GOVERNMENT OF
KHYBER PAKHTUNKHWA
FINANCE DEPARTMENT

Public Financial Management and Revenue Mobilization Reforms Strategy

Government of Khyber Pakhtunkhwa

FY 2025-2032



September 2026

TABLE OF CONTENTS

Abbreviations 3

Strategic Pillars at a Glance 5

1. Executive Summary 6

2. Introduction and Context 7

3. Diagnostic Assessment: Where We Stand 10

4. Vision, Mission, Objective and Guiding Principles 14

5. Strategic Pillars and Reform Objectives 16

6. Implementation Framework 30

7. Monitoring and Evaluation 33

8. Financing the Reform Agenda 35

9. Governance and Oversight 36

10. Risk Management 37

Abbreviations

ADP	Annual Development Program
AG KP	Accountant General Khyber Pakhtunkhwa
AIT	Agriculture Income Tax
BHU	Basic Health Unit
BoR	Board of Revenue
CFMIS	Centralized Financial Management Information System
CoA	Chart of Accounts
COFOG	Classification of Functions of Government
DHIS-II	District Health Information System, Version 2
EFT	Electronic Fund Transfer
EMIS	Education Management Information System
ePADs	Electronic Payment and Disbursement System
EPHS	Essential Package of Health Services
ETNCD	Excise, Taxation and Narcotics Control Department
EU	European Union
FABS	Financial Accounting and Budgeting System
FATA	Federally Administered Tribal Areas
FBR	Federal Board of Revenue
FCDO	Foreign, Commonwealth and Development Office
FD	Finance Department
GFS	Government Finance Statistics
GGRM	Good Governance Roadmap
GIS	Geographic Information System
GoKP	Government of Khyber Pakhtunkhwa
GSTS	General Sales Tax on Services
IFMIS	Integrated Financial Management Information System
KP	Khyber Pakhtunkhwa
KPBoS	Khyber Pakhtunkhwa Bureau of Statistics
KPDDH	KP Development Data Hub
KPITB	Khyber Pakhtunkhwa Information Technology Board
KPI	Key Performance Indicator
KPPRA	Khyber Pakhtunkhwa Public Procurement Regulatory Authority
KPRA	Khyber Pakhtunkhwa Revenue Authority
KPRMP	Khyber Pakhtunkhwa Revenue Mobilization and Public Resource Management Program
LG&RDD	Local Government, Elections and Rural Development Department

M&E	Monitoring and Evaluation
MFS	Minimum Functional Standards
MIS	Management Information System
MoU	Memorandum of Understanding
MTBF	Medium-Term Budget Framework
MTFF	Medium-Term Fiscal Framework
NADRA	National Database and Registration Authority
NFC	National Finance Commission
NFP	National Fiscal Pact
OBB	Output-Based Budgeting
OBI	Open Budget Index
OPD	Outpatient Department
OSR	Own-Source Revenue
P&DD	Planning and Development Department
PAC	Public Accounts Committee
PC-1	Planning Commission Form 1 (Project Concept)
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PFMRS	Public Financial Management Reform Strategy
PIM	Public Investment Management
PKR	Pakistani Rupee
PPP	Public-Private Partnership
PTC	Parent-Teacher Council
RCU	Reform Coordination Unit
RHC	Rural Health Center
SAP	Systems, Applications and Products (in Data Processing)
SBP	State Bank of Pakistan
SPEED	Spending Effectively for Enhanced Development Program
TIN	Taxpayer Identification Number
TMA	Tehsil Municipal Administration
TSA	Treasury Single Account
UHC	Universal Health Coverage
UIPT	Urban Immovable Property Tax
USAID	United States Agency for International Development
WHO	World Health Organization

Strategic Pillars
At a Glance

Revenue Mobilization
- Tax policy & Administration
- Non-tax & Natural Resource Revenue Systems

A





B

Policy-Driven Planning & Budgeting
- Strategic planning, MTFF and MTBF preparation
- Budget formulation & calendar
- Legislative budget approval

Comprehensive & Transparent Budget
- Budget coverage & classification
- Fiscal reporting & public disclosure
- Credibility of fiscal estimates

C





D

Predictability & Control In Execution
- Cash flow & payroll management
- Procurement & internal controls
- Commitment controls & arrears

Asset & Liability Management
- Public debt & borrowing strategy
- Financial assets & guarantees
- Fiscal risk management

E





F

Accountability for Results
- Accounting standards & reporting
- External audit & follow-up
- Parliamentary oversight & scrutiny

PFM for Service Delivery
- Budget–service linkages & tracking
- Social spending quality & equity
- Front-line delivery outcomes

G





H

Statistical Capacity & Data Governance
- Evidence-based policymaking
- Data quality & statistical systems
- Open data governance

1. Executive Summary

This Public Financial Management (PFM) Reform Strategy charts the course for the Government of Khyber Pakhtunkhwa (GoKP) to build a robust, transparent, and accountable fiscal system over the period 2025-2032. It builds upon the foundations laid by the 2017-2020 PFM Reform Strategy and the progress achieved under the World Bank-supported Khyber Pakhtunkhwa Revenue Mobilization and Public Resource Management (KPRM) Program and the Spending Effectively for Enhanced Development (SPEED) Program. It complements the KP Good Governance Roadmap (GGRM) and will support implementation of the Pakistan National Fiscal Pact. The Strategy underscores the need for special attention to the merged districts for service delivery, and phased transition into the provincial tax net will be informed by assessment of local economic conditions and impacts on vulnerable groups.

The strategy is organized around eight strategic pillars: (i) revenue mobilization; (ii) policy-driven planning and budgeting; (iii) comprehensive, credible, and transparent budget; (iv) predictability and control in budget execution; (v) asset and liability management; (vi) accountability for results; (vii) PFM for service delivery; and (viii) statistical capacity and data governance for evidence-based policymaking. These pillars build on KP's substantial reform achievements and focus on the areas of greatest remaining opportunity: growing a strong but still-developing own-source revenue base, improving utilization of a well-resourced but still-fragmented development budget, deepening cash management systems that have been successfully established, and closing the gap between policy ambition and frontline results in health and education.

The overarching goal is to increase KP's fiscal autonomy, improve the efficiency of public spending, and ultimately translate better financial management into tangible improvements in service delivery for KP's citizens, especially in education, health, and local infrastructure. The seventh pillar, PFM for Service Delivery, draws directly from an Outcome-Led PFM reform planning process that operationalizes the principle that public finance is the mechanism through which policy commitments in health and education are either converted into services or left unrealized. The implementation of the Strategy will be supported by a communication and outreach plan. A regular monitoring and evaluation mechanism will assess progress against targets. Furthermore, the strategy's scope and targets will undergo a mid-term review aligned with a light PEFA assessment.

2. Introduction and Context

2.1 Provincial Overview

Khyber Pakhtunkhwa (KP), with a population of approximately 40 million, is one of Pakistan's geographically diverse and strategically significant provinces. It has historically been among the more challenging provinces for development due to security concerns, geographic remoteness, and fiscal dependence on the federal government. The constitutional merger of the former Federally Administered Tribal Areas (FATA) in 2018 substantially expanded the province's territory and administrative responsibilities, adding significant pressure on an already strained fiscal and administrative system.

Despite these challenges, KP has demonstrated a strong commitment to reform over the past decade. Significant strides have been made in digitizing public services, improving budget credibility, eliminating ghost pensioners, reforming pension systems, and increasing own-source revenues. Provincial tax revenues grew from PKR 12.8 billion in FY 2015-16 to PKR 65 billion in FY 2024- 25- a more than fivefold increase. The province allocated 28 percent of its total budget to education, the highest share among Pakistani provinces, and has invested heavily in human capital. Importantly, FY 2024 25 has been adopted as the baseline year for the diagnostic study, providing the reference point against which future progress and reform outcomes will be assessed.

2.2 Reform History and Continuity

The GoKP has been implementing PFM reforms since 2010, when a first-generation Integrated PFM Reform Strategy (PFMRS) was approved by Cabinet. The strategy built around five pillars -- strategic budgeting, results-oriented budgeting, capacity building, improved budget execution, and accountability -- established the institutional architecture for reform. The 2017-2020 PFMRS represented a second-generation effort, grounded in the findings of the 2017 Public Expenditure and Financial Accountability (PEFA) assessment, which showed progress relative to 2007 but identified key remaining gaps.

The Khyber Pakhtunkhwa government unveiled the "KP Good Governance Roadmap (GGRM) 2.0" in March 2026, a two-year implementation plan to improve public service delivery and institutional efficiency through an in-built reward and accountability system. Anchored around three priority pillars — good governance, robust security, and smart development — the roadmap encompasses interventions across twelve governance domains, one security domain, and three development domains, with high-impact areas including health, education, social protection, economic uplift, infrastructure development, agriculture, energy, tourism, and digitization. Over 35 departments are adopting digital platforms such as Workflow and Document Management System or e-Gov system to drive institutional efficiency, while the Smarter Development initiative focuses on prioritizing high-impact projects, ensuring efficient budget allocation, monitoring mega projects for timely delivery, and attracting investment to drive economic growth and job creation in the province.

The National Fiscal Pact (NFP) was signed by the federal government and all four provinces in 2024. Governed by a Memorandum of Understanding rather than a constitutional framework like the National Finance Commission Award, it seeks to better align fiscal responsibilities with the devolved functions established under the 18th Amendment. The Pact focuses on key steps to (1) increase provinces' own – tax collection effort in agriculture income tax, property tax and services sales tax; (2) transferring spending responsibilities from federal government to the provincial government in line with the spending allocation under 18th Constitutional Amendment, including additional contributions for education, health, social protection, and regional public infrastructure investment, and (3) improving provincial expenditure quality through reduced subsidy expenditure, adoption of e-procurement, anti-corruption measures. Together, these reforms aim to build a more sustainable and equitable fiscal architecture that preserves space for essential public services.

The PFMRS 2025-32 represents a third generation of reform. It consolidates lessons from two decades of engagement, reflects the findings of the KP PEFA 2025, and responds to emerging priorities around digital transformation, fiscal sustainability, and service delivery effectiveness. It is explicitly aligned with international good practices and builds on the World Bank's analytical and operational engagement in the province. Crucially, it is anchored within the KP GGR -- the GoKP's overarching framework for accountable, citizen-centered public administration -- and operationalizes the Pakistan NFP at the provincial level. It also supports the implementation of the KP Own-Source Revenue Mobilization Strategy (2026, draft) and the KP Education Sector Plan and Health Sector Strategic Plan, ensuring that PFM reform is coordinated across the full landscape of provincial development commitments.

2.3 Rationale for a New Strategy

KP's reform achievements are substantial and provide a strong foundation for this next generation of reforms. At the same time, the strategy is clear-eyed about areas where there remains significant potential for further improvement, and it is in precisely those areas that this strategy is focused.

Fiscal space: strong growth, with further potential. KP has grown its own-source tax revenues more than fivefold since FY2015/16, and KPRA's GSTS collections have more than tripled. This is a genuine achievement that places KP ahead of several sister provinces. The next frontier is reducing dependence on federal transfers, which still account for approximately 85-90 percent of provincial revenues, and building an own-source revenue base resilient enough to cushion the volatility of NFC transfers and the fiscal pressures arising from FATA merger costs and regional security challenges.

Development budget: strong allocations, with room to improve utilization. KP allocates 28 percent of its total budget to education, the highest share among Pakistani provinces, and has made significant capital investments across the province. The opportunity now is to sharpen the focus of the Annual Development Program (ADP): concentrating resources on fewer, better-appraised projects, building in operation and maintenance costs from

the outset, and improving completion rates so that investments translate more reliably into functional infrastructure.

Budget execution: improved systems, with potential to reach the frontline. Reforms in budget formulation and payroll, including the virtually complete elimination of ghost employees through the SAP HR module, have delivered real efficiency gains. The opportunity ahead is to match these achievements with equal predictability in the release of non-salary inputs. The recently rolled out e-procurement system (EPADS) is at an early stage of adoption, and due to limited interoperability between EPADS, the Integrated Financial Management Information System (IFMIS), and contract management, and e-payment systems, procurement, budget execution, and payment functions are disconnected. In health and education, this fragmentation causes significant delays in the delivery of medicines, medical equipment, textbooks, and furniture, directly constraining service delivery. Clinics and schools have the policy frameworks they need; the remaining challenge is ensuring that funds for medicines, textbooks, utilities, and maintenance reach service delivery points reliably and on time.



3. Diagnostic Assessment: Where We Stand

3.1 Revenue Mobilization

KP's Own-Source Tax Revenue (OSR) performance has improved substantially and measurably. The KP Revenue Authority (KPRA) has expanded the General Sales Tax on Services (GSTS) base, growing collections from PKR 7.3 billion in FY2015/16 to PKR 41 billion in FY2024/25, a more than threefold increase. Property tax digitization is under way; the electronic stamp duty system has been rolled out to plug any leakages; a new Agriculture Income Tax law has been enacted in line with the NFP commitments; motor vehicle and excise collections have grown, and total OSR increased by 103 percent between FY2021 and FY2025. These are significant achievements that reflect strong political commitment and institutional investment.

The next horizon for revenue reform is equally significant. KP's draft strategy for own-source revenue mobilization projects an increase in own-source tax revenue from PKR 65 billion in FY2025 to more than PKR 160 billion by FY2032 based on assumptions, including political stability and support, economic growth, policy-based broadening, administrative and compliance gains and rate changes. The Sales Tax on Services remains the largest contributor (projected to increase from PKR 41 billion in FY2025 to PKR 168 billion in FY2032), followed by Infrastructure Development Cess, Motor Vehicle Tax, Property Tax and, particularly, Agriculture Income Tax starting from a low base, and illustrating the scale of the opportunity ahead. The province's three revenue-collecting entities, KPRA, the Excise Taxation and Narcotics Control Department (ETNCD), and the Board of Revenue (BoR) have each made progress in their respective domains, digitizing and integrating their databases. As per the strategy, structural reforms anchor the medium-term revenue path - where the move to income-based Agriculture Income Tax and capital-value-based Property Tax are central reforms intended to improve equity, align taxation more closely with economic capacity, and unlock currently underutilized revenue potential. The draft strategy front-loads administrative reforms, including registration, digitization, further data integration, taxpayer facilitation, and compliance measures. Policy and rate measures are phased thereafter as coverage, administrative capacity, and taxpayer information improve. Similarly, non-tax revenues from government-owned properties, natural resources, and hydropower -- already growing -- have the potential to generate considerably more income with stronger management and transparent governance frameworks.

The own-source revenue mobilization strategy (draft) emphasizes phased and inclusive implementation of reforms by sequencing them according to administrative readiness, data availability, and their potential impact on households and businesses. It underscores the need for attention to the merged districts (currently exempt from various provincial taxes), where the transition into the provincial tax net, following the removal of applicable exemptions, will be phased and informed by assessment of local economic conditions and impacts on vulnerable groups.

3.2 Planning and Budgeting

KP has made significant progress in establishing institutional architecture for strategic budgeting. A Medium-Term Budget Framework (MTBF) is in place. Budget ceilings are communicated to line departments, and the PFM Act 2022 and Fiscal Responsibility and Debt Management Act 2022 provide a strong legislative anchor for medium-term fiscal planning.

The opportunity now is to deepen the operational effectiveness of these systems. Sector strategies have the potential to drive budget allocations more consistently and systematically, and the integration of recurrent and development budget planning already improving can be strengthened to give a more complete picture of the full cost of public services. The ADP reform agenda, including mandatory pre-appraisal and the systematic inclusion of operation and maintenance costs in project approvals, would build directly on the strong investment base that KP has already established.

3.3 Budget Execution and Cash Management

KP has invested significantly in its budget execution infrastructure, and the results are evident. The Financial Accounting and Budgeting System (FABS) covers all line departments and enables multi-dimensional expenditure tracking aligned with GFS/COFOG standards -- a major advancement from the fragmented, manual systems that preceded it. The Treasury Single Account initiative has made substantial progress in consolidating government funds. The SAP HR module has virtually eliminated ghost employees, representing one of the most impactful fiscal reforms of the past decade. The 2025 PEFA assessment affirms that KP has a comparatively solid public finance system. The next generation of improvements lies in deepening the operational reliability of these systems: capturing expenditure commitments at the point of contract award rather than payment to enable more accurate cash flow forecasting; completing TSA consolidation for recurrent and development funds; and ensuring that the strong macro-level budget execution results are matched by equally reliable and timely releases of non-salary inputs, medicines, textbooks, and utilities to the health facilities and schools that need them most.

3.4 Asset and Liability Management

KP has taken important steps to address its most significant long-term fiscal liability: the establishment of a Contributory Pension Scheme has substantially reduced the risk that pension costs -- which rose from 3.2 percent of provincial revenues in FY2009/10 to 20.6 percent by FY2017/18 -- would continue to crowd out development spending indefinitely. Public investment management gatekeeping has been tightened, and the province has a growing portfolio of public infrastructure assets.

The next stage of asset and liability management reform centers on making this portfolio more visible, better managed, and more transparently reported. Dedicated funds, autonomous bodies, and public enterprises represent significant public wealth and contingent liabilities that would benefit from consolidated reporting and systematic risk assessment. Regular actuarial reviews of pension liabilities and the publication of a provincial debt

bulletin would further strengthen the fiscal transparency that KP has pioneered among Pakistani provinces.

3.5 Accountability, Audit, and Transparency

KP has made measurable and internationally recognized gains in fiscal transparency. The publication of Citizens' Budgets, mid-year and year-end budget execution reports, and pre-budget statements has improved public access to fiscal information, and KP's Open Budget Index score has improved as a result. The province is a pioneer among Pakistani provinces in linking budget allocations to sector KPIs through DHIS-II and EMIS data -- an approach that other provinces are now seeking to replicate.

Building on this strong transparency foundation, the next reform horizon focuses on strengthening the accountability chain from internal audit through legislative oversight to citizens. The internal audit function -- already established within the Finance Department -- has the potential to transition from transaction-based checking toward risk-based, system-level assurance. The KP Public Accounts Committee (PAC) has the institutional standing to exercise more systematic oversight of audit findings; with targeted capacity support and improved reporting timeliness, it can become a more effective driver of corrective action. Local government financial reporting and audit, where the foundations have been laid, offer a significant opportunity for consolidation and improvement.

3.6 Public Financial Management for Service Delivery

KP has built a strong policy and institutional architecture for health and education. The Sehat Card Plus program has extended financial protection against catastrophic health costs to millions of families. Merit-based teacher recruitment has strengthened school staffing, and the DHIS-II and EMIS platforms have established a foundation for data-driven management of health facilities and schools. The Facility-Level Budget and Expenditure Management Policy (2024) and the KP Free and Compulsory Education Act 2017 signal strong political commitment to frontline accountability.

The challenge ahead is a public financial management one: translating these policy commitments into reliable, need-based resource flows at the facility and school level. Six million school-age children remain out of school. Medicines are frequently unavailable at Basic Health Units, and textbooks arrive late at schools in remote and merged districts. Non-salary recurrent budgets — the lifeblood of operational service delivery — remain small and are the first casualty of in-year cash rationing when federal transfers fall short. Addressing these gaps requires reforms not only in sector policy, but in how budgets are allocated, released, procured, and reported all the way to the frontline.

3.7 Statistics and Data for Evidence-Based Policymaking

KP has made meaningful early progress in building sectoral data systems. DHIS-II tracks health facility utilization across the province; EMIS provides school-level enrolment and infrastructure data, and KPITB's digital platforms have established a growing base of administrative data. The Planning and Development Department's GIS Hub provides a geospatial analysis

platform with considerable analytical potential, and initial steps toward data systems integration are underway. The provincial statistical agency, KP Bureau of Statistics, compiles and publishes official statistics for the province, including regional accounts, with a public-access data portal available.

However, significant constraints remain, and addressing them is a precondition for evidence-based policymaking at scale. KP lacks an official database of sectoral outcome KPIs that is regularly updated, a Statistical Business Register to measure economic and fiscal indicators more accurately, and a provincial Consumer Price Index. Moreover, sector data systems operate in institutional silos with inconsistent definitions and reporting frequencies, as well as varying quality standards. This precludes the cross-sectoral analysis required to address complex multi-dimensional development challenges such as stunting and learning poverty. Lack of data integration between fiscal and service delivery outputs/outcomes makes it challenging to track the effectiveness and efficiency of spending and hinders needs-based budgeting. Even where data exists, it is rarely used systematically in ADP planning or resource allocation, which remains largely incremental. Given this context of fragmented data systems, the KP Bureau of Statistics, as the province's primary statistical authority, is well-positioned to anchor a new generation of data governance reforms that will enable an integrated data ecosystem and ensure data quality standards, unlocking the full analytical value of KP's growing digital infrastructure.



4. Vision, Mission, Objective and Guiding Principles

Vision: A transparent, efficient, and accountable public financial management system that maximizes fiscal resources for inclusive development and high-quality service delivery for the people of Khyber Pakhtunkhwa.

Mission: To strengthen KP's fiscal autonomy, improve the quality and predictability of public spending, and ensure that financial management systems support -- rather than impede -- the delivery of public services.

Objective: To implement sustainable fiscal reforms that enhance revenue mobilization and strengthen resource management to promote allocative and technical efficiency, ultimately supporting improved health and education outcomes.

Guiding Principles:

- **Government ownership:** The strategy is led by the Government of KP, with the FD as the coordinating anchor. A multi-stakeholder approach will ensure commitment across the different groups of actors involved in reform implementation.

- **Sequencing and pragmatism:** Reforms will be sequenced based on impact, feasibility, and institutional readiness. Quick wins will be prioritized to sustain reform momentum.

- **Integration:** The strategy addresses the full PFM cycle -- from revenue through budgeting, execution, accounting, reporting, and audit -- in an integrated manner at both provincial and local government levels.

- **Digital transformation:** Technology-enabled solutions will be central to reform design, leveraging KP's comparative advantage in digital government.

- **Inclusiveness:** Gender-responsive budgeting and district-level equity will be mainstreamed across all pillars.

- **Capacity development and institutional learning:** Reforms will be designed to match current institutional capacity while also strengthening that capacity over time. Implementation will build on existing institutional strengths rather than assuming capabilities that do not yet exist. Sustained investment in human capital—through structured training, knowledge management, and technical assistance—will support long-term reform sustainability. The FD, together with relevant stakeholders, will conduct an initial capacity needs assessment to inform a rolling training agenda. Regular reviews of PFM bottlenecks, reform quality, implementation progress, and knowledge-sharing practices will shape an ongoing learning agenda for the PFMRS.

- **Data Driven Policy making and Results orientation:** Policy formulation and decision making

will be data driven. Reforms will be evaluated against their impact on service delivery outcomes, not only process compliance.

» **Service delivery improvement** in health and education is the ultimate outcome of this strategy. The first six pillars, together with Pillar H, enabling pillars intended to create the fiscal space, planning discipline, execution reliability, transparency, and data systems required for Pillar G to succeed. Annual implementation reporting will therefore assess not only progress within each pillar, but also the extent to which reforms in revenue mobilization, budgeting, execution, procurement, and data governance are improving the availability and predictability of resources at the frontline.



5. Strategic Pillars and Reform Objectives

Pillar A: Revenue Mobilization

Objective: Increase own-source revenues by at least 150 percent over the strategy period (from the FY2024/25 baseline), by diversifying and expanding the revenue base, strengthening tax policy function, and implementing tax administration modernization measures. More effective management of public real estate assets and natural resource revenues will also be supported during this period [1].

Key Reform Actions:

A-1. Strengthening tax policy function. Establish Tax Policy Unit (TPU) in the Finance Department to formulate, evaluate, and reform tax policies in alignment with the government's broader fiscal, economic, social and development goals. Tax policy analysis will keep in focus the objective of minimizing excess burden on the provincial economy. It will also align with the government's broader fiscal, economic, social and development goals. The unit will conduct data-backed analysis to ensure the tax system is equitable, efficient, and capable of generating sustainable revenue. Regular tax gap and expenditure analyses, and revenue forecasting will provide required objective analysis to set appropriate revenue targets and support their collection through strategic tax administration measures (noted below). TPU will also organize regular tax reform oversight committee meetings, to be chaired by the finance minister.

A-2. Tax Administration Modernization. Complete ongoing digitization and integration of databases across KPRA, ETNCD, and the Board of Revenue to enable cross-referencing of taxpayer information. Implement a unified Taxpayer Identification Number (TIN) system linked to NADRA and the Federal Board of Revenue (FBR) database to improve compliance and reduce evasion. Digitize tax arrears records (especially for UIPT, Motor Vehicle Tax, Services Sales Tax) for efficient monitoring and collection[2]. Establish an integrated revenue reconciliation mechanism across BOR, KPRA, ETNCD, AG KP and banking system, and institutionalize quarterly reconciliation and disclosure mechanism. Develop analysis-based plan for restructuring and alignment of revenue administration across three provincial revenue authorities (KPRA, BOR and ETNCD) along with shared governance. In parallel, the government will also invest in continuous capacity building of staff through strengthening the revenue academy, as well as strengthening internal and external accountability mechanisms.

A-3. GSTS Reforms. Expand the GSTS taxpayer base through surveys, sector-specific compliance campaigns, particularly targeting high-revenue and under-represented sectors such as hospitality, professional services, real estate,

1 Refer to own-source revenue mobilization strategy (draft) for details on measures for taxes and non-taxes.

2 In KP, some of the taxes are assessed and collected at the time of transaction, and therefore, do not raise any arrears. For example, property registration and transfer related taxes, motor vehicle registration fee.

transport and storage, and by rationalizing exemptions (implementing negative list). Harmonize definitions and rules with other jurisdictions in the country to enable cross input adjustments and refunds of taxpayers. Introducing risk-based audit protocols and automated audit selection, supported by third party data linkages (especially with withholding tax agents), digital invoice monitoring system, and sector studies. Supporting taxpayer facilitation and simplified returns.

A-4. Property Tax Reforms. Complete survey of properties in urban areas, digitize updated Urban Immovable Property Tax (UIPT) records in centralized MIS, and gradually transition to capital-value-based property valuation (starting with three cities), initially using digitized DC tables. Redesign rate structure to introduce progressive rates, with higher rates for vacant land. Digitize billing and payment channels. Restructure ETNCD for enhanced focus on tax administration, establish a tax audit function, and strengthen relation with Tehsil Municipal Authorities (TMAs) for tax base expansion and transparency in collections.

A-5. Agriculture Income Tax (AIT) and Land Revenue. Complete and use land records digitization (Phase II of digitization). Link the Computerized Land Records Management System (CLRMIS) directly to AIT assessment system so that land ownership automatically triggers a tax file. Expand taxable base by bringing in agri-value chain actors. Introduce presumptive and area-based assessment for non-filers. Leverage filer and non-filer differentiation to drive compliance. Implement digitized AIT system, involving registration, filing and payment of tax. Build capacity for tax audit, and for tax intelligence and to determine presumptive income, create live data sharing pipeline with FBR, and get access to third party data on banking transactions, commodity exchange records, and agri-input purchase records. Restructure organization, and establish revenue monitoring, valuation and audit units in BOR.

A-6. Motor Vehicle Tax (MVT). Address key compliance gaps related to unregistered vehicles, illegal number plates, and token tax non-payment by digitizing vehicle tax records and payments; registering vehicles at point of sale; expanding and sustaining enforcement campaigns; strengthening enforcement coordination and sharing MVT record with the police checkpoints to flag unregistered or tax defaulting vehicles in real time.

A-7. Infrastructure Development Cess (IDC) and Tobacco Development Cess (TDC). For IDC: review and implement IDC on exempt commercial activities and goods movement. Conduct proactive registration drives targeting transporters, traders, and freight forwarders who use KP's road infrastructure. Conduct targeted enforcement actions to catch under-declaration of cargo weight or value. Ensure systematic collection at all border crossings and Customs checkpoints for inbound and outbound cargo. Strengthen institutional partnership with FBR (Customs) for sharing of data and digital platforms for monitoring, processing and payments (WeBOC, electronic tracking of vehicles – in process) and joint enforcement at checkpoints. For TDC: rationalize rates, extend Cess to outbound tobacco shipments (outside province), multiply checkpoints at factories and key transport

arteries, and strengthen collaboration with Pakistan Tobacco Board and FBR for sharing systems/ data as FBR is working on track and trace system, production monitoring, and digital invoicing. Implement mandatory licensing requirements, supply chain licensing framework, and inter provincial coordination.

A-8. Non-Tax Revenue Optimization. Conduct inventory (or asset mapping) and valuation of government-owned real estate assets. Implement a transparent framework for commercial lease, licensing and auction of public properties. Create a dedicated Public Land Management Unit within the BOR. For mines and minerals, improve legal framework (including rules) for small scale licensing and competitive auction-based grants for high value minerals. Pilot real time production monitoring, digital invoicing system, and collection dashboard for the department. Strengthen monitoring & enforcement and penalize tax evaders. Conduct third party audits of resource extraction and royalty collections and enforce field staff rotation policy to prevent collusion. Engage with mine owner associations to resolve genuine grievances and make it easier to comply.

A-9. Local Government Revenue. Strengthen Tehsil Municipal Administrations (TMAs) and village/neighborhood councils to collect their own revenues and improve related reporting through CFMIS. Provide technical support for local revenue planning and administration.

Targets:

» Own-Source Tax Revenue to grow at least ~ PKR 160 billion by FY32.

» PEFA PI-3, PI-19 and PI-20 to improve from respective baselines in 2025 (PI-3 improved from D to C, PI-19 improved from D+ to C, PI-20 improved from C+ to B – in 2032).

Pillar B: Policy-Driven Planning and Budgeting

Objective: Strengthen the link between provincial policies, sector strategies, and budget allocations, and embed a medium-term perspective into all fiscal decision-making.

Key Reform Actions:

B-1. Medium-Term Fiscal Framework (MTFF). Institutionalize an annual MTFF that sets realistic three-year projections for revenues, expenditures, and the fiscal balance, stress-tested against NFC transfer volatility and macroeconomic scenarios.

B-2. Sector Budget Alignment. Require all key line departments (health, education, irrigation, local government) to align their annual budget submissions with approved sector strategies and investment plans. Introduce a formal budget strategy paper to communicate fiscal priorities prior to the budget cycle.

B-3. ADP Reform. Enforce mandatory pre-appraisal of all new ADP schemes above a defined threshold. Reduce the number of active ADP projects to concentrate resources and improve project completion rates. Require explicit inclusion of operation and maintenance cost estimates in development project approvals.

B-4. Performance-Based Budgeting. Expand Output-Based Budgeting (OBB) to all major line departments. Link budget

allocations to departmental performance benchmarks, building on the MoU-based performance monitoring system piloted under KP-RMP.

B-5. Inter-Governmental Fiscal Relations. Develop a transparent and formula-based fiscal transfer system for local governments, aligned with the Local Government Act, to improve planning at the district and sub-district levels.

Target:

PEFA PI-16 (budget-strategy linkage) to improve from its 2025 baseline to a 'B' rating by 2032; MTFF published annually from FY2026-27.

Pillar C: Comprehensive, Credible, and Transparent Budget

Objective: Improve budget comprehensiveness, fiscal transparency, and public access to financial information.

Key Reform Actions:

C-1. IFMIS Expansion. Complete the rollout of the Integrated Financial Management Information System (IFMIS) / FABS to all line departments and integrate with the CFMIS of TMAs. Ensure that the system captures commitments at the point of contract award (not payment), enabling accurate cash flow forecasting.

C-2. Budget Transparency. Continue publishing and improving the quality of the Citizens' Budget, mid-year and year-end budget execution reports, fiscal risk statements, and pre-budget statements. Increase the Open Budget Index (OBI) score through proactive disclosure of audit reports and sector performance data. Introduce Green / climate budget tagging.

C-3. Off-Budget Financing. Conduct a comprehensive audit of dedicated funds, autonomous bodies, and public enterprises. Conduct a study of corporate governance of public enterprises aligned with international standards. Publish consolidated fiscal accounts that include all on- and off-budget entities, improving coverage and comparability.

C-4. Chart of Accounts Harmonization. Maintain and update the Chart of Accounts (CoA) to ensure alignment with GFS 2014 standards, facilitating international comparability and supporting consolidation of local government accounts.

C-5. Aid and Grant Management. Strengthen the institutional framework for tracking and reporting external assistance, including donor grants, foreign loans, and technical assistance within the provincial budget and IFMIS.

Target:

PEFA PI-4 and 5 maintained at A; PI-6 improved from D to C (in 2032) and PI-8 improved from C+ to B (in 2032).

Pillar D: Predictability and Control in Budget Execution

Objective: Ensure that approved budget allocations reach service delivery units in a timely, predictable, and transparent manner, and strengthen expenditure controls.

Key Reform Actions:

D-1. Treasury Single Account (TSA). Complete the consolidation of all government accounts including dedicated,

development, and donor-funded accounts into the TSA. Eliminate the practice of holding government funds in commercial bank accounts. Leverage TSA data for real-time cash position management.

D-2. Cash Forecasting. Institutionalize monthly cash forecasting by all line departments, particularly in health and education. Use forecasts to drive release planning, reducing the in-year stop-and-go pattern of spending that disrupts service delivery. Publish variance reports comparing approved budgets, releases, and actuals.

D-3. Payroll and HR Management. Maintain and deepen integration between HR and payroll systems across all departments. Extend biometric verification and ghost employee checks to the newly merged districts. Reduce unauthorized payroll changes through system-level controls.

D-4. Procurement Reform. Implement e-procurement across all major line departments, building on the existing KP Public Procurement Regulatory Authority (KPPRA) framework. Introduce standard bidding documents, electronic contract management, and disclosure of procurement outcomes.

D-5. Internal Controls for Non-Salary Expenditure. Strengthen commitment controls and pre-payment verification mechanisms. Develop an internal audit function that transitions from compliance-based to risk-based and systems-based auditing.

D-6. Expenditure Arrears Management. Establish a system for regular monitoring and disclosure of expenditure arrears. Develop a credible plan for clearing existing arrears, particularly in development expenditure.

Target:

Reports comparing approved budgets, releases, and actuals published (FY32); Procurement outcomes disclosed (FY32); Service delivery units informed in a timely manner and receiving approved budget allocations in a timely, predictable and transparent manner.

Pillar E: Asset and Liability Management

Objective: Improve the management of public assets, investments, and contingent liabilities to protect the provincial balance sheet and maximize returns on public wealth.

Key Reform Actions:

E-1. Public Investment Management (PIM). Strengthen the identification, appraisal – including standardized cost-benefit analysis and climate screening, approval, prioritization, budgeting and monitoring and evaluation framework for public investment projects. Establish a central geotagged database of public investment projects and assets. Develop a multi-year capital investment plan aligned with the MTFF. Enhance reporting and transparency of PIM. Streamlining PIM and Public-Private Partnership (PPP) by unifying the systems. Establish and publish standards for administrative buildings including education and health to address green/climate and natural disaster risks and challenges.

E-2. Pension and Debt Management. Commission an actuarial assessment of

pension liabilities. Develop a provincial pension reform roadmap to address long-term sustainability concerns. Strengthen the debt management function within the Finance Department, with regular publication of a provincial debt bulletin.

E-3. Fiscal Risk Reporting. Publish an annual fiscal risk statement that identifies and quantifies key fiscal risks including natural disasters, NFC transfer volatility, contingent liabilities from Public-Private Partnerships (PPP), and autonomous body deficits and outlines mitigation measures. Produce and publish an annual aggregate report on public sector companies covering financial and non-financial performance and aligned with international standards. Introduce reforms to improve corporate governance including their oversight and boards of public sector companies. Establish a performance framework. Develop and publish an ownership policy.

E-4. Dedicated Fund Management. Require all dedicated funds to submit audited financial statements and maintain adequate reserves. Publish annual reports on dedicated fund performance.

Target:

All new public investment projects above a certain threshold are screened for climate change risks, subject to appraisal including cost-benefit analysis and are being selected according to standard and published criteria (FY32); Annual fiscal risk statement prepared as per E-3 and published in a timely manner (FY32)

Pillar F: Accountability for Results

Objective: Strengthen accountability mechanisms across the PFM chain -- from line departments to the legislature, auditors, and citizens.

Key Reform Actions:

F-1. Internal Audit. Establish a professionally staffed internal audit function within the FD. Transition from pre-audit to systems-based internal audit. Develop an internal audit charter and risk-based annual audit plan.

F-2. Performance Monitoring. Build on the MoU-based performance monitoring framework for line departments. Expand the number of departments with performance agreements and publish results publicly. Integrate departmental performance reporting with budget execution monitoring.

F-3. Legislative Oversight. Strengthen the capacity of the KP Public Accounts Committee (PAC) to effectively scrutinize audit reports. Improve the timeliness of PAC hearings and follow-up on audit observations. Publish PAC decisions and government responses.

F-4. Citizen Engagement. Expand the Citizens' Budget and budget literacy initiatives. Introduce participatory budgeting pilots at the district level to incorporate citizen priorities into ADP planning. Establish grievance redress mechanisms for budget-related complaints.

F-5. Local Government Accountability. Extend CFMIS and financial reporting requirements to all local governments (and link this system with IFMIS/FABS). Build capacity in district finance offices to prepare timely and accurate financial statements.

Target:

Internal audits undertaken in accordance

with an annual risk-based internal audit plan and in conformity with an internal audit charter; all departments and key agencies have Performance monitoring MoU, publish their performance agreements and their annual performance report in a timely manner.

Pillar G: PFM for Service Delivery

Objective: Ensure that public financial management systems directly enable the delivery of quality primary healthcare and primary education services, by addressing the PFM bottlenecks that most directly constrain frontline service availability and reliability.

G.1 The Service Delivery Challenge

Despite sustained reform momentum, KP's frontline service delivery remains constrained by structural gaps that are directly traceable to how public resources are budgeted, allocated, released, procured, and accounted for. The UHC Service Coverage Index rose from approximately 36 in 2015 to around 51 by 2023, significant progress, yet maternal mortality remains high at approximately 165 per 100,000 live births, stunting near 40 percent and wasting near 15 percent persist, and OPD visits at Basic Health Units (BHUs) and Rural Health Centers (RHCs) have declined, suggesting service availability has not kept pace with population needs.

In education, six million school-age children remain out of school, 49 percent boys and 51 percent girls, with access barriers most acute in remote and merged districts. Only a small share of students demonstrates grade-level proficiency in mathematics and science. Non-salary spending in education stands at under 3 percent of the recurrent budget, while the PKR 3 billion medical supplies allocation in health is routinely withheld in full or in part when federal transfers fall short of estimates.

These outcomes do not reflect a lack of policy ambition. KP has a strong institutional and legal architecture -- the KP Health Policy 2018, the KP Health Sector Strategic Plan, the KP Free and Compulsory Education Act 2017, the KP Education Sector Plan 2020/21-2024/25, DHIS-II, EMIS, and the Facility-Level Budget and Expenditure Management Policy (2024). The challenge is that the PFM system has not yet consistently translated these commitments into reliable, need-based resource flows at the frontline.

Four PFM bottlenecks have been identified through the 2025 PEFA assessment and multi-stakeholder reform design as the most binding constraints on health and education outcomes:

Bottleneck 1 -- Inefficient, Unbalanced, and Unreliable Resource Allocation. Salaries dominate sector budgets, leaving very limited non-salary funding for operational inputs -- medicines, consumables, textbooks, and maintenance. Mid-year cash rationing falls mainly on non-salary lines, and budgets remain incremental rather than linked to minimum service standards or facility-level costing.

Bottleneck 2 -- Inefficient and Inequitable Staff Deployment. Both sectors face major mismatches between staffing and need. In health, the doctor-to-population ratio is 1:4,245, far below the WHO benchmark. In education, rural pupil-to-teacher ratios exceed the 40:1 target. Insufficient hard-area incentives drive transfers away from remote and merged district facilities.

Bottleneck 3 -- Procurement and Supply Chain Failures. Late procurement cycles, inadequate needs estimation, and limited last-mile logistics leave BHUs and RHCs without medicines and schools without textbooks at the start of the year. Release schedules are misaligned with procurement timelines, and the absence of framework contracts prevents timely call-off.

Bottleneck 4 -- Infrastructure and Maintenance Gaps. Capital spending follows constituency pressures rather than objective need, concentrating better facilities in accessible areas. Many BHUs, RHCs, and primary schools lack functioning equipment, utilities, boundary walls, and staff accommodation. Maintenance budgets are minimal and often not fully released.

These four bottlenecks compound each other: unreliable resource allocation undermines procurement, staffing, and maintenance; maldistribution reduces the productive use of available resources; supply chain failures cancel out staffing gains; and poor infrastructure erodes the willingness of staff, patients, and students to engage with the public system.

Two structural constraints underpin all four bottlenecks. First, KP's fiscal dependence on federal transfers means that when transfers fall short of estimates, as they have repeatedly, in-year cash rationing reduces non-salary recurrent spending most directly at the frontline. Second, the fragmentation of DHIS-II, EMIS, and FABS across non-interoperable systems makes it impossible to link spending to results at facility or school level, or to base resource allocation on burden of disease or educational need.

G.2 Reform Actions: Needs-Based Allocation and Reliable Release

G-I. Costed Sector Expenditure Plans. Develop costed multi-year expenditure plans for health and education jointly owned by the Finance Department, the Health Department, the Education Department, and P&DD. These plans will translate the Essential Package of Health Services (EPHS) and the Education Sector Plan into fiscally affordable, district-disaggregated expenditure frameworks, replacing incremental budgeting with a needs-based allocation model. Budget proposals and approved allocations will be required to reflect these multi-year sector plans (aligned with PEFA PI-16).

G-II. Protection of Non-Salary Operational Budgets. Designate non-salary service delivery budget lines in health and education as protected from in-year cash rationing. Establish a policy rule backed by the Finance Department and endorsed by the PFM Reforms Oversight Committee that medicines, textbooks, maintenance, and school operating grants are the last expenditure categories to be reduced in any cash-rationing scenario. Institutionalize monthly cash forecasting in both departments to enable the treasury to anticipate liquidity pressures before they affect frontline operations.

G-III. Facility-Level Budgeting and Devolved Non-Salary Funds. Implement the Facility-Level Budget and Expenditure Management Policy (2024) to devolve non-salary funding directly to BHUs, RHCs, and primary schools. Establish facility-level work plans and budgets, backed by digital financial management and reporting

systems within FABS, making facility spending transparent and auditable. Non-salary funds will be transferred to facilities promptly and executed in full, reducing dependence on district-level intermediaries.

G-IV. Needs-Based Staff Deployment. Develop and implement fiscally affordable, needs-based staffing norms for health and education, bringing BHU and RHC staffing toward EPHS minimum standards, and school pupil-to-teacher ratios toward 40:1. Establish objective, transparent criteria for posting decisions. Build a package of hard-area incentives including allowances, career-linked rotation policies, and alternative recruitment models to attract and retain staff in remote and newly merged district facilities.

G-V. Front-Loaded Procurement and Supply Chain Reform. Implement data-driven needs estimation for medicines, consumables, and textbooks, grounded in DHIS-II and EMIS facility and school data. Front-load the procurement cycle through EPADs-based framework contracts finalized before 30 June each year, enabling timely call-off at the start of the fiscal year. Establish digital supply chain management systems with last-mile tracking from the warehouse or district store to the facility or school.

G-VI. Needs-Based Infrastructure Investment and Funded Maintenance. Establish funded, formula-based maintenance budgets linked to facility-level plans and district action plans. Embed needs-based investment criteria in ADP and PC-1 approval processes, replacing constituency-driven capital allocation with objective infrastructure gap assessments derived from EMIS and DHIS-II data. Enforce a completion-before-new-starts rule: no new construction project will be added to the ADP pipeline until existing projects are fully funded to completion. Introduce an annual Public Investment Project / ADP portfolio review with performance criteria, portfolio information e.g., project age, project delays, project cost and cost-overruns, etc., and rules for non-performing projects and programs. Prepare and publish an annual Public Investment Project / ADP portfolio report.

G-VII. FABS-DHIS-II-EMIS Integration and Data-Driven Governance. Integrate the Financial Accounting and Budgeting System (FABS) with DHIS-II and EMIS to enable facility- and school-level linking of spending to results. Strengthen the KP Bureau of Statistics (KPBoS) and the GIS Hub to produce regular, integrated, district-level data for evidence-based planning. Require the use of statistical evidence in ADP formulation. Publish accessible, public-facing data products including district scorecards on health and education service availability to enable citizen-level accountability.

G-VIII. Financial Management Cells in Health and Education. Strengthening the Financial Management Cells established in the Health and Education Departments to serve as the dedicated interface between sector budget management and central financial control. These cells will manage the implementation of facility-level budgeting, monitor monthly cash releases, flag non-salary under-execution, and coordinate procurement planning with the Finance Department and KPPRA.

G.3 Theory of Change

The theory of change for this pillar is straightforward: when public resources are allocated based on costed needs, released predictably, procured efficiently, and reported transparently at the facility and school level, health workers and teachers have the inputs they need to deliver services and managers and citizens have the information to hold them accountable. Stronger own-source revenues (Pillar A) generate the fiscal space needed to rebalance sector budgets away from salary dominance. Stronger budget execution systems (Pillar D) and foundational transparency (Pillar C) provide the platform on which facility-level financial management is built. This pillar is therefore not a standalone intervention but the culmination of the reform strategy the point at which fiscal systems are tested against their ultimate purpose: improving lives.



G.4. Key Performance Indicators for PFM and Service Delivery

Indicator	Baseline	Target (FY2029/30)
UHC Service Coverage Index	~53.9 (2024)	57
Maternal mortality rate	155/100,000 (2035)	95/100,000
Out-of-school children	~4.9 million (2023)	Reduce by 30%
Non-salary share of health recurrent budget	<5% (2023/24)	>12%
Non-salary share of education recurrent budget	<3% (2023/24)	>8%
Operating expenditure execution rate	Health (65%); Education (70%), FY2023/24	>85%
Aggregate expenditure outturn	81.6% of approved budget (FY2023/24)	At least 90%
Health expenditure outturn	77.7% of approved health budget (FY2023/24)	At least 90%
Education expenditure outturn	82% of approved education budget (FY2023/24)	At least 90%
Deviation between allocations and utilized eligible non-salary service delivery budget heads	High	≤20% for at least 70%RHCs, including 10% of these RHCs from lagging areas
Share of non-compliant primary schools meeting Minimum Functional Standard (MFS) Criteria	0%	>60%
Share of non-salary budget released under standard release policy	50% normally; 25% in FY2023/24 caretaker period	Release in line with approved annual policy
Participating BHUs, RHCs and schools with facility-level budgeting and reporting through IFMIS	Facility-level budgeting in approximately 5 districts; facilities not separately identifiable in IFMIS	All BHUs, RHCs and primary schools
Financial and service delivery systems integrated (IFMIS-EMIS and IFMIS-DHIS)	Not operational	Operational
Commitments captured in IFMIS	Not comprehensively implemented	All participating spending units

Vendor payments processed in ETF	<10 percent	>60 percent
Share of public primary schools receiving PTC grants submit expenditure records through the standardized e-payment reporting system	0%	>60%
Medicine stock-out rate at BHUs/RHCs	High (Baseline number to be established through facility survey)	Reduce by 50%
% BHUs and RHCs with full EPHS staffing	Low	60%
% of teaching positions vacancy rate	14%	<10%
Textbooks distributed by start of school year	<70% on time	95% on time
Service delivery performance evaluations completed	None	Annual evaluations completed and published
Average Procurement lead cycles	No accurate baseline – est. for HD 12-18 weeks and for S&SED 10-14 weeks	<15 percent
Annual procurement performance monitoring reports (including procurement cycle time, contract awards, complaints, integrity statistics) published in Open Contracting Data Standard (OCDS) format for primary education and health sectors.	No	Yes, starting 2028
KP Development Data Hub (KPDDH)	Not operational	Operational (covering at least health, education and finance), online and used for policy decision-making (starting 2028)
KP Statistics Business Registry	Not Operational	Operational, comprehensive (covering all key economic statistics) and updated regularly and including district-level economic indicators.

G.5 Institutional Arrangements for Service Delivery PFM

Implementation of this pillar will be led by Reform Teams that bring together the Finance Department, Health Department, Education Department, Planning and Development Department, the Accountant General's office, district administrations, and frontline service providers. These teams will be supported by the Reform Management Unit in the Finance Department. The reform teams in the Health and Education Departments will serve as the operational focal points. The PFM for Service Delivery Reform Steering Committee, chaired by the Additional Chief Secretary, P&DD, will provide strategic direction and resolve cross-departmental bottlenecks. Broader coalitions, including civil society organizations, the Public Accounts Committee, researchers, health workers, teachers, and community leaders, will sustain the accountability functions that make reform durable. Implementation will be built on the platform established by the PFM Act 2022, the Fiscal Responsibility and Debt Management Act 2022, FABS, ePADs, the SAP HR module, and the Facility-Level Budget and Expenditure Management Policy (2024), treating these as foundations to be operationalized rather than frameworks to be designed anew.

Pillar H: Statistical Capacity and Data Governance for Evidence-Based Policymaking

Objective: Strengthen KP's statistical infrastructure, establish an integrated and well-governed provincial data platform, and institutionalize the systematic use of evidence in planning, budgeting, and resource allocation decisions anchored in the KP Bureau of Statistics.

Key Reform Actions:

H-1. Filling Critical Statistical Gaps. Establish a Statistical Business Register to provide a comprehensive registry of business sector activity, improve coverage of the informal economy, and create a sampling frame to produce more accurate economic statistics. Develop guidelines to produce a provincial Consumer Price Index and regional accounts. Expand sex-disaggregated data on service delivery outcomes in health and education, including stunting. Build a comprehensive registry of private schools to fill a significant gap in the provincial education data landscape.

H-2. Data Integration and Quality Assurance. Establish the KP Development Data Hub (KPDDH) as a KPBoS-managed integrated platform, hosted at P&DD, consolidating provincial data through formalized inter-agency data sharing agreements and automated pipelines from DHIS-II, EMIS, FABS, and other departmental MIS. Develop and adopt a Data Governance Framework and Quality Assurance Protocols. Establish a dedicated Quality Assurance Unit within KPBoS responsible for systematic validation of provincial data sources and the enforcement of consistent definitions, geographies, and reporting frequencies across departments.

H-3. Institutionalizing Data Use in Decision-Making. Embed the KPDDH in ADP planning and sector prioritization processes for health and education, replacing incremental and politically driven planning with needs-based, evidence-grounded decision-making. Develop guidelines and

training programs for relevant officers and build incentive structures that reward data-driven planning. Activate the P&DD GIS Hub as a frontline analytical tool for infrastructure gap assessment and capital investment prioritization. Launch a public-facing KPDDH data portal to enable citizen, civil society, and legislative accountability.

Target:

KPDDH operational and integrated into ADP planning processes by 2029; provincial CPI published by 2028; all major sectors MISs connected to the KPDDH via automated pipelines by 2027.

Institutional Arrangements:

This pillar is anchored in the KP Bureau of Statistics, which will serve as the lead implementing entity and custodian of the KPDDH. The Planning and Development Department will serve as co-lead, given its mandate over ADP planning and its stewardship of the GIS Hub & KPBoS. The Finance Department is the primary demand-side driver, responsible for ensuring that KPDDH output is systematically embedded in budget preparation, MTFF development, and performance monitoring. Inter-agency data sharing agreements will be negotiated and maintained by KPBoS, with technical support from KPITB. The Reform Coordination Unit will include a dedicated data and statistics workstream to track implementation of this pillar alongside the broader PFM reform agenda.



6. Implementation Framework

Caveat: The approval of the Public Financial Management and Revenue Mobilization Reforms Strategy 2025 2032 shall be construed as endorsement of the overall vision and reform direction only. It shall not be deemed blanket authorization of every individual measure contained herein. Each measure will remain subject to applicable laws, financial implications, and the competence of the forum concerned

6.1 Sequencing
The strategy is organized in three overlapping phases:

Phase 1 (2026-2027): Quick Wins and Foundations.

Priority actions that can be achieved within 18 months include: completing TSA consolidation, institutionalizing monthly cash forecasting, extending e-procurement, and publishing the first comprehensive fiscal risk statement. Establishing a tax policy unit within the Finance Department; tax audit units in the BOR and ETNCD; and a property valuation unit. Key analytical work will include estimating the tax gap, developing a property valuation approach initially using DC tables, and designing a compliance-improvement plan for key taxes.

The phase will also focus on harmonizing tax definitions and rules with other jurisdictions in the province to enable cross-jurisdictional input adjustments and taxpayer refunds. Differentiated approaches for filers and non-filers will be leveraged to strengthen compliance.

Additional actions include designing tax-base surveys and conducting sector studies; creating a live data-sharing pipeline between the FBR and BOR; identifying third parties for data linkages to support tax audits; and developing risk-based tax-audit policies and protocols. Billing and payment channels will be digitized.

An integrated revenue-reconciliation mechanism will be established across BOR, the KPRA, ETNCD, the AG KP, and the banking system. Quarterly reconciliation and disclosure arrangements will be institutionalized.

An analysis-based plan will be developed to restructure and align revenue administration across the three provincial revenue authorities, KPRA, BOR, and ETNCD, supported by shared governance arrangements. Rules will be designed, and training designed, for different investment modalities in the mines and minerals sector. Finally, a partnership with FBR will be established for data sharing, and a digital platform to monitor IDC and TDC, and TDC will be extended to outbound tobacco shipments.

PFM for Service Delivery — Education and Health. Develop costed multi-year sector expenditure plans for health and education, translating the Essential Package of Health Services (EPHS) and the Education Sector Plan into needs-based allocation models. Establish a policy rule to protect non-salary budget lines for medicines, textbooks, and school grants from in-year cash rationing. Begin piloting facility-level budgeting by devolving non-salary funding directly to Basic Health Units, Rural Health Centers, and primary schools through the FABS / IFMIS system.

Phase 2 (2027-2032): Start Core Systems Reform.

Medium-complexity reforms require legislative changes, system upgrades, and sustained institutional investment. These include extension of CFMIS to remaining TMAs and autonomous bodies, performance-based budgeting across all line departments, ADP reform and project rationalization, internal audit transformation for finance and service delivery departments, strengthening tax policy to regularly conduct tax gap and expenditure analyses to set appropriate revenue targets, modernizing revenue administration, expanding the tax base, and improving compliance and transparency. Revenue administration will be restructured and aligned across KPRA, BOR, and ETNCD, supported by a unified Taxpayer Identification Number (TIN), integrated databases, and strengthened staff capacity through the revenue academy. Digital reforms will include the digitization of tax arrears, billing, payments, and revenue collection systems. A risk-based tax-audit system with automated case selection will be introduced, supported by third-party data linkages, digital invoicing, and targeted compliance campaigns. The GSTS taxpayer base will be expanded through surveys, sector studies, data intelligence, and simplified returns.

Property-tax reform will transition toward capital-value-based valuation, initially in at least three cities using digitized DC tables. The UIPT survey will be completed and gradually expanded to the merged districts, with records digitized in a centralized MIS. Agriculture income tax administration will be digitized, supported by completion of land-record digitization and linkage of CLRMIS with AIT assessment.

Revenue from mines, minerals, hydropower, and tobacco will be strengthened through improved accounting, digital invoicing, real-time production monitoring, collection dashboards, and third-party audits. For TDC, mandatory licensing and supply-chain controls will be introduced, while IDC enforcement and systematic collection will be strengthened at border crossings.

The Government of KP will also inventory and value government-owned land and assets, establish transparent commercial lease or auction arrangements for public properties, and strengthen local revenue mobilization. Regular taxpayer communication and awareness activities will support voluntary compliance. A light PEFA assessment will be conducted to measure distance from goals and course correction.

Phase 3 (2030-2032): Consolidation and Sustainability

Service Delivery Consolidation. Sustain and scale up the service delivery reforms in health and education initiated in earlier phases, with expanded coverage in the merged districts and institutionalized performance monitoring.

Statistical Governance. Embed the use of KPDDH data across all planning, budgeting, and regulatory processes, ensuring evidence-driven decision-making is a permanent institutional practice.

Final Assessment. Conduct a full PEFA reassessment benchmarked against the 2024 baseline to formally measure progress across all eight strategic pillars and identify

any residual gaps for the next reform cycle.

PFM for Service Delivery — Education and Health. Fully operationalize facility-level budgeting across BHUs, RHCs, and primary schools. Implement staffing norms (e.g., a 40:1 pupil-to-teacher ratio) and introduce hard-area incentive allowances and rotation policies for staff in remote and merged district areas. Finalize framework contracts for medicines and textbooks before the end of each fiscal year and establish digital supply chain tracking. Establish formula-based maintenance budgets with a completion-before-new-starts rule for infrastructure. Integrate FABS with DHIS-II (health) and EMIS (education) to link expenditure directly to service delivery results and publish district-level scorecards. Strengthen dedicated financial management cells within the Health and Education Departments to manage facility-level budgets and monitor cash releases.

Statistical Capacity. Establish the KP Development Data Hub (KPDDH), managed by KPBoS, and connect all major sector MISs (DHIS-II, EMIS, FABS) through automated pipelines. Publish a provincial Consumer Price Index and integrate KPDDH into ADP planning processes.

Phase 3 (2030-2032): Consolidation and Sustainability

Service Delivery Consolidation. Sustain and scale up the service delivery reforms in health and education initiated in earlier phases, with expanded coverage in the merged districts and institutionalized performance monitoring.

Statistical Governance. Embed the use of KPDDH data across all planning, budgeting, and regulatory processes, ensuring evidence-driven decision-making is a permanent institutional practice.

Final Assessment. Conduct a full PEFA reassessment benchmarked against the 2024 baseline to formally measure progress across all eight strategic pillars and identify any residual gaps for the next reform cycle.

2. Key Institutional Responsibilities Reform Pillar Lead Entity Key Partners

Indicator	Baseline	Target (FY2029/30)
Resource Mobilization	KPRA / ETNCD / BoR/ LGERD / Mines and Minerals Department	FD, KPITB, NADRA, AG KP
Planning & Budgeting	Finance Dept / P&DD	Line Depts
Budget Transparency	Finance Dept	KPITB, Civil Society
Budget Execution & Cash	Finance Dept / AG KP	Line Depts, SBP
Asset & Liability Management	Finance Dept	P&DD, BoR, AG KP
Accountability	AG KP / PAC / Finance Dept	Internal Audit, Legislature
PFM for Service Delivery	Finance Dept / Health Dept / Education Dept	P&DD, FM Cells, KPBoS, KPPRA, District Administration
Statistical Capacity and Data Governance for Evidence-Based Policymaking	KPBoS, P&DD	FD, Line Depts

7. Monitoring and Evaluation

The strategy will be monitored through a structured M&E framework with three levels: Output-Level Monitoring. Quarterly tracking of reform actions against the implementation plan, led by the Finance Department's Reform Management Unit. Progress reports will be submitted to the PFM Reforms Oversight Committee.

Outcome-Level Monitoring.

Annual tracking of key performance indicators (KPIs) including:

- Own-source tax revenue as a percentage of total provincial revenue
- Budget execution rate (actual vs. approved expenditure)
- Percentage of ADP expenditure on capital investment
- Days between budget approval and first release to service delivery units
- Open Budget Index score
- Performance information for service delivery published
- Provincial government operations outside financial reports
- Share of primary public schools meeting Minimum Functional Standards (MFS)
- FABS (IFMIS) and EPADS coverage (provincial departments and TMAs)
- Share of contractual payments for primary education and health verified through EPADS and disbursed via Electronic Fund Transfer (EFT)
- Share of primary public schools submitting PTC grant expenditure records through standardized e-payment reporting
- Procurement lead time for medicines, medical equipment, textbooks, and school furniture
- Share of sectors using KPDDH analytics in ADP planning and resource allocation

A rolling three-year work plan with a detailed results framework will be prepared and issued within three months of the approval of the PFM Strategy. Intermediary results indicators and targets, as well as intermediary targets for the indicators used to measure outcome-level results, will be included in the three-year work plan.

Impact Assessment.

Regular citizens and businesses feedback will be used to inform improvement in the implementation of Strategy. A light PEFA assessment will be conducted in 2028 to measure changes in overall PFM system performance relative to the 2024 baseline. A follow-up full PEFA assessment will be done in 2032. This could be done as a focused assessment. The use of PEFA self-assessments will be explored, as well as the use of relevant technologies including Artificial Intelligence. A supplementary service delivery and PFM survey using DHIS-II and EMIS data alongside facility-level financial reporting from FABS will assess whether PFM reforms to address

bottlenecks are translating into improved outcomes in health and education. Specific service delivery indicators (see Pillar G.4) will be tracked annually alongside fiscal indicators, ensuring the strategy is evaluated against its ultimate purpose: tangible improvements in frontline services. Results will be published annually in a PFM Reform Progress Report, available to the legislature, development partners, civil society, and citizens.



8. Financing the Reform Agenda

Implementation of this strategy will require dedicated resources for technical assistance, capacity building, systems investment, and program coordination. Financing sources include:

Government of KP:

The Finance Department will mainstream PFM reform costs into the annual budget, including funding for staffing the Reform Coordination Unit and implementing agencies, operating the digital systems and IFMIS, and funding district-level capacity building.

The World Bank:

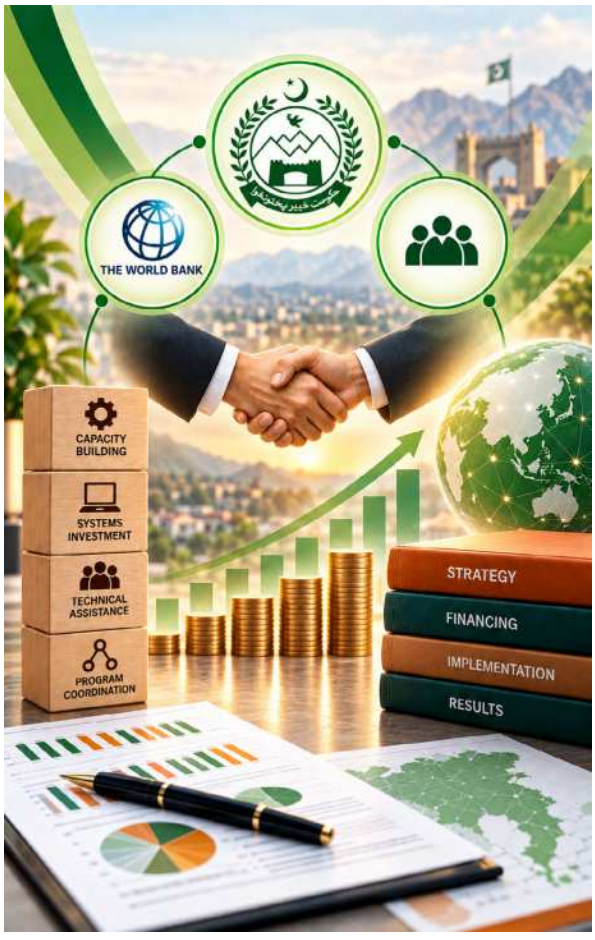
Continued engagement after the KPRMP Program and SPEED Program (P162302 and P175727, closed on June 30, 2026) through successor operation. These Programs have supported revenue mobilization-related reforms, cash management, rollout of CFMIS to TMAs, digital governance, and budget execution reforms in health and education. Technical assistance components under KPRMP and KP-SPEED have provided for business process reengineering, IT systems support, and capacity building. This support is expected to be continued under successor operations.

Other Development Partners:

The Asian Development Bank, European Union, FCDO, and USAID have historically supported PFM-adjacent reforms in KP. The FD, together with the P&D department, will coordinate development partner support through a formal Aid Coordination mechanism, ensuring alignment and avoiding duplication.

Estimated Financing Requirements:

The Finance Department will prepare a costed implementation plan for each reform pillar as part of Phase 1 budget preparation, with external financing requirements identified and formally requested from development partners.



9. Governance and Oversight

9.1 PFM Reforms Oversight Committee

The PFM Reforms Oversight Committee, chaired by the Minister/ Advisor of Finance, will serve as the highest-level decision-making body for the strategy. Its membership will include the Minister for Local Government, the Ministers for Health and Education, Senior Member BOR, and the Secretaries of Finance, P&DD, ETNCD, Mines & Minerals, and Local Government, DGs KPRA and KPPRA, and MD KPITB. The Committee will meet quarterly to review progress and resolve inter-departmental coordination issues.

9.2 Reform Management Unit

The Finance Secretary will chair a sub-committee on inter-departmental coordination and oversight. A dedicated Reform Management Unit within the Finance Department will serve as the operational secretariat, responsible for day-to-day implementation coordination, progress tracking, reporting, and liaison with development partners. The department/ unit will also liaise with the P&DD for donor coordination.

9.3 Stakeholder Consultation

Annual stakeholder consultations will be held with representatives of line departments, the legislature, local governments, civil society, the private sector, academia, and development partners. These consultations will inform mid-course corrections to the strategy and maintain broad reform ownership.



10. Risk Management

Implementation of this strategy carries risks that must be proactively managed:

Political and Commitment Risk.

PFM reforms require sustained political support across government transitions. Mitigation: Anchoring reforms in legislation (such as a KP PFM Act, AIT law, UIPT law with revised valuation approach, etc.), building broad coalition support including from the legislature and civil society, and embedding reforms in development partner agreements.

Capacity Risk.

The Finance Department and line departments may lack the human capital to implement all reforms simultaneously. Mitigation: Sequencing reforms to match capacity, investing in targeted training, and using technical assistance to supplement government staff during transition periods.

Fiscal Risk from NFC Volatility.

Federal transfer shortfalls can compress fiscal space and divert reform attention to short-term budget management. Mitigation: Building own-source revenue growth as a buffer and maintaining a prudent cash reserve policy. At the same time, maintain dialogues with the federal government (and other provinces) under the National Tax Council and NFC forums.

Technology Risk.

FMIS and related system upgrades may face implementation delays or integration failures. Mitigation: Leveraging KPITB's expertise, phased rollouts with adequate testing, and business process reengineering prior to system deployment. Implementing a high-level monitoring mechanism for digital reforms and avoiding duplication of effort.

Newly Merged Districts Risk.

Extending PFM reforms to the former FATA districts poses unique challenges given limited institutional capacity and infrastructure. Mitigation: A dedicated sub-strategy and ring-fenced capacity-building investment for the merged districts, with more flexible timelines.

Coordination Risk

Weak inter-departmental coordination has historically impeded implementation of reform. Mitigation: Establishing clear institutional mandates, using the PFM Oversight Committee to resolve blockages, and incentivizing departmental participation through performance MoUs.



GOVERNMENT OF
KHYBER PAKHTUNKHWA
FINANCE DEPARTMENT