

Government of Khyber Pakhtunkhwa
Finance Department

Review of Internal Support Unit (ISU)

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Prepared by the Sub-National Governance (SNG) Programme, Khyber Pakhtunkhwa



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Abbreviations

AIP	Accelerated Investment Plan
ACS	Additional Chief Secretary
ADP	Annual Development Programme
BOR	Board of Revenue
CPPA	Central Power Purchasing Agency
CM	Chief Minister
CS	Chief Secretary
FBR	Federal Board of Revenue
FCDO	Foreign, Commonwealth, and Development Office
FD	Finance Department
FY	Fiscal Year
GoKP	Government of Khyber Pakhtunkhwa
GPP	Governance and Policy Project
ISU	Internal Support Unit
IT	Information Technology
KP	Khyber Pakhtunkhwa
KPRA	Khyber Pakhtunkhwa Regulatory Authority
LGGERD	Local Government, Elections, and Rural Development
LG	Local Government
MTI	Medical Teaching Institute
M&E	Monitoring & Evaluation
MP	Management Position
NEPRA	National Electric Power Regulatory Authority
NMDs	Newly Merged Districts
P&DD	Planning & Development Department
PEDO	Pakhtunkhwa Energy Development Organization
PFM	Public Finance Management
PS	Principal Secretary
RoB	Rules of Business
SEED	Sustainable Energy & Economic Development
SNG	Sub National Governance
ToRs	Terms of References
UIPT	Urban Immovable Property Tax
WB	World Bank

1. Executive summary

This report has been prepared in response to a request by the Government of Khyber Pakhtunkhwa's (GoKP) Finance Department (FD) for a rapid review of its Internal Support Unit (ISU). The ISU was established in 2019 with broad terms of reference, to provide the Finance Department (FD) with specialised skills not otherwise available to the department. With approval of the FCDO, the Sub-National Governance Programme (SNG) has engaged with FD and relevant line departments in GoKP to conduct a review of the ISU.

The review teams discussions with FD and line departments indicate appreciation of ISU's support. An important feature of the ISU is that it is entirely funded by GoKP's own resources. The unit has a standard hierarchy but reconfigures its structure flexibly, to rapidly respond to emerging needs and during periods of crisis, including pandemic and floods.

ISU support has extended beyond FD to include engagement with multiple departments. This has been in addition to the unit's core responsibility of support to the FD. A clear strategic mandate and terms of reference (ToR) are required for the ISU, to clarify its objectives and scope of work.

While the ISU is referred to in the KP Public Finance Management Act 2022, the Act does not provide details on its mandate. Activities undertaken by the ISU at FD or line departments are not always defined through ToRs. ISU team members often have to work outside their original task objectives and become involved in day-to-day operational activities. This makes it difficult to remain focused on core tasks and contributes to teams becoming over-stretched, needing to work after hours to complete core tasks.

Based on the review team's discussions with FD and line departments, this report offers a number of key findings and recommendations which are summarised below.

- **There is an urgent need to strengthen the mandate of the ISU.** This should be achieved through revised organisational ToRs / RoBs, that establish the roles and functions of the ISU, both within FD and also in respect of other departments. Three models (explained in this report) can be considered, each of which requires differing governance arrangements. The models include (i) the ISU works only within FD, with limited external engagement with other departments; (ii) the ISU also supports other departments, but only on issues of finance; and (iii) the ISU has a broader mandate that extends beyond matters of finance.
- **To provide greater structure to the arrangement, partnership agreements are needed between the ISU and line departments, with clear ToRs agreed for specific tasks.** These agreements should remain within the scope of issues of finance (i.e., budget preparation and accountability for budget execution).
- **While the review finds line departments are appreciative of support provided by the ISU, this is largely limited to officers most directly involved with the ISU.** From the perspective of the ISU, providing support to other departments can be challenging due to the lack of clear partnership agreements, frequent demands to engage in additional tasks, or restricted access to internal data. If the ISU is to have an organisational mandate beyond the FD, this needs to be clarified through a partnering agreement with line departments that sets out: (i) ISU role and mandate; (ii) the process by which departments can request ISU support; (iii) core technical areas where ISU support can be requested – linked to the mandate agreed for the ISU (e.g., issues relating solely to finance); and (iv) key requirements for each engagement – development of task-specific ToRs, approvals process, expectations of line departments etc.

- **Proposals to establish ISU units within line departments should be discouraged.** Functions required of such units should be undertaken by existing departmental units as part of their core business – for example, by the recently revamped departmental Planning Cells. If additional support is required, for urgent one-off activities or for the implementation of high priority reform initiatives, the department should use existing mechanisms to access short-term technical support – for example, through flexible resources available through P&DD or the Chief Minister’s Office. Longer-term, government should allocate resources for capacity development in priority areas across government to enable departments to fulfil their core functions. This includes training, on-the-job mentoring, secondment to other units of government (including at the federal level), to build skills that are lacking. Such support could usefully be provided to strengthen the ability of departmental Planning Cells to undertake functions previously supported by the ISU.
- **The structure of the ISU depends upon its role and mandate, and how the political leadership deploys the unit.** Currently the unit is operating at half its sanctioned posts and is over-stretched in terms of work it is expected to deliver. If the ISU continues as a support unit to FD and to other departments on issues of finance, the current structure of the unit can remain as it is. However, current unfilled posts (7 out of 14) need to be filled as a matter of urgency. If the ISU has a wider mandate, extending beyond matters of finance, the unit should be moved higher in the government hierarchy (e.g., Chief Minister’s Office), and a review undertaken to match staffing needs against the mandate of the unit.
- **Selecting the appropriate staff for the ISU is a precondition for performance of the unit.** While the recruitment policy that governs ISU ensures competitive and merit-based hiring, it is essential that any political involvement in recruitment is tightly managed, and there is appropriate oversight of the recruitment process. It is suggested that a senior representative of public service commission should be part of this process. If this possibility doesn’t exist under the current recruitment policy, an amendment to allow this arrangement should be made.
- **The effectiveness of ISU support is sometimes constrained by lack of resources.** Consideration should be given to allocating a budget to the ISU to support task delivery – for example, to undertake field work, purchase externally sourced data, or hire short-term expertise in specific areas. The need for such resources should be identified in advance, at the time of preparing task ToRs (at FD or line departments), and approved by the respective ISU Team Leader.
- **The ISU does not have a formal feedback and learning mechanism.** The revised mandate and ToRs for the ISU should include a formal mechanism for feedback on activities undertaken, and lesson-learning to strengthen future ISU engagement. ISU activities and learning should be made available through a dedicated webpage hosted by FD.
- **Any future review of the ISU should include analysis of ISU costs and impact.** It is difficult to get a feel for the scale of ISU activity across government, and the cost of ISU resources provided. A more thorough review of the ISU would need to include such analysis, and consideration given to the preparation of an annual ISU performance report for submission to FD / CS.

2. Background

This report has been prepared in response to a request by the Government of Khyber Pakhtunkhwa's (GoKP) Finance Department (FD) for a rapid review of its Internal Support Unit (ISU). The ISU was established in 2019 to provide the FD with specialised skills not otherwise available to the department. With approval of the FCDO, the Sub-National Governance Programme (SNG) has engaged with relevant departments in GoKP to conduct a review of the ISU.

SNG is a FCDO-funded governance programme providing support to provincial and local governments in KP, with the objectives of consolidating democracy and economic growth, and the reduction of poverty. To achieve these objectives SNG provides technical support in four main areas: (i) planning and reform; (ii) budgeting and transparency; (iii) revenue generation and fiscal space; and (iv) piloting and scaling-up innovative approaches to evidence-based policymaking and budgeting.

In view of SNG team's experience in supporting the province, the FD requested SNG support to undertake a rapid review of the ISU, covering its mandate, organisational structure, and outputs delivered to-date.

This report sets out the methodology undertaken and the findings and recommendations of the review.¹

3. Methodology

The review team used the following sources of evidence to assess the outputs and outcomes of ISU's work, and the appropriateness of the ISU functions, structure, and capacities.

- Background notes and official communication which gave rise to the need for and approval of ISU. This includes note initiated by FD and recruitment policy approved by GoKP.
- Literature review: ISU Performance Report², GoKP and development partner reports, official communications citing ISU's work, and media coverage of ISU interventions.
- Interviews with high-level respondents from Finance Department, Planning & Development Department (P&DD) and line departments including Health, Energy, Tourism, Environment, Khyber Pakhtunkhwa Revenue Authority (KPRA), Khyber Pakhtunkhwa Board of Investment & Trade, and Local Government, Elections and Rural Development Department (LGERDD). The mix of respondents included both current and former officials. Some retired officials were also interviewed.
- Interviews with ISU's Team Lead and team members at FD and other departments. Former ISU team members who have moved on to other assignments were also consulted.
- Interviews with development partners who continue to interact with ISU and often compliment the unit's work where required.

¹ Findings and recommendations are also presented in a brief matrix format at Annex-I.

² GoKP (2022).

4. ISU background and situation analysis

In March 2019 the FD requested approval from the Chief Minister (CM) for the ‘Establishment of an Independent Support Unit in the Finance Minister’s Office’. The request stated that:

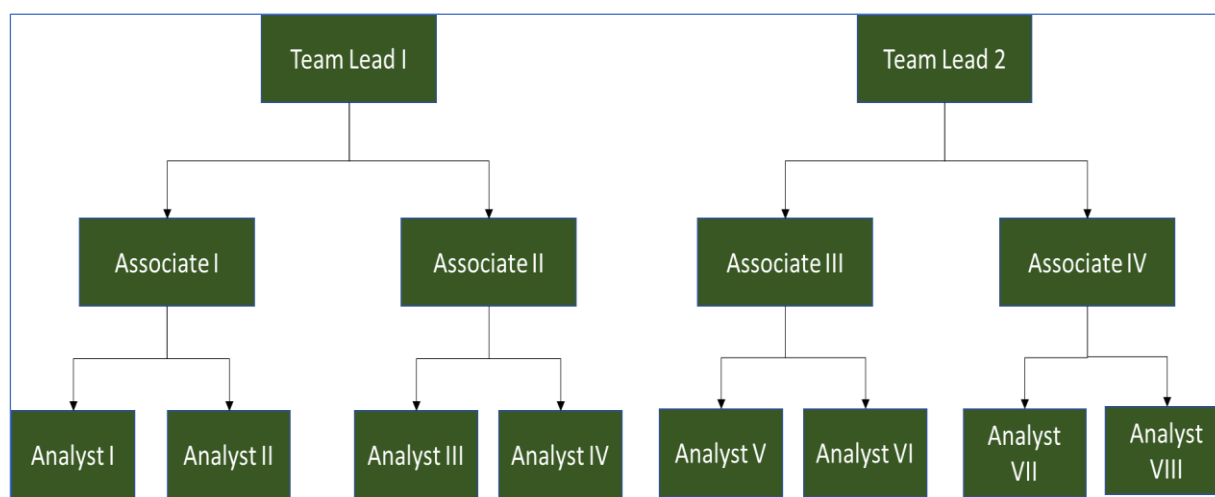
“Finance Minister is spearheading/supporting the design and execution of reforms in multifarious sectors. The Finance Minister is of the opinion that there should be a dedicated internal support unit (ISU) in the Finance Department on the analogy of strategic support unit in Chief Minister Secretariat.....The unit will be headed by the Finance Minister and will provide skillset deficient in Finance Department...The ISU will comprise of two sub-sections Economic Analysis and the Social Sector services section spanning over 14 positions in total. The individuals will be recruited against these positions through open competition against a well-defined criteria and will be offered Management Position (MP) Scales.”

Terms of Reference (ToR) for each of the ISU positions would be developed as part of the recruitment process. No unit-level ToRs were part of the request submitted to the CM. After discussion in Cabinet, in July 2019 the CM gave approval for the ISU positions and directed the FD to initiate recruitment.

An important feature of the ISU is that it is entirely funded by GoKP’s own resources. This differs from most delivery units in Pakistan, which are typically donor funded. To date, the ISU has been funded through the non-salary head of the Finance Department’s budget. In the GoKP budget FY2022-23, budgetary provision for the ISU was reflected in the Finance Department’s budget under “others”, with an annual allocation of Rs. 57 million.

The ISU has a flexible structure, designed to respond rapidly in response to emerging needs. Members of the ISU support multiple work-streams and work independently, reporting to the senior managers in the departments where they are embedded. Figure 1 provides an overview of the ISU structure, showing where team members are located (embedded) and core areas of work. The ISU contains two teams, covering economic affairs (Team Lead – economic affairs) and the social sectors (Team Lead – social sectors).

Figure 1: ISU organogram



Source: ISU, Finance Department.

Note: As of August 2022, filled positions include, 1 team leader, 3 Associates, and 3 Analysts.

Since its formation, the ISU has supported multiple departments. Information provided by the FD shows that, in addition to the FD, ISU team members have provided support to the Chief Secretary's Office, KP Revenue Authority (KPRA), P&DD, Auqaf (religious affairs) Department, Health Department, Higher Education Department, the KP Board of Investment & Trade, Excise Department, Taxation & Narcotics Department, and the Energy & Power Department.

Across these offices and departments, the focus of the ISU has been to promote inclusive and economic growth through improved public finance management (PFM), evidence-based decision-making, enhanced public and private investment opportunities, employment generation, access to social services, and balanced urban and rural development.

The ISU has supported the KPRA and Board of Revenue (BoR) in revenue target setting and the tracking of revenue performance. Consultations with the KPRA senior leadership indicate that the monthly revenue bulletin developed by the ISU provides valuable analysis of the risks and challenges facing revenue collection, and has enhanced forward-planning by the revenue authorities.

A new target-based incentives system for employees of KPRA has been introduced since July 2020 that is already demonstrating performance improvements. A similar initiative introduced in the Excise Department is yet to show a performance improvement, as frequent turnover of ministers and secretaries have prevented the new system from developing strong roots.

Members of the ISU team were deputed to the Energy and Power Department to improve revenues from hydroelectricity, oil, and gas. This work involved analysis of historic revenue trends, exploring innovative tariff charging models, pursuit of outstanding payments through the Central Power Purchasing Agency (CPPA), and new measures to enhance revenues. The work was complex, requiring engagement on legal issues with the National Electric Power Regulatory Authority (NEPRA). The ISU supported the Energy Department prepare a submission to NEPRA, and participated in legal hearings held in Islamabad.

The ISU also supported the automation of energy revenue streams. This included automating revenue collections by the Electric Inspectorate (e.g., for the collection of license fees on electrical equipment). Automation has allowed greater access to data at the department, which in turn has strengthened the modelling of potential revenue streams.

The ISU has provided significant support to the Health Department. This includes support to the management of COVID rapid response teams in the province, procurement management, and ensuring sufficient supplies of oxygen and vaccines. Improved data management by the health department and affiliated institutions has been sustained beyond the initial waves of COVID. The ISU has also supported an increase in budget allocations for Medical Teaching Institutes (MTIs) and strengthened the role of Board of Governors of MTIs. Support from the ISU to strengthen health insurance through the Sehat Card has provided benefits to the population across the province. Development partners report improved donor coordination in the health sector as a result of ISU's work.

Most recently, the ISU has collaborated with the SNG programme to support the new Public Finance Management law. This law is expected to positively impact all aspects of budgeting, accounting, and audit. Greater accountability and transparency in budgeting is expected as line departments embrace improved financial management during FY2022-23.

5. Review findings

This section presents the findings of the review according to: (i) organisational structure; (ii) resourcing; (iii) ISU impact; (iv) risks and challenges.

5.1. Organisational diagnosis

Based on our consultations and review of ongoing work by the ISU, we present here a brief organisational diagnostic. Weisbord's Six-Box Model³ containing six categories of organisational diagnosis is used to organize our findings (purposes, structure, relationships, rewards, leadership, and 'helpful mechanisms'⁴).

a. Purpose

The overall purpose of the ISU is not set out in any organisational ToRs. While ISU team members are clear that their role is to provide research and analysis, the purpose of the unit is less clear in the minds of officials in line departments (the clients of the ISU). There are a number of reasons for this: (i) lack of a clear and agreed organisational mandate for the ISU; (ii) limited high-level interaction with line departments to explain the rationale for ISU engagement; (iii) frequent turnover of officials in line departments that are being supported by the ISU; and, (iv) frequent changes in the scope of work required from the ISU.

While the ISU is referred to in the KP Public Finance Management Act 2022, the Act does not provide specific details on its mandate. Clause 38 of the KP Public Finance Management Act 2022 lists the ISU as a special department within the FD but does not define the role of the unit. This provides scope for ambiguity over the role of the ISU, including in relation to its mandate beyond FD.

“The Finance Department shall, by notification, with prior approval of Government, establish special units within Finance Department for efficient financial management, economic reforms, general oversight, and reporting namely; Debt Management Unit, Corporate Governance Unit, Internal Support Unit, Pension Cell, Risk Management Unit, Procurement Advisory Unit, and other specialized unit as deemed necessary from time to time.” (Source: KP Public Finance Management Act 2022, Clause 38).

Activities undertaken by the ISU are not always defined through clear ToRs. While maintaining strong relationships (see below) requires some flexibility in task delivery, ISU team members often become involved in day-to-day operational activities outside their original task objectives. This makes it difficult to remain focused on core tasks and contributes to teams becoming over-stretched and needing to work after hours to complete core tasks. To provide greater structure to the arrangement, partnership agreements are needed between the ISU and line departments, with clear ToRs agreed for specific tasks. Ideally these agreements should remain within the scope of issues of finance (i.e. budget preparation and accountability for budget execution).

Discussions with line departments indicate appreciation of ISU support. Departments report that the ISU has provided useful support in areas where in-house technical capacities are weak or lacking, or where the department is struggling to deliver on core functions within their Rules of Business (RoB). However, while such support is appreciated, it does not present a long-term solution in cases where capacity needs to be built within departments themselves, for example within departmental budgeting or planning cells. The ISU's

³ Weisbord (1976). See also, Ahmed *et al.* (2021) and Ahmed *et al.* (2021b).

⁴ As per the scope of this report, we will not deep dive into the aspect of 'helpful mechanisms' here.

mandate to provide such support is also not reflected in current RoBs – something that is also true for many other attached entities (e.g. entities attached to the Health Department). The Establishment Department is currently in the process of updating RoBs to reflect departmental structures and attached entities more accurately.

b. Structure

The ISU has a hierarchical structure, but in practice works flexibly in response to needs. Formally, the ISU has a three-tier structure (Figure 1), comprising two team leads (economic and social), under whom sit Associates and Analysts (Table 1). This is a relatively modest structure for a unit with such wide-ranging engagement across government, but keeps the burden on GoKP’s resources manageable. Support to a department typically involves the temporary deployment of two members of the ISU, who report on a day-to-day basis to the Secretary or Head of Department.

The team structure has remained the same since the ISU was established, although not all posts are filled. This includes one of the two team leader roles. Currently the team operates at half strength – of 14 sanctioned posts, only 7 are filled (Table 1). The search for appropriate people continues, but the unit reports difficulty in attracting staff with the relevant skills for full-time employment in Peshawar.

ISU team members are on fixed-term contracts, renewable annually subject to performance. Although performance evaluation of ISU is not officially notified, it forms part of the contractual nature of the job. The SNG team undertaking this review was provided with detailed assessment criteria that inform annual renewal of ISU staff contracts. The Finance Minister chairs the annual evaluation process, and each ISU team member is interviewed annually. A proportion of staff salary (currently 20%) is withheld subject to individual performance assessment.

Table 1: ISU team size

Designation	Sanctioned strength	Current status	Salary range equivalent to MP scales
Team Lead	2	1	Eq to MP I scale ⁵
Associate	4	3	Eq to MP II scale
Analyst	8	3	Eq to MP III scale

Source: ISU, Finance Department

Future sustainability of the unit depends on the future political leadership, and how it views the role of the unit. At present the ISU has strong endorsement from the political leadership. However there is an urgent need to establish greater clarity on the role of the unit, and the parameters within which it can engage with departments outside the FD. There has been a tendency for the unit to operate flexibly in supporting departments, in response to need, but without clear ToRs or understanding with departments over the scope of work that legitimately can be performed by the unit. This risks undermining both capacities within departmental units, as well as the legitimacy and effectiveness of the ISU itself.

⁵ As of September 2022, MP-I = PKR 795160, MP-II = PKR 491030, MP-III = PKR 233750. These remuneration packages include basic pay, house rent, utilities, and transport (monetized).

c. Relationships

The ISU has two types of working relationship – one internal to the FD, and one with other line departments. When working internally within FD, the work delivered and its impact is well documented. However, less information is available on deputed work in other departments and its outcomes (except for the Health Department, which has good records). There is a need to strengthen information and communication flows between the ISU and departments, to properly document the rationale and outcomes of interventions, and to promote the work of the ISU more effectively with departments within parameters defined in a revised ISU mandate. This will also enable the ISU to manage changes in senior management in line departments without negatively impacting work flows.

Relationships with other line departments are not guided by a clear and documented procedure by which departments can request ISU support. Currently this procedure is missing. In most cases ISU support is provided through a direct commitment by the Finance Minister, for example during a Cabinet meeting or similar high-level forum. This process enables a rapid response, but contributes to ambiguities over ISU engagement, especially amongst mid-level officers in host departments.

There is a need to strengthen feedback and lesson-learning. While line departments appreciate support provided by the ISU (in most cases, this is direct support to the Secretary), feedback is not collected in a structured manner for lesson learning to enhance future ISU engagement or identify areas within departments where capacity development is needed. ISU staff members are loosely embedded in line departments, usually working closely with the Secretary, with their role and contribution unclear to mid-level officials. In some cases, ISU team members move in and out of a department frequently (e.g. Chief Minister's Office) with their functions known only by one official who is the primary client.

ISU engagement does not have a capacity development impact. Quick turnaround engagement implies that much of the work undertaken by the ISU (except in Finance and Health Departments) acts as capacity substitution, providing skills lacking within departments, rather than support that builds capacities within departments. The approach therefore does not resolve the underlying issues of weak capacity, creating a risk that ongoing external support will be needed.

d. Reward and incentives

Rewards and incentives play an important role in succession planning and attracting and retaining talent. Discussions indicate that the current team would not have joined without the market-based remuneration packages offered by the ISU. A senior respondent noted that the ISU recruitment model attracts high quality staff who are focussed on delivery, and that the recruitment process emphasises problem solving abilities over years of experience.

ISU salaries include a performance-related element. The ISU offers attractive salaries, but with 20% of the salary withheld subject to performance review. While this approach would not be appropriate across the civil service, it may have potential in certain roles where there is a need to incentivise performance and delivery.

Supported departments recognise the need for external support to 'special' or 'new' initiatives. Such initiatives often require external input to provide a new perspective and to shift people out of customary approaches and behaviours. While the ISU has performed this function and has delivered impact, it has done so without a clear mandate and in a way that extends beyond a focus on issues of finance. The ISU provides technical support at market-based salaries (above government pay scales), due to a scarcity of high-level skills within

government, and the need to attract talent from areas such as Islamabad and Lahore. However, the ISU model has encouraged some line departments to consider establishing their own ISUs – an approach that would not be sustainable across all departments, would undermine existing capacities, and could quickly become unmanageable.

ISU team selection and recruitment rules do not allow for permanent or long-term positions. Team members are retained in accordance to need, and the value they provide in the work they undertake. If well managed, this approach can be efficient in deploying high-level expertise rapidly and flexibly in response to needs, without the need to establish long-term staff positions. However, the nature of the ISU contracts and the high-pressure work involved, risks regular turnover of ISU staff.

e. Political environment

Supporting political ownership and government delivery. The ISU was established to support FD deliver on its departmental commitments. It reflects a wider focus across government on implementation, overcoming blockages, and delivering on targets. The unit is self-funded by government and draws upon high-level national expertise that is familiar with the context. However, as noted above, there is a need to clarify the mandate and scope of work undertaken by the unit.

Discussions with respondents indicate that the approach adopted by the ISU is relevant to the political and capacity context, and the leadership style of government. The way in which the ISU fulfils its role reflects the limited capacities within government, and need for support to deliver specific priorities. However, there is a risk that ISU impact will become diluted without clear guidelines, especially regarding the scope of its mandate. While embedded ISU team members are able to navigate the complex relationships within government effectively, the unit does not have the authority or capacity to address broader weaknesses across government systems.

5.2. Resources available to the ISU

While the ISU has delivered impact, the team is over-stretched and has limited resources to support activities it undertakes. The ISU is operating at half its approved strength, and the work environment is difficult for some team members. In some locations, team members occupy small workspaces and have limited access to computer networks and data.

In undertaking its work the ISU may require input from external specialists, or need to undertake fieldwork to collect or verify data. While good relations with senior leaders enables access to internal reports and datasets, the ISU lacks a budget for paid or subscription-based data (i.e. data outside of government). While access to such data is sometimes supported by development partners (e.g. the SNG programme), such support is limited and takes time to arrange. Government funds can sometimes be accessed for these purposes, but there is no approved budget that can be drawn down by the ISU.

5.3. ISU's impact

This section responds to the question of 'what has changed as a result of the ISU'? A detailed evaluation is required to answer this question, but within the resources of this review examples can be identified that demonstrate ISU impact.

- a. Strengthened budget documentation:** Support from the ISU enables the FD to present a Budget White Paper for FY2022-23, with detailed content and analysis aligned around a theme of 'Khuddar' (self-respect) Khyber Pakhtunkhwa that had wide appeal across the province. While the preparation of the Budget Whiter Paper is a routine activity, ISU support

provided deeper empirical analysis. Similarly, ISU support to the Citizen's Budget FY2022-23 provided greater detail than previous publications, including more detailed information on budgetary outcomes. The ISU also helped GoKP become the first provincial government to publish a Receipts and Expenditure Report (details of previous expenditure) and a Debt Management Report.

- b. Pay and pensions reform that contributes to fiscal sustainability:** The ISU supported the FD introduce Pakistan's first sustainably funded pension framework, to protect an estimated 700,000 employees in the province at risk due to unfunded pensions. This was achieved through the introduction this year of a contributory pensions model which protects future pensions while simplifying the overall process.
- As part of the overall contributory pension framework, the ISU introduced a number of changes: (i) an amendment to the KP Civil Servants Act 1973 requiring employees to contribute to the pensions provident fund; (ii) a matching contribution from government to individual pensions; (iii) an option for employees to contribute to a long-term savings plan; and, (iv) an increase in the minimum age for early retirement to 25 years of qualifying service or 55 years of age (whichever is later).
- c. Tax payers' compliance costs reduced:** To support revenue collection and reduce scope for tax evasion, the ISU has strengthened tax compliance measures through a formal agreement reached with the Federal Bureau of Revenue (FBR) that it will share details of KP tax submissions and taxpayer wealth data. This change was accompanied by incentives for tax registration, including reduced tax rates and free re-registration, as well as exemptions on licence fees and inspections for small traders.
- d. Integration of merged areas:** The ISU supported P&DD with the integration of newly merged areas (NMDs) by developing investments⁶ for NMDs that: (i) have flexible funding arrangements; (ii) are prioritised through a consultative process with local communities; and, (iii) include infrastructure spending to strengthen connectivity. ISU also supported the prioritisation of sector-specific interventions for donor support. Investments in the NMDs have already resulted in increased Afghanistan-Pakistan transit and commercial trade, with prospects that a more empowered population in the merged areas will strengthen trade with Central and South Asian economies.
- e. Securing financing for environmental protection and climate response:** The ISU helped ensure that budgetary allocations for climate and environment were protected. Areas of ISU support included: (i) green energy generation (e.g., PKR 6 billion public investment in solar and hydro power energy, including for merged areas), and (ii) the promotion of PKR 400 million worth tree planting and climate-smart farming practices. The ISU supported the Environment Department establish a funded Climate Change Action Plan. Greater fiscal space is also being created for strengthening the KP Environmental Protection Agency.
- f. Policy responsiveness:** A focus for the ISU has been support to policy responsiveness by FD and line departments on the basis of M&E and evaluation data. For example, ISU support to GoKP's COVID response included the design of methods to ensure that funds reach beneficiaries as quickly as possible. Other examples include support to KPRA revenue collection (100% growth over the past two fiscal years), expediting budget releases through new ADP policy, the identification of additional revenue sources including net hydel profits, and KP government's hydro power projects.

⁶ PKR 108 billion has been spent on development projects for newly merged areas under first phase of Accelerated Investment Programme (AIP) during 2019 and 2022.

- g. Health sector reforms:** Apart from support to the COVID response, the ISU supported a number of wider health sector reforms, including: (i) universal health care coverage through Sehat Card Plus; b) the KP Health Foundation providing funds for construction of 11 hospitals across the province on a public private partnership basis; (iii) new primary care facilities - now fully housed with critical staff, essential medicine, equipment, and rapid diagnostic arrangements; (iv) infrastructure upgrades completed at 32 secondary care facilities; (v) improved governance and management at MTIs; (vi) online trackable delivery of medicines by courier service; and (vii) a human resource management information system (HRMIS) for tracking human resource improvements within the Health Department.
- h. Recruitment policy for fixed term talent:** The ISU experience has resulted in approval of a new HR policy which allows GoKP to attract talent on fixed-term contracts for up to three years (extendable on satisfactory performance) at market-based remuneration packages.⁷ Part of the financial package can be retained for performance bonuses – an aspect not seen in past recruitment policies or practice.

5.4. Risks and challenges

Our assessment has identified the following risks and challenges associated with current ISU arrangements.

- **In most line departments it has taken longer than expected for ISU teams to gain acceptance.** Discussions with host departments indicate that greater clarity is needed on the role of the ISU, and the ToRs of specific initiatives being supported. In some departments, mid-tier officials still perceive ISU as donor-funded support – despite it being fully funded by GoKP. There are also concerns regarding the legitimacy of the ISU being sponsored by the FD. The current RoB are silent on this (although we are informed that RoB are being revised). The success of ISU interventions in the Health Department is associated with the FM also having the role of Minister for Health. Any change in the political leadership of the Health Department could impact prospects for future ISU engagement in this sector.
- **ISU engagement has little capacity development content.** Support provided by the ISU has been targeted at covering for skills gaps (capacity substitution) and rapid delivery. Engagements are short-term and focussed on results. However, this provides little scope for skills transfer and capacity development of officers in host departments – and does little to address the underlying problem of weak capacities. There has been some transfer of skills and knowledge in FD, KPRA, and P&DD, but it is not a formal component of ISU engagement. If the ISU is retained, capacity development within line departments could become part of the ISU engagement approach. This would need to be specified within ToRs, and should not undermine the core objective of the ISU to provide departments with rapid access to short-term technical support on matters of finance.
- **Lack of willingness to share information and data undermines ISU engagement.** ISU support to line departments has, at times, met with reluctance to share resources and evidence. This has delayed work and affected the ability of ISU team members to deliver results.
- **Lack of engagement with the private sector.** While the ISU has supported government departments, no formal links have been established with private sector

⁷ ISU's hiring was undertaken after approval of a new recruitment policy.

or non-governmental organisations. Such links would potentially provide a valuable source of data, information and alternative perspectives on service delivery needs. Engagement with the private sector is especially important during the budget preparation process.

- **The ISU lacks operational resources.** The ISU has limited funds to procure external data and to undertake fieldwork. Lack of access to subscription-based data and analytical tools constrains the ability of the ISU to engage in complex and data-demanding tasks. There is a broader need to strengthen access by departments to geographic and sector-specific data, for example through an initiative such as the Punjab Government's Knowledge Repository.
- **While ISU support promotes evidence-based policy-making, there is little evidence of wider adoption of this approach.** There are a number of issues which undermine the potential benefits of ISU support to evidence-based policy. For example, in the case of P&DD:
 - The department is suspicious of data and evidence received from external sources (including donor-led studies);
 - Officials take a long time to assimilate and review evidence, and to make informed decisions on the basis of evidence received and how it can be used and incorporated in policy;
 - Multiple datasets maintained by units within P&DD need to be integrated to remove inconsistencies, and to ensure wider access to data across the organisation;
 - There is little capacity building of officers in the analysis and use of data;
 - Relevant IT equipment with software updates is needed across all units;
 - There is no inter-departmental working group to manage evidence sharing and advise on how important data (e.g. on the informal economy) should be managed and made available;
 - Funds are not available for subscriptions to external data sources, or for training and capacity building in data analytics.
- **Without training in data use and evidence-based analysis, departments will continue to require external support.** To build a culture of evidence-use, training and capacity development is needed in four core areas:
 - *Accurate and timely raw data:* on relevant indicators, at an appropriate level of disaggregation;
 - *Organised and accessible information:* data arranged and presented in a manner that facilitates analysis;
 - *Intelligent analysis:* interpretation and assessment of available data;
 - *Decision support systems:* combining intelligence, qualitative data, and experiential information, and presenting it to inform decision-making.⁸

Table 2 summarises current evidence-use capabilities across departments supported by the ISU.

⁸ More detailed description of data support systems may be seen at 'Public Health Matters' blog, weblink: <https://publichealthmatters.blog.gov.uk/2018/12/05/from-data-to-decisions-building-blocks-for-population-health-intelligence-systems/>, accessed on: November 25, 2019.

Table 2: Current evidence-use capabilities across selected departments

Departments	Data Handling ⁹	Information for Analysis ¹⁰	Intelligence for ex-ante assessments ¹¹	Decision support systems ¹²
Finance Dept.	Yes	Yes	Partial	Partial
P&DD	Yes	Yes	Partial	No
Energy	Yes	Yes	Partial	No
KPRA	Yes	Yes	Partial	No
Health	Yes	Yes	Partial	Partial
Excise	Yes	Partial	Partial	No

Source: Based on responses received.

6. Summary and recommendations

This section provides a summary of findings and recommendations emerging from the review. Recognising that the existence of a unit such as the ISU is strategic, some recommendations present options that may require discussion within government.

6.1 The mandate of the ISU

While the ISU has delivered impact, there is a need to review and strengthen its mandate. Despite being established to support the FD deliver its mandate, there is evidence that the unit has been drawn into areas that extend beyond issues of finance. For example, engagement with the Environment Department on environmental protection and climate response (see above). While such engagement may be justified in terms of need and urgency, such an approach undermines the rationale of the ISU as an attached unit of the FD, and is not appropriate given its limited authority to engage on sectoral policy issues beyond the domain of finance. This contributes to the unit being over-stretched, and lacking clear rules of engagement that define what the unit can and cannot do.

Recommendations

- There is an urgent need to clarify the mandate of the ISU. This should be achieved through revised organisational ToRs / RoBs, that establish the roles and functions of the ISU, both within FD and also in respect of other departments.
- Three models can be considered, each of which requires differing governance arrangements.
 - **Option 1 - the ISU works only within FD, with limited external engagement with other departments.** This is restrictive model, focussed on strengthening internal FD functions and delivery, but with limited ability to influence public financial management across government. The size of the unit could be kept small (at the current staffed level) with simple governance arrangements within FD.
 - **Option 2 - the ISU also supports other departments, but only on issues of finance.** This would enable the unit to be more effective in supporting FD

⁹ Raw data is available on key indicators; level of desired disaggregation may differ

¹⁰ Data is arranged in a manner that could facilitate analysis

¹¹ Interpretation and assessment of available information

¹² Combining/triangulating intelligence, evidence, and qualitative data, and presenting it to inform decision-making.

in the delivery of its core functions, and in strengthening PFM across government. Such support would include for example:

- Support to revenue generation and management of fiscal space;
 - Support to budget preparation
 - Review of departmental budget submissions
 - Measures to strengthen departmental accountability for expenditures.
- **Option 3 – the ISU has a broader mandate that extends beyond matters of finance.** This could include interventions in sector policy development, institutional reform, or an across government ‘delivery unit’ function. Under such circumstances the location of the unit should be elevated within the government hierarchy. This could be achieved by moving the unit, or established a separate unit, within the Office of the Chief Minister. This would endow the unit with the authority required for such functions.
- GoKP has previous experience of a ‘delivery unit’ attached to the Chief Minister’s office, funded by development partners. If the functions previously undertaken by this unit remain relevant to the current political leadership, the experience should be reviewed with consideration given to re-establishing such a unit funded by government.

6.2 Engagement with other departments (beyond FD)

While line departments are appreciative of support provided by the ISU, this is largely limited to individual officers most directly involved with the ISU. From the perspective of the ISU, providing support to other departments can be challenging due to the lack of clear ToRs, frequent demands to engage in additional tasks, or restricted access to internal data.

Recommendations

- If the ISU is to have an organisational mandate beyond the FD, this should be clarified in a partnering agreement with line departments that sets out:
 - Overview of ISU role and mandate;
 - The process by which departments can request ISU support;
 - Core technical areas where ISU support can be requested – linked to the mandate agreed for the ISU (e.g., issues relating solely to finance);
 - Key requirements for each engagement – development of task-specific ToRs, approvals process, expectations of line departments etc.
- Any ISU engagement with a line department should be set out in a task-driven Terms of Reference, that identifies:
 - The rationale for ISU support;
 - Specific tasks to be undertaken;
 - Expected deliverables and outcomes of the engagement;
 - Governance and reporting arrangements;
 - Support to be provided by the department to enable the ISU deliver its tasks (access to conducive work space, department reports and data etc).

6.3 Replicability of the ISU approach across other departments

Proposals by some line departments to establish units similar to the ISU risk duplicating functions that should be undertaken by established units within departments. While there is a case for specialised support units at the centre of government to support the delivery of 'whole of government' priorities, such as effective public financial management (FD) and public service delivery (Chief Minister), there is no rationale for the same model to be replicated at the level of line departments. Such an approach will undermine existing functions within line departments, deepen capacity weaknesses, and create tensions between regular officers and those recruited into special units at elevated salaries.

Recommendations

- Proposals to establish ISU units within line departments should be discouraged;
- Functions required of such units should be undertaken by existing departmental units, as part of their core business – for example, by the recently revamped departmental Planning Cells;
- If additional support is required, for urgent one-off activities or for the implementation of a high priority reform initiative, the department should use existing mechanisms to access short-term technical support – for example, through flexible resources available through P&DD or the Chief Minister's Office;
- Longer-term, government should allocate resources for capacity development in priority areas across government and to enable departments fulfil their core functions. This includes training, on-the-job mentoring, secondment to other units of government (including at the federal level), to build skills that are lacking. Such support could usefully be provided to strengthen the ability of departmental Planning Cells undertake functions previously supported by the ISU.

6.4 Staff structure of the ISU

Current operational arrangements are unsustainable - the ISU is operating at half its sanctioned strength (7 out of 14 posts are filled), and is over-stretched in terms of work it is expected to deliver.

Recommendations

- If the ISU continues as an attached unit to FD and providing support to other departments on issues of finance (Option 2 above), the current structure of the unit can remain as it is. However, current unfilled posts (7 out of 14) need to be filled as a matter of urgency.
- Where donor support offers access to additional technical resources – for example, SNG support to PFM and revenue reforms, the SEED programme supporting 'ease of doing business' initiatives, and World Bank support to with UIPT survey - such arrangements need to be coordinated and planned in advance.
- If the ISU has a wider mandate, extending beyond matters of finance (Option 3 above), the unit should be moved higher in the government hierarchy, and a review undertaken to match staffing needs against the mandate of the unit.
- There should be regular and structured reporting to the respective ISU team leads to ensure effective oversight of progress against ToRs, and that engagement remains within the mandate agreed for the ISU.

- No 'additional' support activities should be undertaken by ISU team members without prior approval from their respective team leader. This can be achieved by a proper ex ante agreement with the client department and task specific TORs clearly defining the scope of support.

6.5 Contractual arrangements

Current contractual arrangements are appropriate for a unit with a mandate to access highly skilled expertise for targeted deployment within government. ISU staff are recruited on short-term contracts at market rates (outside government remuneration scales), and contracts are renewable annually subject to performance. The arrangement ensures that the ISU has flexibility to recruit expertise in response to emerging needs, without the burden of security of tenure offered to the wider civil service.

Recommendations

- Selecting the appropriate staff for the ISU is a precondition for performance of the unit. It is essential therefore that any political involvement in recruitment is tightly managed, and there is appropriate oversight of the recruitment process. It is suggested that representative of public service commission should be part of this process.

6.6 Additional resource requirements

Additional (non-salary) resources would strengthen ISU engagement and impact. The effectiveness of ISU support is sometimes constrained by poor working conditions (e.g., lack of decent office facilities) or lack of resources to undertake field work, purchase externally sourced data, or hire short-term expertise in specific areas.

Recommendations

- Consideration should be given to allocating a budget to the ISU to support task delivery. The need for such resources should be identified in advance, at the time of preparing task ToRs, and approved by the respective ISU Team Leader. The budget could also be used for the production of ISU learning materials (see below).

6.7 Feedback and lesson learning

The ISU needs a mechanism to collect feedback on activities supported and generate lessons to strengthen future ISU engagement. Given the strategic nature of ISU engagement within FD and with line departments, there is a missed opportunity to generate learning within government and contribute to capacity development.

Recommendations

- In developing a revised mandate and ToRs for the ISU, consideration should be given the inclusion of lesson learning as a specific activity to be undertaken by the ISU, with resources made available to support this activity.
- ISU activities (and any outcomes from such activities) should be exhibited and explained over a dedicated webpage hosted by FD.

6.8 Review of ISU costs and impact

Any future review of ISU should include analysis of ISU costs and impact. It is difficult to get a feel for the scale of ISU activity across government, or to assess the value for money of the unit.

Recommendations

- Performance reporting by the ISU should include clear evidence of results – either quantifiable impact, or significant transformation or change.
- Where ISU provides support in collaboration with development partner programmes, reporting should specify the contribution made by the ISU and how duplication of effort is avoided.

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Annex-I: Matrix of key findings and recommendations

Main findings	Basis of the finding
1. ISU needs a strengthened mandate	No ToRs, role or mandate written down in government RoB / current mandate too broad.
2. Activities undertaken by the ISU are not always defined through ToRs.	The experience of working at line departments suggests that ISU team members often become involved in day-to-day operational activities which may or may not be outside their original task objectives.
3. Relationships with other line departments are not guided by a clear and documented procedure by which departments can request ISU support.	In most cases ISU support is provided through a direct commitment by the finance minister during meetings or sometimes as a result of requests by line departments.
4. While the ISU has delivered impact, the team is over-stretched and has limited own resources to support activities it undertakes.	The ISU is operating at half its approved strength. Despite growing workload there are no immediate plans for completing the hiring process. The work environment is difficult for some team members. In some locations, team members occupy small workspaces and have limited access to computer networks and data.
5. Future sustainability of the unit depends on the future political leadership, and how it views the role of the unit.	While ISU has been given a role in PFM Act, it still derives its acceptability from the notion that it is part of the FM's office. This notion needs to change and clearly defined mandate as part of RoB will improve sustainability.
Key Recommendations	Options / actions
1. Develop clear mandate / ToR for the ISU	Three models (explained in this report) can be considered, each of which requires differing governance arrangements. The models include <ul style="list-style-type: none"> • ISU works only within FD, with limited external engagement with other departments • ISU also supports other departments, but only on issues of finance • ISU has a broader mandate that extends beyond matters of finance.
2. Each ISU engagement to have ToRs agreed in advance with relevant dept.	To provide greater structure to the arrangement, partnership agreements are needed between the ISU and line departments, with clear ToRs agreed for specific tasks.
3. Some departments are considering establishing units similar to the ISU. Proposals to establish ISU units within line departments should be discouraged.	Functions required of such units should be undertaken by existing departmental units, as part of their core business – for example, by the recently revamped departmental Planning Cells.
4. Within line departments ISU's support is largely limited	If the ISU is to have an organisational mandate beyond the FD, this should be clarified in a partnering agreement with line departments. Such a partnering

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<p>to individual officers most directly involved with the ISU.</p>	<p>agreement may spell out how ISU's work will have a capacity building lens (while working with the line department).</p>
<p>5. The structure of the ISU depends upon its role and mandate, and how the political leadership deploys the unit. The unit's sanctioned posts need to be filled on priority.</p>	<p>If the ISU continues as a support unit to FD and providing support to other departments on issues of finance, the current structure of the unit can remain as it is. However, current unfilled posts (7 out of 14) need to be filled as a matter of urgency.</p> <p>If the ISU has a wider mandate, extending beyond matters of finance, the unit should be moved higher in the government hierarchy (e.g., Chief Minister's Office), and a review undertaken to match staffing needs against the mandate of the unit.</p>
<p>6. Ensure that there is no political interference in future recruitments at ISU.</p>	<p>Selecting the appropriate staff for the ISU is a precondition for performance of the unit. While the recruitment policy that governs ISU ensures competitive and merit-based hiring, it is essential that any political involvement in recruitment is tightly managed, and there is appropriate oversight of the recruitment process. It is suggested that a senior representative of public service commission should be part of this process. If this possibility doesn't exist under the current recruitment policy, an amendment to allow this arrangement may be made.</p>
<p>7. The effectiveness of ISU support requires conducive working conditions and resources.</p>	<p>Consideration should be given to allocating a budget to the ISU to support task delivery. The need for such resources should be identified in advance, at the time of preparing task ToRs (at FD or line departments), and approved by the respective ISU Team Leader. The budget could also be used for the production of ISU learning materials.</p>
<p>8. ISU needs a formal mechanism to collect feedback on activities supported or to generate lessons to strengthen future ISU engagement or for wider sharing of results across government.</p>	<p>In developing a revised mandate and ToRs for the ISU, consideration should be given to the inclusion of lesson learning as a specific activity to be undertaken by the ISU, with resources made available to support this activity. ISU activities (and any outcomes from such activities) should be exhibited and explained over a dedicated webpage hosted by FD.</p>
<p>9. A detailed performance review of the unit should also assess impact against costs.</p>	<p>Any future review of ISU should also have information on the ISU costs or annual budgets spent on ISU. It is currently difficult to get a feel for the scale of ISU activity across government, in terms of what activities in which departments, and ISU resources provided. Also, a more detailed structure for annual performance report of ISU may be instituted.</p>