function of internal audit has been established under an internal audit charter. In pursuance thereof, an internal audit unit was established in Finance Department in FY 2016-17. The function of internal audit has now been rolled out to three other departments' i.e. School Education

& Literacy (SELD), Health and Home wherein this activity is outsourced to an independent chartered accountant firm. The activities of the chartered accountant firm are being supervised by the internal audit staff assigned for these departments. Internal audit unit is tasked to prepare the risk-based audit plans and conduct internal audits to improve the internal control environment. There is a plan to extend the internal audit function to two more departments in the near future.

iii. Reforming Sales Tax on Services

In pursuance of the Article 8 of 7th NFC award of 2010, provinces were authorised to collect Sales Tax on Services. Sindh Revenue Board (SRB) was established in 2010 and by virtue of Sindh Revenue Board Act, 2010, it was mandated to regulate the matters related to economic policy, administration, management, levy & collection of taxes, duties, cess etc. Thereafter, the GoS enacted the Sindh Sales Tax on Services Act, 2011 for the levy and collection of Sindh Sales Tax (SST) on services provided or rendered. Since its creation, SRB has done well in realising the potential of the largest provincial tax. This has resulted in substantial increase of revenues from GST on services after its devolution to the Province. The major success on this account has been achieved through strong political commitment and the desire to ensure the institutional development of the board. In the last few years, the board has focussed on bringing more services in the tax net, using information technology, increasing tax payer's awareness through a dedicated helpline and strengthening its audit regime. In the times ahead, number of reforms will also be pursued to increase the tax net, ensure equity in taxation, and carry out tax surveys to assess the tax potential in a particular tax along with automation of the tax regime.

iv. Strengthening of the legal and regulatory framework

Article 119 of the constitution of Pakistan stipulates an act of the Provincial Assembly to manage the Provincial Consolidated Fund and Public Account. To fulfil this obligation, the Sindh Public Finance Administration Act has been prepared. After its approval by the cabinet, and its subsequent laying before the Provincial Assembly, the draft act has gone through the necessary due diligence process by the standing committee of the Provincial Assembly on Finance. Thereafter, the Sindh Public Finance Administration Act 2020 has been approved by the Provincial Assembly and is subsequently notified on May 24, 2021. Going forward, it would now be imperative to approve the financial management manuals and rules fully aligned and consistent with the new enactment including the Sindh Budget Manual, Provincial Planning Manual, Sindh Financial Rules Vol I & II, Sindh Treasury and Subsidiary Treasury Rules. In the year 2019, the Sindh Delegation of Financial Powers and Financial Control Rules, 2019 have been approved and notified.

v. Medium Term Budgetary Framework (MTBF)

The Government has been striving to link its annual budget plans with its policy objectives in a medium term horizon (3 years). Under this reform initiative, MTBF has been rolled out to the 09 key line departments. Presently, it is the integral part of the budget preparation process in these departments. Now the effort is to institutionalise and embed the MTBF in the departments besides its possible extension to few more departments.

vi. Integrated Financial Management Information System (IFMIS) connectivity to line departments

The Integrated Financial Management System (IFMIS) was originally designed to provide the necessary information to plan, execute, and monitor public finances. However, the accessibility of the IFMIS has remained limited to the Accountant General, Finance Department and some key line departments. The Finance Department has recently provided the IFMIS cable connectivity to 31 line departments, physically located in the Secretariat premises. The Government of Sindh has also initiated SAP certification program for relevant Government officials, in which around 85 employees have been

certified on SAP. Financial incentive to the SAP certified officers/officials is also being provided. In addition to certification program, regular trainings of departmental officials are arranged by the ERU, Finance Department.

vii. Reforms in Public Procurements

To regulate, administer and reform the public procurement regime, Sindh Public Procurement Regulatory Authority (SPPRA) was established in 2006. In its early years, Sindh Government adopted the Federal Public Procurement Authority Ordinance 2006. Thereafter, after the enactment of Sindh Public Procurement Act 2009, Sindh Public Procurement Rules 2010 have also been promulgated. The independence of the authority is enshrined in Sindh Public Procurement Authority Act. The SPPA (2009), SPPR (2010) and different types of bidding documents are available on the website of the authority. There is also a complaint recording mechanism and contact information system on the website for complainants. Procurement plans of different provincial departments and evaluation reports done by SPPRA or its consultants can also be viewed/downloaded. A link for recording feedback on SPPRA activities/functions can also be used by the public. Sindh Public Procurement Rules 2010 also provide a mechanism for grievance redressal and appeals against the Government decisions.

To improve the understanding of the government officers/officials in public procurement, a programme for training and certification in public procurements has also been initiated. SPPRA has developed a procurement certification action plan outlining the content, delivery mechanisms and notification of the mandatory certification requirements. For imparting trainings, two modes of training and certification have been envisaged. Under one mode, five-day course in collaboration with credible institutions like IBA Karachi, NED University Karachi, Sindh University of Jamshoro and IBA, Sukkur is being pursued. Under the second mode, an online certification is provided through Massive Open Online Course (MOOC) on the website of SPPRA. In total, 682 officers/officials of the Government of Sindh from BPS-16 and above have been trained under this training/certification programme. All these measures are intended to increase the transparency of public procurements in Sindh.

viii. Introduction of E-Stamping

Stamp papers are an important source of revenue for the Government. The stamp paper is used for giving power of attorney or executing any legal instrument or agreement including financial deals, contracts, purchase or sale of property, affidavits or declaration etc. In order to eliminate the possibility of issuance of counterfeit stamp papers and facilitate the citizens, the Government of Sindh intends to initiate a programme for e-stamping. It is an initiative towards digitisation and a key step for ease of doing business. An individual will now be able to get the e-stamp from an ex-officio vendor instead of going to a stamp office. In September 2020, the Sindh e-Stamp Rules, 2020 have also been notified. It is hoped that besides citizen's facilitation, this will also increase the revenue from stamps.

ix. Integration of Human Resource and Financial Management Data

The human resource and financial management data of the Health and School Education Departments is to be integrated with the service delivery units for improvement of performance in service delivery. There is a plan to implement a pilot in one district in the near future.

x. Performance Incentives in Health & Education Sectors

The best performers in service delivery from Health and Education Sectors will be rewarded "Performance Award" in FY 2020-21 & FY 2021-22.

xi. PFM Reforms Intervention Related to Service Delivery at District Level

For extending the PFM reform interventions to service delivery institutions, School Education department in Jamshoro district has been notified as a pilot. The primary and secondary schools of the district are being facilitated in the development of budget estimates, preparation of procurement plans, and improving their budget execution. Simultaneously, support is being extended in the budget formulation along with the conduct of trainings in the basic principles and parameters of budgeting. Going forward, the plan is to increase the footprints of this reform process to few more departments and two more districts.

xii. Establishments of a data centre in the Finance Department

For last many years various fiscal operations of the Government of Sindh are being managed through an IT based IFMIS system. Presently, SAP/IFMIS servers are managed by the office of the Accountant General Sindh. Under a World Bank funded Sindh Public Sector Management Reform (SPSMRP) Project, establishment of the data centre in the Finance Department was planned. For this purpose, completion of civil works, electrical power installation procurement of the hardware has been completed. To complete this task, with the technical assistance and support of AG Sindh, complete functionality of the data has been ensured with the migration of SAP/IFMIS data, testing, and data integration. The data centre is functioning w.e.f. January 29, 2021. The data centre will help the Government of Sindh in keeping the record of data from various data sources, perform data analysis and fulfilling similar needs for timely and informed decision making.

xiii. Foreign Aided Programmes with PFM component

a. Sindh Public Sector Management Reform Project (2015-2021)

A World Bank funded Sindh Public Sector Reform Project (SPSRP) was designed and implemented to strengthen the public sector performance in the Province of Sindh through improved revenue generation and expenditure management. Various interventions under the project included the approval and initial implementation of Sindh Tax Revenue Mobilization Reform Plan (STRMP); enhancing the HR and Administrative capacity of Sindh Revenue Board (SRB); automation of tax collection with risk based tax audits; strengthening of internal audit function; improving transparency in the budget formulation and resource allocation; certification of procurement officials; and preparation and publishing of Quarterly reports for better monitoring and implementation of the development portfolio.

b. World Bank Funded PfR (Program-for-Results) 2017-21:-

Under this program, various PFM reforms are being implemented in Sindh in partnership with Government of Pakistan. The areas of PFM reform include the implementation of e-payment system; reduction in cash held outside the Treasury Single Account; implementation of e-procurement system, integration of human resource and financial management data; pension disbursement through direct credit system etc.

c. Support for SDGs implementation through SDG's Support Unit in P&DD (2017-23):

With the assistance of United Nation's Development Programme (UNDP), SDG support unit in P&DD has been established. The unit is mandated to formulate Sindh's SDGs framework and a roadmap for localisation of SDGs in Sindh. In doing so, mainstreaming, and accelerating policy approach (MAPS) will be used for localising SDGs in Sindh. The outputs envisaged in the programme are:-

- **Output 1:** Aligning plans, policies and resource allocation to 2030 agenda

- **Output 2:** Strengthening the monitoring and reporting regime including the tagging of public expenditures to SDGs.
- **Output 3:** Increase and align the financing flows with 2030 agenda

To achieve the targets under this initiative, Chief Minister Sindh has approved SDGs priorities for the immediate, intermediate, and long term. Up to the year 2025, 06 SDGs have been prioritised. Going forward, it has been recognized that SDG 1(No Poverty), SDG 5 (Gender Equality), and SDG 13 (Climate Action) are the cross cutting priorities that will be integrated in the strategic planning endeavours to achieve the desired progress for localizing SDGs in Sindh.

d. Competitive and Liveable City of Karachi Project (2019-24):-

A World Bank funded 'Competitive and Liveable City of Karachi (CLICK) project is currently under implementation. The development objectives of the project are to improve urban management, service delivery and the business environment in Karachi. Major interventions under the project include performance-based grants to Local Councils and capacity building, modernization of the urban property tax administration and system, improvement of city competitiveness and business environment, technical assistance for solid waste management. These would require the mapping and improvement of the allied PFM systems.

e. Development through Enhanced Education Programme (2019-24):-

It is an EU funded programme. The deliverables of the project inter-alia include the improvement of educational planning, financial management and administration. The project aims to achieve a satisfactory progress in the implementation of PFM reforms through formulation and public availability of comprehensive and sound budgetary information. Besides establishing the internal audit unit in SELD, the focus would be on the Implementation of school clustering policy with decentralization of the administrative, academic and financial management to the service delivery units across Sindh.

f. Enhancing Public Private Partnership in Sindh (2017-22):-

With the support of the Asian Development Bank, the project for enhancing the public private partnership in Sindh is currently under implementation. The project entails the improvements in the PPPs framework and structure through (i) - robust policy that guides the selection of eligible viable PPP projects based on Sindh's ADP (ii) - equitable risk participation from investors and lenders (iii) - rigorous risk management policies and supporting systems that address the PPP project and related fiscal risks and (iv) - sound policies that guide the use of public funding. Under the project, training and capacity building of the line departments would be developed in the areas of risk management, contingent liability assessment and fiscal risks associated with PPP projects.

g. Karachi Neighbourhood Improvement Project (2017-22):-

Karachi Neighborhood Improvement Project (KNIP) is being implemented through the financing by the World Bank. In addition to the improvements in public space and mobility, support for administrative services, capacity development of the Karachi Municipal Corporation (KMC), the establishment of an integrated financial management system (IFMIS) for KMC have also been envisaged under the project.

h. Sindh Union Council and Community Economic Strengthening Programme (2015-21):-

Funded by European Union, Sindh Union Council and Community strengthening programme (SUCCESS) is based on the social mobilization approach for community development. It is one of

the largest community-driven development and poverty reduction initiatives in Pakistan. Through SUCCESS, EU is also helping the Government of Sindh to formulate and implement a province-wide 'Poverty Reduction Strategy' and community driven local development policy. Preparation of micro investment plans and provision of grant in aid for women empowerment are a part of the planned interventions under the programme.

i. Sindh enhancing response to reduce stunting project (SERRSP) 2017-21:-

With the financing by the World Bank, SERRP is a project currently under implementation in Sindh. The development objectives of the programme include the reduction of stunting among the children under the age of five years by targeting the most affected districts in the province of Sindh. Besides other interventions, nutrition expenditure tracking guidelines have been developed which envisage the introduction of nutrition related expenditure heads under the CoA and expenditure tagging in the IFMIS in addition to some conditional cash transfers.

Section 2

Public Financial Management Reform Strategy

2.1 Objectives of PFM

The key objectives of a sound public financial management system are to maintain overall fiscal discipline, ensure effective allocation of resources to priority areas, and aim efficient delivery of public goods and services as explained below:-

i. Aggregate Fiscal Discipline:

Fiscal operations of the government are managed in the way that they do not generate unsustainable fiscal distress and borrowing needs by ensuring that aggregate levels of public spending and revenue collection are consistent with the fiscal targets.

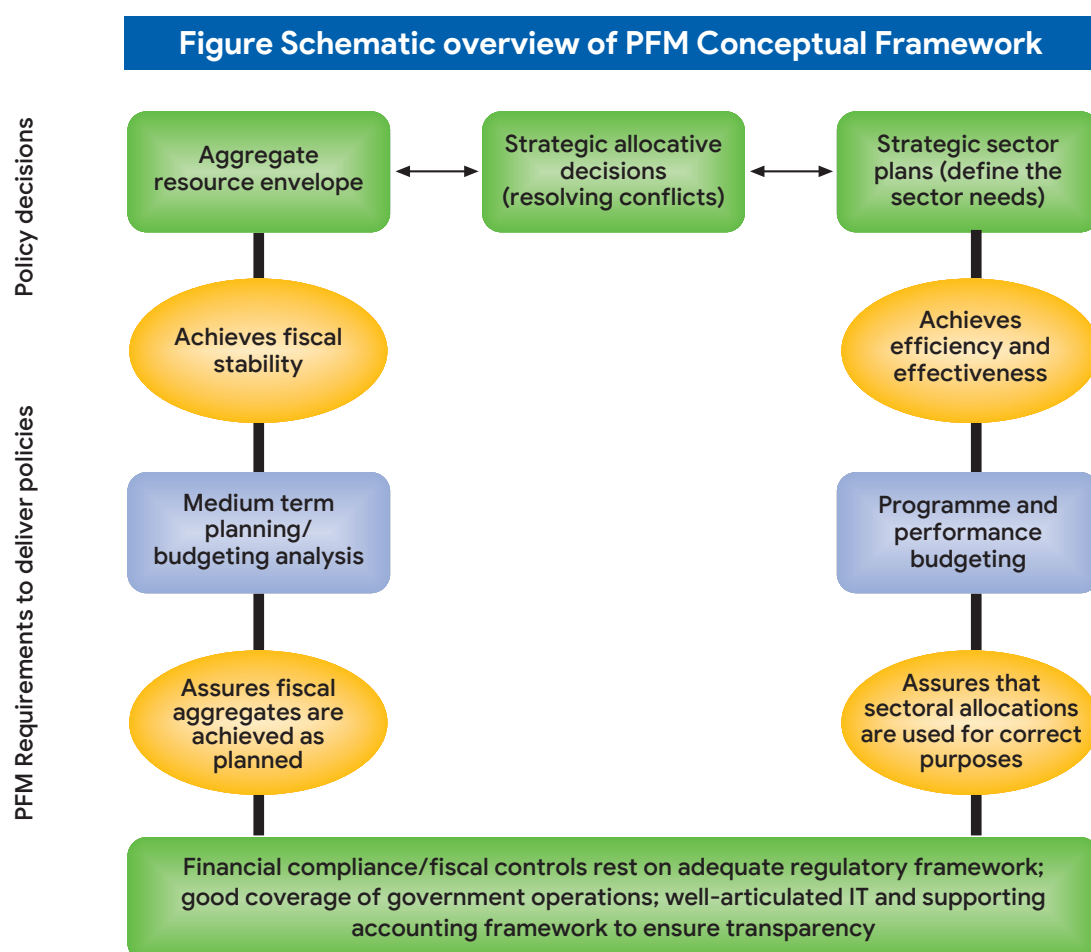
ii. Resource allocation to priority areas: -

Resource allocation to priority areas is ensured to achieve allocative efficiency.

iii. Efficient service delivery: -

Public goods and services are delivered in an efficient manner to maximise the value for money and attain operational efficiency.

A schematic overview of the PFM conceptual framework based on three main deliverable as mentioned above is shown in the Figure below.



2.2 Principles of PFM

Efficient and effective management of public finances is a key to promote sustainable growth, expand economic wellbeing, reduce inequality and ensure inclusive and equitable development. Following are the key principles which should form the basis of an effective and well-functioning PFM system and the PFM reform strategy:

- PFM reform work is required to be framed within a multi-year horizon, sequenced around the agreed priorities, and achieved through a coordinated approach;
- The scope, manner, timing and sequencing of the PFM reforms is in accordance with the actual needs;
- PFM reform processes and Government budgets are aligned with the decision-making cycles of the Government;
- PFM work should be linked to a robust monitoring and evaluation framework that clearly articulates the gains in PFM system performance which are planned or achieved;
- PFM reforms should build on the progress achieved, the past successes, and lessons learnt under the previous reform programmes. Of course, there would be an exception to this approach if the earlier completed reforms were only in its initial stage culminating thereafter to a more extended and comprehensive reform agenda;
- Attention is paid to ensure the sustainability of the actions under taken in a PFM reform programme. This will be done through capacity building, institutional embedding of the reforms, process reengineering and change management;
- PFM reforms should not lose sight of achieving a measurable improvement in service delivery. These reforms are ought to be designed to bring improvements in service delivery as a desirable consequence of such PFM reforms;
- Stakeholder's ownership, commitment and involvement during the entire reform process is a key underlying assumption for the success of the planned actions under the PFM reform strategy

2.3 Legislative and Institutional Framework of PFM in Sindh

The constitution of Islamic Republic of Pakistan provides for a parliamentary system of Government and authorizes the National and Provincial Assemblies to approve the budgets every year through their annual fiscal vote. The constitution further stipulates the authorities to enact on the subjects defined in the legislative list of the Fourth Schedule of the Constitution including public finances. PFM in Pakistan is structured around the principles of fiscal federalism, with specific financial management provisions provided in the constitution. Similarly, the collection and distribution of revenues of divisible pool taxes between the federal and provincial governments is governed by National Finance Commission (NFC) award, under the basic principles laid down in Article 160 of the Constitution. The constitution also specifies the relationship between the executive and legislature.

In the provincial context, the power to formulate fiscal laws, budget approvals, and changes in the approved budget are vested with the Provincial Assembly. The executive is responsible for drafting the budget proposals and to seek the approval from the legislature. The Constitution also contains the provisions relating to financial management and control by the provinces. Accordingly, budgetary controls are exercised as set out in the relevant provisions of the Constitution, acts/rules promulgated under the Constitution, and procedures prescribed by the Provincial Government/ Provincial Assembly.

Table on next page arrays the constitutional provisions relating to budget preparation, management, and control in the Provinces.

Constitutional provisions relating to provincial finances

ARTICLE NO.	TITLE
Article 118	Provincial consolidated fund and public account
Article 119	Custody of provincial Consolidated Fund and public account
Article 120	Annual Budget Statement
Article 121	Expenditure charged upon Provincial Consolidated Fund
Article 122	Procedure relating to Annual Budget Statement
Article 123	Authentication of the schedule of authorized expenditure
Article 124	Supplementary and excess grant
Article 125	Votes on account
Article 126	Powers to authorize expenditures when assembly stands dissolved

In addition to the constitutional provisions summarised above, the Federal Government has enacted Public Financial Management Law, 2019 followed by the PFM Law by Balochistan. In Sindh, to regulate the fiscal management affairs; to ensure fiscal discipline and fulfil the requirements of the Article 119 of the Constitution, the Sindh Public Finance Administration Act has been approved by Provincial Assembly and it has been gazetted on May 24, 2021.

2.4 Rationale for a PFM Reform Strategy

After 7th NFC award in 2010, vertical share of the provinces in the federal divisible receipts under the award increased from 47.5% to 56.5% in the first year of the award (FY 2010-11) and then to 57.5% in the remaining years. Presently, federal transfers including the federal divisible pool receipts constitute approximately 65 % of the overall resource envelop of the province of Sindh. However, due to inaccurate estimation, ambitious revenue targets and less than actual revenue realisation against the budgeted amount, every year these receipts have become highly volatile and uncertain. Similarly, despite some increase in the provincial own source revenue especially on account of buoyancy in GST on services receipts, the optimum potential of provincial own sources revenue have not yet been realised. Simultaneously, due to rapid increase in expenditures especially of pay & pension, achieving fiscal stabilisation has remained an elusive goal. These factors besides comprising the credibility of provincial budget, also leads to the reduction in planned expenditures especially under development spending. Further, fiduciary risks have also amplified due to number of fiscal operations outside the existing financial management and reporting system especially of the autonomous bodies and number of specialised institutions. Of late, 10th NFC has been constituted. The Government of Sindh based on its needs and assigning of larger areas of responsibility after 18th amendment intends to argue for a greater provincial share in NFC. Nevertheless, in view of higher budget deficits, sluggish economic growth and other macroeconomic challenges at the national level, a major change in the provincial share under NFC framework is not expected at least in the foreseeable future. In this backdrop, a need has been felt to further strengthen, improve and update the existing PFM systems through a set of reforms as envisioned in the PFM reform strategy.

Besides the fiscal management challenges as articulated above, to ascertain the efficacy of the PFM systems in the Province, a Public Expenditure and Financial Accountability (PEFA) assessment has been undertaken with the technical assistance of WB, DFID, EU and other development partners in 2019/20. The PEFA assessment based on its PEFA 2016 framework covered the institutions, systems and processes for the Sindh Government budget including the transfers to local governments and the transparency of intergovernmental relations. The assessment was conducted against 31 performance management indicators grouped in seven pillars of an open and orderly PFM system including: (a) budget reliability (b) transparency

of public finances; (c) management of assets and liabilities; (d) policy based fiscal strategy and budgeting; (e) predictability and control in budget execution; (f) accounting and reporting; and (g) external scrutiny and audit.

The assessment has been completed and the report will be released soon. Some of the critical areas where some gaps have been identified include the budget reliability, transparency of public finances, management of contingent assets and liabilities, policy based budgeting and fiscal strategy, predictability and control in budget execution, financial reporting, external audit and scrutiny. While highlighting some of the weaknesses in the PFM system, preliminary findings of PEFA assessment also acknowledge some of the improvements in the PFM systems since 2013 when the earlier assessment was undertaken. These are in the area of multiyear perspective in fiscal planning, budgeting and expenditure policy. Similarly, the assessment mentions improvements in the aggregate fiscal discipline due to effectiveness of better payroll due to GFMS along with enhanced quality of information in the budget execution reports.

In this backdrop, it is imperative that the existing PFM systems are refined, updated and improved to maximise financial efficiency, ensure fiscal stability and improve public governance. In this sense, good PFM system is a necessary, if not a sufficient condition to improve the budget outcomes.

2.5 Contours of PFM Reform Strategy

Owing to its complexity and difficulties in implementation, PFM reform is generally considered as a painstaking, and difficult process. Even when implemented, in most of the cases the improvements are of incremental nature. Moreover, the literature on governance reforms also acknowledges that these reforms usually take relatively longer period to gain traction. Nevertheless, through a coordinated mechanism between Finance Department, Planning and Development, Line Departments of the Government of Sindh and development partners including EU, World Bank, DFID, Asian Development Bank etc., a concerted effort will be made to bring reforms in the existing PFM systems and put the finances of the province on a path of fiscal consolidation.

As a part of this strategy, reforms are envisaged to be rolled out on multiple time horizons including short (one year), medium (two to three years) and long term (five years and beyond). This will allow the clear identification and implementation of urgent reforms in a shorter period followed by those actions which are required to be executed in the medium and long term horizon.

The PFM Reform Strategy focuses on designing and implementing a well-structured PFM framework, with emphasis initially on strengthening the core system of financial and budgetary controls. Initiation and success of comparatively difficult reforms like performance reporting, aligning sector plans with budget allocations and performance budgeting can only be executed if the core systems are in a better shape. Given the broad spectrum of PFM system, this PFM Reform strategy tries to capture the various dimensions of the PFM system including planning, budget preparation, execution and control, public investment, contingent and liability management, resource mobilisation, accounting and financial reporting, transparency and accountability for results.

PFM Reform Strategy and action plan broadly cover the major policy areas including revenue mobilisation to improve service delivery; annual budgets driven by fiscal policy; controlled, orderly and improved budget execution; strengthened and reformed development budget regime; introduction and strengthening of performance reporting including SDGs monitoring; capacity improvement for better PFM; and strengthening of legal and regulatory framework and accountability for results. To cover the wide span of PFM spectrum, the PFM-RS envisages interventions under Eight (8) "Policy areas", each of which addresses a major area within PFM system. Policy areas are then broken down under different reform areas each laying down an objective, highlighting issues and proposing actions to bring the reforms under the identified areas. Intended reforms under the key policy areas of the strategy are explained on next page.

Policy Area 1

REVENUE MAXIMISATION TO IMPROVE SERVICE DELIVERY

Objective

To optimise the provincial own source revenue without stifling the economic activity and growth. Revenue increase will provide additional sources to finance the services being provided by the Government.

Issues

The revenue receipts of the Province of Sindh are generally divided into three major categories:-Federal transfers including the federal transfers; provincial tax receipts and non-tax receipts. Federal Transfers comprise the revenue assignment, straight transfers, PSDP related development grants, and Octroi & Zila Tax (OZT) grants. Presently, approximately 65% of the Provincial revenue receipts are realized from federal transfers including federal divisible receipts and straight transfers, under NFC award along with PSDP grants and Foreign Development assistance where as 35% of the receipts are from the provincial own source revenue. The volatility and uncertainty in the federal divisible pool receipts makes it exceedingly difficult for the provincial government to implement the planned policy interventions especially those of development budget. Simultaneously, despite a sizeable growth in the provincial own revenue on account of SST on services after exercise of the option by the province, the optimum potential of provincial revenues has not yet been realised. At the policy level, consistent, harmonized, equitable and integrated tax policy framework is non-existent. Further, there are gaps in the tax coverage, administration and compliance. This implies that if reforms are introduced, the contribution of the Provincial own source revenue can significantly improve.

To improve the provincial own source revenue, Government of Sindh developed Sindh Tax Revenue Mobilization Plan STRMP (2014-19). Key goals under the plan were to increase the own source revenue; reduce administration and compliance costs; enhance voluntary compliance and improve the efficiency and equity of provincial taxation. To achieve these goals, revenue collecting entities were required to bring in reforms in the areas of Tax policy, administration, collection and institutional efficiency. By virtue of some of these reforms, Provincial tax receipts have increased from Rs.95.781 Billion in FY 2014-15 to Rs. 184.453 Billion in FY 2019-20. Despite this increase, there are a few areas of improvement in tax revenue regime, which if implemented can result in significant increase in the provincial tax revenue.

Reform Areas

1. Broadening of tax base and net;
2. Improving equity and fairness in tax policy;
3. Tax payer's facilitation to improve tax collection and compliance;
4. Strengthening of Tax policy and Administration;
5. Realising higher non-tax receipts through revision and rationalisation of fees, licenses /permits rationalisation of rates of licenses/royalties/fees, greater cost recovery from Government services along with transparent sale of Government assets.

Reform Area 1 Broadening of the tax base and tax net

Objective

To bring all individuals and sectors with taxable income under the tax net.

Issues

Broadening the tax base is one of the approaches to optimise the domestic revenues. In the Province, around 15 taxes and levies are in place for tax collection. However, 98% of the tax revenue is collected from only six taxes i.e. GST on Services, Development and Maintenance of Infrastructure Cess, Stamp Duty, Motor

Vehicle Tax, Provincial Excise and Urban Immoveable Property Tax (UIPT). Given the formidable size of informal economy, a large number of individuals and sectors possessing the capacity to pay taxes are outside the tax net. Simultaneously, there are weaknesses in the tax administration and compliance. Resultantly, tax collection is quite low. In this scenario, tax burden is only on the existing tax payers. Accordingly, it is important to capitalise the tax potential in the province by broadening the tax base and net.

Actions

Short to Medium Term

- 1) For General Sindh Sales Tax (SST) on Services, the Government of Sindh is currently using a positive list for the levy of tax. The taxable services are specified in the Second Schedule of Sindh Sales Tax on Services Act, 2011. The services which are not included in the schedule are not chargeable to tax. To broaden the tax net, the existing system of taxation will be reviewed and an option of resorting to negative list based tax regime in the province will be explored whereby all services chargeable to tax unless a specific exemption is granted to a particular service.
- 2) Increased and effective use of ICT based tools and systems to identify the new taxpayers particularly in the realm of sales tax on services i.e. devising a system to use the record and data basis of different organisations/entities e.g. Pakistan Revenue Automation Limited (PRAL), professional organisations like Tax Bar associations, and use of social media sites and other advertisements to identify new tax payers.
- 3) Reviewing the rating areas provided in the Sindh Urban Immoveable Property Tax Act 1958 to bring newly developed urban areas in the tax net.
- 4) Digitisation of UIPT records, GIS integrated computerisation of UIPT starting first in a major city like Karachi and thereafter to be extended to other large cities of Hyderabad and Sukkur etc.
- 5) As a part of modernisation and improvement of UIPT regime, all Karachi based survey of properties will be undertaken (residential, commercial, industrial, institutional, special etc)
- 6) A good system of assessing the tax on immovable property takes into account the various characteristic of a property. Currently, rental value of the property forms the basis of calculation of UIPT. The possibility of under reporting and under-assessment of the rental value cannot be ruled out. Reforms in the property tax would consider the use of capital value of the property for UIPT calculation instead of the current system of using rental value as the basis of calculating the payable UIPT.

Long Term

- 1) Reduction in the rate of sales tax on services once a significant improvement in the tax base and net is achieved. The reduction in the tax rates will improve compliance and result in increasing the Government revenues.

Reform Area 2 Improving the fairness and equity in tax policy

Objective

To introduce and implement tax policies which are fair, equitable and reduce distortions in the tax regime.

Issues

Fair and transparent tax system is essential to maximise economic growth. The present tax system is primarily regressive in nature and does not take into account the ability to pay tax. A fair and equitable tax system

would aim both the horizontal and vertical equity in the tax policy and administration. Horizontal equity in taxation means that individuals with similar income and assets should pay the same amount of tax. Vertical equity implies that those with higher paying capacity should pay more than those with lesser capacity. As such, achieving vertical equity would require proportional and progressive taxation.

Actions

Short to Medium Term

1. The contribution of the agriculture sector in the national GDP is around 22%. In Sindh, it almost follows the same pattern. However, the tax collection on this account is quite low. In Sindh, Agriculture Income tax (AIT) is levied under the Sindh Land and Agriculture Income Tax Ordinance, 2000. In terms of Second Schedule of Sindh Land and Agriculture Income Tax Ordinance 2000 (amendment Act), 2018, the tax is exempt to an annual income up to 1.2 million. Over the period, the revenue potential of the AIT is rapidly eroding due to reduction in the average size of landholding (due to hereditary transfer/ sub divisions), increase in the prices of farm inputs, lower levels of productivity all leading to lesser agriculture income. However, there is a still a case to bring improvements in the AIT regime. To do so, the Government of Sindh will use the computerised data basis of the land, technology based assessments of historical data, GIS/remote sensing instruments and e-cropping tools, to ascertain the trends of cultivation, quality and type of crops. This will help in better and accurate assessment of the tax liability. Simultaneously, AIT regime will also be reviewed to bring greater fairness and equity vis-a-vis other taxes being collected by the FBR.
2. Urban land is an important and limited factor of production. To capitalise its real tax potential, it is important that incentives are created within the tax system to put this land to an efficient and productive use. The Government would introduce reforms to review UIPT tax regime on vacant plots. Under this reform, penalties will be introduced for delays in construction on vacant plots. Besides promoting construction industry and contributing revenues to the Government, this will end the speculative practices in the real estate sector.
3. Elimination of differentials between the self-occupied and rented properties for UIPT.
4. Tax expenditures are the special tax breaks in the form of exclusions, exemptions, preferential rates or deferral of tax liability. Since tax expenditures are a hidden form of spending, they will be reviewed to improve the fairness and equity in the taxation system. Review of exemptions especially under UIPT will be a key reform to be pursued by the Excise and Taxation & Narcotics Control Department.
5. Reforms in the token tax regime on motor vehicles will be considered e.g. replacing the current value based token tax with engine capacity.
6. Possibility of shift from the fixed tax regime to ad-valorem based tax imposition where feasible.

Reform Area 3 Tax payer's facilitation to improve tax compliance and collection

Objective

Taxpayer's facilitation through online tax payment, reduction in number of taxes, simplification of tax payment processes, reducing interface between the tax payers and tax collector.

Issues

Voluntary tax compliance essentially requires tax payer's facilitation. However, tax system in the country has become quite complex and cumbersome due to overlapping jurisdictions of different tax entities, lack of harmonisation in tax laws with varying rates of taxes, exemptions, and frequent policy changes. Besides

multiplicity of tax payments, the tax payer's especially in the services sector are required to make tax payments and file tax returns to number of tax agencies and authorities. In terms of the World Bank's Ease of Doing Business Report 2019, Pakistan has a very low score and ranking in 'paying taxes' indicator. The country is ranked 173rd among 190 economies for this indicator with 47 payments. Therefore, it is important that measures are initiated to facilitate tax payments.

Actions

Short to Medium Term

1. Sindh Revenue Board in collaboration with SBP, NBP and 1 link system, developed an online tax collection system. This may further be improved and expanded with the possibility of extending this facility for few other taxes;
2. Review of the existing tax structure with the possibility to abolish/merge the taxes with negligible collection and monetary value;
3. Establishing the service centres for tax payer's facilitation;
4. Introduction of E-payment system for few taxes with prior third party assessment of the requirements of the E-payment system and the associated risks.

Long Term

1. Possibility of payment of all provincial taxes through the same portal or one application.

Reform Area 4 Strengthening of Tax Policy and Administration

Objective

Develop a consistent and harmonised tax policy framework and strengthen the tax administration through human resource development, technical and managerial capacity building

Issues

Effective tax administration is a key for domestic resource mobilisation. However, it is observed that due to complexity of tax laws, overlap and multiplicity of tax jurisdictions, lack of trained staff well versed in tax policy and administration, uncompetitive compensation for tax staff, and ineffective mechanisms for resolution of tax disputes, the resource mobilisation at the provincial level has remained at the suboptimum level. Similarly, the deficiencies in the revenue administration also exist in the areas of risk assessment, monitoring of arrears and revenue audits. Therefore, strengthening of the tax policy and administration including a capacity building strategy and framework is essentially required to improve the provincial revenue collection.

Actions

Short to Medium Term

1. Develop a tax policy framework which is harmonised and consistent across taxes and revenue collecting agencies to reduce confusion and conflict;
2. Conduct functional reviews of Sindh revenue collecting departments, design and approve HR policy for revenue departments including qualification, staffing and training plan;
3. Improve tax administration (including tax compliance, audit and arrears) through HR, technical and managerial capacity building;
4. Preparation of risk-based audit plans with emphasis on the improvement of tax compliance and collection of arrears;
5. Conduct tax surveys in a phased manner for an evidence-based tax assessment;

6. Create public awareness through communication of tax obligation, rates and forms;
7. Conduct study for automation and integration of tax records;
8. Develop and notify policy of performance incentives on revenue maximisation.

Long Term

1. Design institutional framework/mechanisms for resolution of jurisdictional overlap between federal, provincial and LG.

Reform Area 5 Increasing Non-Tax Revenue

Objective

To tap and realise the real revenue potential of non-tax receipts in the Province.

Issues

The Province of Sindh has number of resources of non-tax revenue including user fees, fines, rates/royalties and proceeds from the sale of assets including state land. In addition, revenue under non-tax receipts is also received from the Federal Government in the form of straight transfers (royalties on oil and gas, and excise duties on oil and gas) which are collected by the Federal Government and are transferred to the Provincial Government. Presently, the revenue collection on account of non-tax receipts of the Province is quite low and there is a need to put in place a system of assessment, collection and management of non-tax revenues to harness the realistic potential of non-tax receipts.

Actions

Short to Medium Term

1. Undertake a holistic review of non-tax receipts along with their present levels to determine the gaps in legal and regulatory framework, rates, mode of collections etc;
2. Formulation of a policy framework and rationalisation of royalties, fees, surcharges/ lease income from mines and mineral and economic zones;
3. Study the pricing mechanisms of irrigation water/abiana (fee charged for provision of canal water for irrigation purposes) to rationalise and improve the water pricing and recovery;
4. Review the rates of leases of state land.

Long Term

1. Develop a regulatory framework for the generation, management and transparency of self-generated revenues including user charges by autonomous organisation and public sector enterprises.

Policy Area 2

FISCAL POLICY DRIVES THE ANNUAL BUDGETS

Objective

Budgeting is based on a fiscal policy framework, and annual budgets reflect the strategic prioritisation of the Government.

Issues

The budgets reflect the choices what the Government will do. However, our current budget making practices

does not necessarily reflect the strategic prioritisation of the government. Budget making continues to be mostly incremental and input based. Present systems for forecasting revenues and expenditures, and identifying the fiscal risks are not very well developed to put the annual budgets into a credible medium term fiscal context. In the last few years, though number of reforms have been undertaken by the Government of Sindh to address these gaps in budget making and planning. Budget Strategy Paper (BSP) is being developed and issued every year after the approval of the cabinet. BSP serves as three year rolling plan setting the priorities and plans of the Government in the medium term. It offers insight into the fiscal performance of the Government of the last two years and the financial year to which it relates. Budget ceilings for the current budget are also issued to the line departments. However, these actions have largely helped in strengthening and upgrading the provincial budget management system. In this backdrop, an effort is still required to bring improvements in the areas of multiyear perspective to fiscal planning, budgeting and expenditure policy. These weaknesses if addressed can bring lasting benefits for the budget making in the Province.

Reform Areas

1. Strengthening of top-down budgeting with formulation of Medium Term Fiscal Framework (MTFF) and is used as a guide in the annual budget preparation process;
2. Strategic budgeting is strengthened and embedded in the fiscal management system of the province.
3. Budgets are made more inclusive and participatory with greater input, involvement and contribution by the stakeholders;
4. Enhanced and improved budget making and execution in districts (adding two more districts in addition to pilot in Jamshoro).

Reform Area 1 Strengthening of top-down Budgeting framework

Objective

Medium term top-down budgeting framework is strengthened in the Government of Sindh.

Issues

The modern budget practices emphasize a policy based budgeting system rather than a bottom-up approach wherein the departments process the budget estimates and they are collated at the level of the Finance Department. Similarly, in the present system of formulation of development budget, the preparation is not necessarily based on the estimated resource envelop or sectoral needs. It is influenced by number of extraneous factors and pressures which pose a significant risk of over budgeting leading to fiscal profligacy and straining of budgets. To remove these weaknesses, reforms have been undertaken to give a medium term perspective to budgets by developing a Budget Strategy Paper (BSP) as a three year rolling framework and issuance of Indicative Budget Ceilings (IBCs) for recurrent budget. However, the underlying fiscal assumptions for BSP require their alignment with a well-developed Medium Term Fiscal Framework (MTFF) which in turn is based on well-defined macro-economic indicators and variables driving the annual budget estimates.

Actions

Short to Medium Term

1. Prepare Medium term fiscal framework by December each year to establish a resource envelop for the medium term;
2. Develop and update the statistical basis for macroeconomic forecasting and a mechanism of its regular update.

Long Term

- 1 Prepare and present a report on fiscal outcomes to the legislature published with the annual budget giving the progress, variance and adjustments against the objectives and targets set out in a fiscal strategy.

Reform Area 2 Strategic budgeting is strengthened and embedded in the fiscal management system of the province

Objective

As a part of strategic budget framework, Budget Strategy Paper (BSP) is prepared and institutionalised as a key policy document for annual budget preparation, strategic prioritisation and greater fiscal discipline.

Issues

A policy based strategic planning and budget process is a key for effective use of public resources. For last many years, to achieve this end, Budget Strategy Paper (BSP) is being prepared in the Government of Sindh. BSP serves as a statement of policy goals, objectives and strategic priorities of the Government for the upcoming budget in relation to its medium term fiscal outlook. The BSP also sets out the indicative budget ceilings to the administrative departments and is a useful tool for prioritising spending plans. Now, there is a need to further refine and embed the BSP in the annual budget planning process.

Actions

Short to Medium Term

1. BSP is developed and institutionalised as a key policy document setting priorities and sectoral allocation of resources by the approval of the cabinet not later than the 15th April each year;
2. Budget ceilings are issued to each line department as per the sectoral allocations approved by the cabinet;
3. A medium term fiscal framework to be developed as a basis for BSP;
4. Integration of the recurrent and development budget in the medium term fiscal outlook to avoid fiscal distress and exaggerated budget estimates.

Reform Area 3 Budgets are more inclusive and participatory

Objective

To enhance the stakeholder's participation in budget making for annual budgets to be more inclusive and participative

Issues

It is generally agreed that inclusive and participative budgeting can improve the priority setting and governance through citizen's input and contribution in budget making and planning. However, in our context, the role of legislature and the citizens' input in the budget making is yet not very well developed. As a result, the budget making exercise largely remains a technical activity with input from within the Government departments. To improve the budget outcomes and to seek input from stakeholders including the members of the legislature, academia, chambers of commerce, citizens etc., it is imperative to make the current budgeting practices more inclusive and participative. In line with this universally acclaimed tool, from FY 2021-22, Sindh Government has embarked upon the formal involvement and input of citizen's, academia, chambers of commerce and different sectoral association. To do so, besides presentation to the standing committee of

the Provincial Assembly on Finance, stakeholder's including academia, chambers and citizens have been involved in budget making for the FY 2021-22. Citizens Budget has been introduced with holding of pre-budget consultative sessions with academia, sector associations, and chambers along with feedback from citizens through a web based feedback mechanism seeking suggestions and proposals through a well-designed questionnaire. This process also culminated in a review session chaired by the honourable Chief Minister, Sindh.

Actions

Short to Medium Term

1. Pre- budget consultation and seminars are held as and when needed;
2. Sharing of the preliminary budget assumptions and proposed interventions for public feedback and participation.

Long Term

1. Creation of budget forums to improve the stakeholders understanding and involvement in budget making.

Reform Area 4 Better budgeting in districts through technical support

Objective

District budgets are prepared and executed in conformity with service delivery needs and challenges especially of the de-concentrated sectors.

Issues

Number of challenges are being faced by the annual budget system in Sindh. These stem mostly from resource constraint; lack or little co-ordination between the formulation of recurrent and development budget estimates; non-existent or limited use of sector plans for resource allocation, and little or no effort to improve the budget making at district level especially for the de-concentrated services. Besides other problems, these weaknesses also contribute to the suboptimum levels of budget utilisation and service delivery in the districts. To address these gaps, an effort was made earlier to lend technical support to School Education Department in the Jamshoro district. The support aimed at improving the existing budget making practices, budget execution and better costing and implementation of procurement plans. Taking this process forward, there is now a need to enhance and increase the scope of the technical assistance to few more services and districts. This can bring improvements in the service delivery by better aligning of resources to the actual needs and improving the effectiveness of budgets.

Actions

Short to Medium Term

1. Preparation of the District education budgets as per the established budget practices in District Jamshoro;
2. Selection of few more sectors and two more districts beyond the pilot district of Jamshoro for improving the budget outcomes.

Long Term

1. Budget preparation is improved and enhanced in the selected districts and sectors with impact on service delivery improvement.

Policy Area 3

CONTROLLED, ORDERLY AND IMPROVED BUDGET EXECUTION

Objective

The budgets are executed as planned by minimising budget variance, through effective internal controls, and achieving greater aggregate fiscal discipline.

Issues

In an effective PFM system, it is important to ensure that the budgets are executed as planned/ approved by the legislature. Further, the objectives set out in government budgets are achieved in an orderly, economic and timely manner. To achieve this end, the Governments are now increasingly emphasizing to bring improvements in budget execution focussing on number of reforms in the areas of developing a policy for release of funds, cash and procurement planning, and putting in place effective internal and budget controls.

In this regard, in the Government of Sindh, some improvements have been witnessed in the provincial budget system. The overall budgeting processes are better organised than earlier, improvements in the quality of budget information and financial reporting have been witnessed through quarterly budget execution reports along with development of cash forecasting tools to better anticipate and manage the fiscal risks.

Nevertheless, multiple weaknesses still persist in the realm of cash planning which is still in its infancy; inadequate tools for budget execution and monitoring; overestimation of revenues leading to poor budget execution and expenditure cuts; excessive use of supplementary grants and budget re-appropriations which all contribute in comprising the credibility of budgets. Simultaneously, there is no mechanism for monitoring of arrears of expenditures due to lack of commitment controls especially in case of development projects. Therefore, it is important to mitigate these gaps to improve the transparency and credibility of budgets.

Reform Areas

1. Disciplined and orderly budget execution;
2. Strengthened internal controls;
3. Better monitoring of budget execution and results;
4. Fiscal Risks are better identified and managed;
5. Improved management of Public Debt.

Reform Area 1 Disciplined and orderly budget execution

Objective

Budget controls are strengthened to minimise the variance between the original budget and budget outturn.

Issues

In the present budget system, there are significant variations between the original budget and budget outturn (actual expenditure against original budget) both in aggregate terms and in terms of sectoral composition of expenditure. To address these weaknesses, it is important to make more realistic budget estimates and introduce measures which minimise the use of re-appropriations, issuance of technical/net supplementary grants which lead to variations in figures of actual expenditures against the original budget allocations for a particular financial year.

Actions

Short to Medium Term

1. Review the full cycle of release of funds to the line departments with the possibility to simplify the release process;
2. Develop, refine and update a cash forecasting policy and tools to align them with the cash availability and actual cash needs at different times of a particular financial year;
3. Ensure timely release of funds to the spending units and projects using a cash forecasting model and ensure that releases are made in accordance with the release policy;
4. Review and update of powers in the Sindh Delegation of Financial Power and Financial Control Rules, 2019 with a view to vesting of greater authority to spend within the defined parameters;
5. Explore the possibility of introducing a legislative oversight for changes in the budget for issuance of supplementary grants/inter-sectoral re-appropriations beyond an agreed threshold to be approved ex-ante by the Provincial Assembly.

Reform Area 2 Strengthened Internal Controls

Objective

Internal controls are strengthened to reduce the risk of misuse of funds and improve fiscal discipline in public spending.

Issues

Control environment is the key foundation on which a system of effective control is built and operated. An accountable and transparent financial management system relies heavily on the availability and effectiveness of internal controls. However, number of weaknesses are observed in the existing internal control environment in Sindh. Some of these gaps are attributed to incomplete or non - activation of certain controls in the IFMIS/PIFRA system, whereas others result from the lack of compliance with the fiscal rules.

Actions

Short to Medium Term

1. Gradually implement budget availability control/check on payroll and pension expenditure (introduction of organization Management Module of IFMIS/PIFRA system);
2. Implement direct credit system for all pensioners by ensuring the full functionality of pension roll in IFMIS;
3. Automate the system for life certification of pensioners;
4. Strengthen internal control systems in line departments including establishment and expansion of internal audit system (hiring of internal auditors, conduct of internal audits of systems, development of reports and response by the management);
5. Improve usage of SAP in FD and LDs for budget making, control and monitoring - with an improved classification coding and mapping.

Long Term

1. Strengthen asset and liability registers in SAP.

Reform Area 3 Better monitoring of budget execution and results

Objective

Budget execution is managed and monitored through a system which gives information and feedback both on financial outturns and budget outcomes.

Issues

Financial controls check the legality of operations whereas the administrative controls and better monitoring tools are necessary to manage the budget execution as planned. In the present system, effective monitoring tools are non-existent. While some progress has been achieved in the monitoring of development projects, the available systems are fragmented, use bespoke IT systems and do not provide effective information either for the management of ongoing development projects or feedback in the form of evaluation and/or impact assessment reports to guide the next year's budget cycle. Therefore, there is a need to progressively develop a system of monitoring the budget execution both in terms of financial outturns and service delivery results which can form the basis for effective monitoring and better budget execution.

Actions

Short to Medium Term

1. During and year-end budget releases vs expenditure reporting is strengthened;
2. Quarterly Budget Execution reports are prepared and submitted to the legislature;
3. A Fiscal Monitoring Committee is established under the Chairmanship of Finance Secretary to periodically review the receipts and expenditures vis-à-vis their budgetary allocations;
4. Expenditure reviews are undertaken in selected sectors / cross-sectoral themes.

Long Term

1. Result based monitoring systems is gradually established and implemented.

Reform Area 4 Fiscal Risks are better identified and managed

Objective

Policy framework and mechanisms for identification and management of fiscal risks is in place.

Issues

Fiscal risks can arise from number of internal risks such as lower revenue collections than estimated, unforeseen expenditures, contingent liabilities of the Government's own programmes including extra budget units e.g. the autonomous bodies/ corporations/ development authorities etc., and obligations of PPP projects etc. Similarly, they can also emanate from certain external factors like market failure and natural disasters.

Identification, disclosure, and management of fiscal risks are mutually supporting activities. Review of the current system of fiscal risk identification and disclosure reveals that the mechanisms for identification of contingent liabilities, un-budgeted liabilities and risks arising due to yearly policy changes have not been developed. The notes to the audited financial statements of the Government of Sindh confirm that the asset and liability accounting including commitment accounting are not yet implemented.

Actions

Short to Medium Term

1. Strengthen the system of pre-audits, payments, reconciliations (banks, revenue collecting agencies, district account offices) and reporting process;
2. Devise a system to account for the recurrent liabilities arising out of development schemes;
3. Establish a system to record, monitor and manage expenditure arrears;
4. Undertake system based payroll and pension audits at least every three years to identify the weaknesses in pay and pension roll management if any;
5. Make an assessment of the contingent liabilities and fiscal risks associated with SOEs/ development authorities, autonomous bodies etc.

Long Term

1. Develop a system of annual and multiannual commitments regulated and linked to budgets.

Reform Area 5 Improved Debt Management

Objective

Efficient and sustainable management of public debt in the Province in accordance with the statutory requirements and fiscal rules are in place to discipline the fiscal borrowing.

Issues

Previously, debt was not raised by the Provincial Governments in Pakistan. However, the 18th Constitutional Amendment 2010 authorized the Provinces to raise domestic or international debt and/or give guarantees against the security of the Provincial Consolidated Fund within the limits and subject to such conditions as specified by the National Economic Council (NEC). GoS and NEC agreed on a framework for creation and debt management by the Provinces whereby the domestic debt borrowing limit for the provinces was enhanced from 0.5% to 0.85% of GDP. This amount was distributed among the provinces according to the prevailing NFC formula. In this backdrop, it is important to establish a debt management framework which supports the fiscal strategy and ensures that borrowing by the Government follows fiscal rules.

Presently, the institutional arrangements relating to debt assessment, liability, and undertaking debt sensitivity analysis are not fully developed. Domestic and foreign guaranteed debt records are updated annually. However, precise guidelines, criteria or risk categories at the provincial level for the approval of external debt are not yet available. To address these gaps, an external Debt Management Manual has been approved by the cabinet for contracting the foreign loan. For the better management of fiscal risks associated with the debt, the arrangement for debt management is required to be strengthened with the formulation and approval of the Fiscal Sustainability and Debt Limitation Act which has already been prepared and is to be presented soon for consideration by the Government.

Actions

Short to Medium Term

1. Formulate a medium term Debt Management Strategy to support fiscal policy;
2. Develop Fiscal Responsibility and Debt Limitation Act for the Provincial Government;
3. Improve the transparency of budget by including more information on debt stock in accordance with public sector financial reporting standards;
4. Identify opportunities for efficiency savings, e.g. through debt swaps;
5. Develop a Debt Management Information System in FD;
6. Improve the existing capacities of Debt Management Unit in FD.

Policy Area 4

STRENGTHEN AND REFORM DEVELOPMENT BUDGETING REGIME

Objective

An orderly process for development planning and public investment guides the identification, preparation, execution and appraisal of development spending in the Province to spur economic growth and improve service delivery to the citizens.

Issues

Public investments are an important instrument for building capital stock, accelerating economic growth and improving service delivery outcomes. To meet these overarching objectives, the Planning Commission of Pakistan have prescribed a well-defined system for project identification, approval, execution and appraisal. Planning Manual and guidelines are issued by the planning commission to regulate the investments and spending under the development budget. In Sindh, the same guidelines and set of instructions are followed for development planning and public investments.

To harness the benefits of public investments, it is important that the principles and parameters of development planning and public investments are fully adhered to improve its efficiency, effectiveness and sustainability. However, in the present planning and development budget regime certain weaknesses and gaps have been observed. Some of these are the weak linkage between the sectoral priorities/ plans with approved projects, by-passing of the prescribed procedures for inclusion of development schemes in ADP, steady build-up of throw-forward, appearance of un-approved schemes in ADP, block allocations and lack of effective monitoring and implementation tools to avoid cost and time overruns. Similarly, the mechanism for identification and calculating the after completion costs or liabilities on recurrent budget is not very well defined. The project documents include the multiyear cost breakdown, yet this information is neither published in the budget nor in the ADP documentation. Therefore, streamlining and improving the development processes and procedures is required to improve the compliance of the planning framework and optimise the returns of public investments.

Reform Areas

1. Support selected departments in formulation of sector plans;
2. Strengthened use of IFMIS in P&D;
3. Effective project Monitoring & Evaluation (M&E) system for better project management & execution;
4. Improved execution and management of PPP projects;
5. Efficient and transparent public procurements;
6. Develop an appropriate M&R Framework for managing the public assets.

Reform Area 1 Support Selected Departments in preparation of Sector Plans

Objective

Sector plans in the selected sectors act as a principal driver for setting development priorities and project identification.

Issues

The existing resource allocation and budgeting system is largely incremental. The linkages between the sector plans and strategic allocation of resources are not very well developed. There is very little emphasis to develop costed sector plans, which could either feed into budgets or form the basis of prioritisation /

selection of development projects/ schemes in a particular sector. In the absence of sector plans as a guide for project selection and to establish priorities for public investments, the quality of such investments/ development interventions remains low. This also reflects badly on performance on key SDGs. Therefore, it important that mechanism is developed where by sector plans at least in the important sectors form the basis for project selection and resource allocation.

Actions

Short to Medium Term

1. Initiate consultation process to identify sector plans and projects/ schemes;
2. Develop sector plans for identification of development schemes/projects (at least in few selected sectors) and for feeding into budgets;
3. Develop and apply prioritisation filters on sector plans in line with budget ceilings.

Long Term

1. Establish clear and transparent systems to ensure adequate provision of Repair and Maintenance (R&M) costs for completed development projects/schemes.

Reform Area 2 Strengthen the use of IFMIS in P&D

Objective

Budget preparation, execution and financial reporting of development budget is improved and strengthened through customised solution/s and/ or optimum use of IFMIS in P&D and line departments.

Issues

For last many years, various fiscal operations of the Government of Sindh are being managed through an IT based IFMIS system. The system was originally designed to provide the necessary information to plan, execute, and monitor public finances. However, the accessibility of the IFMIS has remained limited to the Accountant General, Finance Department and some key line departments. Owing to the importance of development budget as the key instrument for growth and development, it is vital that various dimensions of the development budget including its preparation, execution and reporting are captured in IFMIS to provide the real time information and to improve the efficiency of development spending. To do so, there is a need to utilize the full potential of the IFMIS/SAP system as an integrated platform for the management of development budget in its various phases of planning, execution and monitoring. This should be done to encourage a greater of use of IFMIS in P&D and line departments.

Actions

Short to Medium Term

1. Undertake a study to map and ascertain the available instruments within IFMIS for development planning and budgeting;
2. Develop customised templates/reports for monthly, quarterly and annual reporting of development spending through IFMIS.

Reform Area 3 Effective project Monitoring & Evaluation (M&E) system for better project management & execution

Objective

An integrated and effective Monitoring and Evaluation (M&E) framework and policy is in place to monitor the project management and execution.

Issues

The P&DD carries out centralized monitoring through its M&E section, which regularly submits its reports to the department. The M&E section has a network of district monitoring officers, whereby, after visits to the ongoing development schemes, reports are prepared including the project's financial and physical progress, quality, and reasons for delays. However, there is no consolidated view of physical or financial progress of capital investment projects. While some progress has been made in the use of M&E Framework and instruments to better monitor the project execution, still there are gaps which lead to delays in the implementation of the projects. If appropriately monitored, and necessary corrective measures are taken, time and cost overruns can either be avoided or minimised.

Actions

Short to Medium Term

1. Develop an annual M&E plan for ADP;
2. Build capacities of the M&E wing of P&DD and encourage the use of modern M&E tools to effectively monitor the development projects;
3. Provide necessary resources for effective implementation of M&E plans;
4. Ensure regular monitoring of ongoing schemes and evaluation of major completed projects;
5. Publish monthly, quarterly and annual progress reports on ADP;
6. Seek feedback from line departments and M&E section of P&DD on lessons learnt and for further improvements in project execution.

Long Term

1. Improve third party validation for projects over certain monetary value to ensure timely execution on given quality parameters.

Reform Area 4 Improved execution and management of PPP projects

Objective

An enabling legal, regulatory and institutional framework guides the PPP projects in Sindh and helps in harnessing the real potential of PPP as an alternative mode of public procurement and investment.

Issues

Public Private Partnerships (PPPs) are now a well-recognised mode of procurement being used by the Governments all the world. To regulate, administer and guide the PPP framework, the Sindh Public Private Partnership Act 2010 has been promulgated. A Public Private Partnership (PPP) unit in the Finance Department has been established to facilitate, oversee and encourage this mode of procurement. PPP guidelines are in place to supplement the legal and regulatory framework for PPPs. However, there is a need to encourage the PPP as an alternative mode of procurement with clearly defined responsibilities both for the public and private sector. This would involve among others building capacities to evaluate complex PPP projects, identification and balancing of the fiscal risks associated with of PPP projects between public and private sector and designing effective methods for execution of PPP projects.

Actions

Short to Medium Term

1. Devise a mechanism for Viability Gap Fund, earmark funds for offering financing from viability Gap (VGF) as risk sharing solution to the improve the commercial viability of PPP projects

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2. Consider establishing PPP nodes in key sectors of PPP potential;
 3. Built risk identification and project analysis capacity of complex PPP projects;
 4. Ensure representation of Board of Revenue on PPP Board and steering committee;
 5. Promote innovative ways to develop efficient alternatives to service delivery.

Long Term

1. Do advocacy with the Security and Exchange Commission (SECP) and State Bank of Pakistan (SBP) for making regulations on venture capital and equity based crowd funding to ensure higher availability of finances from private sector.

Reform Area 5 Efficient and transparent public procurements

Objective

Public procurements practices are fully aligned and compliant with the regulatory and legal procurement framework.

Issues

Transparency and accountability in a public procurement system entail an enabling environment, an appropriate institutional arrangement, management capacity and a legislative framework. To regulate and manage the public procurements, Sindh Public Procurement Regulatory Authority (SPPRA) has been established. After the enactment of Sindh Public Procurement Act 2009, Sindh Public Procurement Rules 2010 have also been promulgated. Different types of bidding documents are available on the website of the authority. There is also a complaint recording mechanism and contact information on the website for complainants. To improve the understanding of the government officers/officials in public procurement, a programme for training and certification in public procurements has also been initiated.

However, the public procurement regime faces number of challenges both from the internal and external environment including the deficiencies in procurement system and processes; complexity of public procurements; lack or inadequate standardization especially for sophisticated items; poor quality controls/checks and socio-political considerations. This situation is compounded further by capacity constraints and limited understanding of the public procurement practitioners. Therefore, reforms in public procurements are needed to improve the credibility and transparency of public procurement system.

Actions

Short to Medium Term

1. Procurement strategy and action is developed by line departments to avoid the lapses in procurements;
2. Ensure certification of procurement officials and put the certified procurement officers in place in the line Departments;
3. Gradually introduce e-procurement system for procurements under development budget after aligning it with IFMIS procurement system and procedures;
4. Consider the possibility to advertise all tenders online.

Long Term

1. Ensure that a system of annual and multi-annual commitments is developed and linked with a system of contract management after necessary changes.

Reform Area 6 Formulation of an M&R Framework for managing the public assets

Objective

A framework for M&R allocations is developed at least on pilot basis as the basis of demand for M & R budget by line departments.

Issues

Sizeable investments are being made in creation of new public assets, and improving the existing physical infrastructure. These large investments in turn require more fiscal resources to maintain the usefulness, efficiency and quality of these assets. However, it has been observed that the inadequate allocation of O&M budgets is leading to the erosion of public infrastructure at a much faster rate than anticipated. In addition to fiscal constraints, at times the lower levels of M&E allocations are also attributed to non-existence of a need-based M&R framework and non-availability of up-dated benchmarks/yardstick for allocation of M&R funds. These weaknesses if not addressed can lead to the fast deterioration of public assets, reduction in their operational life and undermining the efficiency of public services.

Actions

Short to Medium Term

1. Develop a M&R Framework and policy at least on pilot basis (one or two important departments);
2. Align the M&R allocations with fiscal space and policy interventions under medium term budgetary framework;
3. Start the process of refining and updating M&R yard stick as the basis for demand of M&R allocations;
4. Develop guidelines for expenditures against the M&R allocations at least for few departments.

Policy Area 5

INTRODUCE AND STRENGTHEN PERFORMANCE REPORTING INCLUDING SDGS MONITORING

Objective

A system of performance reporting and SDGs monitoring is developed to measure the performance against goals/targets, provide feedback about the weaknesses in achieving the results and suggest measures to improve decision making and performance.

Issues

Performance reporting refers to a formal mechanism which is used by the Government to measure and report performance, against the agreed performance standards and guidelines. In recent years, systems have been developed to strengthen the financial reporting on budget including the development of quarterly budget reports. However, the system for reporting performance against the budget allocation is largely non-existent. The development of a performance reporting framework is though quite challenging as with the exception of few projects, the investments under the development budget are not undertaken on the basis of performance and the results to be achieved at service delivery level. Therefore, the mechanism for establishing the relationship of the budget allocation with outcomes and performance indicators will have to be developed to gauge the actual performance and results against the pre-identified outcome and Key performance Indicators (KPIs). This will in turn require the framework and templates for performance

measurement, reporting performance against the results at least on few of the selected and prioritised SDGs along with integration of both the financial and non-financial data.

Reform Areas

1. Support detailed design of MTBF to introduce Performance Budgeting;
2. Urge the preparation of KPIs by line departments and consider the possibility of inclusion of KPIs in budget documents;
3. Gradually introduce performance budget at least on pilot basis in few departments;
4. Introduce SDGs and gender tagging for budgetary expenditures;
5. Initiate better monitoring of SDGs.

Reform Area 1 Support detailed design of MTBF to introduce Performance Budgeting

Objective

Medium Term Budget Framework is developed, refined and embedded as a multiyear fiscal framework for planning, budgeting and resource allocation with linkages to performance measurement and reporting moving ultimately towards performance budgeting.

Issues

It is generally agreed that the Medium-Term Budgetary Framework (MTBF) is not only a key element for removing the existing inadequacies of planning and budgetary systems but is also quite helpful in improving the overall performance related problems of the government. Presently, MTBF framework in Sindh has been rolled out in 9 key departments of the Government of Sindh. This reform was aimed at establishing an effective linkage of policy, planning and resource allocation. However, it has been observed that prioritisation especially of the development projects is not strictly in accordance with resource envelop and multiyear fiscal assumptions. Further, there is a need to fully institutionalise and embed the MTBF in the departments before the introduction of performance budgeting. This situation requires that the budget allocations are better aligned with the medium-to-long-term sectoral goals and outcomes. By doing so, it could also facilitate the designing and implementation of performance budgeting as a key policy reform in subsequent years.

Actions

Short to Medium Term

1. Build capacities and impart trainings on MTBF;
2. Encourage the use of MTBF as a tool for strategic decision making in line departments;
3. Retain the existing staff in MTBF cell and extend support to line department to institutionalise and embed MTBF in LDs;
4. Initiate discussion and build consensus on a performance management framework and contours of such reforms.

Long Terms

1. Introduce performance reporting and Performance budgeting in few key departments.

Reform Area 2 Preparation of KPIs by line departments

Objective

Key Performance Indicators (KPIs) are developed and used as a performance measurement, reporting and management tool at least in few areas or departments of the Government of Sindh.

Issues

KPIs are not only an important tool for performance measurement, but are also useful for mapping organizational progression and development. However, building reliable and appropriate performance measurement system is quite challenging and complex. In the present public sector performance measurement framework, the system lacks in most of the elements of performance measurement including clarity in setting objectives, assigning responsibilities in clear and precise terms, establishing relationship of inputs with specific outcomes and aligning physical and financial resources fully towards achieving results as planned. These gaps require the identification and development of both the high and low level KPIs to measure performance, review results, reward performance and initiate corrective action. In doing so, it should however be kept in mind that everything cannot be measured against the common perception that what gets measured, gets done.

Actions

Short to Medium Term

1. Ascertain the basic requirements for designing KPIs;
2. Initiate dialogue on the need and development of KPIs;
3. Design the guidelines of performance measurement for few selected departments;
4. Focus on developing a clear and well-articulated strategy for disseminating KPIs at different levels within the department;
5. Identify and implement tools to validate performance against KPIs in few departments;
6. Collect and compile information on resources received by service units including performance evaluation of service delivery for at least two large departments.

Long Term

1. KPIs are developed and used as a performance measurement and better decision-making tool at least in few departments of Government of Sindh.

Reform Area 3 Gradual introduction of performance budgeting

Objective

Performance budgeting is developed and adopted as a key tool at least in few departments to improve decision making, doing things better and achieving efficiency in public spending.

Issues

Performance budgeting is a system of budgeting where input costs are related to the end results. The major aim of performance budgeting is to improve the efficiency of public expenditure by linking the resources to the results they deliver. The present budgeting system in Sindh continues to remain largely incremental and input oriented. In the last few years, number of reforms including the introduction of Medium-Term Budgeting Framework in nine (9) departments, improvements in financial reporting and steps for increasing the transparency of public spending have been taken. However, there is no need to gradually move towards performance budgeting. If introduced, performance budgeting can increase the efficiency of public spending, better align resources to the priority areas, ensure informed decision making, and optimise the chances of achieving outcomes as planned.

Actions

Short to Medium Term

1. Identifying the vision, goals and targets in the departments;
2. Setting the clear reform objectives stating them clearly to all the participants in the reform process;

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3. Devising a framework how the existing budgeting system can be aligned to fit in the performance approach;
 4. Considering and evaluating how the performance information can be integrated into the budgeting processes and systems;
 5. Devising a framework of budget negotiations to identify the priority areas for re-allocation of resources;
 6. Incentivising good performance to motivate agencies and individuals with a system of naming and shaming for bad performance.

Long Term

1. Develop a system of performance budgeting and consider its introduction in few departments.

Reform Area 4 Introduce SDGs monitoring and SDGs expenditure tagging

Objective

To develop a framework and structure of SDGs monitoring and its integration in the budgetary framework of the Government with the provision of SDG specific expenditure tagging at least for the prioritised SDGs.

Issues

Sustainable development goals were formally adopted in 2015 as national goals, following which the federal and provincial governments have started mainstreaming SDGs into national and subnational planning. A SGD support unit has been established in the Planning and Development Department, Government of Sindh with the support of UNDP. The unit has been assigned the responsibility to provide the policy support, knowledge sharing, co-ordinate and monitor the policy and plans with the UN's global agenda 2030. However, the key challenge in this regard is to identify, monitor and collate the cross sectoral information and interventions about different SDGs aligned with the budgeting system of the Government. For effective monitoring of progress on SDGs against the targets, it is imperative that a structure or a framework of SDGs monitoring is designed and implemented in the budgeting system of the government.

Actions

Short to Medium Term

1. Discuss the requirements and contours of the methodology of monitoring SDGs monitoring expenditure tagging at least for the prioritised SDGs;
2. Review the approaches for SDGs tagging and mapping in the IFMIS framework if done earlier or elsewhere;
3. List the SDGs to be monitored and tagged and identify the relationship of goals, targets and indicators with the cost centres in IFMIS;
4. Devise Standard Operating Procedures (SOPs) to maintain the sanctity of SDGs integration in the budgeting system;
5. Map the cost centres in recurrent budget by relating them to the indicator/ activity level along with review of programme classification in IFMIS to map the spending in development budget;
6. Assess the reporting requirements for developing an Excel based report and its integration in IFMIS;
7. Review both the financial (budget information) and non-financial information (service delivery) and its relationship to capture the different dimension of SDGs related interventions.

Long Term

1. A system of SDGs monitoring and expenditure tagging is developed and in place aligned with budgeting and IFMIS.

Policy Area 6

CAPACITY IMPROVEMENT FOR BETTER PFM

Objective

The individual and organizational capacities are enhanced in the policies, systems, rules, regulations and procedures of Public Financial Management.

Issues

Financial management is the one core area for the Governments to deliver their priorities and fulfill the promises made to the citizens. As such, effective public financial management is the key for good governance. At Provincial level, Finance and P&DD are the core key departments responsible for the management of the budget cycle, whereas the accounting and auditing function are performed by the Accountant General Sindh and Auditor General of Pakistan respectively. Line departments also have the responsibility in the preparation and execution of budgets. However, it has been felt that the individual skills and capacities in the PFM are quite weak and require substantial improvement. To achieve this end, it is important to ascertain the training needs relating to PFM both at the entry level and in service training of the individuals and organizations. After doing so, training courses covering different dimensions of public finance are required to be designed and delivered both at the entry level and in service to the officers/staff of various government departments including PFM certification courses.

Reform Areas

1. Improved system of PFM Training;
2. Enhanced individual and institutional capacities to manage PFM systems.

Reform Area 1 Improved System of PFM Training

Objective

The capacity and skill set of individuals managing the PFM are progressively enhanced.

Issues

In the present system of PFM, it is generally felt that the individuals managing the PFM at various levels within the Government lack the requisite exposure and understanding of the statutory framework, regulations, procedures, and systems of PFM. These capacity constraints besides rendering the PFM ineffective are also detrimental to inefficiency in public spending, wastage of precious resources and poor compliance to fiscal rules and regulations. Therefore, it is important that the existing capacities in PFM are enhanced through a well-designed capacity building strategy including the development of PFM centric courses with suitable curriculum to improve the existing capacities of the personnel dealing with PFM in various departments and Government organizations.

Actions

Short to Medium Term

1. Organise seminar/ workshops to emphasize the importance of PFM and the required knowledge to manage it effectively;

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2. Design and implement pre and in service training/certification programmes for officers of various groups and cadres in the overall financial management concepts including finance, planning, budgeting, project management, public procurement, financial reporting, M&E, GFMS, and statistical analysis etc;
 3. Design and deliver regular training courses in PFM for staff managing the budgeting and planning function in different departments;
 4. Provide exposure and training to the stakeholders in PFM by sharing the key concepts and systems provided in PFM Handbook, Planning and Budget Manuals and other General Financial Rules and Regulations developed and updated from time to time.

Reform Area 2 Enhanced individual and institutional capacities to manage PFM systems

Objective

A programme of capacity development is designed and progressively implemented for creating the requisite PFM management capability both at individual and organisation level on a sustainable basis.

Issues

In the last few years, the support to PFM capacity development has revolved around the introduction of new technologies, policy measures and improvement in business processes e.g. IFMIS, medium term fiscal forecasting tools like MTBF and Budget Strategy Paper, better financial and expenditure reporting, enactment of procurement laws and regulations etc. Given the complexities of PFM management and expectations to improve the PFM practices at various levels of Government, there is now a growing emphasis on improving the knowledge base of the people dealing with PFM and putting those with better professional skills on these assignments. Therefore, it is important that the requisite capacities at all levels for PFM are created through capacity development initiatives. Once those plans are executed, it would be important to ensure its sustainability through continuous financing and execution of capacity development programme on sustainable basis.

Actions

Short to Medium Term

1. Establish the office of Chief Financial Officer in key departments of the Provincial Government to assist the Principal Accounting Officer i.e. Secretary to improve and strengthen the PFM in the department. The staff of such offices may include the internal auditors and procurement specialists if so required;
2. Revitalise the core FD services ---strengthen the treasury and local fund audit service of FD through training, recruitment (if required), review of the service structure, service rules and systems/processes within the organisation;
3. Improve the PFM syllabus in the existing training institutes of the Provincial Government to improve the PFM understanding among the trainees;
4. Develop and update the web portals for FD and P&DD housing all the relevant manuals, guidelines and notifications with tools of easy access.

Policy Area 7

STRENGTHENING OF LEGAL AND REGULATORY FRAMEWORK

Objective

To develop an integrated, consistent and updated legal and regulatory framework including the enactments, set of rules and procedures with clear legal basis which provide a foundation for efficient, effective, transparent and accountable public financial management in the Province.

Issues

The PFM framework in Pakistan at the federal and provincial levels is defined in the Constitution of Islamic Republic of Pakistan (1973). Article 119 of the constitution stipulates the custody and the management of Provincial Consolidated Fund and Public Account by an act of the Provincial Assembly. To fulfill this requirement, the Sindh Financial Management and Accountability Act 2011 was promulgated. However, this act was not aligned with the modern PFM concepts. In the absence of a comprehensive law, public finances in the Province are managed by the rules. These include: -i) - Sindh Financial Rules Volume-I and II ii) - The Sindh Delegation of Financial Powers and Financial Control Rules, 2019 iii) - Treasury Orders and Subsidiary Rules. Despite the available legal and regulatory systems, there are significant gaps that result in weaknesses in management of public finances in the Province. Lately, to fill this gap, the Sindh Public Finance Administration Act 2020 was formulated. The act after going through the due diligence process, has now been formally approved by the provincial assembly and notified on May 24, 2021. Going forward, it is now required to frame and approve the necessary legal and regulatory framework duly aligned with the new PFM act.

Reform Areas

1. Overarching PFM system is defined and guided by a PFM Law;
2. Comprehensive and consistent set of regulations underpin the public financial management;
3. Updated budget and planning manuals serve as the basis for the management of budget cycle.

Reform Area 1 PFM systems are defined and regulated by a PFM Law

Objective

Legal and regulatory underpinnings are created to manage the PFM in the Province.

Issues

In the existing legal framework, some gaps have been observed for managing the various PFM affairs like fiscal forecasting, budgeting, treasury management, annual and multiyear commitments, linkages of the planning and budgeting etc. To fill this void, the Sindh Financial Management and Accountability Act, 2011 was passed. However, the act did not contain the required details, elaboration and actions to ensure an effective and efficient management of the public finances as envisaged in the Article 119 of the Constitution. Accordingly, pursuant to the discussion and deliberations on the subject, a comprehensive PFM law was drafted and discussed exhaustively with the stakeholders. After its consideration and approval by the Provincial Assembly, the Sindh Public Finance Administration Act, 2020 has been formally notified on May 24, 2021. Going forward, the challenge would be to frame the rules/regulations under the new law, training in modern PFM practices and implementation of the actions enunciated in the law.

Actions

Short to Medium Term

1. Publishing of the Sindh Public Finance Administration Act, 2020.
2. Dissemination and training of the stakeholders in PFM Act for effective PFM.

Reform Area 2 Comprehensive and consistent set of regulations underpin the public financial management

Objective

The regulatory instruments including the rules and regulations guiding the PFM are available and regularly updated.

Issues

The existing rules and regulation governing the PFM in the Province are either quite old or have not been regularly updated to manage the PFM system in a transparent and effective manner. In this backdrop, there is a need to update the GFR and TRs to incorporate changes resulting from the adoption of the NAM, the CoA and use of electronic software in processing transactions.

Actions

Short to Medium Term

1. Update Financial Rules, Treasury and Subsidiary treasury rules;
2. Provide training and exposure to the Government functionaries in the updated legal framework and rules.

Reform Area 3 Updated budget and planning manual serve as the basis for the management of budget cycle

Objective

Budget cycles are managed by the updated, refined and comprehensive budget and planning manuals aligned with best PFM practices.

Issues

Due to the changing landscape of PFM and observance of inefficiencies in public investments, need for a robust and comprehensive guidelines and books covering all the dimensions of PFM is being increasingly felt. The existing provincial budget manual is outdated leading to poor compliance. Similarly, the Federal Planning Manual is required to be supplemented by a Provincial Planning Manual which caters to the needs of the planning function in the Planning and Development Department as well as the line departments.

Actions

Short to Medium Term

1. Drafting of the comprehensive Planning and Budget Manuals;
2. Approval of the manuals to be followed by the requisite trainings.

Policy Area 8

ACCOUNTABILITY FOR RESULTS

Objective

Legislative oversight, reporting framework, organizational structures, mechanism for scrutiny, audit and other allied procedures are strengthened and improved to ensure that any organization or a public functionary that uses the public money can be held accountable for their decisions and actions.

Issues

Public accountability constitutes the pivot of democratic governance and public administration. Government authorities have the obligation to report, explain and answer the consequences and results for their decisions and actions. In the last few years, the Government of Sindh has shown its commitment to enhance transparency and improve the accountability regime in the Province. To achieve this end, the Sindh Transparency and Right to Information Act, 2016 has been passed to promote transparency in the working of the government where citizens can access the public information through rapid and lowcost means. The act also envisages the constitution of a Sindh Information Commission.

To provide relief to the citizens aggrieved by any act or wrong doing of any public functionary, an office of Provincial Ombudsman (Mohtasib) Sindh has been established. To strengthen the legislative oversight, quarterly budget execution reports are being submitted to the Provincial Assembly. Nevertheless, despite these measures, the weaknesses in the accountability regime still persist. Provincial Assembly is engaged only in the annual budget formulation/approval and the review and oversight of the budget execution by the Assembly is non-existent. Similarly, there are delays in the review of the audit reports by the Public Accounts Committee (PAC) along with the issues in the scope and coverage of external audit.

Reform Areas

1. Strengthen the legislative oversight;
2. Enhance the coverage and quality of external audit;
3. Revitalise and expand the Monitoring and Evaluation (M&E) Framework.

Reform Area 1 Strengthen the legislative oversight

Objective

Mechanisms and instruments of legislative oversight are strengthened to improve the effectiveness of accountability of the executive for their decisions and actions.

Issues

While the Provincial Assembly approves the annual budget, there is a limited involvement of the provincial assembly in budget making and implementation process. The input of the members of the Assembly is restricted mainly to the identification of the constituency-based development schemes. Their role in setting the strategic priorities of the Government, aligning resources to the priority areas and monitoring the results of spending has not yet been developed. Established and transparent in year virement rules are non-existent and budget priorities in the BSP are not usually discussed by the Provincial Assembly. In this backdrop, it is important that the measures are introduced to strengthen the legislative oversight of Provincial Assembly in the areas of budget making and implementation.

Actions

Short to Medium Term

1. Gradually develop, propose and approve a set of virement rules regulating authorities for budget re-appropriations by LDs, FD, and Cabinet;
2. Introduce and strengthen procedures for scrutiny of annual financial reports, audit reports and other reports containing the facts about the discharge of executive function;
3. Introduce citizen's budget.

Reform Area 2 Enhance the coverage and quality of external audit

Objective

Improve and enhance the coverage and quality of external audit to ensure the accountability of public resources, effectiveness and lawfulness in the collection and application of public funds.

Issues

Auditing is the cornerstone of good public sector governance. Improvements in the audit quality and coverage are inevitable to bring transparency and accountability in public spending. An effective audit activity reduces the risks of fiscal profligacy and acts as a deterrent to minimise the wastage and improper use of public resources.

To improve the quality and coverage of external audit, the office of the Auditor General of Pakistan (AGP) Pakistan issued a Financial Audit Manual (FAM) in 2006 for its use by the field audit offices. The manual is based on INTOSAI (International Organisation of Supreme Audit Institutions) auditing standards and international best practices. Thereafter, under this framework, some sector specific guidelines have also been developed. By adopting these new techniques of auditing, the focus of external audit has been broadened from the traditional transaction-based audit to the audit of controlsystems and program operations. Further, in addition to the regularity audit, the certification, compliance, authority and performance audit are also being conducted.

However, it has been observed that there are weaknesses in the follow up and coverage of audit as besides inaction on audit observations, the performance and value for money oriented dimensions of the executive are not being captured fully in the audit reports. Moreover, there is lag on the follow up and actions suggested by the audit in the Departmental Accounts Committees (DACs) and Public Accounts Committee (PAC).

Actions

Short to Medium Term

1. Re-engineer the business processes of PAC to enable it to examine all audit reports and prioritise those for considerations and required corrective actions;
2. Conduct regular DAC meeting in respect of all departments at District and Provincial level with monitoring by the Chief Secretary's office;
3. Support the AGP's representative office in Sindh (DG Audit Sindh) in implementing new auditing standards and guidelines in the public sector auditing;
4. Expand the existing scope and coverage of audit to include the performance audit of at least few of the strategically important projects every year.

Reform Area 3 Revitalise and expand the Monitoring and Evaluation (M&E) Framework

Objective

To establish a comprehensive and robust M&E framework to monitor progress, review results, provide feedback and suggest corrective actions to rectify the weaknesses in public sector operations.

Issues

A well thought out monitoring and evaluation framework can assist the governments in defining and measuring the relationship between the inputs, activities, outputs, outcomes and impacts of different plans and programmes. Its goal is to improve the current and future management of outputs, outcomes and impact. There are several ways in which monitoring and evaluation can be highly useful for the Government. To name the few, M&E is a useful tool for measuring and improving result based management (RBM), enhancing transparency, supporting accountability and ensuring evidence based policy making particularly in the context of annual budget cycle and resources allocation.

Nevertheless, the current M&E framework in practice is not fully developed to capture the complexities and various dimensions of public sector governance. As a consequence, there are instances of waste of resource, variance in the actual and planned outcomes along with cost overruns in number of projects/ programmes.

In this backdrop, there is a need to develop an M&E framework which not only includes the monitoring of development budget but also contains the parameters to measure and evaluate service delivery in an integrated manner.

Actions

Short to Medium Term

1. Develop a comprehensive and robust Monitoring and Evaluation (M&E) framework;
2. Improve and expand the reporting the M&E system for project monitoring, implementation, progress, completion and impact assessment;
3. Formulate and implement the systems and procedures for evaluation by P&DD and Line Departments.

Long Term

1. Develop and implement policy evaluation approach/ strategy as a part of Result Based Management (RBM).

Way Forward Implementing PFM Reform Strategy

PFM is an essential part of the development process. Sound and effective PFM systems are important for democratic governance, macroeconomic stability, and effective use of available resources. To achieve these objectives, it is important that the timely and effective implementation of the actions enunciated in the PFM reform strategy are ensured through a well-designed structure of monitoring and oversight. Similarly, the continuous effort of all the stakeholders during the implementation of the strategy would be a key factor for the successful implementation of the strategy. During this process, the emphasis would be on coordinating across multiple stakeholders, mobilizing the agents of change within the organizational set ups of various departments and entities and learning from the experience as the reform process proceeds in different policy areas of the strategy.

A mechanism for oversight and monitoring would be put in place with the establishment of a 'PFM Reform Oversight Committee' under the Chairmanship of Minister for Finance with representation of the key departments including Finance, P&DD, BOR, SRB, Excise and Taxation, Health, Education etc. The committee would inter-alia be responsible for providing strategic guidance, identification and mitigation of bottlenecks/risks in implementation, monitor progress against the policy areas and planned actions. Finance Department will be the Secretariat of the Committee and may designate a special unit or notify a focal person to act as the Secretary of the Committee. The committee will meet biannually.

The approach for the effective implementation the PFM reform strategy would be built around the following:-

1. Clearly defined institutional responsibilities and mechanism for monitoring the results against each policy area and reform action;
2. A regular process of review based with a defined sequencing of reforms with appropriate milestones;
3. A clear process for lesson learning during implementation based on the periodic progress reviews;
4. Continuous engagement with the stakeholders to seek their involvement and channelise the effort towards achieving the planned reforms;
5. Review and evaluate the degree to which the reform effort is keeping pace with the long term challenges of PFM. This will also look into the extent the donor funded projects/ programmes are complementing the PFM reform effort in its various dimensions;
6. Focus on measuring the qualitative and quantitative reform outputs achieved as a result of various inputs/ support (financial, human and technical);
7. Periodic impact assessment of the few selected areas to evaluate the results against the planned actions.



PFM Reform Strategy (Action Plan)

Policy Area 1 | Revenue Maximisation to Improve Service Delivery

Reform Area 1.1 Broadening of Tax Base and Net

Proposed Actions / Key Performance Indicators (KPIs)	Entity	ST - MT	LT
Actions			
1. The concept of negative list for sales tax on services (STS) will be explored for comprehensive and simplified service tax regime.	SRB, FD	■	
2. Design & develop mechanisms to identify new taxpayers, particularly in realm of sales tax on services.	SRB, FD	■	
3. Broadening of property tax net by brining newly developed urban areas in tax net.	E&T, FD	■	
4. Digitisation of Urban Immovable Property Tax (UIPT) record in major cities through GIS integration.	E&T, FD	■	
5. Conduct complete survey of Karachi for modernisation and improvement in urban immovable property tax.	E&T, FD	■	
6. Study to identify potential scope and challenges to introduce capital value of property as a basis for calculating urban immovable property tax instead of existing system of rental value.	E&T, FD	■	
7. Reduction in the rate of sales tax on services to promote service industry and improve compliance.	SRB, FD		■
Key Performance Indicators (KPIs)			
a. Notification of negative list for sales tax on services issued.	SRB, FD	■	
b. ICT based tool and system developed and implemented.	SRB, FD	■	
c. Survey of newly developed urban areas completed and included in the tax net as a tax broadening measure.	E&T, FD	■	
d. Digitisation of Urban Immovable Property Tax (UIPT) in one major city with GIS integration and automated property tax invoice system completed.	E&T, FD	■	
e. Karachi survey for UIPT completed and report published.	E&T, FD	■	
f. Concept paper for changes in UIPT basis of imposition developed and published.	E&T, FD	■	
g. Finance bill regarding reduction in sales tax on services to be presented in the provincial assembly.	SRB, FD		■

Reform Area 1.2 Improving Equity and Fairness in Tax Policy

Proposed Actions / Key Performance Indicators (KPIs)	Entity	ST - MT	LT
Actions			
1. Develop Geographic Information System (GIS) based solution to ascertain the trends of cultivation, quality and type of crops for accurate assessment of tax liability.	BOR, AD	■	
2. Gradually impose penalties for delays in construction on vacant plots (urban/commercial) for an efficient & productive use of land and promote real estate industry.	E&T, FD	■	
3. Differentiation of self-occupied and rented properties for UIPT calculation withdrawn and single tax levy for UIPT imposed.	E&T, FD	■	
4. Scrutinize the tax exemption especially under urban Immovable property tax (UIPT) and create fairness & equality in taxation system.	E&T, FD	■	
5. Replace the charge of motor vehicle tax from value of the vehicle to engine capacity of the vehicle.	E&T, FD	■	
6. Explore ad-valorem based tax (according to value), instead of fixed tax mainly on personal property.	E&T, FD	■	
Key Performance Indicators (KPIs)			
a. Geographic Information System (GIS) developed and report published for a specific district.	BOR, AD	■	
b. Proposal submitted for provincial Cabinet to impose penalties for delay in construction on vacant plots.	E&T, FD	■	
c. All exemptions approved from the competent authority (i.e. provincial cabinet).	E&T, FD	■	
d. Implementation of tax reform through Token tax regime and new token issued.	E&T, FD	■	
e. Notification for revision in tax policy issued & implemented.	E&T, FD	■	

Reform Area 1.3 Tax Payer's Facilitation to improve tax collection and compliance

Proposed Actions / Key Performance Indicators (KPIs)	Entity	ST - MT	LT
Actions			
1. Develop an online tax collection system and improve collaboration with SBP, NBP and 1 link system for collection of other taxes as well.	RCE, FD	■	
2. Abolition /merger of negligible taxes or taxes with small monetary value, including merger of relevant Tax collection entities	RCE, FD	■	
3. Establishment of tax payer's facilitation centres.	RCE	■	
4. Introduction of E-payment system for specific taxes with third party assessment for requirement & risk.	BOR	■	
5. Introduce single portal / application for all provincial taxes.	RCE		■
Key Performance Indicators (KPIs)			
a. MoU signed with SBP, NBP and 1 link system and publicise the initiative in electronic and print media.	RCE, FD	■	
b. Notification for improvements in tax policy issued and implemented.	RCE, FD	■	
c. All tax collecting entities (TCE) dedicate a place from existing premises for tax payer's facilitation centre.	RCE	■	
d. Assessment report developed by third party and published of revenue entities.	BOR	■	
e. Mobile Application developed and implemented.	RCE		■

Reform Area 1.4 Strengthening of Tax Policy and Administration

Proposed Actions / Key Performance Indicators (KPIs)	Entity	ST - MT	LT
Actions			
1. Develop tax policy framework for harmonization & bring consistency across taxes and revenue collecting entities.	FD	■	
2. Conduct functional review of revenue collection entities to strengthen capacity & capabilities.	FD	■	
3. Improve Tax Administration through Tax compliance, Audit and tax arrears management.	RCE	■	
4. Gradually conduct tax surveys for evidence-based tax assessment.	FD	■	
5. Initiate public awareness campaigns for tax obligation, tax reforms, rate, exemption, etc.	RCE	■	
6. Comprehensive study for automation and integration of tax records.	FD	■	
7. Introduce performance incentives for revenue entities to promote revenue maximization.	RCE, FD	■	
8. Design a mechanism to resolve the jurisdictional disputes among Federation, Provinces and Local Governments.	FD	■	
Key Performance Indicators (KPIs)			
a. Tax policy framework developed and published.	FD	■	
b. Functional review report developed and published.	FD	■	
c. Annual progress report published from all revenue collecting entities.	RCE	■	
d. Survey conducted and report published.	FD	■	
e. Campaigns launch in electronic and print media.	RCE	■	
f. Study report developed and published.	FD	■	
g. Concept note developed and shared among the stakeholders.	FD	■	

Reform Area 1.5 Increasing Non-Tax Revenue

Proposed Actions / Key Performance Indicators (KPIs)	Entity	ST - MT	LT
Actions			
1. Holistic review of non-tax receipts by identifying gaps in legal & regulatory framework, rates, mode of calculation, etc.	FD	■	
2. Formulate policy for rationalisation of fees, surcharge, royalties and lease along with income from mines & minerals and economic zones.	FD	■	
3. Diagnostic study to rationalise and improve water pricing and recovery by assessing pricing mechanism of irrigation water/abiana.	AD, FD	■	
4. Review the rates of lease of state land.	BOR, FD	■	
5. Develop regulatory framework to standardise autonomous bodies and public sector enterprises for transparency in revenues, fees and other charges.	FD		■
Key Performance Indicators (KPIs)			
a. Detail report for non-tax receipt gaps in legal & regulatory framework issued.	FD	■	
b. Revised policy for fees, surcharges, royalties and others developed and implemented.	FD	■	
c. Study report developed and circulated.	AD, FD	■	
d. Concept note developed and shared.	BOR, FD	■	
e. Framework for autonomous bodies and enterprises developed and implemented.	FD		■

Policy Area 2 | Fiscal Policy drives the Annual Budget

Reform Area 2.1 Strengthening of top down budgeting framework

Proposed Actions / Key Performance Indicators (KPIs)	Entity	ST - MT	LT
Actions			
1. Strengthening of Medium-Term Fiscal Framework (MTFF) and obligatory documents for annual budget preparation.	FD, P&DD	■	
2. Develop and update the statistical basis for macroeconomic forecasting and a mechanism of its regular update.	P&DD, FD	■	
Key Performance Indicators (KPIs)			
a. Multiple scenarios developed for MTFF including a scenario based on macro-economic assumptions.	FD, P&DD	■	
b. Published provincial baseline statistics and projections based on macroeconomic forecasting model.	P&DD, FD	■	

Reform Area 2.2 Strategic budget planning is strengthened and embedded in the fiscal management system in the Province

Proposed Actions / Key Performance Indicators (KPIs)	Entity	ST - MT	LT
Actions			
1. Institutionalisation of Budget Strategy Paper (BSP) as a key policy document for setting the strategic direction and priorities of the Government in medium term.	FD, P&DD	■	
2. Indicative Budget Ceilings issued to all line departments as per approved sectoral allocation in BSP.	FD, P&DD	■	
3. Integration of recurrent and development budget in the medium-term fiscal outlook to avoid fiscal distress and exaggerated budget estimates.	FD, P&DD	■	
Key Performance Indicators (KPIs)			
a. Budget Strategy Paper prepared and approved from the Provincial Cabinet not later than 15th April each year.	FD, P&DD	■	
b. Disseminate Budget ceilings to line departments and ensure compliance.	FD, P&DD	■	
c. Develop methodology to integrate recurrent & development budget.	FD, P&DD	■	

Reform Area 2.3 Inclusive and Participatory Budgeting

Proposed Actions / Key Performance Indicators (KPIs)	Entity	ST - MT	LT
Actions			
1. Introduce participatory form of budgeting by engaging civil society, provincial assembly members and other stakeholders for recommendations & suggestions.	FD, P&DD	■	
2. Arrange Pre- Budget secessions for the provincial assembly members.	FD, P&DD	■	
3. Creation and simplification of budget forms to improve stakeholders understanding and involvement in budget making.	FD, P&DD		■
Key Performance Indicators (KPIs)			
a. Availability of simplified budget forms for better understanding and budget making.	FD, P&DD	■	
b. Pre and post budget secession with all stakeholders are held.	FD, P&DD	■	

Output 2.4 Better Budgeting in District through technical support

Proposed Actions / Key Performance Indicators (KPIs)	Entity	ST - MT	LT
Actions			
1. Support budget preparation and execution at District level including pilot District Jamshoro.	FD, AD	■	
2. Expand budget preparation & execution support to few more districts to improve the budget outcomes.	FD, AD	■	
3. Budget preparation is improved and enhanced in the selected district and sectors with impact on service delivery improvement.	FD, AD		■
Key Performance Indicators (KPIs)			
a. Budget proposals submitted and rationalized in line departments.	FD, AD	■	
b. Budget proposals of selected district prepared and submitted.	FD, AD	■	
c. Budget releases and utilization improved.	FD, AD		■

Policy Area 3 | Controlled, Orderly and Improved Budget Execution

Reform Area 3.1 Disciplined and Orderly Budget Execution

Proposed Actions / Key Performance Indicators (KPIs)	Entity	ST - MT	LT
Actions			
1. Review release mechanism of Development and Non-Development budget and simplify the process for line departments.	FD, P&DD	■	
2. Develop cash forecasting policy and tool to align cash availability and cash needs.	FD	■	
3. Ensure timely releases of funds to the spending units and projects using a cash forecasting model.	FD, P&DD	■	
4. Review and updated Sindh Delegation of Financial Powers and Financial Control Rules, (SDFPL)2019.	FD	■	
5. Introduce legislative cover for supplementary grants by the competent authority.	FD	■	
Key Performance Indicators (KPIs)			
a. Revised release policy developed and communicated.	FD, P&DD	■	
b. Cash forecasting tool developed and policy implemented.	FD	■	
c. Seek cash plans from line departments and projects to adjust releases accordingly.	FD, P&DD	■	
d. Timely amendment in SDFPL notified through official gazette.	FD	■	
e. Concept note developed and published to provide legislative cover to supplementary grants.	FD, P&DD	■	

Reform Area 3.2 Strengthened Internal Control

Proposed Actions / Key Performance Indicators (KPIs)	Entity	ST - MT	LT
Actions			
1. Strengthen Internal Controls and checks on payroll and pension expenditure.	FD, AG	■	
2. Ensure full compliance of Direct Credit System (DCS).	FD, AG	■	
3. Introduce a mechanism for proof of life for the civil pensioners.	FD, AG	■	
4. Rollout Internal Audit function to other line departments and strengthen the function in pilots.	FD, AD	■	
5. Extend SAP (IFMIS) usage to all line departments for budget making, control and monitoring.	FD, AD	■	
6. Activate assets and liability register in SAP (IFMIS).	FD, AG		■
Key Performance Indicators (KPIs)			
a. Introduce Organization Management (OM) Module of IFMIS/PIFRA system.	FD, AG	■	
b. Study and report developed and published on Direct Credit System (DCS) status and implementation.	FD, AG	■	
c. Sign MOU with third party to ensure proof of life for civil pensioners.	FD, AG	■	
d. Published comprehensive Internal Audit reports of key line departments.	FD, AD	■	
e. Develop capacity of lines departments to generate and interpret reports to make prompt decisions.	FD, AD	■	
f. Initiate recording of new Assets and liabilities and gradually reconcile and record previous acquired Assets & Liabilities.	FD, AG		■

Reform Area 3.3 Better Monitoring of Budget Execution and Results

Proposed Actions / Key Performance Indicators (KPIs)	Entity	ST - MT	LT
Actions			
1. Strengthen In-year and year end budget execution (releases vs expenditure) reports.	FD	■	
2. Establish fiscal monitoring committee to oversee the progress on collection of receipt and expenditure management.	FD, P&DD	■	
3. Undertake expenditure review in selected sectors or on cross-sectoral themes.	FD, AD	■	
4. Establish and Implement result monitoring system.	FD, P&DD		■
Key Performance Indicators (KPIs)			
a. Introduce additional reports in BER including Debt, Public Funds, explanatory note, etc.	FD	■	
b. Constitute fiscal monitoring committee and notify along with the terms of reference (ToRs).	FD, P&DD	■	
c. Conduct expenditure review of priority sectors and published report.	FD, AD	■	
d. Develop methodology for implementation of result monitoring system.	FD, P&DD		■

Reform Area 3.4 Fiscal Risks are better identified and managed

Proposed Actions / Key Performance Indicators (KPIs)	Entity	ST - MT	LT
Reform Areas			
1. Strengthen the system of pre-audits, payments, reconciliations (bank, revenue, collecting agencies, and district account offices) and reporting.	AG, FD	■	
2. Devise a system to account for the recurrent liabilities arising out of development schemes.	P&DD, FD	■	
3. Introduce a system to record, monitor and manage expenditure arrears.	AD, P&DD	■	
4. Undertake system-based payroll and pension audit.	AG, FD	■	
5. Conduct an assessment of contingent liabilities and fiscal risks associated with autonomous bodies, development authorities, etc.	AG, FD	■	
Key Performance Indicators (KPIs)			
a. Generate improved reports of pre-audits, payments, reconciliations on monthly basis.	AG, FD	■	
b. Develop a system-based solution to record anticipated recurrent cost of each development schemes.	P&DD, FD	■	
c. Formulate a policy to manage arrears and conduct a study to identify the quantum of outstanding arrears.	AD, P&DD	■	
d. Conduct audit through ACL for specific segment (District) of payroll and pension on monthly basis.	AG, FD	■	
e. Activate IFMIS function and ensure compliance for recording of contingent liabilities.	AG, FD	■	

Reform Area 3.5 Improved Debt Management

Proposed Actions / Key Performance Indicators (KPIs)	Entity	ST - MT	LT
Actions			
1. Formulate a Medium-Term Debt Management Strategy to support fiscal policy.	FD	■	
2. Develop Fiscal Responsibility and Debt Limitation Act for the Provincial Government.	FD	■	
3. Improve transparency of budget by including more information on debt stock.	FD	■	
4. Devise a plan to swap expensive local debt with cheaper variant available in the market or other means of funding.	FD	■	
5. Develop Debt Management Information System.	FD	■	
6. Improve the existing capabilities of Debt Management Unit.	FD	■	
Key Performance Indicators (KPIs)			
a. Debt Management Strategy approved from the Provincial Cabinet.	FD	■	
b. Enactment of Debt Limitation Act from Provincial Assembly.	FD	■	
c. Include Debt stock details in quarterly budget execution reports submitted to the provincial Assembly.	FD	■	
d. Study conducted on debt swap and report submitted to the competent authority for seeking guidance.	FD	■	
e. Debt Management Information system designed and implemented.	FD	■	
f. Reconcile local (including food, GP fund, etc.) & foreign debt and reflect the same in annual financial statements.	FD, AG	■	

Policy Area 4 | Strengthen and reform development budgeting regime

Reform Area 4.1 Support selected departments in preparation of sector plans

Proposed Actions / Key Performance Indicators (KPIs)	Entity	ST - MT	LT
Actions			
1. Initiate consultation process among stakeholders to identify priority sectors and projects.	AD, FD	■	
2. Gradually develop sector plans (starting from small sectors/departments with no sector plan) and identify project/schemes of prime importance.	AD, P&DD, FD	■	
3. Devise a mechanism to transform the government priorities into budget ceilings.	FD, P&DD	■	
4. Ensure adequate provision for repair and maintenance of government infrastructure.	P&DD, FD	■	
Key Performance Indicators (KPIs)			
a. Provide a platform to line departments to share priorities & challenges.	AD, FD	■	
b. Publish at least three sector plans each year and transform those plans into budget.	AD, P&DD, FD	■	
c. Resource allocation (ceilings) to the priority sector reflected in the approved annual budgets.	FD, P&DD	■	
d. Devise and implement a policy for repair & maintenance of infrastructure.	P&DD, FD	■	

Reform Area 4.2 Strengthen the use of IFMIS in P&DD

Proposed Actions / Key Performance Indicators (KPIs)	Entity	ST - MT	LT
Actions			
1. Ascertain the available instruments within IFMIS for development planning and budgeting.	P&DD, FD	■	
2. Develop IFMIS generated reports to manage development spending.	P&DD, FD	■	
Key Performance Indicators (KPIs)			
a. Annual Development Plan (ADP) developed and published through IFMIS.	P&DD, FD	■	
b. Planning & Development department authorised to generate spending reports.	P&DD, FD	■	

Reform Area 4.3 Effective project Monitoring & Evaluation (M&E) system for better project management & execution

Proposed Actions / Key Performance Indicators (KPIs)	Entity	ST - MT	LT
Actions			
1. Develop annual Monitoring & Evaluation (M&E) Plan for Development portfolio.	P&DD, AD	■	
2. Deploy modern M&E tools for effective monitoring of development projects.	P&DD, AD	■	
3. Ensure adequate resources for effective implementation of M&E plans.	P&DD, AD	■	
4. Ensure regular monitoring of ongoing schemes and evaluate major completed projects.	P&DD	■	
5. Publish physical monthly progress reports of development schemes/projects.	P&DD, AD	■	
6. Seek feedback from line departments and lessons learnt by M&E Cell, P&DD.	P&DD, AD	■	
7. Strengthen third party validation of significant projects to ensure timely execution on quality parameters.	P&DD, AD		■
Key Performance Indicators (KPIs)			
a. Develop & execute Monitoring & Evaluation (M&E) plan.	P&DD, AD	■	
b. Design & Implement M&E tool in M&E Cell, P&DD.	P&DD, AD	■	
c. Provide sufficient manpower, machinery and tools.	P&DD, AD	■	
d. Ensure ongoing schemes timelines and quality control.	P&DD	■	
e. Publish a development progress bulletin on monthly basis.	P&DD, AD	■	
f. Concept note from line departments and M&E Cell.	P&DD, AD	■	
g. Set strict quality control parameters.	P&DD, AD		■

Reform Area 4.4 Improve execution and management of PPP projects

Proposed Actions / Key Performance Indicators (KPIs)	Entity	ST - MT	LT
Actions			
1. Earmark sufficient funds for viability gap funds (VGF) and devise an operating mechanism for VGF.	FD	■	
2. Consider establishing PPP nodes in key sectors of PPP potential.	FD	■	
3. Built risk identification and project analysis capacity of complex PPP projects.	FD	■	
4. Ensure representation of Board of Revenue on PPP board and steering committee.	FD	■	
5. Liaison with SECP and SBP for making regulation on venture capital and equity-based funding.	FD	■	
6. Promote Innovative ideas to develop efficient alternates to service delivery.	FD	■	
Key Performance Indicators (KPIs)			
a. Significant amount allocated in budget for VGF and execute through approved mechanism.	FD	■	
b. Gradually expand PPP nodes to untapped sectors.	FD	■	
c. Develop guidelines (case studies) for risk identification and project analysis of complex projects.	FD	■	
d. Notified representation of BoR in PPP board.	FD	■	
e. Consultation process initiated with SECP & SBP officials.	FD	■	
f. Developed research paper regarding good practices around the world in PPP mode.	FD	■	

Reform Area 4.5 Efficient and Transparent Public Procurement

Proposed Actions / Key Performance Indicators (KPIs)	Entity	ST - MT	LT
Actions			
1. Gradually develop Procurement strategy and Procurement Plans by the line departments.	AD, SPPRA	■	
2. Offer Procurement certification courses regularly and post certified procurement officers in each department.	SPPRA, FD	■	
3. Strengthen e-procurement system especially for development budget and alleging this with IFMIS procurement system and procedures.	SPPRA, P&DD	■	
4. Consider the possibility to advertise all tenders online.	SPPRA, AD	■	
5. Introduce system for recording of commitments annually and multi annual and this with contract management system.	AG, FD		■
Key Performance Indicators (KPIs)			
a. Publish procurement strategy and procurement plan of key line departments biannually.	AD, SPPRA	■	
b. Ensure two batches of procurement officers pass out each year.	SPPRA, FD	■	
c. Devise a methodology for e-procurement through development budget and IFMIS integration.	SPPRA, P&DD	■	
d. Initiate online tender advertisement for specific segments.	SPPRA, AD	■	
e. Conduct a diagnostic study to record commitments through contract management system.	AG, FD		■

Reform Area 4.6 Formulation of M&R Framework for managing public assets

Proposed Actions / Key Performance Indicators (KPIs)	Entity	ST - MT	LT
Actions			
1. Develop M&R Framework and policy on pilot basis.	AD, FD	■	
2. Align M&R with fiscal space and policy intervention under medium term budgetary frameworks.	FD, AD	■	
3. Initiate the process of refining and updating the M&R yard stick.	AD, FD	■	
4. Develop guideline for expenditure against M&R yard allocations.	AD, FD	■	
Key Performance Indicators (KPIs)			
a. Constitute a committee with TORs for development of M&R Framework.	AD, FD	■	
b. Notify working group of line departments to update yard stick.	FD, AD	■	
c. Circulate guideline for M&R expenditure regarding yard stick.	AD, FD	■	
d. Consider M&R in fiscal planning and allocate sufficient resources in M&R.	AD, FD	■	

Policy Area 5

Introduce and strengthen performance reporting including SDGs monitoring

Reform Area 5.1 Support detail design of MTBF to introduce Performance Budgeting

Proposed Actions / Key Performance Indicators (KPIs)	Entity	ST - MT	LT
Actions			
1. Build Capacities and impart trainings on MTBF.	FD, AD	■	
2. Encourage the use of MTBF as a tool for strategic decision making in line departments.	AD, FD	■	
3. Extend support to line departments for institutionalisation of MTBF in line departments.	AD, FD	■	
4. Initiate discussion and build consensus on performance management framework.	FD, AD	■	
5. Introduce performance reporting and performance budgeting in few key departments.	FD, AD		■
Key Performance Indicators (KPIs)			
a. Conduct capacity building workshops and provide handholding support to line departments.	FD, AD	■	
b. Assist line departments for strategic decision making through MTBF.	AD, FD	■	
c. Strengthen MTBF Cell by retaining existing staff and expand team members to reach line departments.	AD, FD	■	
d. Arrange a seminar on performance management framework and seek feedback of line departments.	FD, AD	■	
e. Initiate Performance reporting and budgeting on pilot basis in few departments.	FD, AD	■	

Reform Area 5.2 Preparation of KPIS by line departments

Proposed Actions / Key Performance Indicators (KPIs)	Entity	ST - MT	LT
Actions			
1. Ascertain the basic requirement for designing of KPIs.	FD, AD	■	
2. Initiate dialogue on the need and development of KPIs.	FD, AD	■	
3. Develop guidelines of performance measurement for selected line departments.	FD, AD	■	
4. Focus on developing a clear and well-articulated strategy for disseminating KPIs at different levels within the department.	FD, AD	■	
5. Identify and implement tools to validate performance against KPIs in line departments.	FD, AD	■	
6. Introduce KPIs as performance measurement tool for better decision making.	FD, AD	■	
Key Performance Indicators (KPIs)			
a. Assess the basic capabilities of line departments.	FD, AD	■	
b. Arrange a forum for sharing ideas about KPIs implementation.	FD, AD	■	
c. Guidelines for performance measurement for few departments developed and implemented.	FD, AD	■	
d. Dissemination Strategy for KPIs develop and implemented.	FD, AD	■	
e. Performance validation tool developed and implemented in few departments.	FD, AD	■	
f. Conduct training of line departments for considering KPIs in decision making.	FD, AD	■	

Reform Area 5.3 Gradual Introduction Performance Budgeting

Proposed Actions / Key Performance Indicators (KPIs)	Entity	ST - MT	LT
Actions			
1. Identify the vision, goals and targets in the line departments.	AD, FD	■	
2. Develop clear understanding among stakeholder about reform objectives and processes.	AD, FD	■	
3. Devise a framework to align performance approach into the existing budgeting system.	FD, AD	■	
4. Evaluate budgeting processes and system to integrate performance information.	FD, AD	■	
5. Devise a framework of budget negotiations to identify the priority areas for re-allocation of resources.	AD, FD	■	
6. Introduce performance incentives to motivate agencies and individuals.	AD, FD	■	
7. Develop system for performance budgeting.	FD, AD	■	
Key Performance Indicators (KPIs)			
a. Gradually Develop MTBF statement of each department.	AD, FD	■	
b. Develop concept note and circulate among all stakeholders for clear understanding about reforms.	AD, FD	■	
c. Explore possible approaches for linking performance with budgets.	FD, AD	■	
d. Devise IFMIS based solutions to store performance information with budgeting.	FD, AD	■	
e. Seek performance indicators reports with budgetary proposals.	AD, FD	■	
f. Give weightage to good performers and reward them.	AD, FD	■	
g. Introduce performance budgeting system in few line departments.	FD, AD	■	

Reform Area 5.4 Introduce SDGs monitoring and SDGs expenditure tagging

Proposed Actions / Key Performance Indicators (KPIs)	Entity	ST - MT	LT
Actions			
1. Identify requirement for SDGs monitoring and expenditure tagging.	P&DD, FD	■	
2. Review the SDGs tagging in IFMIS and suggest way forward.	P&DD, FD	■	
3. List the priority SDGs for close monitoring and develop relationship with goal, target and indicator.	P&DD, FD	■	
4. Devise Standard Operating Procedures (SOPs) to maintain sanctity of SDGs integration in the budgeting system.	P&DD, FD	■	
5. Map the cost centre in recurrent budget at SDG indicator level and identify the tagging node in IFMIS for development budget.	P&DD, FD	■	
6. Assess the SDGs reporting requirements and accordingly design the report in MS Excel to integrate the same IFMIS.	P&DD, FD	■	
7. Review financial (budget information) and non-financial (service delivery information) information and develop its relationship to capture different dimensions of SDGs relevant interventions.	P&DD, FD	■	
8. Develop a system of SDGs monitoring and expenditure tagging aligned with budgeting and IFMIS.	P&DD, FD, CGA		■
Key Performance Indicators (KPIs)			
a. A methodology is developed for SDG monitoring and expenditure tagging.	P&DD, FD	■	
b. A brief report on SDG tagging and expenditure tracking progress/implementation is developed.	P&DD, FD	■	
c. SDGs prioritised and monitored.	P&DD, FD	■	
d. Standard Operating Procedures (SOPs) developed and implemented.	P&DD, FD	■	
e. Ensure full integration of recurrent budget SDGs in IFMIS with the analysis of development budget execution patterns.	P&DD, FD	■	
f. Design & Develop MS Excel based reports on agreed format and host the same in IFMIS.	P&DD, FD	■	
g. Develop a comprehensive process flow of SDGs information (financial/non-financials).	P&DD, FD		■

Policy Area 6 | Capacity Improvement for better PFM

Reform Area 6.1 Improve system of PFM trainings

Proposed Actions / Key Performance Indicators (KPIs)	Entity	ST - MT	LT
Actions			
1. Organize seminars/workshops to emphasize the importance of PFM.	FD	■	
2. Design and implement pre and in service PFM certification programmes for government officials.	FD	■	
3. Design and deliver regular PFM trainings for relevant staff of key line departments.	FD	■	
4. Provide exposure to all stakeholders in PFM including planning & budgeting manual, PFM Handbook, General Financial rules, etc.	FD	■	
Key Performance Indicators (KPIs)			
a. Arrange PFM workshop for administrative departments DDOs (secretariat) each year.	FD	■	
b. Start a PFM certification programme from a reputable institute.	FD	■	
c. Manage PFM refresher trainings each year for key line departments.	FD	■	
d. Conduct capacity building workshops on updated law, rules & regulation, financial power, manuals, handbooks, etc.	FD	■	

Reform Area 6.2 Enhanced individual and institutional capacities to manage PFM systems Objective

Proposed Actions / Key Performance Indicators (KPIs)	Entity	ST - MT	LT
Actions			
1. Establish the office of Chief Financial Officer (CFO) in key line departments to assist the Principal Accounting Officer (PAO).	FD, AD	■	
2. Strengthen treasury and local fund audit functions within FD with service structure, services rules & processes within the organization.	FD	■	
3. Improve the PFM syllabus in the existing training institute of provincial Government.	FD, SCSSA	■	
4. Develop and update the web portal of FD and P&DD with all relevant manuals, guidelines and notifications.	FD, P&DD	■	
Key Performance Indicators (KPIs)			
a. CFO and support staff hired and are place in few key line departments to assist PAOs in financial matters.	FD, AD	■	
b. Develop capacity of treasuries and local fund audit officials and review service structure, service rules & process.	FD	■	
c. Introduce PFM handbook in provincial training institute.	FD, SCSSA	■	
d. Gather all relevant manuals, guidelines and notifications to host the same on FD & P&DD websites.	FD, P&DD	■	

Policy Area 7 | Strengthening of Legal and Regulatory Frameworks

Reform Area 7.1 PFM systems are defined and regulated by PFM Law

Proposed Actions / Key Performance Indicators (KPIs)	Entity	ST - MT	LT
Actions			
1. Overarching PFM system is defined and guided by a PFM Law.	FD	■	
2. Comprehensive and consistent set of regulations underpin the public financial management.	FD	■	
3. Updated budget and planning manual serve as the basis for the management of budgets.	FD & P&DD	■	
Key Performance Indicators (KPIs)			
a. Approval of the Sindh Public Finance Administration Act by the Provincial Assembly	FD	■	
b. Include PFM Act in official gazette and arrange capacity building workshops on PFM Act.	FD	■	
c. Updated Budget and planning manual notified and start of training in updated manuals.	FD	■	

Reform Area 7.2 Comprehensive and consistent set of regulations underpin the public financial management

Proposed Actions / Key Performance Indicators (KPIs)	Entity	ST - MT	LT
Actions			
1. Update Sindh Financial Rules, Treasury & Sub-treasury rules.	FD	■	
2. Provide training and exposure to the Government functionaries in the updated legal framework and rules.	FD	■	
Key Performance Indicators (KPIs)			
a. Published an updated version of Sindh Financial Rules, Treasury & Sub-treasury rules.	FD, AD	■	
b. Arrange workshop on updated legal & regulatory frameworks for all line departments.	FD	■	

Reform Area 7.3 Updated budget and planning manual serve as the basis for the management of budget cycle

Proposed Actions / Key Performance Indicators (KPIs)	Entity	ST - MT	LT
Actions			
1. Drafting of the comprehensive Planning and Budget Manual.	P&DD, FD	■	
2. Approval of the manuals to be followed by the requisite trainings.	P&DD, FD	■	
Key Performance Indicators (KPIs)			
a. Updated Planning & Budget Manual published.	P&DD, FD	■	
b. Train all line departments on updated Planning & budget Manual.	P&DD, FD	■	

Policy Area 8 | Accountability for Results

Reform Area 8.1 Strengthen the legislative oversight

Proposed Actions / Key Performance Indicators (KPIs)	Entity	ST - MT	LT
Actions			
1. Establish BSP based pre budget session to identify the budget priorities.	FD	■	
2. Gradually develop, propose and approve a set of virement rules, regulating authorities for budget re-appropriations by LDs, FD and Cabinet.	FD	■	
3. Introduce and strengthen procedure for scrutiny of annual financial reports, audit reports and other reports containing the facts about the discharge of executive function.	FD	■	
4. Introduce Citizen's Budget.	FD	■	
Key Performance Indicators (KPIs)			
a. Arrange pre-budget seminar annually for civil society, parliamentarian, academia, etc.	FD	■	
b. Devolve/Delegate re-appropriations power and authority to line departments/Principal Accounting Officers.	FD	■	
c. Develop understanding and capacity of provincial assembly members by arranging a discussion session on audit, financial and other reports.	FD	■	
d. Develop methodology for implementing participatory form of budgeting and implement the same.	FD	■	

Reform Area 8.2 Enhance the coverage and quality of external audit

Proposed Actions / Key Performance Indicators (KPIs)	Entity	ST - MT	LT
Actions			
1. Re-engineer the business processes of PAC to enable it to examine all audit reports and prioritise those for considerations and required corrective actions.	FD/PAC	■	
2. Conduct regular DAC meetings in respect of all departments at district and provincial level with monitoring by the Chief Secretary's office.	FD/AD	■	
3. Support the AGP's representative office in Sindh (DG Audit Sindh) in implementing new auditing standards and guidelines in the public sector auditing.	FD/AGP	■	
4. Expand the existing scope and coverage of audit to include the performance audit of at least few of the strategically important projects every year.	FD/AGP	■	
Key Performance Indicators (KPIs)			
a. Dialogue between stakeholders to strengthen the effectiveness of PAC role initiated.	FD/PAC	■	
b. Hosting of the progress reports of DAC meetings on official websites.	FD/AD	■	
c. Support extended for the implementation of auditing standards and guidelines to the AGP.	FD/AGP	■	
d. A policy based on various criteria including monetary value of the project /activity to be shortlisted for performance audit each year is developed.	FD/AGP	■	

Reform Area 8.3 Revitalise and expand the Monitoring and Evaluation framework

Proposed Actions / Key Performance Indicators (KPIs)	Entity	ST - MT	LT
Actions <ol style="list-style-type: none"> 1. Develop a comprehensive and robust monitoring and evaluation (M&E) framework. 2. Improve and expand the reporting through M&E system for project monitoring, implementation, progress, complete and impact assessment. 3. Formulate and implement the systems and procedures for evaluation by P&DD and line departments. 4. Develop and implement policy evaluation approach/strategy as a part of result-based management (RBM). 	P&DD/FD P&DD/AD P&DD/AD FD/P&DD	■ ■ ■ ■	
Key Performance Indicators (KPIs) <ol style="list-style-type: none"> a. Study of the existing monitoring mechanisms completed and robust monitoring & evaluation framework proposed. b. M&E Cell, P&DD engaged to develop and publish project implementation reports bi-annually. c. Prevailing project evaluation practices reviewed and recommendations proposed. d. Result based management system introduced as a policy evaluation approach/strategy. 	P&DD/FD P&DD/AD P&DD/AD FD/P&DD	■ ■ ■ ■	

Phases

ST to MT	Short to Medium Term (01-05 years)
LT	Long Term (06 -10 years)

Responsible Entities

AG	Accountant General Sindh
AGP	Auditor General of Pakistan
BOR	Board of Revenue, Sindh
CGA	Controller General of Accounts
ET&NCD	Excise, Taxation and Narcotics Control Department
FD	Finance Department
AD	Administrative Department
P&DD	Planning and Development Department
PAC	Public Accounts Committee
RCE	Revenue Collecting Entities
SCSA	Sindh Civil Service Academy
SPPRA	Sindh Public Procurement Regulatory Authority
SRB	Sindh Revenue Board

