



**Government of  
Khyber Pakhtunkhwa**

# **Khyber Pakhtunkhwa Public Financial Management Reform Strategy**

**2017-2020**

**Finance Department**





**Khyber Pakhtunkhwa  
Public Financial Management  
Reform Strategy  
2017-2020**

**March 2017**

**Finance Department  
Government of Khyber Pakhtunkhwa**



# MESSAGE FROM CHIEF MINISTER KHYBER PAKHTUNKHWA

It is with great pleasure that we are presenting the Khyber Pakhtunkhwa Public Financial Management Reform Strategy. The strategy consolidates public financial management reforms undertaken over last ten years besides suggesting new reform initiatives for improved service delivery for citizens and communities. The Government has a strong commitment for inducing change aimed at greater transparency, accountability and openness in public sector governance. This falls at the centre of government's agenda of ensuring equitable development, improved service delivery, and a corruption free governance system. One of the pre-requisites for the attainment of such transformational agenda is to have a sound system of public financial management.

This strategy will be of immense help for ensuring a uniform, standardized and harmonized approach for introducing international best practices for improved financial management, both for the Provincial Government and the Local Governments of Khyber Pakhtunkhwa. The very foundation for successful implementation of this strategy has already been laid down by the Provincial Government through numerous promulgations i.e. Local Government Act, 2013, Right to Information Act, 2013, Right to Public Services Act, 2014, Public Private Partnership Act, 2014, and establishment of Khyber Pakhtunkhwa Public Procurement Regulatory Authority and Khyber Pakhtunkhwa Revenue Authority.

The Provincial Government of Khyber Pakhtunkhwa is fully committed to the Strategy and will render necessary political support and leadership to ensure the attainment of all policy objectives of the strategy.

I am thankful to all those who were closely associated with the formulation of the Strategy. I look forward to the achievement of the objectives enunciated in the Strategy as we move into the implementation phase.

PERVEZ KHATTAK  
CHIEF MINISTER  
GOVERNMENT OF KHYBER PAKHTUNKHWA

# MESSAGE FROM MINISTER FOR FINANCE

Strong Public Financial Management (PFM) systems are essential for the achievement of policy objectives of the Government in order to improve public service delivery. Effective PFM systems maximise financial efficiency, improve transparency and accountability, and thus contribute to long-term strengthened and sustainable governance regime.

The PFM Reform Strategy provides a guide to PFM reforms in Khyber Pakhtunkhwa for the period 2017-20. It builds on the cumulative gains of the Integrated PFM Reforms Strategy adopted earlier by the Government in 2010. The Strategy focuses on key objectives which comprehensively cover the whole PFM cycle i.e., policy-based planning and budgeting; comprehensive, transparent, and credible budget; improved predictability and control in budget execution; resource mobilisation; asset and liability management; and accountability for results. Effective progress on achieving these objectives will require updated skills and abilities of the government functionaries, improved institutional capabilities, use of modern information systems, and a gender sensitive approach to PFM. These cross-cutting factors are kept in play throughout the Strategy.

This Strategy is a result of concerted efforts, consultation and dialogue both within the Government and with other stakeholders. The focus of the Strategy is on strengthening key public financial management structures and processes so that by the end of 2020 the Government has established a robust system for ensuring equitable resource allocation, transparent and efficient budget execution and fiduciary risk mitigation for the well-being of the citizens.

I thank my team in the Finance Department for their complete devotion to their work as well as for their contribution in the preparation of this Strategy, and especially the DFID whose technical assistance in the form of the vibrant Sub National Governance (SNG) Programme has been most helpful to us in the past as well as in the preparation of this Strategy.

The successful implementation of the Strategy will remain a collective responsibility of all the stakeholders. Therefore, I look forward to all concerned to join our sincere efforts in achieving the highest standards of good governance in PFM.

MUZAFFAR SAID (ADVOCATE)  
MINISTER FOR FINANCE  
GOVERNMENT OF KHYBER PAKHTUNKHWA

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# ACRONYMS

ADP	Annual Development Plan
ABAP	Advanced Business Application Programming
AGP	Auditor General of Pakistan
BASIS	Business Application Software Integrated Solution
BCC	Budget Call Circular
BOR	Board of Revenue
BPC	Business Planning and Consolidation
BSP	Budget Strategy Paper
BTR	Budget Transparency Review
CGA	Controller General of Accounts
COA	Chart of Accounts
DAC	Departmental Accounts Committee
DDO	Drawing and Disbursement Officer
DDP	District Development Plan
DeMPA	Debt Management Performance Assessment
E&SE	Elementary and Secondary Education
ET&NC	Excise, Taxation and Narcotics Control
DFID	Department for International Development
DP(s)	Development Partner(s)
ECC	Enterprise Central Component
E&T	Excise and Taxation
FATA	Federally Administered Tribal Areas
FBR	Federal Board of Revenue
FMIU	Financial Management Information Unit
GDP	Gross Domestic Product
GoKP	Government of Khyber Pakhtunkhwa
Govt.	Government
HRMIS	Human Resource Management Information System
IDS	Integrated Development Strategy
IFMIS	Integrated Financial Management Information System

INTOSAI	International Organisation of Supreme Audit Institutions
KP	Khyber Pakhtunkhwa
KPI(s)	Key Performance Indicator(s)
KPPRA	Khyber Pakhtunkhwa Public Procurement and Regulatory Authority
KPRA	Khyber Pakhtunkhwa Revenue Authority
LGA	Local Government Act
M&E	Monitoring and Evaluations
MDTF	Multi-Donor Trust Fund
MTBF	Medium-Term Budgetary Framework
MFFF	Medium-Term Fiscal Framework
NEC	National Economic Council
NFC	National Finance Commission
OBB	Output Based Budgeting
P&D	Planning and Development
PAC	Public Accounts Committee
PaRRSA	Provincial Reconstruction, Rehabilitation, and Settlement Authority
PCNA	Post-Crisis Needs Assessment
PDMA	Provincial Disaster Management Authority
PEFA	Public Expenditure and Financial Accountability
PETS	Public Expenditure Tracking Survey
PFC	Provincial Finance Commission
PFM	Public Finance Management
PIFRA	Project to Improve Financial Reporting and Auditing
PMRU	Performance Management and Reforms Unit
POL	Petroleum, Oil and Lubricants
PRP	Provincial Reform Programme
SAP	Systems, Applications & Products in Data Processing (German Corporation)
SDPF	Strategic Development Partnership Framework
SNG	Sub-National Governance Programme
SOP	Standard Operating Procedures
TNA	Training Need Assessment
TRF	Technical Resource Facility
USAID	United States Agency for International Development

# EXECUTIVE SUMMARY

The Constitution of Pakistan places a certain level of responsibility on the provinces for delivery of public services which was further enhanced in 2010 through 18th Constitutional Amendment. This necessitates an effective governance system including sound system of public financial management. This strategy consolidates public financial management reforms that have been undertaken by the Government of Khyber Pakhtunkhwa (GoKP). It broadly captures both upstream and downstream financial management processes at provincial and local government levels, i.e. strategic planning, expenditure framework, annual budgeting, revenue management, procurement, accounting and audit. The strategy is in tandem with ongoing devolution reforms of the present government and the 18th Constitutional Amendment.

The **overarching purpose** of the strategy is 'to have a robust PFM system in place that ensures financial compliance, instils aggregate fiscal discipline, facilitates prioritisation amongst competing claims on scarce resources, encourages efficient delivery of public services, and achieves the ultimate goal of efficient, effective and accountable use of public resources'. This vision is transformed into affirmative actions through **three critical measures**, i.e.: 1) ensuring aggregate fiscal discipline; 2) achieving allocative efficiency; and, 3) sustaining operational efficiency.

The PFM reform strategy aims to achieve **six key policy objectives**: a) ensuring policy driven planning and budgeting; b) facilitation of a comprehensive, credible and transparent annual budget; c) improving predictability and control in budget execution; d) enabling resource mobilisation and enhancing provincial own-source revenues; e) improving asset and liability management and, f) fostering accountability for results. Achievement of these objectives will be ensured through continuous knowledge management, building of core competencies and adopting a gender-sensitive approach to financial reforms. A set of strategic interventions outlined in the strategy will ensure the meeting of relevant objectives; regularly monitored through agreed key performance indicators.

The first PFM reform objective – **policy driven planning and budgeting** – will be achieved through the formulation of the requisite policies, strategies and action plans, integrated multi-year budgeting, development of an appropriate legal/regulatory framework, and ensuring efficient and effective inter-governmental fiscal relations. In future, planning and budgeting must ensure adherence to provincial multi-sector umbrella frameworks, such as the Strategic Development Partnership Framework (SDPF), Integrated Development Strategy (IDS), Economic Growth Strategy, and Medium Term Budgetary Framework (MTBF).

The **comprehensive, credible and transparent budget** – second objective of the strategy – will be achieved through ensuring budget transparency and accessibility, optimal utilisation of Integrated Financial Management Information System (IFMIS), the roll out of financial management systems to local government tiers and institutionalising a framework for foreign aid management in Khyber Pakhtunkhwa (KP). Under this objective, Output Based Budgeting (OBB) reforms – successfully piloted in KP since 2010-11 – will be institutionalised at the departmental and district levels.

The third objective – **improved predictability and control in budget execution** – encapsulates seven key reform actions, i.e. establishing effective controls for non-salary expenditure, integrated human resource and payroll management, and institutional and regulatory framework for asset and liability management, strengthening the procurement regime, revenue management, banking and treasury reforms, and bringing improvements in expenditure tracking and reporting. Through this objective, government will ensure delivery of public services in accordance with commitments in policy statements, output commitments and sector work-plans.

The **resource mobilisation** – fourth objective of the strategy – will be ensured through implementation of the medium term inclusive growth strategy of KP, increasing in-house capacity for economic research and analysis, regular review of proposals for revenue mobilisation and budgetary impacts, reforms in taxation policy, assessment and compliance system, linking tax bases across taxes and governments, and enhancing capacity of local government to meet their revenue potential.

The fifth objective of the strategy – **asset and liability management** – sets out to establish a baseline for debt management performance leading to an overarching debt management framework and strategy, establishing specialized corporate governance unit to manage financial assets and carry out risk analysis, automated systems for cash management and non-financial assets.

The **accountability for results** – sixth objective of the PFM Reform Strategy – will ensure strengthening of legislative oversight, the revitalisation of provincial monitoring and evaluation framework, enhancing coverage and quality of external audit, and roll out and deepening of internal audit. This pillar of the strategy will ensure public accountability of reform outputs and actions for improved service delivery for citizens and communities.

The GoKP has adopted this PFM Reform Strategy to set out the strategic direction for PFM reforms both for provincial and local governments based on evidential assessment, the institutional reforms landscape, and the underlying vision of the KP Charter of Good Governance (2013). The strategy envisages an enabling legal and regulatory framework for the internalisation and sustainability of various reform initiatives lately undertaken by the government, for instance establishment of KP Revenue Authority, KP Public Procurement Regulatory Authority, Right to Information Commission, Right to Services Commission, and promulgation of various other relevant Acts.

To ensure smooth implementation of the PFM Reform Strategy, the GoKP has established a **PFM Reform Oversight Committee** under the chairmanship of the Minister for Finance. The committee will meet on a quarterly to semi-annual basis with the objective to provide strategic guidance and policy direction on the core objectives of PFM Reform Strategy. A sub-committee of the Administrative Secretaries of Finance, Planning & Development, Local Government, Education and Health departments has also been established for strategic monitoring and overseeing implementation of the Strategy at operational level. PFM diagnostic tools will be used to assess institutional changes that have been implemented according to the objectives outlined in the strategy. There are thirteen (13) key performance indicators of the strategy having indicative yearly performance targets (see table).

KEY PERFORMANCE INDICATOR(S)	BASELINE	INDICATIVE TARGET		
		Y-1	Y-2	Y-3
1. Sectoral policies and strategies approved	2	3	5	8
2. Alignment of sectoral budgets with policies and strategies	-	50%	60%	70%
3. OBB performance benchmarks achieved ( $\geq 70\%$ )	03 departments	10 departments	20 departments	30 departments
4. Improvement in Open Budget Index (Budget Transparency Review)	51	55	60	65
5. E-budgeting coverage through IFMIS	0	System Design	02 departments	5 departments and 01 district
6. IFMIS Coverage to Local Governments	0	System Design	Implementation initiated	All covered (76 TMAs & 3,501 VCs/NCs)
7. Efficiency savings yielded by effective expenditure controls	0	PKR 2,000 Million	PKR 4,000 Million	PKR 6,000 Million
8. Aggregate expenditure outturn	15%	<10	<5	<5
9. Increase in provincial own source revenue over baseline	PKR 49,500 Million	25%	35%	50%
10. Improvement in DeMPA score over baseline	No baseline	Baseline established	1 step improvement	2 step improvement
11. Coverage and scope of Internal Audit	11 departments	13 departments	20 departments	30 departments
12. Coverage of budget and expenditure scrutiny by legislative body	0	Gap Analysis Report	Institutional Framework	Notification & Activation
13. Coverage of Performance Audit	0	01 departments	05 departments	10 departments

# INTRODUCTION

Public Financial Management (PFM) is the management of funds used to deliver public services, however, it encompasses a much broader meaning than just the sum total of its components. PFM includes all components of a government's budget process – both upstream (including strategic planning, medium term expenditure framework, annual budgeting) and downstream (including revenue management, procurement, control, accounting, reporting, monitoring and evaluation, audit and oversight). Sound PFM supports aggregate control, prioritization, accountability and efficiency in the management of public resources and delivery of services, which are critical to the achievement of public policy objectives such as the MDGs.<sup>1</sup>

A good PFM system is essential for the implementation of policies and the achievement of developmental objectives by supporting aggregate fiscal discipline, strategic allocation of resources and efficient service delivery<sup>2</sup>. The Constitution of Pakistan places certain level of responsibility on the provinces for delivery of public services, which was further enhanced in 2010 through the 18th Amendment. This necessitates an effective governance system including sound system of PFM to ensure availability of sufficient funds for the expenditure portfolio to enable socio-economic growth in the Province.

The KP Fiduciary Risk Assessment conducted in 2010 based on Public Expenditure and Financial Accountability (PEFA) indicators identified key areas for improvements in the PFM system. Since then a multitude of reform initiatives have been undertaken by the Finance Department to mitigate the high risk areas. In 2013 the Government of KP adopted an official reform agenda under the Charter of Good Governance with the objective of achieving accelerated improvements through governance and service delivery reforms. The underlying principles governing this agenda include:

- Prompt delivery of public service to all citizens
- Strengthening democracy and citizen empowerment
- Entrenching rule of law
- Strengthening the independence of public authorities
- Ensuring accountability, transparency, equity, efficiency and responsiveness
- Strengthening institutional structures
- Strengthening performance management
- Strengthening the right of citizens to information
- Effective redressal of public grievances

<sup>1</sup> Report on the Use of Country Systems: Report of the Joint Venture on Public Finance Management (JV on PFM) to the Accra High Level Forum on Aid Effectiveness, July 2008

<sup>2</sup> Public Financial Management Performance Measurement Framework, PEFA World Bank June 2005.

Based on these guiding principles and international best practices the broader contours of the PFM Reform Strategy include:

- Adaptation to KP specific circumstances
- Extracting key concepts (instead of replicating an entire system)
- Creating enabling procedures and structures first
- Focus on specific outcomes rather than a department or function
- Strong ownership and consensus-building to reduce resistance to reform
- Strong Supreme Audit Institutions and parliamentary oversight
- Using training strategically to support institutional and organizational changes
- Support by development partners

This reform strategy sets out the strategic direction for PFM reforms both for Provincial and Local Governments based on evidential assessment, the reforms landscape, and the overarching vision of the Charter of Good Governance. This Strategy envisages an enabling legal and regulatory framework for the internalization and sustainability of reform initiatives. The PFM cycle is holistically captured to ensure an integrated and systemic approach to reforms.

# STRATEGIC CONTEXT

Pakistan is a federal republic, subdivided into four Provinces, a Capital Territory, the constitutionally distinct Federally Administered Tribal Areas (FATA) and the Northern Areas. Khyber Pakhtunkhwa is the smallest province in terms of size but its population is growing at the fastest rate (barring the Capital Territory). It is spread over an area of 74,521 square kilometres with an estimated population of 28 million people<sup>3</sup>. KP has strategic geographic, political and socio-economic importance due to its domestic and international borders with FATA and Afghanistan, respectively.

The socio-economic landscape of the Province places a substantial responsibility upon the provincial exchequer to meet the international commitments and the commitment of the Government to its citizens. The socio-economic outcomes for KP do not show an encouraging picture on inclusive growth, as per the MDG (Millennium Development Goals) reports. The proportion of population below the poverty line in KP is 39%, which is substantially higher than the national average. Net primary enrolment ratio at 53% is lower than Punjab's 67% so is the literacy rate (52% compared to Punjab's 60%), which are substantially below MDG targets. Similarly, contraception, maternal mortality and infant mortality rates are also far below the respective MDG targets. KP is also off target on many indicators of gender equality.<sup>4</sup>

The MDGs adopted by the United Nations (UN) in 2000 came to an end by December 2015. While the UN prepares to refine the indicators and targets under the recently adopted Sustainable Development Goals (SDGs)<sup>5</sup>, Pakistan and each of its federating units need to analyse the conduciveness of internal environment to meet these goals. This includes reviewing the administrative setup, regulations, procedures, mechanisms, and establishing enabling structures to achieve development goals, all of which requires an effective PFM system. PFM plays an important role in unlocking improvements in basic service delivery, removing inequities and managing fiscal pressures.



<sup>3</sup> Projected for the year 2014 based on 1998 Census.

<sup>4</sup> Source: Government of Khyber Pakhtunkhwa Economic Growth Strategy 2015.

<sup>5</sup> SDGs are a universal set of goals, targets and indicators that all UN member states are expected to use to frame their development agendas and socio-economic policies during 2015-2030.



## Legal and Institutional Framework

The Constitution of Pakistan contains broader provisions for management of public finance.

The **18th Constitutional Amendment** has redefined the structural contours of the State through a paradigm shift from a heavily centralized to a predominantly decentralized federation. It reinforces a multi-level governance system by extending greater autonomy to the federating units (Provinces) and laying down fundamentals of substantive decentralization at the lower tiers of local government.

The historic announcement of the **7th NFC Award** in 2010 addressed the long-standing issue of distribution of resources between federation and provinces of Pakistan. The share of provinces in vertical distribution was increased from 49% to 56% for fiscal year 2010-11 and 57.5% for the remaining years of the Award. The population-based criterion for horizontal distribution was changed to multiple-criteria formula. The share of KP was enhanced from 14.78% to 16.42% (including 1.8% of provincial share in the net proceeds of provincial divisible pool as grant for war on terror).

The local government system under the Local Government Ordinance, 2001 continued till it is superseded by the short-lived KP Local Government Act, 2012. A new system of local governance has been put in place with the promulgation of the KP Local Government Act, 2013. It provides the framework for establishment of local governments at District, Tehsil and Village/Neighbourhood Councils, and institutional framework for local government finance and inter-se distribution of resources.

Figure 1. Legal framework for PFM

<p>Constitution of Pakistan 1973</p>	<p>It provides the overarching legislative framework for PFM including fiscal procedure for Federal Govt. (Articles 78-88) and Provincial Govt. (Articles 118-127). All tiers of the government are subject to audit by the Department of Auditor General of Pakistan (Articles 160-171), which is the country's Supreme Audit Institution.</p>
<p>Fiscal Responsibility and Debt Limitation Act 2005</p>	<p>It aims to establish responsible and accountable fiscal management and to encourage informed public debate about fiscal policy. It requires the government to be transparent about its short and long-term fiscal intentions and sets high standards for fiscal disclosure.</p>
<p>Public Sector Audit Laws 2001</p>	<p>The AGP and CGA Ordinance of May 2001 have bifurcated audit and accounting functions. This was a paradigm move towards an independent and objective audits as per INTOSAI standards.</p>
<p>KP Local Government Act 2013</p>	<p>It devolves political, administrative and financial responsibilities and authority of certain functions to the local governments while working within the provincial framework.</p>

The institutional framework of the governance system in Pakistan comprises of executive, legislative and judiciary which are embodied at the provincial and local government level in KP as follows:

Figure 2. Institutional framework of Provincial Government

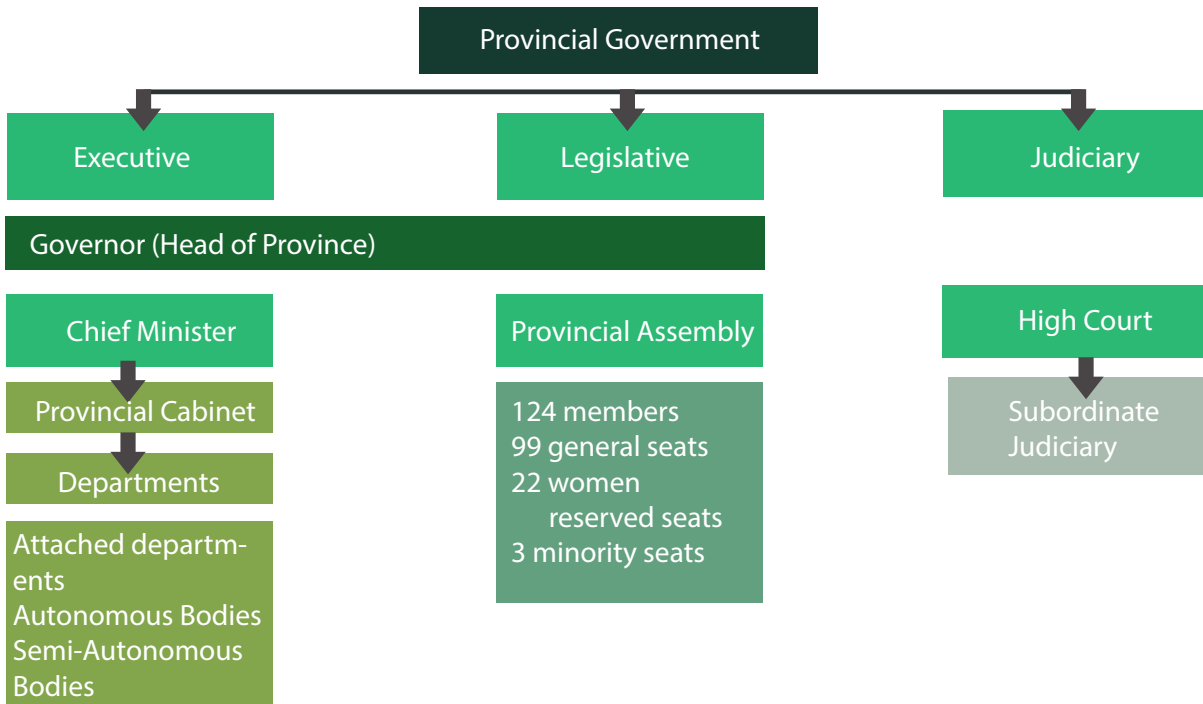
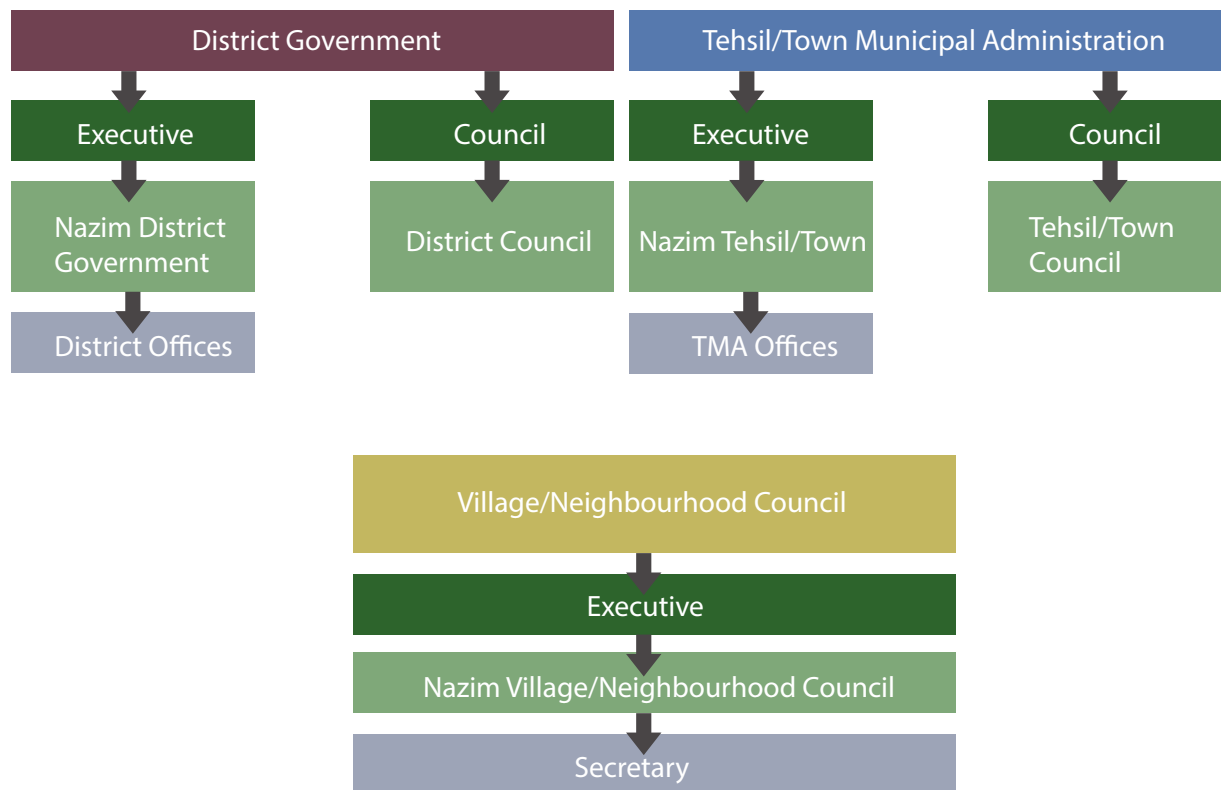


Figure 3. Institutional framework at Local Government tiers



PFM is a system of institutions, rules, regulations, procedures and processes through which decisions are made and implemented with respect to its three core components, i.e. revenue, expenditure and debt. In KP, the three branches of government have clear roles in policy formulation, planning & budgeting, execution, accounting and reporting, monitoring and evaluation, and review. The Finance Department has a lead role in spearheading the PFM system.

Conventionally the regulatory framework was laid down by the federal government. However, the 18th Constitutional Amendment has empowered the provincial governments to devise their own regulatory frameworks. There are numerous rules, policies and procedures in vogue to regulate the public finance system in the province i.e. General Financial Rules, Fundamental & Supplementary Rules, New Accounting Model, Procurement Rules, Treasury Rules, Budget Rules, Rules of Business etc.

In the past two years the GoKP has introduced several legislative reforms to enable greater transparency, accountability, efficiency and efficacy in the public service delivery and governance mechanisms. These include:

**Local Government Act, 2013:** decentralizing governance to Districts, Tehsils and Villages/Neighbourhoods at the very grass root level, with the objective to improve service delivery by empowering local communities.

**Right to Information Act, 2013:** ensuring public access to information, making it obligatory for all the public bodies to maintain records properly and make it accessible to the citizens, more important of which is the financial records. It also provides protection to whistle-blowers. Many positive steps taken for improved transparency and accountability in PFM have stemmed from the promulgation of this Act, including formulation and dissemination of Citizens' Budget, providing public access to budget and execution reports through the online web portal of the KP Government, while also improving readability and comprehensiveness of the government documents. The Act is enforced through an independent Right to Information Commission.

**Right to Public Services Act, 2014:** ensuring greater accountability within the government functionaries and timely delivery of services to the general public. The Act is enforced through an independent Right to Services Commission.

**Public Private Partnership Act, 2014:** encouraging participation of private sector in public service delivery and providing institutional framework to regulate, monitor and supervise the Public Private Partnership contracts.

**Ehtesab Commission Act, 2014:** establishing an effective institutional structure via an independent KP Ehtesab Commission, for the prevention of corruption.

**Prevention of Conflict of Interest Act, 2016:** establishing clear conflict of interest and related post-employment principles for public office holders, and preventing and minimizing the possibility of conflict arising between private interests and public duties of public office holders.

## Reforms Landscape of Khyber Pakhtunkhwa

Through the years, several reform initiatives have taken place in an array of key areas including policy, planning, budgeting, expenditure & revenue management, procurement, financial recording and reporting, monitoring & evaluation etc. Legislations have also been enacted to provide the right environment for robust and meaningful endeavours towards achieving the basic objective of the reform agenda.

The PFM reforms of GoKP have also been substantially supported by international development partners (DPs) in the shape of technical assistance, budget support, programme-based and extra-budgetary financing. This support mainly focussed on key assessments, thrashing of policy priorities and strategic plans, as well as implementation support for piloting and roll-out of specific reform initiatives (see annexure for details of donor funded reforms). The support was further aligned and strengthened towards the policy objectives of GoKP under the SDPF. This has been instrumental in setting right the direction and momentum for the ambitious reforms agenda of the provincial government for change.

### **A. Provincial Reforms Programme**

The Provincial Reform Programme (PRP) I and II executed between 2001 and 2010 had been largely aligned with agreements and associated reforms under a World Bank Structural Adjustment Credit process led by the Finance Department, with oversight and steering of the reform process undertaken by the office of the Chief Minister. The four pillars of PRP focussed on accelerating human development through education, better health and reduction in social disparities; promoting growth and private sector development; and enhancing the efficiency of public expenditure and improving social service delivery by improving governance, civil service reforms and enhancing accountability. The PRP was also supported by DFID under the “Provincial Reform Programme and Capacity Building Support to FATA Secretariat”. Under this programme a Comprehensive Development Strategy and the first ever KP Integrated PFM Strategy were launched by the KP Government in 2010. PFM reform initiatives were introduced and piloted under the PRP including the medium term budgetary framework, output based budgeting, conditional grants mechanism, inclusive growth concepts of participative budgeting (pre-budget consultations) and community led local development, public private partnership frameworks, internal control mechanisms and IT based audits, enhanced transparency and accountability etc.

### **B. Project to Improve Financial Reporting and Auditing (PIFRA)**

PIFRA was based in the office of the Auditor General of Pakistan. It was implemented across the country with the support of the World Bank and has contributed greatly to reforming the audit and accounts practices in Pakistan. Some of its key achievements are:

- Introduction of the new Chart of Accounts based mainly on the Guidelines of General Financial Statistics;
- Introduction of the new Accounting Policy and Procedure Manual, with a double-entry accounting system, commitment accounting and asset accounting;
- Implementation of an Integrated Financial Management Information system (IFMIS) in all accounting and budgeting offices of the country using SAP R3;

- Introduction of a risk-based audit methodology and a Financial Audit Manual based on Generally Accepted Auditing Standards;
- Introduction of IT based audit through procurement of Audit Command Language and training of auditors for using the software.

### **C. Strategic Orientation to Inclusive Growth**

The SDPF, developed and published in 2013, aims to create synergies for gearing up the socio-economic development of the province through concerted efforts by the Government and DPs. It envisages eight outcome objectives, one of which is exclusively based on enhancing fiscal space for robust socio-economic development. It also provides overarching fiscal target of increasing the provincial tax to GDP ratio by the end of fiscal year 2017-18.

The SDPF has led to the formulation of KP Integrated Development Strategy (IDS) and Inclusive Medium Term Growth Strategy. The IDS realigns medium term policy priorities with the reform agenda and consolidates earlier development strategies, i.e. Comprehensive Development Strategy, Economic Growth Strategy, and Post Crises Needs Assessment.

The operationalization of SDPF is led by an Apex Committee co-chaired by the Additional Chief Secretary KP and DFID (representing donor), and Sectoral Coordination Committees steering the implementation mechanism under each outcome objective. The Sectoral Coordination Committee of enhanced fiscal space is chaired by the Secretary Finance and a representative of the DFID and participation from relevant government departments.

### **D. KP Community Driven Local Development Policy**

The KP Government approved the first ever Community Driven Local Development Policy in 2013 which provides a framework and governance structure for ensuring the key role of citizens in development planning and implementation of local development/service delivery initiatives. The policy is being implemented with support from the European Union in six districts of Malakand Division.

### **E. Establishment of KP Revenue Authority**

The KP Revenue Authority (KPRA) was established in 2013 to collect general sales tax on services which was previously a federal subject and devolved under the 18th Constitutional Amendment. The KPRA also manages the Infrastructure Development Cess, and is mandated to promote voluntary tax compliance, implement comprehensive policies, adopt new tax administration methods, information technology system and policies to consolidate assessments, improve processes and organise registration of taxpayers in an effort to increase the tax base without imposition of new taxes.

### **F. Establishment of KP Public Procurement Regulatory Authority**

To strengthen the internal control mechanisms for procurement, the Khyber Pakhtunkhwa Public Procurement Regulatory Authority (KPPRA) has been established under the KPPRA Act, 2012 with the technical assistance of World Bank and DFID. The KPPRA is an autonomous body capable of providing legal and regulatory framework to Provincial Government Departments and other public sector entities/organizations for procurement. KPPRA Procurement Rules, 2014 under the Act have also been notified.

## **G. Other reforms supported by donor funded programmes**

Some of the other important public financial management reforms are being implemented with the support of multiple DPs under the umbrellas of much larger programmes as given below:

### **i. Multi-Donor Trust Fund (MDTF)**

MDTF is one of the key instruments to support the PCNA's comprehensive reconstruction and development strategy designed to restore infrastructure, services and livelihoods. The MDTF is funded by 11 donors and is administered by the World Bank. The projects under it are executed by the Governments of Pakistan, KP, FATA, and Balochistan (see Annexure for details).

### **ii. DFID**

DFID currently has a number of on-going programs supporting the Government in governance, education, health, security and justice sectors. The Sub-National Governance Programme (SNG) supports the GoKP reforms in planning, budgeting, and monitoring to establish the systems and processes that enable the government to respond more efficiently and accountably to the needs of local communities. The Khyber Pakhtunkhwa Education Sector Programme (KESP) targets primary enrolment specifically girl child enrolment and female literacy which contributes towards Millennium Development Goals 2 and 3. The Provincial Health & Nutrition Programme is aimed to improve reproductive, maternal, new-born and child health services. Other programmes include Aitebar, AAWAZ Voice & Accountability, and Peace Building Support to PCNA etc.

### **iii. Germany (GIZ)**

The German assisted reform programme provides technical and strategic advice and support for capacity building across the Education and Social Development sector. Two of its programmes are Support for Good Governance – Prevention of Violence against Women and Education Sector Development Programme.

### **iv. USAID**

The USAID funded Assessment and Strengthening Programme – Rural Support Programmes Network deals with governance and capacity development of public sector institutions and Civil Society Organizations, and

The USAID funded Khyber Pakhtunkhwa (KP) Governance Project objective is to strengthen the government's ability to deliver essential services throughout the province, promote democratic advances, and improve gender equality. The KP Governance Project also supports efforts to increase dialogue between government officials and citizens.

## Re-Evaluate and Renew An Integrated Approach to PFM Reforms

The PFM Reform Strategy focuses on establishing synergies between the reforms already implemented, the need for further reforms, logical sequencing of these reforms with greater institutionalization in an integrated manner. A sound PFM system requires that resources must be strategically allocated to priority areas and those responsible for spending the resources must be accountable for their efficient and effective utilization. This agenda is only possible with the adoption of an integrated approach towards planning, budgeting, execution, monitoring and evaluation. The decision to embark on a PFM reform process needs to be supported and championed at the highest political level<sup>6</sup>. Hence, to achieve integration and to ensure continued political backing of reforms, the GoKP has constituted a PFM Reforms Oversight Committee.

The Committee is headed by the Minister Finance as the chairman and is composed of the following members: Senior Minister for Local Government, Minister for Health, Minister for Education, Advisor to Chief Minister for Planning & Development, Secretary Finance, Secretary Planning & Development, Secretary Local Government, and Reforms Coordinator, Reforms Monitoring Unit of Finance Department in May 2015. This Committee is mandated to:

- i. Provide strategic guidance and policy direction on the core objectives of PFM Reforms Strategy and associated implementation arrangements;
- ii. Update and fine-tune the PFM Reform Strategy as and when the situation warrants;
- iii. Instil effective coordination mechanisms among concerned departments and/or stakeholders for greater efficiency and accountability of the reforms measures;
- iv. Assess progress against key deliverables of the core components of PFM Reform Strategy and to advise risk mitigating measures;
- v. Approve periodic progress updates for presentation to the cabinet;
- vi. Make recommendations to the provincial assembly for matters requiring legislative/statutory enactments and to facilitate the formulation of such laws/statutes;
- vii. Ensure effective liaison and coordination with the development partners/financial institutions/development financial institutions for greater harmonization around the core functions of PFM Reform Strategy
- viii. Devise a robust communication strategy for timely and effective dissemination of key information on PFM Reform Strategy to key stakeholders;
- ix. Constitute sub-committees on matters related to any component of PFM Reform Strategy.

A sub-committee was also constituted in December 2016 to provide a forum for inter-departmental coordination and executive oversight of PFM reforms under this overarching Strategy. The Committee is chaired by Secretary Finance and includes Secretary P&D, Secretary Local Government, Secretary E&SE and Secretary Health as members.

<sup>6</sup> Source: Guidelines for Public Financial Management Reform, Commonwealth Secretariat.

# THE STRATEGY

## Vision

*Attainment of a secure, just and prosperous society through socioeconomic and human resource development, creation of equal opportunities, good governance and optimal utilization of resources in a sustainable manner.*

## Mission

*“To have a robust PFM system in place that ensures financial compliance, instils aggregate fiscal discipline, facilitates prioritization amongst competing claims on scarce resources, encourages efficient delivery of public services and achieves the ultimate goal of efficient, effective and accountable use of public resources”.*

The mission of PFM reforms is based on principles of ethical and conscientious practices of good governance in the management of public financial resources to attain value for money. The following broader principles of good governance in PFM serve as a guide for the PFM Reform Strategy, both at the strategic and operational level:

- **Aggregate fiscal discipline:** ability to keep spending within limits, control over revenues and effective debt management;
- **Allocative efficiency:** ability to allocate and spend resources in those areas that make the greatest contribution to the government objectives;
- **Operational efficiency:** ability to make efficient and effective use of resources.

The PFM Reform Strategy not only builds on reforms already being implemented but also the realistic assessment of strengths, weakness and risk assumptions (see Annexure for a summary of KP PEFA assessment). In this context the Strategy sets out to achieve six broad objectives i.e. (a) policy driven planning and budgeting, (b) comprehensive, credible and transparent budget, (c) predictability and control in budget execution, (d) resource mobilisation, (e) asset and liability management, and (f) accountability for results.

Specific reform areas under each of these objectives are summarised in Table 1. The detailed year-wise breakup of interventions and activities (action plan) under each reform area are



Table 1. PFM policy objectives matrix

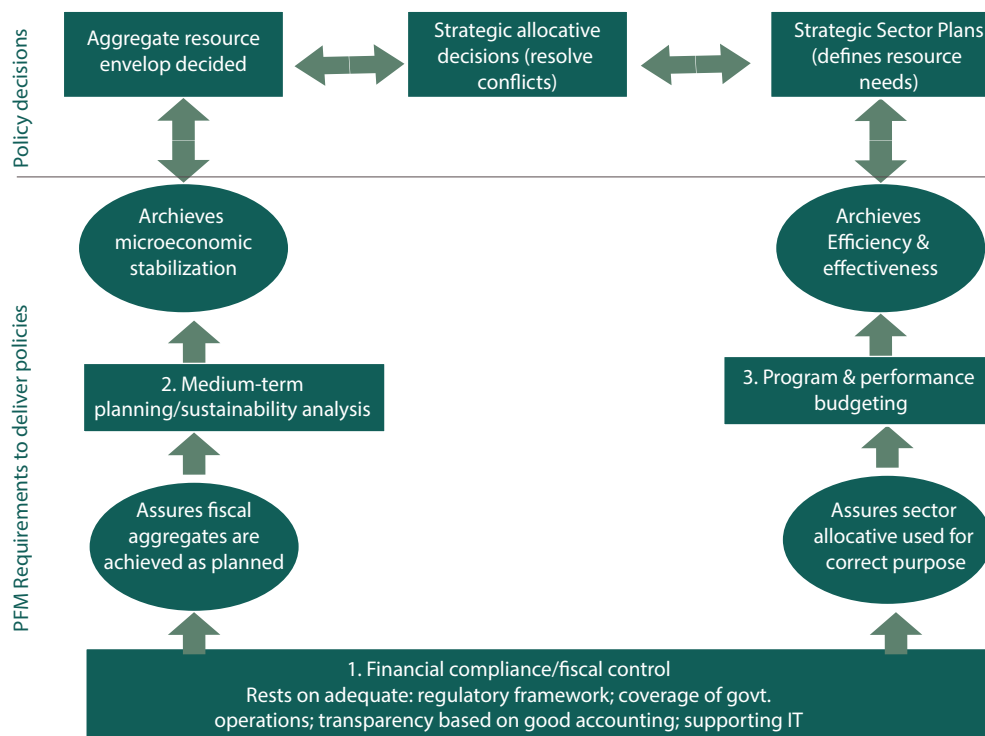
OBJECTIVE A	OBJECTIVE B	OBJECTIVE C	OBJECTIVE D	OBJECTIVE E	OBJECTIVE F
Policy driven planning and budgeting	Comprehensive, credible and transparent budget	Predictability and control in budget execution	Resource mobilisation	Asset and liability management	Accountability for results
REFORM AREAS	REFORM AREAS	REFORM AREAS	REFORM AREAS	REFORM AREAS	REFORM AREAS
A-1. Formulation of policies, strategies and action plans	B-1. Budget transparency and accessibility	C-1. Effective controls for non-salary expenditure	D-1. Resource mobilisation strategy	E-1. Management of assets and investments	F-1. Strengthening of legislative oversight
A-2. Integrated multi-year budgeting	B-2. Business process reengineering and expansion of IFMIS for optimal utilization	C-2. Integrated HR and payroll management	D-2. Tax policy and tax administration reforms	E-2. Debt management	F-2. Revitalization of monitoring & evaluation system
A-3. Legal and regulatory framework	B-3. Roll out of CoA and IFMIS to local governments	C-3. Strengthening procurement regime	D-3. Optimization of local revenue base	E-3. Encourage efficient and economic use of government assets	F-3. Enhance coverage and quality of external audit
A-4. Efficient and effective inter-governmental fiscal relations	B-4. Institutional framework for aid management – budget/sector-budget support and extra-budget support	C-4. Banking and Treasury reforms			F-4. Rollout and deepening of internal audit
A-5. Donor coordination on aid effectiveness		C-5. Improvements in expenditure tracking and reporting			
CROSS CUTTING OBJECTIVES					
Bridging gaps in knowledge, skills and competencies					
Gender focussed approach to reforms					

A successful transition from the existing PFM practices to a more efficient and effective system requires provision of the right enabling environment for each of the reforms areas, that includes; (a) setting up a legal framework through PFM Act, revision of the out-dated rules and regulations, and framing of robust set of rules for the new local government system; (b) strengthening of the institutional framework through business process reengineering, formulation/revision of guidelines, optimal utility of e-governance systems, synergies between institutions; and (c) building capacities of government officials through comprehensive trainings and placing the right people in the right positions.

The GoKP has reinforced its policy commitment to gender equity and equality in the SDPF, IDS and Women's Empowerment Policy. This signifies a gender sensitive perspective to reforms as a major cross cutting theme of the PFM Reform Strategy.

The strategic direction for socio-economic development of the province has been set via the documentation of the government’s policies and reform initiatives in the form of IDS 2014-18, formulated under the SDPF, and the Medium Term Inclusive Growth Strategy 2015-18. However, expenditure policy decisions have multi-year implications and must be aligned with the availability of resources in the medium-term perspective. Therefore, multi-year fiscal forecasts of revenue, medium term expenditure aggregates for mandatory expenditure and potential deficit financing (including reviews of debt sustainability involving both external and domestic debt) must be the foundation for policy changes<sup>7</sup>.

Figure 4. Management processes required to deliver strategic policy decisions<sup>8</sup>



The Medium Term Budgetary Framework (MTBF) was adopted by the GoKP in 2010 to bring a three year perspective in resource planning and budgeting. Since then fiscal forecasts under the Medium Term Fiscal Framework (MTFF) are prepared each year as part of the Budget Strategy Papers. Accordingly, three-year indicative budgetary ceilings are communicated to all departments for salary and non-salary expenditure, along with the Budget Call Circular. Block indicative ceilings for the medium term are separately communicated to the P&D Department. The annual Budget Call Circular and ADP Guidelines have also been improved to bring a strategic and integrated approach to planning and budgeting in terms of costing of forward estimates (including expenditures of a recurring nature as well as development commitments and their recurring cost implications) in light of sectorial policies and evidence of people’s needs.

<sup>7</sup> Source: PEFA – PFM Performance Measurement Framework, Revised 2011.  
<sup>8</sup> Source: Sequencing PFM Reforms, Jack Diamond 2013.

There still remains a substantial need to establish greater linkage between strategies and the enacted budget through credible forward costing to improve predictability of resource availability, and maintaining aggregate fiscal discipline. It is even more important with the commencement of the new local government system, where the inter-government budgetary relations will come into play and synergies between provincial and local government priorities will become essential for achievement of local, regional, national and international commitments.

The Finance and P&D Departments have initiated a number of reforms to strengthen the top-down component. At the commencement of tenure of the present Provincial Government in 2013, detailed consultations were held between all the key departments to identify reform frameworks with interventions and their indicative costing. Sectoral Coordination Committees were formed under the SDPF to take stock of reforms and identify clear strategic interventions for socio-economic development in collaboration with the DPs. These consultations resulted in the formulation of the IDS.

Furthermore, health and education are two of the main social service delivery sectors where the sectorial policies and priorities have been consolidated into Education Sector Plan and Health Sector Strategy with detailed cost estimation of service delivery. Such strategies need to be formulated for all the major sectors and each individual district based on macro and micro economic analysis, evidential needs assessment, credible costing of service delivery and clearly defined operational plans linked with medium term budget estimates.

The PFM Reform Strategy aims at consolidation and deepening of the reforms already undertaken with new reforms initiatives to mitigate the gaps and challenges. An enabling legislative framework is envisaged to ensure cohesiveness, conformity, systemic approach and sustainability in PFM reforms at Provincial as well as local government tiers.

Table 2. Key Performance Indicators for Objective A

KEY PERFORMANCE INDICATOR(S)	UNIT OF MEASUREMENT	BASELINE	TARGET			DATA SOURCE
			Y-1	Y-2	Y-3	
1. Sectoral policies and strategies approved	Number	2	3	5	8	Published policy documents
2. Alignment of sectoral budgets with policies and strategies	Percentage	-	50	60	70	ADP, ASRs, Budget
3. OBB performance benchmarks achieved (≥70%)	Number of Departments	03	10	20	30	OBB

Table 3. Strategic interventions under Objective A

STRATEGIC INTERVENTIONS	SEQUENCE OF ACTIVITIES		
	Y-1	Y-2	Y-3
<b>REFORM AREA: A-1. Formulation of policies, strategies and action plans</b>			
A-1.1. Development of annual fiscal policy	Determine assumptions and contours of fiscal policy, identify data and capacity gaps	Publish first ever annual fiscal policy for the entire province including local governments well in time and base budget decisions on its stipulations	Institutionalize processes for annual revision & publishing of fiscal policy, and ensuring its compliance
A-1.2. Standardised costing of service delivery	Develop Framework/ Guidelines for sector/department led costing and annual review mechanism. Pilot in 03 sectors/depts.	Rollout in 5 additional sectors. Publish booklets of standardised costing to facilitate planning & budgeting	Roll out in all remaining sectors/departments
A-1.3 Development of multi-year sectorial strategies	Develop provincial sectorial strategies in 03 sectors. Also pilot exercise in 06 districts	Develop provincial sectorial strategies in 05 additional sectors and rollout to 12 districts.	Develop sectorial strategies in all remaining sectors and districts
A-1.4. Development of multi-year district development plans (DDPs)	Develop DDPs in 06 Districts	Develop DDPs in 06 additional Districts	DDPs in remaining Districts
<b>REFORM AREA: A-2. Integrated multi-year budgeting</b>			
A-2.1. Medium Term Fiscal Framework for provincial and district governments	Embed 3-year fiscal modelling in IFMIS at Provincial level	Rollout system based fiscal modelling (IFMIS) at district level	
A-2.2. Development of budget strategy papers	Release BSP I & II based on regular pre-budget hearings with key stakeholders	Release BSP I & II based on fiscal policy and regular pre-budget hearings with key stakeholders	Release BSP I & II based on fiscal policy and regular pre-budget hearings with key stakeholders
A-2.3. Predictability on funds availability to line departments and local governments	Prepare & issue 3-year indicative budgetary ceilings (current & development) along with BCC	Sustain and improve compliance	Sustain and improve compliance
A-2.4. Rejuvenate annual business planning	Design standardised ABP forms. Pilot in 10 departments and 6 districts having DDPs	Rollout to 10 additional departments and 6 additional districts	Rollout to all departments and districts
A-2.5. Institutional framework for greater integration of current and development budget	Review report on organisational restructuring in P&D	Develop robust organisational structures	Integration of planning & budgeting in IFMIS

STRATEGIC INTERVENTIONS	SEQUENCE OF ACTIVITIES		
	Y-1	Y-2	Y-3
<b>REFORM AREA: A-3. Legal and regulatory framework</b>			
A-3.1. Promulgation of Provincial PFM Act	Draft Provincial PFM Act and wider stake holders consultations	Approval from Provincial Assembly	Implementation and compliance
A-3.2. Revision and updating of Provincial Budget Manual, 1999	Notify a working group and review/propose amendments	Finalize and approve Revised Provincial Budget Manual	Implementation and compliance
A-3.3. Revision and updating of General Financial Rules	Notify a working group and review/propose amendments	Finalize and approve Revised General Financial Rules	Implementation and compliance
<b>REFORM AREA A-4. Efficient and effective inter-governmental fiscal relations</b>			
A-4.1. Establishment of well-resourced NFC support unit	Establish NFC support unit and effective engagement with Federal Govt. on NFC Award and fiscal matters	Establish inter linkages between Federal and Provincial MTF	
A-4.2. Establishment of Provincial Finance Commission Secretariat	Strengthen PFC Secretariat to carry out fiscal simulations and present options for review and design of a PFC Award	Implement PFC Award	Implement PFC Award and its review
<b>REFORM AREA A-5. Donor coordination on aid effectiveness</b>			
A-5.1. Predictability of direct budget support	Develop fiscal framework on budget/sector budget support based on consultations with DPs	Integrate fiscal framework with mainstream budgeting in IFMIS	
A-5.2. Financial information sharing for budgeting and reporting on project and programme aid	Carry out regular donor coordination under SDPF	Carry out regular donor coordination under SDPF	Carry out regular donor coordination under SDPF
A-5.3. Use of country systems for aid management	Notify a working group to assess and review the systems used by various donors	Identify areas to improve country systems, especially procurement and public financial management, in accordance with foreign assistance framework	Implementation and compliance

The Government of Khyber Pakhtunkhwa piloted Output Based Budgeting (OBB) under the MTBF in 2010-11 to introduce performance orientation in the annual budget. Since then, OBB has been rolled out to a majority of the departments and significant improvements have been made in budget preparation and documentation process through the provision of continuous technical assistance to the Finance and P&D Departments and line departments. During 2011-12, OBB was also introduced at the district level on pilot basis in the form of conditional grants, wherein funds were tied to specific service delivery outputs in health and education sectors. This conditional grants mechanism achieved overwhelming success and has been rolled out to a majority of the districts to supplement non-salary allocations for school improvement in education sector.

Another initiative introduced along with OBB and conditional grants is an inclusive approach to budgeting via bottom-up district planning for conditional grants, participative budget review sessions, departmental budget hearings, consultative workshops for raising citizens' voice in budgeting and pre-budget parliamentarians' Jirga.

Significant interventions are required to make the budget more comprehensive and credible in terms of donor contributions as budget/sector budget support and extra budgetary commitments. While the SDPF provides a platform for donor harmonization, its implementation will remain weak unless foreign grants are effectively budgeted and forecasted for improvements in service delivery.

One of the key dimensions of an open and orderly PFM system is that comprehensive fiscal and budget information is accessible to the public. Budget transparency brings a wide array of benefits, from a focus on social sector spending and reduced corruption to increased scrutiny of executive action and better prioritisation of public investment .

In light of promulgation of the KP Right to Information Act, 2013 and KP Right to Services Act, 2014 the Finance Department conducted a Budget Transparency Review in 2014 using the Open Budget Survey methodology which highlighted several shortcomings in budget process and documentation that limit transparency and accessibility.

It also brought to light some weaknesses of the present budgeting practices that put the credibility and comprehensiveness of the government's budget at risk such as weak mechanisms for macro-economic forecast, asset management, reporting of expenditure arrears etc. There is also a need to strengthen mechanisms in the Finance Department for assessment of fiscal risks and projected provision for risks, and making it an integral part of an annual fiscal strategy statement accompanying the BSP.

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<sup>9</sup> KP Budget Transparency Review 2014

Recommendations of BTR have led to the introduction of key improvements in the budget cycle 2014-15 and 2015-16:

- Publishing and dissemination of Citizens' Budget;
- Inclusion of actual expenditure outturn for preceding years in budget documents to present a comparable basis for budget estimates;;
- Timely preparation and release of Budget Strategy Paper to aid in budget negotiations at political and executive level;
- Timely release of Budget Call Circular inclusive of the budget calendar and improvements in substance and layout of performance information in OBB.

Further improvements as identified in the BTR have been made part of the PFM Reform Strategy with periodic assessments to ensure an optimal level of transparency and comprehensiveness in budget.

This strategy is aimed at the deepening of existing reforms on a sustainable basis both at provincial and local government tiers. One of the key dimensions under this policy objective is business process re-engineering to facilitate realistic, accurate and efficient budget making. The business process reengineering is aimed to transcend budget making in order to enable closer integration of various PFM functions through SAP ECC 6 modules (Enterprise Resource Planning family software being used for IFMIS by PIFRA) i.e. Financial Accounting, Controlling, Material Management, Fund Management and Project System. This is important to harmonize processes, data generation, and reporting for various PFM stakeholders. Utilizing the online, real-time capabilities of the SAP would result in reduction of discrepancies, redundancies and manual labour/record keeping. This intervention is also greatly aligned with e-governance objective of the GoKP.

Table 4. Key Performance Indicator for Objective B

KEY PERFORMANCE INDICATOR(S)	UNIT OF MEASUREMENT	BASELINE	TARGET			DATA SOURCE
			Y-1	Y-2	Y-3	
1. Improvement in Open Budget Index (Budget Transparency Review)	Score	51	55	60	65	OBB
2. E-budgeting coverage through IFMIS	Number of Departments and Districts	-	System Design	02 Depts'	5 Depts' and 01 district	FMIU/SAP CC
3. IFMIS Coverage to LGs	Qualitative assessment	-	System Design	Implementation initiated	All covered (76 TMAs & 3,501 VCs/NCs)	FMIU/SAP CC



Table 5. Strategic interventions under Objective B

STRATEGIC INTERVENTIONS	SEQUENCE OF ACTIVITIES		
	Y-1	Y-2	Y-3
<b>REFORM AREA: B-1. Budget transparency and accessibility</b>			
B-1.1. Formulation and implementation of a communications strategy for enhancing public access to budgetary information and public oversight (province & local governments)	Develop Communication Strategies for Provincial Govt. and Local Govt. with stakeholder consultations	Approve and implement	Monitor implementation
B-1.2. Comprehensive budget documentation with a focus on macroeconomic assumptions, debt profiling, actual expenditure outcomes, extra-budgetary funds, financial & non-financial assets, expenditure arrears, etc.	Instil institutional mechanisms for capturing of relevant data	Review and revise the layout and structure of key budget documents	Continue improvement and sustain transparency measures
B-1.3. Budget estimates for service delivery and citizens' budget – deepening and rollout	Institutionalize through PFM Act and promulgate local govts. Budget Rules	Continuous improvement and performance based budgeting in key sectors of 12 districts	Roll out to all districts
B-1.4. Improve budget execution reporting	Revitalize in-year and year-end BERs and enhance public access	Initiate BERs against Budget Estimates for Service Delivery and Citizens' Budget through IFMIS	Roll out to local govts
B-1.5. Increase accessibility of budgetary information through a mix of media tools	Develop SOPs for regular release of budgetary information	Implement Communications Strategy	
B-1.6. Citizens' voice in budget making and oversight of execution by holding pre and post budget consultations	2 pre-budget consultations at provincial level and 01 each in 6 districts	3 pre/post budget consultations at provincial level and 01 each in 12 districts	4 pre/post budget consultations at provincial level and 01 each in all districts
<b>REFORM AREA: B-2. Business process reengineering and expansion of IFMIS for optimal utilization</b>			
B-2.1. Budgeting of revenue component (tax and non-tax) with realistic monthly targets	Develop budget guidelines	Configure IFMIS to accommodate online real-time system for budgeting, accounting and reporting of tax and non-tax revenue	Implement
B-2.2. Automation of budget making process	Review existing system of budget making at central departments and line departments	Approve diagnostic study. Configure IFMIS and conduct pilot test	
B-2.3. Redefining roles and responsibilities of all departments in light of the new system		Develop manual for new system to operationalize the automated system	Develop business continuity plan and roll out to district govts.

STRATEGIC INTERVENTIONS	SEQUENCE OF ACTIVITIES		
	Y-1	Y-2	Y-3
<b>REFORM AREA: B-3. Roll out of CoA and IFMIS to local governments</b>			
B-3.1. Roll out of Chart of Accounts	Develop a review report of COA – provincial and local govts.	Approve and notify	
B-3.2. IT infrastructure for local governments	Assess resource requirements and funding arrangements	Procurement and installations	
B-3.3. Business process modelling – IFMIS		Pilot test the IFMIS	Develop business continuity plan and implement it
<b>REFORM AREA: B-4. Institutional framework for aid management – budget/sector-budget support and extra-budget support</b>			
B-4.1. Revitalize regulatory framework for foreign aid management		Develop rules on foreign aid management	Approve and implement rules. Develop mechanisms for synchronizing foreign aid with budget cycle and strengthening its budgeting and reporting
B-4.2. Strengthening of Foreign Aid Section in P&D Department	Review report on organisational restructuring in P&D and build consensus on way forward	Develop robust organisational structures	

The ability to implement the budgeted expenditure is an important factor in supporting the government's ability to deliver public services for the year as expressed in policy statements, output commitments and work plans. Therefore automated internal control mechanisms for salary, non-salary expenditures and development investments are necessary along with building the right capacities and empowering the right institutions. Currently, the SAP R3 based Integrated Financial Management Information System (IFMIS) is in place and being used for budgeting and reporting by the Finance Department, however it is not being optimally utilised for programme level financial management, procurements, asset and debt management, real-time budget preparation at the DDO/district/line-department level, capturing of foreign budget/sector budget support and extra-budgetary support/expenditure, expenditure management at the basic service delivery unit level etc. The IFMIS is capable of supporting all these functions and more, but needs to be effectively capitalized to automate operations, function as a comprehensive databank, and create synergies at all tiers of government. The IFMIS connectivity is provided to all line departments however its utilization is non-existent or ineffective. Connectivity also needs to be extended to the newly formed local governments after reconfiguration of the system.

A majority of the current budget is allocated to payroll and pensions with a negligible balance set aside for non-salary expenditures. This anomalous distribution of operational expenditure must be rectified if the quality of service delivery is to be maintained and the business plans of the service delivery units are to be successfully implemented. To this end, the DDO Handbook which defines non-salary controls is being updated in order to promote a better 'control environment' for the said expenditure while simultaneously making the rules relevant to new developments and easier to follow.

To strengthen procurement regime the GoKP has established the KPPRA. The Work Bank has also been providing technical support for public procurement reforms, under the Public Procurement Regulatory Framework. A request is underway for an International Development Fund grant to support further procurement reform to implement the regulatory framework. It will entail revision of the procurement rules, updating of the standard procurement documents, a complaint-redressal mechanism, the institutional set up for procurement and a sustainable training program.

Under the General Financial Rules, the Principal Accounting Officers are required to conduct regular internal checks since the Internal Audit function, as defined by international standards, did not exist. In recent years an internal audit policy has been developed and internal audit units have been established in 11 departments. However, the internal audit function in the line departments needs to be strengthened greatly and extended to the district governments as well. There is a need to provide relevant capacities to conduct IT-based internal audits of salary, non-salary and pension components.

A rapid assessment of public expenditure tracking in Primary Health sector was recently conducted with the support of Sub-National Governance Programme. The survey report has highlighted a number of issues with budgeting, fund flow, HR management and inventory management that severely limits the extent of expenditure reporting at the level of districts and basic service delivery units. The basic principles need to be applied system-wide to identify and resolve systemic problems, such as delays in the transfer of funds, leakage or capture of funds and inequity in the disbursement of resources. This will help in improving the efficiency of public expenditure and the quality of services.

Table 6. Key Performance Indicator for Objective C

KEY PERFORMANCE INDICATOR(S)	UNIT OF MEASUREMENT	BASELINE	TARGET			DATA SOURCE
			Y-1	Y-2	Y-3	
1. Efficiency savings yielded by effective expenditure controls	PKR in million	-	2,000	4,000	6,000	Budget
2. Aggregate expenditure outturn	Percentage	15	<10	<5	<5	Budget

Table 7. Strategic interventions under Objective C

STRATEGIC INTERVENTIONS	SEQUENCE OF ACTIVITIES		
	Y-1	Y-2	Y-3
<b>REFORM AREA: C-1. Effective controls for non-salary expenditure</b>			
C-1.1. Initiation of mid-year budget/expenditure reviews	Instil institutional mechanisms and SOPs for conducting mid-year expenditure review for service delivery	Conduct mid-year expenditure review and disseminate findings	Continue improvement
C-1.2. SOPs/ regulatory framework for lump sum allocations in budget, including contingency reserves	Conduct a study on the best practices, historical perspective and efficiency gains/losses in lump sum allocations and contingency budgeting	Promulgate policy on lump sum allocations in budget across the board for Provincial and Local Governments	Implement and ensure compliance
C-1.3. Policy on conditional grants, performance incentives, fiscal equalization subvention, and subsidies/grants-in-aid etc.	Formulate provincial policy in collaboration with DPs	Implement the policy under a results based framework	
C-1.4. Revision of Rules on Delegation of Financial Powers	Revise, approve and notify the rules	Continue their review and updating	
C-1.5. Actuarial services for establishing baseline for pension liabilities with flexible roadmap/interface for continuous review and updating		Hire actuarial services and conduct baseline study on pension and post-retirement benefits	Automate the pension budgeting, payment, recording and reporting in IFMIS

STRATEGIC INTERVENTIONS	SEQUENCE OF ACTIVITIES		
	Y-1	Y-2	Y-3
<b>REFORM AREA: C-2. Integrated HR and payroll management</b>			
C-2.1. Synchronization of job codes – budget and CoA	Standardize job codes for all departments and its updating in IFMIS		
C-2.2. Optimization of HR module in IFMIS	Initiate e-payroll service	Review HR module for full-fledged HR management	System design and implementation for integrated HR management
C-2.3. IT-based payroll audit	Conduct payroll audit in 2 key sectors	Roll out to 3 more sectors	
C-2.4. Study on sustainability of salary budget and analysis of its relevance with service delivery		Sustainability study of salary expenditure	Policy on rationalization, abolition and creation of posts
<b>REFORM AREA: C-3. Strengthening procurement regime</b>			
C-3.1. Integration of public procurement system with the mainstream budget and expenditure management system - IFMIS	Strengthening of e-procurement processes through online web portal of KPPRA	Review and revival of commitment accounting	
C-3.2. Sectorial/department level procurement guidelines to serve special procurement needs	Develop procurement guidelines in 2 sectors	Roll out to 4 additional sectors	Roll out to all key sectors
<b>REFORM AREA: C-4. Banking and Treasury reforms</b>			
C-4.1. Structural reforms in Treasury Department	Review of the organisational structures and processes	Business process reengineering	
C-4.2. Management and maintenance of designated bank accounts	Develop policy and regulatory framework	Implement	
C-4.3. Strengthening banking regulatory regime	Establish a specialised wing in Finance Department	Develop guidelines	Implement
<b>REFORM AREA: C-5. Improvements in expenditure tracking and reporting</b>			
C-5.1. Regulatory framework for planning & budgeting at service delivery unit level	Conduct a full scale PETS in at least 2 sectors	Develop policy	Implement
C-5.2. Design and implementation of sub-system for budgeting, accounting and reporting in IFMIS	Review existing capabilities of IFMIS and the BPC module	Design system and SOPs	Implement
C-5.3. Geo-sensitive reporting via GIS	Continue and expand GIS usage in 6 districts	Rollout to 12 districts	Rollout to all remaining districts

A key effect of fiscal federalism in Pakistan is that transfers from Federal Government constitute a large chunk of the provincial resources, amounting to over 80 percent of the total general revenue receipts in KP. The provincial tax and non-tax receipts present an inconsistent trend and a large chunk of it comes from the recently devolved Sales Tax on Services. On the other hand the increasing wage bill and pension liabilities of the government claim a large portion of the budget, leaving a constrained fiscal space to meet development needs of the province. Additionally, the LGs are greatly dependent on transfers from the Provincial Government to meet their expenditure requirements due to underutilisation of their revenue potential, despite the fact that the LGs are assigned revenue functions under the LGA 2013.

To augment its resource base a number of measures have been taken in the form of establishment of Hydel Development Fund, Oil and Gas Company Limited and Energy development organization. To revitalize the manufacturing sector, the Economic Zone Development and Management Company has been established staffed with experts in relevant fields. GoKP has also been issuing austerity directives each year to contain its non-salary expenditure (vehicle purchases, POL, foreign travel, limits on construction of new houses etc.), managing budget deficit with cash balances that also include savings from financing of the development budget and enforcing budget cuts. However, the need to mobilise provincial resources to boost own source revenues has never been clearer, especially with the initiation of 9th NFC deliberations.

The first step towards accelerating growth, achieving economic prosperity and revenue mobilisation was undertaken by the P&D Department in 2015 with the launch of the Medium Term Inclusive Growth Strategy for Reclaiming Prosperity in KP. The strategy is founded on key principles of focusing private sector-led growth, identifies the key growth drivers; highlights the stimulus for priority sectors, puts forward suggestions on improving investment climate and ensuring inclusive growth to achieve sustainable growth targets in the medium term. Conversely, its influence in shaping the annual development policy for the province is lacking due to a weak implementation and oversight mechanism.

A tax survey was conducted in 2014 by the ET&NC Department to assess revenue potential for Sales Tax on Services. The survey covered three districts, i.e. Peshawar, Abbottabad and Mardan, focusing on: (i) determining current exemptions and estimating the tax potential of registered service providers, and (ii) identifying new service providers to expand the tax net in the province. The results of the Survey proved that the potential of sales tax on services is almost ten times the revenues being collected. The Government is now planning to conduct a comprehensive survey in the entire province for multiple taxes while also looking at updating tax policy and administration system.

The GoKP is preparing itself for a results-based financing programme from the World Bank, focusing on strengthening PFM system for revenue mobilization, public resource management and service delivery as assessed by the PEFA study concluded in 2016.

Table 8. Key Performance Indicator for Objective D

KEY PERFORMANCE INDICATOR(S)	UNIT OF MEASUREMENT	BASELINE	TARGET			DATA SOURCE
			Y-1	Y-2	Y-3	
1. Increase in provincial own source revenue over baseline	Percentage	PKR 49.5 billion	25%	35%	50%	Budget documents

Table 9. Strategic interventions under Objective D

STRATEGIC INTERVENTIONS	SEQUENCE OF ACTIVITIES		
	Y-1	Y-2	Y-3
<b>REFORM AREA: D-1. Resource mobilisation strategy</b>			
D-1.1. Implementation of medium term Economic Growth Strategy	Develop action plan with yearly targets and operationalize oversight mechanism	Policy on public investment (gearing ADP for economic growth, delegating basic social services to LGs)	Continue implementation and oversight. Review policy
D-1.2. Develop annual revenue mobilisation proposals as part of BSP I and BSP II	Regular coordination via SCC on enhanced fiscal space to present and assess proposals for consideration by Cabinet	Continue	Continue
D-1.3. Strengthen economic research and advisory capabilities		Establish an advisory unit in FD	Create linkages with P&D, economic growth sector depts., revenue generating depts. / corporate bodies, and other relevant agencies
<b>REFORM AREA: D-2. Tax policy and administration reform</b>			
D-2.1. Evidence based assessment of revenue potential from taxation	Conduct comprehensive tax survey in phased manner	Implement policy and regulatory changes to broaden tax base & tax net and reduce tax evasion	Design and implement system for tax audit, and ensure compliance
D-2.2. Computerization of tax records	Conduct study for automation and integration of tax records	Design system and action plan for implementation. Build capacities	Implement

STRATEGIC INTERVENTIONS	SEQUENCE OF ACTIVITIES		
	Y-1	Y-2	Y-3
D-2.3. Linking tax bases across taxes and governments through better information sharing between provincial BOR, E,T&NC Department, KPRA, and FBR		Notify a permanent coordination forum	Design institutional framework/mechanisms for resolution of jurisdictional overlap between federal, provincial and LG
D-2.4. Improve tax administration (including tax compliance, audit and arrears) through technical and managerial capacity building	Undertake TNA and design robust Training Strategy	Implement Training Strategy	Continue
D-2.5. Introduction of performance incentives	Develop and notify policy on performance incentives	Implement	Annual review and implementation
D-2.6. Taxpayer facilitation and voluntary compliance	Review of tax policy. Public awareness and communication of tax rates, liabilities and forms.	Automation of tax filing	Establishment of citizen facilitation centres
<b>REFORM AREA: D-3. Optimization of local revenue base</b>			
D-3.1. Capacitate LGs to levy and collect tax and non-tax revenues	Mapping of current revenue base	Regularly notify model tax schedule and its review	Provide training to enhance collections



Asset and liability management has been a weak area of PFM in KP. This area was also overlooked in the previous KP PFM Reform Strategy 2010, mainly due to low political priority, difficulties in implementing solutions and creating enabling linkages with the Federal Government, and lack of technical capacity for corporate governance and debt management.

The GoKP’s financial assets are mainly fixed income securities – Investments under different types of funds managed by the Finance Department i.e. General Provident Investment Fund, Pension Fund and Hydel Development Fund. In addition to that the GoKP also allocates considerable resources to public sector entities. However, monitoring of such entities and management of funds needs strengthening to allow GoKP in determining the adequacy of returns on its investments and reporting of risks. For that purpose the Finance Department is collaborating with the development partners for instituting Corporate Governance Framework to determine the financial and economic returns on investments in Public Sector Enterprises and monitor contingent liabilities.

The Strategy also includes interventions to enable effective use and maintenance of physical assets including infrastructure, real estate, and movable assets. The accumulation of discarded moveable assets and losses in leasing out non-financial assets (land and properties) has been repeatedly identified in audit reports. The investment, inventory and procurement management systems also need to be automated and linked to the main financial management and reporting system.

After the 18th amendment to the Constitution, the provinces have been allowed to create debt, however, an overarching Framework has to be agreed with the National Economic Council. The Finance Department needs improvement in performance of its debt management functions, though it took a significant decision to retire expensive loans of the Federal Government as part of recent efforts to ease the heavy debt servicing liability on the provincial budget. However, there is need for specialized capabilities in the department to carry out debt sustainability analysis and develop policy options as part of a methodical debt management strategy. GoKP has requested technical support from the World Bank for conducting debt sustainability analysis and recently consultations have commenced with the office of the Controller General of Account for creation of dashboard and enabling system to support debt sustainability analysis.

Table 10. Key Performance Indicator for Objective E

KEY PERFORMANCE INDICATOR(S)	UNIT OF MEASUREMENT	BASELINE	TARGET			DATA SOURCE
			Y-1	Y-2	Y-3	
1. Improvement in DeMPA score over baseline	Score	No baseline	Baseline established	1 step improvement	2 step improvement	Internal assessment

Table 11. Strategic interventions under Objective E

STRATEGIC INTERVENTIONS	SEQUENCE OF ACTIVITIES		
	Y-1	Y-2	Y-3
<b>REFORM AREA: E-1. Management of assets and investments</b>			
E-1.1. Investment and fund management	Establish corporate governance unit in Finance Department	Carry out regular risk analysis and ensure transparency of financial reports	Review and identify revenue mobilisation proposals
E-1.2. Cash management – automated mechanisms for modelling and forecasts	Instil institutional framework for cash balance reporting	Develop automated interface for cash management	Build capacities
E-1.3. Automated inventory and registry system for non-financial assets	Assessment of existing systems & procedures and explore options for GIS tagging of fixed assets	System design and implementation on pilot basis	Roll out
<b>REFORM AREA: E-2. Debt management</b>			
E-2.1. Formulation of debt management legislation and strategy	Conduct baseline study DeMPA	Develop debt management strategy and hold stakeholders consultations, including Federal Govt. and NEC	Promulgate Provincial Fiscal Responsibility and Debt Limitation Act

The GoKP’s commitment to increased accountability is evident from the recent promulgation of the Right to Services Act, 2014 and the establishment of the Ehtesaab Commission. The KP M&E Framework formulated in 2011 was designed to move beyond monitoring of development budget to include monitoring and evaluation of service delivery in an integrated manner.

There is a need to synchronize M&E systems in the province to provide a harmonious picture of service delivery against policy and budget commitments. The M&E functions at the department level also require strengthening to ensure effective internal control over public expenditures and facilitate external oversight of service delivery. Recently a District Performance Management Framework has also been initiated by the Chief Secretary’s office that serves as monitoring system for key service delivery and management indicators in the Districts.

While strengthening linkage of budget inputs with performance outputs, there is also a need to conduct value-for-money studies and performance audits. Performance audit covers economy, efficiency and effectiveness. It focuses largely on results as opposed to Compliance Audit, which focuses entirely on compliance with rules and regulations.

The Public Accounts Committee (PAC) are the highest accountability forums. They promote fiscal discipline and efficiency in government operations. Hence, members of the PAC need to have strengthened capacities for the discharge of their mandate. The PAC needs to sift through a large number of audit points and prioritize them so that they can be dealt with in a timely fashion. In recent years it has taken important steps towards making its operations effective and tracking its recommendations.

Cognizant of the significance of sound system of internal controls, the GoKP has promulgated an Internal Audit Policy based on international standards and best practices. The internal audit cells have accordingly been notified in 11 departments, but their activation and roll out of the internal audit still remains very slow. The new local governance system also requires establishment of the internal audit function in the local governments.

Table 12. Key Performance Indicator for Objective F

KEY PERFORMANCE INDICATOR(S)	UNIT OF MEASUREMENT	BASELINE	TARGET			DATA SOURCE
			Y-1	Y-2	Y-3	
1. Coverage and scope of Internal Audit	Number of Departments	03	06	12	30	Budget
2. Coverage of budget and expenditure scrutiny by legislative body	Number of Meetings/ Sessions	0	Gap Analysis Report	Institutional Framework	Notification & Activation	Notification & MoM
3. Coverage of Performance Audit	Number of Departments	0	01	05	10	Audit Reports

Table 13. Strategic interventions under Objective F

STRATEGIC INTERVENTIONS	SEQUENCE OF ACTIVITIES		
	Y-1	Y-2	Y-3
<b>REFORM AREA: F-1. Strengthening of legislative oversight</b>			
F-1.1. Constitution and notification of budget oversight committee		Design institutional framework for legislative oversight of budget making and execution	Constitute, notify and activate Budget Oversight Committee
F-1.2. In-house technical assistance for Public Accounts Committees	Analyse capacity gaps in light of international best practices and evolving PFM regime	Carry out institutional strengthening of PAC	
<b>REFORM AREA: F-2. Revitalization of monitoring &amp; evaluation system</b>			
F-2.1. Revitalisation of KP M&E Framework	Revise KP M&E Framework	Develop M&E Framework for local govts.	
F-2.2. Development and implementation of performance management system	Strengthen inputs and outputs monitoring through PMRU	Strengthen links with policy, planning and budgeting	Strengthen citizen feedback model
F-2.3. Strengthen Departmental M&E		Restructure and revive M&E units in 04 departments	Roll out to 10 additional departments
<b>REFORM AREA: F-3. Enhance coverage and quality of external audit</b>			
F-3.1. Performance audit (value-for-money)	Pilot in 01 key sector/ programme	Develop scale-up plan. Rollout performance audit	
F-3.2. Revitalization of local fund audit	Agree scope and coverage of Local Fund Audit	Carry out organizational re-structuring	Develop local fund audit manual
F-3.3. Mechanism for enhancing public access and oversight of audit reports and follow-up	Agree budget transparency measures	Implement Communications Strategy	
<b>REFORM AREA: F-4. Internal audit</b>			
F-4.1. Deepening and rollout of internal audit function	Activate internal audit units in 06 departments	Roll out to 06 additional departments	Roll out to all departments

### Bridging Gaps in Knowledge, Skills and Competencies

Capacity building for effective and efficient public financial management has remained a weak area. Despite several once-off initiatives to train personnel in collaboration with public/private institutes like the Pakistan Academy of Rural Development, the Staff Training Institute of the GoKP and the Institute of Management Sciences, the capacity building efforts fall short and do not cater for the needs of the government. The Finance Department has also been conducting Subordinate Accounting Services type examination internally through third party for the staff of its Treasuries and Local Fund Audit wings, however, the curriculum is outdated. In addition qualification requirements for most of the positions are not appropriate to their job description. Due to the unavailability of staff skilled in public financial management, the province has been relying heavily on the services of specialized people from Pakistan Audit & Accounts Department on deputation basis. This arrangement does not provide a viable option for the needs of the province in the long run.

The following key interventions have been identified to strengthen the capacity building function:

1. Conducting regular training needs assessments and continuous planning and review of trainings as part of the Rules of Business.
2. Devising an Annual Training Calendar for the training needs of management group and technical group.
3. Use of HR module of IFMIS (SAP ECC 6) for maintaining a databank of educational and professional qualifications/competencies of all employees (provincial and local governments). This will aid in matching the right people to the right jobs in organisational reshuffling, identifying gaps in requirements of job performance and existing competencies/skills of personnel, and continuous professional development of personnel.

Despite the online capabilities of the SAP ECC 6 and the huge resources spent on implementing it across the country, there are still several legacy systems being used in the province for different public financial management purposes that are duplicating/overlapping with the SAP ECC 6. An example of this duplication is the Human Resource Information System (HRIS) of Finance Department used for preparation of salary budget estimates and the SAP HR module being used for payroll. Another example is the MS Excel based system of P&DD being used for preparation of Annual Development Programme and project management which is then eventually sent to Finance Department for uploading on IFMIS for budget preparation.

The business process reengineering required to remove these legacy related duplications and redundancies through SAP ECC 6 (IFMIS) will necessitate infusion of new blood through hiring of experts, where deemed cost effective, and comprehensive trainings across the board for the existing staff. This will include:

1. SAP Certification on ABAP, BASIS and SAP Functional Modules of FI, CO, PS, and HR, being the core functional modules, for a few selected manager level personnel having the required aptitude in Finance Department and P&D Department.

2. End user trainings to the middle and high level management of all departments and districts on generation of various types of reports to effectively supervise and control the business transactions.
3. SAP certifications and trainings for the technical personnel at the operational level.

Table 14. PFM and related areas requiring continues capacity building efforts

Conceptual	Computational	Analytical/Specialized
1. Constitutional Provisions – Fiscal Procedure	1. Computer hardware and software	1. Advanced Mathematical & Statistical techniques
2. General Financial Rules	2. Microsoft Office	2. Advanced level training in MS Excel
3. New Accounting Model	3. Data Communication – Networking	3. Public Financial Management – Best Practices
4. Financial Audit	4. Internet, Intranet and Extranet	4. Public Sector Budgeting – Best Practices
5. Service and Financial Rules	5. Database Management Systems	5. Financial Modelling
6. Budget Rules	6. SAP Certification	6. Financial Statements Analysis
7. Public Procurement Rules	7. SAP End user trainings	7. Development Economics
8. Treasury Rules	8. Audit Command Language	8. Effective communication and presentation skills
9. Local Government Finance		9. Data validity and analysis
10. Pension and Fund management		
11. Project Planning & Accounting		

## Gender Focused Approach to Reforms

The GoKP's Integrated Development Strategy (IDS) under the SDPF clearly identifies gender equality and equity as core cross-cutting priorities and ensures efforts to make policies and budget-making processes gender-sensitive. Underscoring the principle of gender mainstreaming for stronger and more robust economies, the need to create opportunities for women and girls is also reflected in the KP Economic Growth Strategy. Further strengthening these commitments, the GoKP launched the Women's Empowerment Policy in 2015. However, without adequate budgets for implementation, many of these good intentioned commitments remain unmet.

Good public financial management offers a way to systematically address gender inequality and improve the situation of women and girls who represent 48% of the KP population. Incorporating a gender perspective at all levels of the budgetary process helps to close the gap between rhetoric and action, and is essential to achieve commitments for gender equity. By incorporating gender perspectives into the entire budget process, not only is public financial management improved, but gender equality is more achievable.

Under the PFM Reform Strategy the GoKP will continue and build upon the following good practices for mainstreaming gender in budget cycle:

**Gender sensitive planning and budgeting:** ensuring efficient allocation, execution and utilization of resources based on identified needs (across sectors i.e. education, health, social protection, security, industries, agriculture, information technology, etc.) to strengthen gender equality and women's empowerment. The shift towards OBB has made it relatively easier to understand how resources are distributed in the budget to improve outcomes for different segments of the society and provides the best platform for presenting budgets representative of the needs of women, girls (beyond women-specific schemes) and marginalized groups. The inclusion of a gender perspective in project planning and budgeting, and gender disaggregation in performance indicators and targets needs to be further strengthened at provincial and local government levels, to yield positive results for women and girls.

**Mainstreaming gender in regulatory framework for budget-making:** Budget Call Circulars require departments to provide gender disaggregated data and project outcomes that outline impacts for girls and women. The ADP Guidelines also call for a focus on and linkages to policy commitments and targets for improving the situation for women and girls. For the first time, ADP Guidelines 2015-16 made it mandatory for district departments to engage with citizens during the budget-making processes. The new Budget Rules and P&D Guidelines for Local Governments also call for evidence based budgeting that incorporates gender sensitive planning. By specifically seeking to understand the priorities of women and girls through gender disaggregated needs assessments and citizens' engagement, PFM reforms aim to increase the capacity of local governments to make more evidence-based decisions for better results.

**Greater transparency and accountability:** Key PFM policy and planning documents such as the Citizen's Budget (2014, 2015 & 2016), the GoKP's White Paper, Budget Call Circular, Output-based Budget 2014-2017, and District level Performance Frameworks, all include a focus on improving results for women and girls.

**Incorporating voices of women and girls in budget:** Concerted efforts have been made to ensure that needs assessments adequately reflect gaps in service delivery for girls and women, including pre-budget consultations with women and girls. As a result of these activities, reflection of citizens' voice and women's development priorities has been ensured in district level budgetary processes

**Use of GIS:** to better understand and address barriers to access for girls through geo-spatial analysis, especially for local level planning and budgeting

**Data collection and monitoring:** Incorporate robust data collection and monitoring mechanisms in existing monitoring systems to collect gender and sex disaggregated data, ensure that targets for women and girls are met, and analyse expenditure patterns and service delivery to determine impact on women and girls.

With a greater focus on robust data on and tracking for girls and women, and through mainstreaming gender into key budgeting and planning documents for improved resource allocation, the GoKP aims to be better positioned to put policy into practice, and achieve its aims for better outcomes for girls and women.

## MONITORING & EVALUATION AND RISK MITIGATION DURING IMPLEMENTATION OF THE STRATEGY

**Oversight forums:** Two pronged oversight mechanism will be established: oversight by a committee of Ministers and oversight by a sub-committee of Administrative Secretaries. The PFM Reform Oversight Committee – under the chairmanship of Minister Finance – would lead the PFM Reforms from a political perspective and convene sessions on at least six-monthly basis. A sub-committee of Administrative Secretaries of P&D, Local Government, E&SE and Health Departments, headed by Secretary Finance, will be responsible for the strategic evaluation and operational monitoring of the GoKP PFM Reform Strategy, and will hold its sessions once every two months.

On need basis, the Reform Oversight Committee or the Secretaries' Committee may constitute temporary sub-committees/technical working groups to facilitate implementation of activities.

**Progress Reporting:** Finance Department will assign focal person/section within the department to coordinate and perform secretariat functions for progress reporting.

The Finance Department will coordinate and prepare monthly progress updates in the form of working papers for the Secretaries Committee sessions. Aggregate six-monthly reports will be prepared for the review of the Reform Oversight Committee, which would include affirmative action undertaken against key policy objectives at the provincial level and implementation status in districts and local governments.

Strategic monitoring of the PFM Reform strategy would include, inter alia:

- Policy objective wise assessment against yearly targets of key performance indicators (vis-à-vis baselines agreed) and strategic interventions identified under key reform areas;
- Progress against cross-cutting themes such as knowledge management, development of core competencies and gender-sensitive approach to financial reforms;
- Issues and bottlenecks for course correction;
- Matters requiring legislative/statutory enactments (if any);
- Compliance against issues/bottlenecks identified earlier/last meeting;
- Mitigation of existing risks and identification of new risks (if applicable); and,
- The way forward/direction of travel.

The monitoring reports would also cover following implementation dimensions, inter alia:

- Institutional implementation arrangements of Reform Strategy (progress, bottlenecks and recommendations);
- Roll out of the Reform Strategy to districts and local governments (update, issue/challenges and future direction);
- Synergies with complementary donor programmes/projects (World Bank, DFID, GiZ, USAID, etc.); and,
- Implementation components requiring donors' support (if applicable).



The PFM Reform Oversight Committee will also periodically review the risks and contingencies as part of the monitoring review. Some of the possible risks to be closely monitored during the phased implementation period are:

- Conflict, security, natural disaster or any other contextual change constraining government reform funding, impact or sustainability;
- Departments, districts and local governments may not fully participate in the PFM reform agenda as outlined in the Strategy document (for lack of enabling environment or any other reason);
- Any federal government legislation may prevent/hinder implementation of the Reform Strategy in KP;
- Few local governments may resist some of the reform actions, especially pertaining to evidence based planning, results based budgeting, transparency and accountability, etc.;
- Baseline data/information may not available for half-yearly monitoring of the key performance indicators against underlying Strategy objectives; and,
- Standardised unit costing for service delivery might not be possible in some sectors or might not apply to some geographical areas/regions.

**Assessment and Evaluation:** The Finance Department will also commission objective and independent assessment of PFM performance of the province, at least once every two years, on the pattern of PEFA Assessment that will also inform how effectively institutional and systemic changes have been implemented in the province under the government PFM Reform Strategy. If needed, government will seek for donors' support for these annual assessments.

The following internationally accepted evaluation parameters will be employed for assessment of the PFM Reform Strategy:

1. **Relevance and Appropriateness:** Assessment of whether the reform interventions are in line with the departmental needs and priorities – as well as local governments. It is to present the degree to which reform efforts are designed according to the capacity of departments and local governments. This will also touch upon the issues of institutional relativeness and capabilities.
2. **Connectedness:** This is to evaluate the degree to which the reform efforts are carried out in a context, which is cognizant of the longer term PFM challenges of the province. Issues of financial inputs, partnerships and the level to which the local capacity is supported and developed are to be taken into the account. This will also look into the extent to which various donor programmes/projects are complementary to Reform Strategy or otherwise.
3. **Coverage:** This is to determine institutional coverage of the Reform Strategy across all government departments, districts and local governments. Thematic coverage of the Reform Strategy objectives/components across sectors will also be examined under this dimension.

4. Efficiency: This is to measure the qualitative and quantitative reform outputs achieved as a result of 'inputs' (financial, human and technical). This will also compare alternative approaches to achieving a reform output/ desired result, and to see whether the most efficient approach was used. Critical issues to look into would be government priorities, financial areas and sources of inputs.
5. Effectiveness: An analysis of the extent to which the reform actions have achieved their purposes according to the Reform Strategy. This is to review the use of benefit of resources, understanding the degree to which the reform interventions are meeting the expected objectives and the timelines. This will include commentary on any update needed on sequencing of reform actions or phased approach of the Reform Strategy implementation in the province.
6. Coordination: In the face of multiple actors supporting reforms in KP, this is to reflect on the systematic use of policy instruments to deliver PFM reforms' impact in a joint and harmonised fashion. Looking into the role of the government and other local institutions, this is to review the degree to which the reform actions are cohesive and effective vis-à-vis parallel ongoing interventions.
7. Impact: Looking at the wider effects of reform interventions – political, institutional and technical – on departments, districts and local governments. This assessment dimension may include need for updating the Reform Strategy keeping in view changed political or institutional context (if applicable).

PFM Reform Strategy's six-monthly monitoring updates and evaluation report would be posted on GoKP web portal for improved transparency and accountability to stakeholders and public at large.

# Annexure

## Donor Assisted Reforms

Donor	Programme	Sector	Duration	Project Description	Fund
Australia, Denmark, European Union, Finland, Germany, Italy, Netherlands, Sweden, Turkey, UK, and USA	Multi-Donor Trust Fund	Multi-sectorial	2010 to 2015	The objective of the MDTF is to support reconstruction and development aimed at recovering from the impact of the crisis and reducing the potential for renewed crises, as well as long-term rehabilitation. It is one of the key instruments to support the PCNA's comprehensive reconstruction and development strategy designed to restore infrastructure, services and livelihoods while addressing governance and other challenges that contributed to the crisis. The MDTF is administered by the World Bank and the projects under it are executed by the Governments of Pakistan, KP, FATA, and Baluchistan.	USD 183.2 million  KP share = 82m
	Multi-Donor Trust Fund	Industries	October, 2011 to June 2015	<b>1. Economic Revitalization of KP &amp; FATA:</b> Creating sustainable employment opportunities through rehabilitation of SMEs, investment mobilization, and institutional capacity building.	USD 20 million  KP share = 11.18m
	Multi-Donor Trust Fund	Infrastructure – Roads	October, 2011 to June 2014	<b>2. KP Emergency Roads Recovery project:</b> Improved access and mobility through reconstruction of priority damaged roads and bridges in the conflict hit areas.	USD 8 million
	Multi-Donor Trust Fund	Governance	October, 2011 to June 2015	<b>3. Governance Support Project:</b> Strengthen the capacity of government departments to help support efficient delivery of the PCNA program.	USD 8.75 million  KP share = 5m approx.
	Multi-Donor Trust Fund	Health	April 2012 to June 2015	<b>4. Strengthening Health Services in Crisis Affected Areas of KP:</b> Improve availability, accessibility and delivery of primary and secondary healthcare services at the district level through Public Private Partnership.	USD 16 million

Donor	Programme	Sector	Duration	Project Description	Fund
	Multi-Donor Trust Fund	Regional Development	February 2013 to June 2015	<b>5. KP Southern Area Development Program:</b> To strengthen the capacity of the poor to improve their livelihood options through access to social and productive infrastructure using participatory approaches in the selected southern districts of Khyber Pakhtunkhwa province.	USD 18 million
	Multi-Donor Trust Fund	Industries	August 2013 to June 2015	<b>6. Competitive Industries Project for Khyber Pakhtunkhwa:</b> To improve the competitiveness of the marble and food processing sectors in KP by providing shared infrastructure and relevant skills along the marble sector value chain and by addressing knowledge and coordination gaps along the food processing sector value chain.	USD 9 million
Germany (GIZ)	Education sector development programme	Education	2008 to 2015	Provide technical and strategic advice at the provincial level in the following three components  <ol style="list-style-type: none"> <li>1. Governance structures</li> <li>2. Capacity development, and</li> <li>3. Quality and relevance</li> </ol>	
Germany (GIZ)	Support for good governance – Prevention of violence against women	Social Welfare & Women Empowerment	2010 to 2020	Provides capacity development to enhance the skills and know-how of government officials, and is helping to develop new approaches and modules. Support is also given to the media, community members and civil society organisations to help them address violence against women. The programme also encourages the collection of reliable data which can be fed into the development of provincial policies and a legal framework that address gender-based violence. The approach is divided into four strategic pillars: prevention, response, advocacy, and networking and coordination.	

Donor	Programme	Sector	Duration	Project Description	Fund
European Union	KP Districts Governance and Community Development Program	Regional Development	2013-2017	<p>Innovative results-based approach to district budget management, governance and community driven development in Malakand Division. Programme components are</p> <ul style="list-style-type: none"> <li>• budget support (under a Sector Reform Contract);</li> <li>• community social mobilisation by NSAs/NGOs;</li> <li>• capacity building, training and coaching of government line departments/agencies through technical assistance, including continuous 3<sup>rd</sup> party audit and validation;</li> <li>• monitoring, evaluation, audit and visibility.</li> </ul>	<p>€80 million</p> <p>Out of which KP Budget support = €64m</p>
USAID	Assessment and Strengthening Program – Rural Support Programmes Network	Governance	2010 to 2015	<p>The primary objective of the ASP is to assess the capacity needs of public sector institutions and local Civil Society Organizations. ASP supports the Pakistani Public Sector and Civil Society institutions build their institutional capacity in the areas of financial management, human resource management, monitoring &amp; evaluation, procurement management, internal controls mechanism. The overall management structure will comprise a Central Program Office (CPO), and four Provincial Program Offices (PPOs). In KP support being provided through following projects:</p> <ul style="list-style-type: none"> <li>• Support in Establishment of Internal Audit function in KP</li> <li>• Strategic Planning Support to 6 Departments of Khyber Pakhtunkhwa</li> <li>• Support in establishment of KP Public Procurement Regulatory Authority</li> <li>• Capacity Building of PDMA/PaRRSA Phase-II</li> </ul>	

Donor	Programme	Sector	Duration	Project Description	Fund
	Khyber Pakhtunkhwa Governance Program (KPG)	Governance	2015 to 2019	<ul style="list-style-type: none"> <li>The Khyber Pakhtunkhwa Governance Program (KPG) will assist the provincial government and civil society organizations to implement an agenda that improves local government service and better serves KP citizens. It will establish and manage a mechanism for supporting activities that reinforce stability, counter extremism, and promote democratic inclusiveness, including for women and other marginalized groups.</li> </ul>	
DFID	Sub National Governance Programme	Governance	2012 to 2017	<p>SNG delivers results across three areas:</p> <ul style="list-style-type: none"> <li>Decisions by government based on robust evidence;</li> <li>Public services that are more responsive to people's needs;</li> <li>Strengthened government capability to deliver basic services.</li> </ul> <p>In KP the project focuses on:</p> <ul style="list-style-type: none"> <li>Technical Assistance on Policy, Planning, PFM and devolution</li> <li>Financial aid for conditional grants</li> <li>Challenge Fund</li> <li>GIS</li> <li>Right to Information legislation</li> </ul>	£38 million approx. (KP+Punjab)
DFID	Khyber Pakhtunkhwa Education Sector Programme	Education	2011 to 2016	<p>The programme is divided into three components:</p> <ul style="list-style-type: none"> <li>Sector budget support to Government of Khyber Pakhtunkhwa to help deliver the Education Sector Plan</li> <li>Infrastructure programme for girls' schools, delivered independently of government (TACE)</li> <li>Technical assistance provided to the Elementary &amp; Secondary Education Department</li> </ul>	<p>GBP 203.5 million</p> <p>With an additional delegated cooperation arrangement of AU\$63.85m</p>

Donor	Programme	Sector	Duration	Project Description	Fund
DFID	Technical Resource Facility Plus	Health	2014	Supporting the health and nutrition sectors through technical expertise and capacity building services. It builds upon the progress achieved by TRF, and broadens its thematic areas to cover reproductive health and nutrition. TRF+ is funded by DFID as part of its support to the Provincial Health and Nutrition Programme in Punjab and Khyber Pakhtunkhwa.	
DFID	Aitebar	Home	2012 to 2016	<p>Aitebar works to improve access to, and the quality of, informal and formal security and justice services in KP. In the informal sector, Aitebar supports to build the capacity of jirga members so that they are aware of their rights and increase their mediation skills. The programme also engages community organisations to improve access to village mediation services for citizens.</p> <p>Aitebaar offers capacity building support to security and justice actors within the formal systems. It offers trainings and mentoring to improve the technical capacity of police and prosecution to enhance the quality of investigation and prosecution. The programme also plans to implement a major legal awareness programme that will raise citizens' awareness about rights and entitlements</p>	

# Annexure

## PFM Oversight Committee Notification



GOVERNMENT OF KHYBER PAKHTUNKHWA  
FINANCE DEPARTMENT  
Dated, Peshawar the May 15, 2015.

### NOTIFICATION

**No. FD/RMU/PFM Strategy:** The Competent Authority has been pleased to constitute a Public Financial Management (PFM) Reforms Oversight Committee with the following composition and Terms of Reference:

#### 1. Composition

i.	Minister Finance	Chair
ii.	Senior Minister for LG&RD	Member
iii.	Minister for Health	Member
iv.	Minister for Education	Member
v.	Advisor to CM for P&DD	Member
vi.	Secretary Finance	Member
vii.	Secretary P&D	Member
viii.	Secretary LG&RD	Member
ix.	Civil Society Representative	Co-opted member(s)
x.	Reforms Coordinator, RMU	Secretary

#### 2. Terms of Reference

- To provide strategic guidance and policy direction on the core objectives of PFM Reforms Strategy and associated implementation arrangements.
  - To update and fine-tune the PFM Reforms Strategy as and when the situation warrants.
  - To instill effective coordination mechanisms among concerned Departments and/or stakeholders for greater efficiency and accountability of the reforms measures.
  - To assess progress against key deliverables of the core components of PFM Reforms Strategy and to advise risk mitigating measures.
  - To approve periodic progress updates for presentation to the Provincial Cabinet.
  - To make recommendations to the Provincial Assembly on matters requiring legislative/statutory enactments and to facilitate the formulation of such laws/statutes.
  - To ensure effective liaison and coordination with the development partners/financial institutions/development financial institutions for greater harmonization around the core functions of PFM Reforms Strategy.
  - To devise a robust communication strategy for timely and effective dissemination of key information on PFM Reforms Strategy to key stakeholders.
  - To constitute sub-committees on matters related to any component of PFM Reforms Strategy.
- The PFM Reforms Oversight Committee shall hold its meetings on quarterly basis or on need basis.
  - The Reforms Monitoring Unit of Finance Department shall provide secretariat services to the Oversight Committee.

— sd —  
Finance Secretary  
Govt. of Khyber Pakhtunkhwa  
Finance Department

Endst of Even No. & Date:-  
Copy Forwarded to:-

- Handwritten notes: H 18/5, J 18/5/15, H 18/5, H 18/5/15, 18/5/15
- PS to Minister for Finance, Govt. of Khyber Pakhtunkhwa
  - PS to Senior Minister for LG&RD, Govt. of Khyber Pakhtunkhwa
  - PS to Minister for Health, Govt. of Khyber Pakhtunkhwa
  - PS to Minister for Education, Govt. of Khyber Pakhtunkhwa
  - PS to Advisor to CM for P&D
  - PS to Finance Secretary, Govt. of Khyber Pakhtunkhwa
  - PS to Secretary P&D Department, Govt. of Khyber Pakhtunkhwa
- Handwritten signature: 18/5/15



# Annexure

## Summary ratings of PEFA Assessment 2016<sup>11</sup>

Pillar	Indicator	Dimensions rating				Indicator Rating
		1	2	3	4	
<b>HLG</b>	A. Transfers from HLG	C	D	B		<b>C</b>
<b>I. Budget Reliability</b>	PI-1. Aggregate Exp. Outturn					<b>C</b>
	PI-2. Exp. composition outturn	C	B	D*		<b>D+</b>
	PI-3. Revenue Outturn	C	D			<b>D+</b>
<b>II. Transparency of public finance</b>	PI-4. Budget classification					<b>A</b>
	PI-5. Budget Documentation					<b>B</b>
	PI-6 GoKP operations outside financial reports	D*	A	C		<b>C+</b>
	PI-7. Transfers to SNG	A	C			<b>B</b>
	PI-8. Performance information for service delivery	A	A	C	C	<b>B</b>
	9. Public access to fiscal information					<b>D</b>
	<b>III. Management of Asset and Liabilities</b>	PI-10 Fiscal Risk Reporting	D	C	C	
PI-11 Public Investment Mgt.		C	B	C	D	<b>C</b>
PI- 12 Public Asset Management		C	C	C		<b>C</b>
13. Debt Management		C	C	D		<b>D+</b>
<b>IV. Policy Based Fiscal Strategy and Budgeting</b>	14. Macroeconomic and Fiscal Forecasting	NA	C	NA		<b>C</b>
	PI-15. Fiscal Strategy	C	D	D		<b>D+</b>
	PI-16. Medium term perspective in expenditure budgeting	A	D	C	D	<b>C</b>
	PI-17. Budget Preparation Process	A	B	D		<b>B</b>
	PI-18. Legislative Scrutiny of Budgets	A	C	A	A	<b>C+</b>
<b>V. Predictability and control in budget execution</b>	PI-19. Revenue Administration	D	C	D	D	<b>D</b>
	PI-20. Accounting for Revenue	C	C	C		<b>C</b>
	PI-21. Predictability of in-year resource allocation	A	D	B	C	<b>C+</b>
	PI-22. Expenditure Arrears	D*	D*			<b>D</b>
	PI-23. Payroll Controls	B	A	B	C	<b>C+</b>
	PI- 24 Procurement	A	B	B		<b>B+</b>
	PI-25. Internal Controls on Non Salary Expenditure	A	C	B		<b>B</b>
	PI-26. Internal Audit	D	C	D	D	<b>D+</b>
<b>VI. Accounting and reporting</b>	PI-27. Financial Data Integrity	B	A	B	A	<b>B+</b>
	PI-28. In Year Budget Reports	C	B	C		<b>C+</b>
	PI-29. Annual Financial Reports	C	B	B		<b>C+</b>
<b>External Scrutiny and Audit</b>	PI-30 External audit	C	D	C	B	<b>D+</b>
	PI-31. Legislative scrutiny of audit reports	D	B	B	C	<b>C+</b>

<sup>11</sup>Draft report version dated 30<sup>th</sup> June, 2016.





