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Finance
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GOVERNMENT OF THE PUNJAB

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PUBLIC FINANCIAL MANAGEMENT REFORM STRATEGY 2025

THE GOVERNMENT OF THE PUNJAB

A robust Public Financial Management system for equitable growth and improved service delivery

CONTENTS

MESSAGE FROM THE CHIEF MINISTER

It is an honour to present the Public Financial Management Reform Strategy (P-FM-RS) 2025 for Punjab. Strong PFM systems are important to improve service delivery to citizens and to achieve the policy objectives of the Government.

The PFM-RS provides a guide to Public Financial Management (PFM) reforms in Punjab for the period 2020–25. It focuses on key objectives covering the whole PFM cycle, i.e. policy-based planning and budgeting; transparent and credible budgeting; 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 on the part of Government functionaries, improved institutional capabilities and the use of modern information systems in PFM. All these cross-cutting factors are a prominent part of the PFM Reform Strategy Punjab.

I am thankful to all those involved in the development of this important Strategy, particularly, the Finance Minister and Finance Secretary. I would also like to acknowledge the contribution of our partners, including, the technical assistance provided by the UK's Foreign, Commonwealth and Development Office (FCDO), through the Sub-National Governance Programme, for the development of this Srategic document. This collective effort has been instrumental in the formulation of this Strategy which will InshAllah lead to strengthened PFM systems in Punjab for better Governance and improved service delivery.

Sardar Fateh Muhammad Khan Buzdar

MESSAGE FROM THE **FINANCE MINISTER**

It is a great pleasure to present the PFM-RS 2025 of the Government of the Punjab. The development of this Strategy is part of our commitment to improve Governance in Punjab. It builds on PFM reforms undertaken over the last two decades and suggests new reform initiatives for improved service delivery to citizens and communities. The Government has a strong commitment to inducing change aimed at greater transparency, accountability, and openness in public sector Governance. This is a core agenda of our government to ensure equitable development, improved service delivery and corruption-free Government systems.

One of the pre-requisites for the attainment of this transformational agenda is to have sound PFM systems. This Strategy will be of immense help in ensuring a uniform, standardised, and harmonised approach to introducing international best practices for improved financial management, both for the Provincial Government and the Local Governments of Punjab.

The PFM-RS puts great emphasis on revenue mobilisation and disaster risk financing, which are highly import- ant and sensitive areas, especially in the post-COVID-19 world. The Government aims to mobilise revenue without stifling business growth. Similarly, it aims to have robust PFM systems to help deal with disasters that erode the credibility of the budget, apart from causing great loss to the lives and property of citizens.

The Government of the Punjab is fully committed to the Strategy and will provide the necessary political support and leadership to ensure the attainment of all the policy objectives of the strategy.

I am thankful to all those who have been 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.

Makhdoom Hashim Jawan Bakht

MESSAGE FROM THE **FINANCE SECRETARY**

A robust PFM system is an essential component of high-quality public service delivery. Effective PFM systems maximise financial efficiency, improve transparency and accountability, and thus contribute to a strengthened and sustainable Governance regime. The PFM Reform Strategy 2025 provides an anchor to PFM reforms in Punjab for the period 2020–25. It builds on the reforms carried out by the Government in the past. The Strategy focuses on nine pillars, which comprehensively cover the PFM systems: revenue mobilisation; quality of budgeting and budget execution; management of fiscal risks; reforms to the development budget; disaster risk financing; PFM at the local level; improvements to legal and regulatory framework; capacity enhancement for improved PFM; and the use of information technology for effective PFM. The Strategy also requires building capacity within the Government for this purpose.

This PFM Strategy is a result of concerted efforts, consultation, and dialogue within the Government, as well as with other stakeholders, especially with development partners. The focus of the strategy is on strengthening key PFM structures and processes so that by the end of 2025, the Government will have 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.

Gratitude is due to the Finance Minister Makhdoom Hashim Jawan Bakht for leading this effort. I would also like to thank my team in the Finance Department (FD) for their dedication to their work and for their contribution in the preparation of this strategy. Furthermore, I would like to thank UK Foreign, Commonwealth and Development Office, whose contribution in the form of technical assistance provided by the Sub-National Governance (SNG) programme was instrumental in formulating this Strategy.

The successful implementation of the Strategy will remain the collective responsibility of all the stakeholders. Therefore, I look forward to putting the identified reform areas into implementation for achieving the highest standards of good Governance in PFM.

Abdullah Khan Sumbal

PUBLIC FINANCIAL MANAGEMENT
REFORM STRATEGY
2025

LIST OF **ABBREVIATIONS**

ADP	Annual Development Programme
BSP	Budget Strategy Paper
BTR	Budget Transparency Report
CFU	Corporate Finance Unit
DMU	Debt Management Unit
FCDO	Foreign, Commonwealth and Development Office
FD	Finance Department
FM	Finance Minister
FY	Financial Year
G2B	Government to Business
GDP	Gross Domestic Product
GFS	Global Financial Standards
GIZ	Gesellscha für Internationale Zusammenarbeit
GRP	Gross Regional Product
IFMIS	Integrated Financial Management Information System
IPCC	Inter Provincial Coordination Committee
M&E	Monitoring and Evaluation
MEL	Monitoring, evaluation, and learning
MTBF	Medium-term Budgetary Framework
MTFF	Medium-term Fiscal Framework
NAM	New Accounting Model
OBS	Open Budget Survey
P&D	Planning and Development
PDF	Project Development Facility
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PFM-RS	Public Financial Management Reform Strategy
PIFRA	Project to Improve Financial Reporting and Auditing
PLGFC	Punjab Local Government Finance Commission
PMS	Provincial Management Service
PMU	Project Management Unit
PPP	Public Private Partnership
PRA	Punjab Revenue Authority
PRAL	Pakistan Revenue Automation (Pvt.) Ltd
SAP	Systems, Applications, and Products
TRU	Tax Reform Unit
UIPT	Urban Immovable Property Tax

1.EXECUTIVE **SPECIAL SUMMARY**

PFM refers to the optimal resource mobilisation and utilisation of resources in a transparent and accountable manner in order to achieve maximum value for each rupee spent. PFM is a complete ecosystem comprising laws, regulations, and processes, and institutional, organisational and management structures that are used to ensure that the public sector financial resources are raised and used in an effective and effcient manner to achieve delivery of services in accordance with national and provincial policies.

1.1 BACKGROUND **AND CONTEXT**

In Punjab there has always been a considerable focus on PFM reforms. In the early part of the last decade, a Systems, Applications and Products (SAP)-based Integrated Financial Management Information System (IFMIS) was implemented in the province with the support of the Federal Government's Project to Improve Financial Reporting and Auditing (PIFRA), along with the introduction of the New Accounting Model (NAM). These helped to improve budgeting and Financial reporting. In addition to these federal-led reforms, Punjab also conceived and implemented multiple PFM reforms, which included: the creation of the Punjab Pension Fund (PPF) in 2007/08; the setting up of the Punjab Revenue Authority (PRA) in 2012; reforms leading to the development of Motor Transport Management Information System (MTMIS); and the automation of data of urban properties for the purpose of Urban Immovable Property Tax (UIPT). Medium Term Budgetary Framework (MTBF) was introduced in the Government and Output-Based Budgeting was piloted in seven departments.

A more organised approach to PFM reforms was adopted in 2016 when the FD developed and started implementation of a medium-term PFM Reform Strategy. Under the 2016 Strategy, a comprehensive review and restructuring exercise was carried out, leading to the creation of specialised units, including Debt Management Unit (DMU), Corporate Finance Unit (CFU), and a Tax Reform Unit (TRU) in the FD. A Budget Transparency Review (BTR) of the Government of the Punjab was undertaken using Open Budget Survey (OBS) methodology. The document helped benchmark the state of budget transparency in Punjab, which in turn paved the way for initiatives such as the Citizens Budget and Debt Bulletin. The list of initiatives also includes the identification of 25,000 new potential taxpayers for General Sales Tax (GST) on Services, an E-Stamping initiative, the development of an audit manual, an IT Strategy, a communications Strategy and a Restaurant Invoice Monitoring System by PRA. Most recently, the government has established an E-Pay system to help citizens pay their taxes using a smartphone application from anywhere at any time.

1.2 WHY IS THERE A NEED FOR **A PFM REFORM STRATEGY**

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The need for a new PFM reform Strategy (PFM-RS) stems from the magnitude of the development challenges facing the people and the Government of the Punjab, and the limited financial resources available to foster accelerated growth, development, and the provision of high-quality public services for the population of the province. The Strategy aims to help implement Government's policies, improve service delivery, and reduce fiduciary risks. The Strategy will also help ensure the continuity of PFM reforms.

A Public Expenditure and Financial Accountability (PEFA) Assessment, 2019, for the Government of the Punjab, was recently undertaken by the Government with the technical assistance of the World Bank and FCDO, UK. The diagnostic process helped identify gaps in the PFM system in the Provincial Government. Some of the critical areas identified by PEFA 2019 include the unreliability of provincial budgets due to inaccurate revenue forecasting; fiscal risks due to operations outside financial reports; the persistence with an input-based budgeting approach; weaknesses in policy-based budgeting; low predictability in budget execution; ineffective accountability mechanisms; and weak legislative scrutiny.

The findings of PEFA were supplemented with a gap analysis carried out by the Sub-National Governance Programme in consultation with the FD. The PFM RS, 2025 provides a set of actions to plug the gaps in PFM in Punjab identified through PEFA 2019 and the gap analysis carried out by SNG programme.

1.3 PFM **REFORM STRATEGY 2025**

PFM systems cover a broad span of Governmental processes, including planning, budget preparation and execution, budget monitoring, public investment management, accounting, and systems for accountability and transparency. To cope with this wide span, the PFM-RS is based on a total of nine pillars, each of which addresses a major area within PFM system. The pillars are presented in a Results Framework that specifies the vision, result areas, issues and recommended actions to counter these challenges.

PILLAR 1 – **REVENUE MOBILISATION IS STRENGTHENED TO FINANCE SERVICES**

The pillar addresses both the policy level and administrative issues around the tax and non-tax revenues of Provincial and Local Governments. The realisation of provincial tax revenue is proposed to be pursued through an increase in tax net, improving the equity/fairness of the system, increasing the efficiency of tax collection, taxpayer facilitation and improved intergovernmental coordination for taxation. These objectives will be achieved without stifling economic activity in the province.

The Strategy identifies specific actions, such as introduction of negative list for GST on services, to expand its scope. Similarly, it suggests more effective use of third-party databases to identify new taxpayers. The Strategy also emphasises the need to improve equity by taxing agricultural income at a similar rate as non-agricultural income in the country. It also aims to establish a system of the filing of all taxes, duties and cesses through one portal with the aim of streamlining this for taxpayers. GST on services and motor vehicle taxation have been identified as two important taxes where intergovernmental coordination can help achieve better taxation outcomes at the national level. The pillar also identifies actions relating to augmenting non-tax revenue, such as full cost recovery from municipal services and an increase in water rates.

PILLAR 2 – **THE QUALITY OF BUDGETING IS IMPROVED**

The pillar addresses the need to improve the quality and predictability of budgeting. It identifies reform actions required to institutionalise top-down, policy-based, and performance-oriented budgeting. In addition, it proposes measures to improve budget transparency and better monitoring of budget, with a view to improving accountability for results. It is important that the Government promotes transparency in budgeting by issuing key documents, such as a Budget Strategy Paper (BSP) and budget execution reports, including monthly, quarterly, mid-year and year-end reports. In due course, the Government should aim to develop an annual progress report to assess the results achieved by the line departments against the targets set in the budget.

In order to strengthen the system of budgeting, it is extremely important that legislative oversight is strengthened. It has been suggested to allow the legislature greater time to review budget proposals. Further, it is suggested that the supplementary grants are also reviewed by the relevant Standing Committee in a public setting. This will not only empower the legislature, but will also force the line departments to undertake a more thorough needs assessment when preparing their budgets.

PILLAR 3 – **THE BUDGET IS EXECUTED AS PLANNED AND FISCAL RISKS ARE MANAGED BETTER**

This pillar sets out the reforms for the orderly execution of the budget, effective system of internal audit/controls and proactively mitigating fiscal risks. The Strategy recognises that it is extremely important that the budgets are executed as approved by the legislature, i.e. that there are minimal changes to the approved budgets. Therefore, the Government aims to strengthen its budget execution system ranging from release of funds, the system for making changes to the approved budget and cash planning/management. It also aims to bring greater predictability in budget execution through the development of a policy for the release of allocated funds. Similarly, internal controls will be strengthened through the development of an effective internal audit system, restoring budget checks on salary and pension payments, and automating life certificate for pensions.

PILLAR 4 – **DEVELOPMENT BUDGET SYSTEMS ARE REFORMEDBETTER**

This pillar highlights the importance of strengthening the management systems for the effective and efficient delivery of public investment through the development budget. It calls for improved planning process, increased compliance with planning processes, and effective project monitoring systems to improve the delivery of public services. Punjab's system of budgeting exhibits a weak link between policy and budget. This could only be overcome by strengthening strategic planning in line departments, i.e. developing sector plans and using an effective MTBF process to ensure the development of schemes to achieve the objectives set out in the sector strategies. The Strategy calls for undertaking a Public Investment Management Assessment to identify gaps in the systems of the Government relating to Public Investment Management. Public–Private Partnerships (PPPs) are extremely important for the Government, especially at a time when the fiscal space for development is squeezed. The strategy, therefore, seeks to implement specific actions to facilitate PPPs, such as setting up a Viability Gap Fund and Project Development Facility (PDF).

PILLAR 5 – **PFM AND DISASTER RISK FINANCING SYSTEMS ARE PUT IN PLACE**

Punjab has been prone to disasters in the recent past. The provincial finances are currently grappling with COVID-19 and its impact. The situation has emphasised the need to enhance the preparedness of PFM systems to deal with disasters. Therefore, the pillar suggests initiatives to make PFM systems more robust to disasters. The situation requires a complete rethink of the Government's fiscal framework, improved cash and treasury management, and more agile yet flexible systems to ensure cash is available directly at service delivery units responding to the COVID-19 emergency. Cash plans will help prioritise essential expenditure. Similarly, efforts will be made to consolidate the Government cash by pooling all assets at the Treasury. The framework also requires improving reporting and expenditure tracking capabilities, and developing a disaster risk financing Strategy to be able to deal with any future disasters more effectively.

PILLAR 6 – **THERE IS IMPROVED MANAGEMENT OF FUNDS IN LOCAL GOVERNMENTS**

Recognising the importance and need for improvement in Local Government finance, this pillar suggests measures to address current weaknesses in PFM systems in Local Governments. Additionally, it focuses on setting up a transparent and formula-based system of fiscal transfers and strengthening the Punjab Local Government Finance Commission (PLGFC) Secretariat. The Strategy also emphasises the significance of local revenue mobilisation, as this will improve the financial autonomy of Local Governments. Similarly, the Strategy recognises the critical value of budgeting at local level and the requirement to make it needs-based. Finally, the pillar proposes to strengthen PFM systems to promote the efficient and effective use of public resources at local level as well.

PILLAR 7 – **THERE IS AN IMPROVED LEGAL AND REGULATORY FRAMEWORK**

With a view to clarify the roles and responsibilities of stakeholders and providing a legal basis for the PFM systems in the province, the pillar addresses the need for promulgating a Public Finance Administration Act (as per Article 119 of the Constitution), and revising and updating the rules, regulations, and manuals relating to financial management, planning and the budget process. The updating of rules and regulations

will be done following the promulgation of the Punjab PFM Act. Finally, the pillar proposes the promulgation of the Punjab Fiscal Responsibility and Debt Limitation Act; again to comply with constitutional requirements. This will help Government set fiscal rules to discipline its borrowing in future.

PILLAR 8 – **CAPACITY ENHANCEMENT PROVIDES FOR BETTER PFMBETTER**

This pillar addresses the need for a comprehensive approach to build the individual, organisational and institutional capacities required for a sound PFM. Apart from urging capacity building of Government staff on PFM and revenue mobilisation systems, the Strategy provides for the establishment of two new cadres and establishing a pool of experts whose services could be used by Local Governments for technical support in developing their PFM and taxation systems.

PILLAR 9 – **IT ALLOWS FOR EFFECTIVE PFM AND REVENUE MOBILISATION**

This is a cross-cutting pillar that addresses the use of IT for better PFM and revenue mobilisation. This includes the automation of payments, procurements, tax systems, etc. to improve the management of finances and increase the transparency of the PFM systems. The Strategy also annexes a list of initiatives that if implemented would help promote a paperless Governance in the province and bring further transparency and improved ease of doing business in the Government.

WAY **FORWARD**

The PFM-RS is an ambitious reform agenda based on a vision extending from the medium to the long term. Effective and timely implementation of the PFM-RS requires a well-designed structure for oversight, coordination across multiple stakeholders, learning from experience and making course correction as the reform process proceeds. This calls for a robust approach to change management, which is built on action planning and development of a robust monitoring, evaluation, and learning (MEL) framework with clearly defined roles and responsibilities. Effective implementation of the PFM Strategy can result in an increase in tax and non-tax revenue for the Government, the reduction of fiduciary risks, enhanced capacity of Government officials in PFM and, lastly, better facilitation processes for the taxpayer.

2. INTRODUCTION

PFM is all about optimal resource mobilisation and utilisation of these resources in a transparent and accountable manner in order to get the maximum value for each rupee spent. In this way, PFM encompasses the system of laws, regulations and processes, and institutional, organisational and management systems which are used to ensure that the public sector financial resources are raised and used in an effective and efficient manner to achieve the delivery of services in accordance with national and provincial policies. As such, PFM lies at the heart of how well a Government conducts its business.

2.1 PFM REFORMS IN PUNJAB

PFM reforms are very complex in their nature and require a long time to implement. Improvements to PFM reforms are usually incremental.

In Punjab, there has been a continuous focus on PFM reforms, as a result of which many reforms have been successfully implemented. Government efforts on PFM reforms have also been well supported by its development partners. In Punjab, the support for PFM reforms has been provided by the Asian Development Bank, the FCDO, the World Bank, and the Gesellschaft für Internationale Zusammenarbeit (GIZ). The Asian Development Bank initiated resource management programme with the aim of introducing performance-based budgeting, better management of pension and provident fund liabilities, and civil service reforms. This programme was followed by a programme titled Punjab Government Efficiency Improvement Programme, with a similar scope. During the last decade, the FCDO and World Bank have been the biggest contributors to PFM reforms. The World Bank has supported reforms on revenue mobilisation, debt management, PEFA Assessments and expenditure reviews. The FCDO has been supporting PFM reforms through the Sub-National Governance Programme. In addition, the FCDO's programmes on health and education also included PFM components to help improve financial management in these important sectors.

In the early part of the last decade, a SAP-based IFMIS was implemented in Punjab with the support of PIFRA, along with the introduction of the NAM. This was a massive step forward at the time and had the objective of improving budgeting and financial reporting. The creation of the PPF was also a major reform implemented in 2007/08, with the objective to help better manage Government's pension liabilities. During the last decade, many successful reforms have been implemented. The establishment of the PRA is an important example of such reforms. It was a major step in developing the Government's capacity for own source revenue collection. During the last eight years, enormous progress has been made, increasing share of GST on services in provincial tax collection by more than half the total. Some of the other prominent reforms in this period include the move towards automating provincial revenue bases. First among these initiatives was the development of MTMIS and, then, the automation of data of urban properties for the purpose of UIPT. The MTBF was introduced in the Government and output-based budgeting was piloted in seven line departments of the Government.

In 2016, the FD, in collaboration with the tax collection departments and development partners, developed a comprehensive roadmap for the PFM reforms, encompassing reforms and initiatives to support the agenda of increasing fiscal space and mobilising provincial resources, reducing the Government of the Punjab's transaction costs, capacity-building in the FD and establishing systems to increase the value of investments. A Donor Coordination Committee was set up for coordination between Government departments and development partners, including GIZ, the World Bank, the FCDO, etc. to support the implementation of these PFM reforms in Punjab by holding donor coordination workshops. To better track, manage and monitor Punjab's PFM reforms, the department developed a monitoring and evaluation framework for the strategy. A dashboard was developed which was updated fortnightly and reviewed by the Finance Minister and the Finance Secretary.

IMPORTANT REFORMS IMPLEMENTED

2.1 PFM REFORMS IN PUNJAB

Restructuring of the FD: A comprehensive review and restructuring exercise was carried out. Specialised units for new and complex fiscal operations were created under this exercise. These included:

DMU: The FD, with the support of its development partners, established a debt management unit. The DMU was made fully operational, enabling Government to manage debt and new borrowing, and maintain debt records and debt liabilities in an efficient and effective manner. The DMU has been instrumental in sale of federal Government promissory notes, developing a draft Fiscal Responsibility Act for the province, developing software for effective debt record-keeping, initiating the process of credit rating for the Government of the Punjab and making arrangements for the issuance of provincial bonds (the Government of the Punjab can now issue provincial bonds in accordance with the requirements of its fiscal policy, provided it has the Federal Government's approval for issuance of such bonds).

CFU: A CFU was established in the FD to increase the department's capacity to effectively represent the department on the board of directors of corporate entities and to provide oversight of the aggregate financial risk arising out those entities. CFU's activities have included developing a financial database of public sector companies to help assess liabilities arising out of public sector companies allowing the alignment of their fiscal needs with the provincial budget; representing the FD in board meetings of these companies; and developing a draft performance management index to monitor the quality of Governance of such companies.

TRU: The TRU was created to help the Government of the Punjab design an evidence-based tax policy. The TRU's activities include undertaking studies to assess revenue potential, tax expenditure and revenue gaps in Punjab regularly analysing the collection of revenue by provincial departments; advising the FD on taxation policy making; helping develop evidence-based tax proposals and developing an evidence-based estimate of own source revenues during the last two years.

BUDGET **TRANSPARENCY AND ACCESSIBILITY**

The Government of the Punjab is committed to a more open and transparent budgetary process through various initiatives, including publishing the annual Citizens' Budget and Punjab Budget Transparency Report (BTR) report. The main purpose of the Citizens' Budget is to present the budgetary information clearly and concisely, using non-technical language for increased comprehension by the general public. This initiative has promoted the accountability of the Government and has led to an improved Open Budget Index/Budget Transparency Report (BTR) score of the Government.

MAKING **THE BUDGET MORE PARTICIPATORY**

The Government has been regularly holding pre-budget consultation exercises three to four months before the submission of the budget to the legislature to seek suggestions from members of provincial assembly, as well as the Chamber of Commerce and Industry, and other segments of the society, including agriculturists. For the input of members of the Provincial Assembly a Pre-Budget Consultation questionnaire is developed to determine the priorities for budgetary allocations in different sectors. The priorities coming out of the pre-budget session of the Provincial Assembly were ranked and compiled in a report and shared with all departments to use in the budget-making process.

PRA **TAXPAYERS SURVEY**

PRA identified 25,000 new taxpayers for sales tax on services across 22 districts in Punjab. This was a major step towards broadening the revenue base and increasing revenue.

MEDIUM-TERM **BUDGETARY FRAMEWORK**

The Government is striving to shift away from an incremental approach to budgeting. It has been developing technical documents, such as medium-term fiscal frameworks (MTFFs) and BSPs. Recently, the FD issued budgetary ceilings to all line departments. The issuance of budget ceilings to all departments will help improve the prioritisation of budget.

REFORMING **SALES TAX ON SERVICES**

The creation of a provincial authority to collect sales tax on services was a major move. Created in 2012–13, the Authority has come a long way in realising the potential of the biggest provincial tax. The authority has increased the scope of the tax from mere 14 services in 2012 to 62 in 2017–18. The number of registered taxpayers has increased from a few thousands to over 50,000. Most importantly, the revenue from sales tax on services increased from PKR 43.6 billion in 2014–15 to PKR 106.0 billion in 2017–18. This major success was achieved through strong political commitment to reforms and a strong desire for institutional development of the Authority in the Government. PRA has been working to strengthen its information technology system, improve its audit regime, increase taxpayer awareness through effective communicationand bringing innovations such as the Restaurant Invoice Monitoring System designed to protect the Government's tax revenue.

AUTOMATION **OF PROPERTY TAX RECORDS**

One of the major problems in the collection of UIPT was the absence of a central and electronic registry of properties in Punjab. The initiative was piloted in Sialkot to geo-tag all properties and create a database of all properties in the district. After the success, the pilot was scaled up in five major cities of Punjab and then to all the districts. The automation of property tax records helped the Government collect more revenues from UIPT. Unfortunately, though, there is no estimate of an actual increase in revenue as a result of the initiative to automate property records.

INTRODUCTION **OF E–STAMPING**

Stamp papers are an important source of revenue for the Government. The stamp paper is used for giving power of attorney or doing any type of agreements containing financial deals, contracts, affidavits or declaration. In any country important documentation is only valid if done on a required value of stamp paper as prescribed by state law. In order to overcome the issue of counterfeit stamp papers and facilitate citizens in getting stamp papers, the Government of the Punjab launched e-Stamp Paper initiative. The system has been launched through the joint efforts of FD, the Punjab Information Technology Board, the Board of Revenue and the Bank of Punjab. The system was piloted in Gujranwala district and now has been rolled out successfully across all 36 districts of Punjab. E-Stamping has resulted in increase of approximately 40% in revenue from stamps.

2.2 WHY IS THERE A NEED **FOR A NEW PFM REFORM STRATEGY**

PFM is the system of laws, regulations and processes, and institutional, organisational and management systems which are used to ensure that the public sector financial resources are raised and used in an effective and efficient manner to achieve delivery of services in accordance with national and provincial

policies. As such, PFM lies at the heart of how well the Government of the Punjab conducts its business. The need for a PFM-RS stems from the magnitude of the development challenges facing the people and the Government of the Punjab, and the limited financial resources available to foster accelerated growth, development and the provision of high-quality public services for the population of the Province. Where PFM systems are weak or under-developed, scarce financial resources are unlikely to be used to maximum effect.

2.2.1 PEFA **2019 FINDINGS**

A PEFA Assessment, 2019, for the Government of the Punjab, was recently undertaken by the World Bank and the FCDO. The following is the summary of the gaps in different pillars of PFM systems identified by the recent assessment:

Budget reliability: The budget reliability pillar of PEFA requires that budgets are realistic and implemented as planned. Unreliable budgets adversely affect the delivery of services by disturbing the predictable flow of resources for intended objectives. PEFA 2019 assigns ratings of B, D+, and D to three indicators (aggregate expenditure outturn, expenditure composition outturn and revenue outturn) under this pillar. PEFA 2019 notes the following as the major reasons for poor budget reliability in Punjab:

- major shortfall in federal transfers, deductions at source from federal transfers and non-budgeting of PSDP grants;
- poor forecasting of own source revenue, resulting in large differences in estimated budget and actual collec- tion;
- high variation in budget allocation and actual expenditure at sub-aggregate level (functional, economic categories) due to in-year budget changes.

Budget transparency: There is evidence in the public finance literature that budget transparency leads to improvements in service delivery. PEFA requires that information on Public Financial Management is comprehensive, consistent and accessible to users. This is achieved through comprehensive budget classification, transparency of all Government revenues and expenditures, including intergovernmental transfers, published information on service delivery performance, and ready access to fiscal and budget documentation. The 2019 assessment notes that the major operations of the Government are outside the financial reports, and performance information on service delivery is not made available by the Government. More specifically, the report identifies the following weaknesses in budget transparency in Punjab:

1. Budget documents do not report on fiscal deficit forecast, financial assets, information on guarantees and contingent liabilities, fiscal impact of new policies, tax expenditure, and medium-term forecasts. There is a need to provide information on these elements in budget documents.
2. Significant operations of the Government, especially relating to autonomous bodies and public sector corporations, are not reported in financial reports/budget documents.
3. There are delays in the communication of fiscal transfers to Local Governments, hindering them from planning their budgets.
4. Output-based budgeting is not practised. As a result, there is no transparency in performance information of departments.

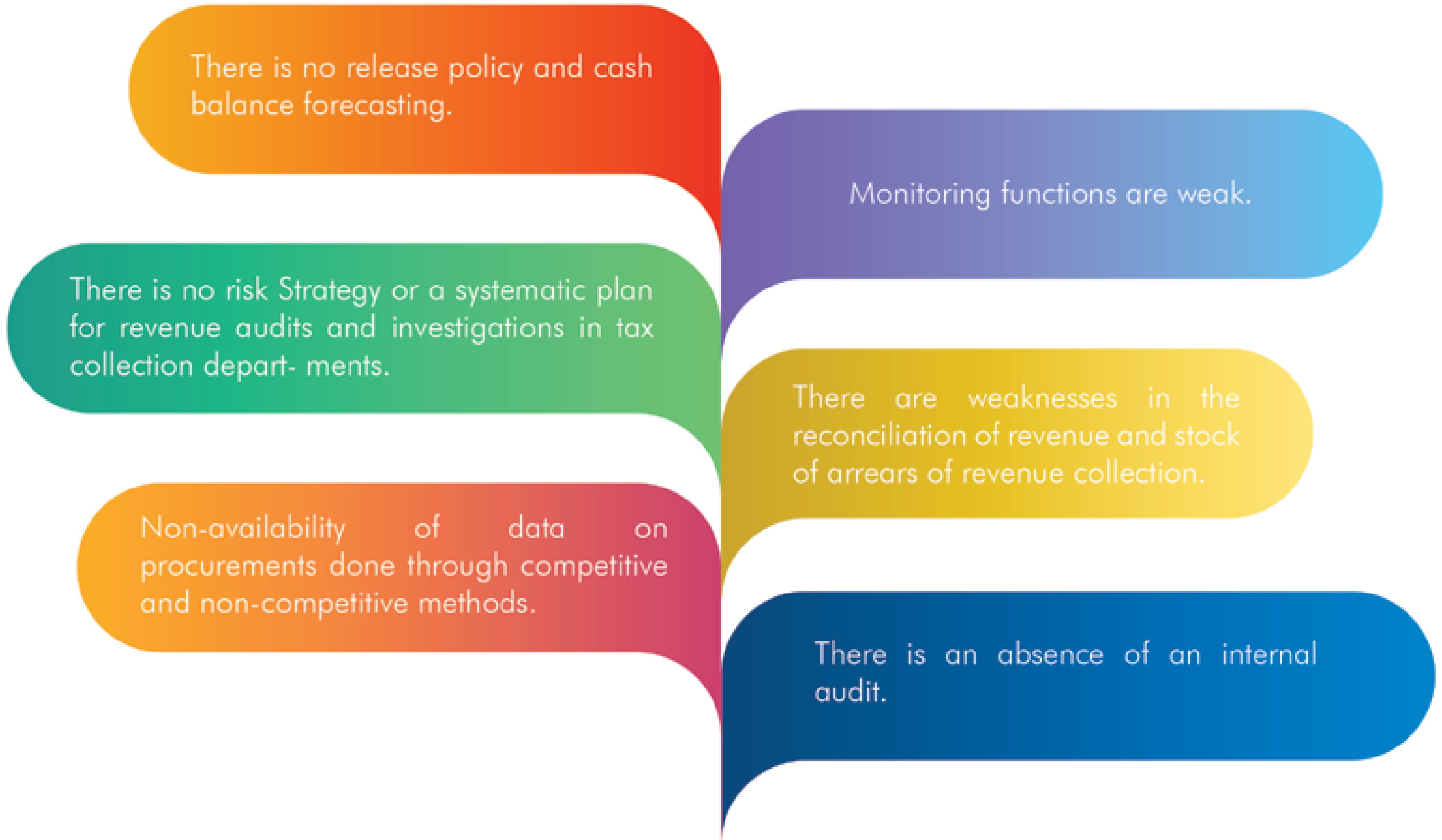
Management of assets and liabilities: The effective management of assets and liabilities ensures that public investments provide value for money, assets are recorded and managed, fiscal risks are identified, and debts and guarantees are prudently planned, approved and monitored. The recent PEFA assessment rates the Government of the Punjab's management of assets and liabilities at a basic level of performance. This level can be raised by attending to the following gaps:

- delays in publication of audited and unaudited financial statements of sub-national Governments and public sector companies (weak financial reporting, audits, etc.);
- non-reporting of contingent liabilities in financial statements prepared/issued by the Accountant General;
- non-availability of information on economic analyses of development projects in public domain;
- non-availability of information on economic analyses of development projects in public domain;
- non-availability of the debt management Strategy for the Government.

Policy based budgets: Policy based budgeting requires that the fiscal Strategy and the budgets are prepared with due regard to Government fiscal policies, strategic plans, macroeconomic and fiscal forecasts. A pre-budget statement is not issued by the Government and citizens are not provided with adequate opportunities for participation in the budget. Further, the role of legislators/standing committees needs to be strengthened, and capacity of members of legislature needs be built to enable them to perform their due roles in budgeting and legislative oversight. PEFA 2019 rates the Government of the Punjab's performance on policy-based budgeting at the basic level or lower as there is little performance orientation. Hence, there is vast room for improvement in this pillar of PFM in Punjab. Following are the major gaps identified by the report:

- Budgeting lacks a medium-term perspective budget documents.
- Pre-budget statement/BSPs are not published and budget ceilings are not issued to line departments. As a result, the budget alignment with the Government's Strategy is weak.
- Engagement with legislators on budget-making/approval is inadequate.
- Weaker legislative scrutiny due to non-availability of technical support to legislature.

Predictability and control in budget execution: PEFA standards require that the budget is executed within a system of effective standards, processes and internal controls, ensuring that resources are obtained and used as intended. PEFA 2019 identifies the Government of the Punjab's performance on this pillar at a basic level or lower, primarily due to following gaps:



Accounting, reporting, and audit: PEFA standards require accurate and reliable records, and their dissemination at appropriate times for decision making, management and reporting needs. Punjab's accounting, reporting and audit performance was rated at basic or lower. The main reasons are the following:

01 There are issues with the integrity of financial information as reconciliation statements and suspense accounts show large unresolved balances.

02 In-year budget execution reports are not published by the Government.

03 Financial reports miss out information on financial and non-financial assets, liabilities, guarantees and obligations. Further, these reports are not issued in a timely manner for decision making by the Government.

Legislative scrutiny and audit: The standards of reporting on PEFA require that public finances are independently reviewed and there is external follow-up on the implementation of recommendations for improvements. The report identifies that audit reports are not submitted and reviewed in time. Similarly, the follow-up on audit recommendations is weak.

The findings of PEFA were supplemented with a gap analysis carried out by the Sub-National Governance Programme in consultation with the FD. PFM-RS 2025 provides set of actions to plug the gaps in PFM in Punjab identified through PEFA 2019 and the gap analysis carried out by SNG programme. This is the first PFM-RS of the Government of the Punjab and is launched in a context where the existing systems of PFM leave much room for improvement. The Public Expenditure and Financial Management Assessment currently being undertaken with support from the World Bank indicates that in almost all areas of PFM Punjab continues to record very low scores, implying that there is a huge scope for improving the PFM systems and processes. However, the magnitude of the task of transforming PFM in the province and the number of PFM areas which need to be addressed mean that it is not possible to advance on all fronts simultaneously, as the capacity to carry forward across-the-board reforms in PFM is currently lacking. In this context, an important role for the PFM-RS is to establish longer-term goals and a vision for PFM reform, and to define the priorities and appropriate sequencing for PFM reform efforts.

3. PFM **REFORM STRATEGY 2025**

Experience in Pakistan and other countries points clearly to the fact that PFM reform is a complex and time consuming process. While some incremental improvements can be made fairly quickly, the comprehensive overhaul of the PFM system takes several years and usually extends across a decade or more. A key role of the PFM-RS in this situation is to set out the longer-term vision for a strengthened PFM system and to clearly define the priorities and sequencing of the reform process. Established international good practice is that PFM reform should start with putting the basic systems in order – 'first things first'. In practice, this translates to an initial emphasis on strengthening the core systems of financial and budgetary control. More complex

control. More complex reforms, such as performance budgeting, can only be successfully implemented once the core PFM systems are in good order. The PFM-RS establishes a long-term framework for PFM reform in Punjab, distinguishing between the short term, the medium term and the long term. This permits a clear identification of the most urgent areas in which reforms should be commenced immediately (following the 'first things first' principle), from those reforms which should be undertaken in the medium and longer term, building on the successful implementation of the basic reforms.

It may be added that the provincial economy has been badly affected by the global pandemic of COVID-19. Therefore, a separate section (pillar) of this document lays down a Strategy to minimise the impact of the pandemic on provincial finances and suggests increasing preparedness of provincial finances to deal with disasters.

3.1 STRUCTURE OF THE **PFM REFORM STRATEGY**

PFM systems cover a broad span of Governmental processes, including planning, budget preparation and execution, budget monitoring, public investment management, accounting, and systems for accountability and transparency. To cope with this wide span, the PFM-RS is based on a total of nine 'Pillars', each of which addresses a major area of PFM systems. The Pillars are presented in a 'Results Framework' that specifies the vision, result areas, issues and recommended actions in order to clarify the logic behind the recommended actions.

PILLAR 1
Revenue mobilisation is strengthened to finance services

This is the realisation of provincial tax revenue through increases in tax net, and improving equity/fairness of the system and taxpayer facilitation. Growth in tax collection would, therefore, be pursued without stifling economic activity in the province. The pillar addresses both tax and non-tax policy and collection systems, the revenues of autonomous bodies and locally generated revenues.

PILLAR 2
The quality of budgeting is improved

The pillar addresses the need to improve the quality of budgeting and improving predictability of budget. It identifies reform actions required to institutionalise top-down, policy-based and performance-oriented budgeting. In addition, it identifies measures to improve budget transparency and better monitoring of budget.

PILLAR 3
The budget is executed as planned and fiscal risks are managed better

This pillar sets out the reforms for orderly execution of budget, mitigating fiscal risks and establishing an effective system of internal audit/controls.

PILLAR 4
Development budget systems are reformed

This pillar concentrates on the important task of strengthening the management systems for effective and efficient delivery of public investment through the development budget.

PILLAR 5
PFM and disaster risk financing systems are put in place

Punjab has been prone to disasters in recent past. The provincial finances are currently grappling with COVID-19 and its impact. The situation has emphasised the need to enhance the preparedness of PFM systems to deal with disasters. Therefore, the pillar suggests a PFM response to COVID-19, aside from laying down a Strategy to make PFM systems more robust to disasters.

PILLAR 6
There is improved management of funds in local governments

This pillar addresses the current weaknesses in PFM systems at the Local Government level. Additionally, it provides for the setting up of a transparent and formula-based system of fiscal transfers, and the strengthening of PLGFC Secretariat.

PILLAR 7
There is an improved legal and regulatory framework

This pillar addresses the need to promulgate a Public Finance Administration Act (as per Article 119 of the Constitution), and to revise and redraft the rules, regulations and manuals relating to financial management, planning, and the budget process.

PILLAR 8
Capacity enhancement provides for better PFM

This pillar addresses the need for a comprehensive approach to building the individual, organisational and institutional capacities required for sound PFM.

PILLAR 9
IT allows for effective PFM and revenue mobilisation

This pillar addresses the use of IT for better PFM and revenue mobilisation.

3.2 RESULTS **FRAMEWORK**

The overall vision: Robust and sustained PFM systems ensure the optimal generation of resources and the use of those financial resources in an effective and efficient manner to achieve delivery of services in accordance with national and provincial policies.

PFM REFORMS – **RESULTS FRAMEWORK**

PILLAR 1

Revenue mobilisation is strengthened to finance services

- Tax base broadening
- Improved fairness of taxation policy
- Higher non-tax revenue through greater cost recovery, rationalisation of rates of licensing/royalties and transparent sale of assets
- Taxpayer facilitation for ease of doing business
- Improvement in intergovernmental coordination
- Improved debt management

PILLAR 2

The quality of budgeting is improved

- Strengthening of Top-down budgeting
- Consultative and performance-based budgeting with greater legislative scrutiny
- Enhanced transparency of budget
- Effective monitoring of results

PILLAR 3

The budget is executed as planned and fiscal risks are managed better

- Disciplined and orderly budget execution
- Strengthened internal controls
- Effective and proactive fiscal risk management

PILLAR 4

Development budget systems are reformed

- Planning process is comprehensive, i.e. it includes sector strategies aligned with overall strategic priorities as the basis of identification of projects/scheme
- Strengthened compliance with planning procedures
- Effective project monitoring systems for management decisions
- Efficient and transparent procurement management
- Identification of opportunities and subsequent management of PPPs

PILLAR 5

PFM and disaster risk financing systems are put in place

- Forecasting the macro-fiscal impact of pandemic
- Taxation policy & administration response
- Managing expenditure for disaster relief
- Reduce fiduciary risks of disaster management funds
- Disaster risk financing Strategy

PILLAR 6

There is improved management of funds in local governments

- Implementation of a need based, transparent and equitable fiscal transfer system
- Strengthened PLGFC Secretariat
- Mobilization of local revenues and focus on incentivized growth
- Improved PFM systems at local level

PILLAR 7

There is an improved legal and regulatory framework

- Overarching PFM system is defined by a PFM law
- Comprehensive and consistent set of regulations underpin sound public financial management
- Updated budget manual provides a sound basis for management of budget cycle

PILLAR 8

Capacity enhancement provides for better PFM

- Improved systems of PFM trainings
- Improved capacity of stakeholder institutions to manage PFM systems
- Strengthening/capacity-bui lding of tax departments

PILLAR 9

IT allows for effective PFM and revenue mobilization

- Automation of key PFM processes
- Technology enables timely reporting and supports better management of public finances
- Automation of payments
- Automation of tax systems

PILLAR 1

REVENUE **MOBILISATION IS STRENGTHENED TO SERVICES**

PILLAR 1
REVENUE MOBILISATION IS STRENGTHENED TO FINANCE SERVICES

Punjab's General Revenue Receipts can be divided into three major categories: the share from Federal Divisible Pool; Provincial Tax Receipts; and Non-Tax Receipts. Own source revenue, on average, constitutes around 20% of the Punjab's General Revenue Receipts, whereas the Government relies on federal transfers for around 80% of its total resources. Due to financial difficulties faced by the federal government, it is unlikely that the Provincial Government will get a higher vertical share in Divisible Pool Transfer under the National Finance Commission Award in the medium term. Therefore, there is an obvious need to increase provincial own revenue to decrease dependence on federal transfers.

Provincial taxes provide the bulk of the provincial own revenues. At present, the Provincial Government collects around 1% of the size of its economy in tax revenues, although recent studies show that this level of collection is well below the potential. Further, in the last three years, the growth rate of the provincial tax collection has fallen to around 10%. This implies there has been little real growth in this period. Therefore, the Government aims to increase its tax collection, although this would not be done at the cost of promoting economic activities and business in the province.

Realising the untapped revenue potential requires undertaking reforms in many different areas, including improvements to tax policy, administration, taxpayer facilitation, capacity building, etc. The Government aims to embark upon a structured approach to revenue mobilisation reforms.

Pillar vision: The overall vision of this pillar is to increase the tax-to-gross domestic product (GDP) ratio in Punjab without stifling economic growth.

Result areas:

1. Tax base broadening
2. Improved fairness of taxation policy
3. Higher non-tax revenue through greater cost recovery, rationalisation of rates of licensing/royalties and transparent sale of assets
4. Taxpayer facilitation for ease of doing business
5. Improvement in intergovernmental coordination
6. Improve debt management

RESULT AREA 1 **TAX BASE BROADENING**

Issues: Pakistan has a large non-formal economy which is outside the tax network. Similarly, due to weakness in tax administration, many taxpayers remain outside the tax network despite being involved in taxable activities or having taxable income. This results in lower revenue collection and the overburdening of existing taxpayers.

Objective: The objective of this result area is to broaden the tax base by bringing in hitherto untaxed sectors/ taxpayers into the tax net. Once this is done, the Government would be in a position to reduce its tax rate.

Actions

Short to medium term

1. The Government is currently using a system of positive list for sales tax on services. In this system, taxable services are specified in Schedule II of the Sales Tax on Services Act. The services not listed in the schedule are exempted from the tax. In order to broaden the base of sales tax on services, the Government will review the option of a negative-list based Sales Tax regime in the province whereby all services are taxable unless specifically granted an exemption.

2. Effectively use of IT to identify new taxpayers for sales tax on services i.e. use databases/websites of different agencies e.g. Pakistan Revenue Automation Pvt Ltd, professional organisations like the Bar Councils etc., and advertisements on social media sites to identify new taxpayers.

3. Review rating areas for UIPT in the light of Punjab Local Government Act, 2019 to bring newly declared urban areas into tax net.

4. Use Geographic Information System/Google Car/Technology to identify units outside the net of UIPT.

5. Deliberate possibility of shifting to capital value of the property, rather than the rental value, as the basis for the collection of UIPT. A good system of property tax determines value of the property on the basis of its important characteristics. The shift will help make the tax progressive, shift the incidence towards richer property owners, and provide stronger justification to tax vacant plots.

Long Term

1. Reduce the rate of sales tax on services after expanding the tax base. The reduced rate will encourage tax compliance and increase Government revenues.

RESULT AREA 2 **IMPROVED FAIRNESS OF TAXATION POLICY**

Issues: Fairness implies that there should be horizontal and vertical equity in the tax system. Horizontal equity means that everyone with the same income level should pay the same amount of tax. Similarly, the concept of vertical equity demands that tax rates should proportionately increase with the increase in income/wealth of an individual or a business. An unfair or inequitable tax system can never be functional.

Objective: The objective of this result area is to remove inequity in the taxation system in the province and to make the system fair.

Actions

Short to medium term

1. Agriculture contributes approximately 22% to the national economy. However, its revenue potential has significantly dropped due to reductions in the average size of landholdings (as they pass through generations and sub-divide). Nonetheless, it is extremely important to set up an equitable taxation system in the country in which all incomes are taxed equally. In the light of this principle, the Government would review the Agriculture Income Tax rate structure for greater equity vis-à-vis Income Tax collected by federal Government.

2. Urban land is an extremely important and limited factor of national production. It is important that the provincial tax policy creates incentives for its efficient and productive use. At present, though, the taxation policy creates perverse incentives and promotes the holding of vacant plots for speculative gains. As a result, trillions of rupees get locked into this speculative business, with no contribution to the real economy. Productive agriculture land is converted into residential area, and no construction activity takes place for a long period of time, which results in huge loss to the economy. The Government aims to use UIPT to create incentives to promote construction activity on vacant land. The new policy will impose a high penalty for delays in construction on vacant plots. The rate of penalty would increase with the passage of time. Once the construction is completed, the owner of the land will be allowed a tax credit (equal to the amount of penalty), which could be offset against any tax owed to the Provincial Government.

3. Review the rate of tax on vacant area of properties for UIPT (make it equal to that of the rate for covered area).

4. Use of information technology and Government databases, such as computerised land records, for effective tax collection.

5. Review exemptions to improve targeting of tax expenditures, especially in UIPT.

6. Elimination of tax differential between self-occupied and rented properties for UIPT.

7. Link Token Tax on motor vehicles to value to replace a system based on engine capacity.
8. Shift from fixed tax to ad-valorem tax rate, where possible.
9. Review rates of sales tax on services for inter-provincial equity.

RESULT AREA 3 HIGHER NON–TAX REVENUE THROUGH GREATER COST RECOVERY, RATIONALISATION OF RATES OF LICENSING/ROYALTIES, AND TRANSPARENT SALE OF ASSETS

Issues: The Government of the Punjab has a number of sources of non-tax revenue, including user fees, fines, rates/royalties and proceeds of sales of government assets, in addition to straight transfers (net hydel profit, royalties on oil and gas, and excise duties on oil and gas) that are collected by the Federal Government and transferred to the provincial Governments. At present, the collection of revenue from many non-tax sources of revenue is sub-optimal.

Objective: The Government will make every effort to increase cost recovery from services that it provides. Similarly, the rates of royalties will be reviewed where there is opportunity to increase provincial revenue without causing too many distortions for business. Finally, the assets (e.g. state land) of the Government would be leveraged to generate revenues for the Government.

Actions

Short to medium term

The Government will require the specialised municipal services providing entities to charge the beneficiaries of those services in order to achieve self-sustainability, or at least an optimal cost recovery ratio. Although the revenues raised by these entities will not be included in provincial revenues, these will significantly reduce the dependence of public sector entities on the Provincial Government for financial resources, and the fiscal space of the Provincial Government will be released for other important objectives. In this regard, the following activities will be undertaken:

1. Design a business model of important public sector entities/departments, including those providing irrigation water, water and sewerage management services, waste management services, transport services, and parking services to achieve self-sustainability or an optimal cost recovery ratio.

2. Undertake a holistic view of the irrigation sector for optimum pricing of irrigation water/Abiana (fee charged for provision of canal water for irrigation) as the current system discourages the efficient use of irrigation water.
3. Rationalise rates/royalties on mines and minerals.
4. Review the rates of leases of state land.
5. Determine a regulatory framework for the generation, management and transparency of self-generated revenues, including, user charges by autonomous organisations and public sector companies.

RESULT AREA 4 TAXPAYER FACILITATION FOR EASE OF DOING BUSINESS

Issues: Pakistan has improved its ease of doing business ranking as a result of the Government's effort to facilitate business operations in the country. However, there is still room for improvement in this area.

Objective: The Government aims to facilitate businesses as this will help catalyse economic growth. This would be done by reducing the number of taxes that businesses have to comply, simplifying tax payment processes, updating tax legislations and reducing the taxpayer–tax collector interface.

Actions

Short to medium term

1. Review all taxes to abolish/merge smaller, nuisance taxes, with the objective of reducing the number of taxes to facilitate taxpayers.
2. Establish one window tax portal for all businesses.
3. Undertake a third-party assessment of the existing Government E-Pay system to identify potential risks and undertake risk mitigation actions.
4. Extend the E-Pay system to all provincial taxes in a phased manner.
5. Establish service centres for taxpayer facilitation.

Long term

1. Payment of all provincial taxes through the same portal or the same form.

RESULT AREA 5 **IMPROVEMENT IN INTERGOVERNMENTAL COORDINATION**

Issues: Lack of intergovernmental coordination in Pakistan is one of the major reasons of low tax-to-GDP ratio. One specific reason for the lack of coordination is tax competition between different jurisdictions, especially on, mobile tax bases. Similarly, ineffective data sharing between governments allows space for tax evasion.

Objective: Help improve intergovernmental coordination by initiating a consultative process to reduce difficulties faced by taxpayers and so increase the tax-to-GDP ratio of the country.

Actions

Short to medium term

1. Coordinate with the Federal Government to reduce taxes on property transactions to revive real estate sector in the province.
2. Coordinate with the Provincial Governments to align provincial sales tax laws with the 'destination principle' (i.e. a regime of international taxation according to which consumption taxes are levied where products are consumed) to administer the tax in its true spirit, in line with international best practice as a tax on final consumption. For this purpose, the Government will aim to develop a consensus through an inter-provincial dialogue and discussing the matter on dispute resolution forums created under the constitution, e.g. IPCC and Council of Common Interest.
3. Coordinate with Federal and Provincial Governments for:
   - a. better taxation of motor vehicles and development of a national database of motor vehicles for traffic regulations and crime prevention;
   - b. using a common IT platform to administer sales taxes in order to minimise frauds and effectively address the input tax claims of various Governments;
   - c. enabling taxpayers to file single tax return for all sales tax agencies in the country; effective data sharing.

RESULT AREA 6 **IMPROVED DEBT MANAGEMENT**

Issues: Previously, debt was not raised by the Provincial Governments in Pakistan. However, after the 18th Amendment to the Constitution, the Provincial Governments were allowed to borrow, within limits sanctioned by the National Economic Council. Since this is a relatively recent policy, there is limited capacity for effective debt management in provinces. While DMU helped in improving the capacity, there is room for further improvement. Most importantly, there is a need for a robust legal framework for debt management at the provincial level.

Objective: Manage debt in an efficient and sustainable manner and in accordance with constitutional requirements and implement fiscal rules that discipline fiscal borrowing. It is important to establish a mechanism to identify risks and manage them proactively. Debt management should support the fiscal Strategy, ensuring that borrowing by the Government follows fiscal rules and systems. This will make borrowing more efficient, with a minimum level of debt taken on by the government as the Strategy is developed in the light of fiscal needs.

Actions

Short to medium term

1. Develop Fiscal Responsibility and Debt Limitation Act for the Provincial Government.
2. Gradually phase out untargeted subsidy on wheat, and resolve the problem of debt accumulation in the Food Account.
3. Develop medium term debt management Strategy of the Government to support fiscal policy.
4. Develop a debt management information system in the FD.
5. Publish reports on debt, guarantees, and fiscal risks in budget documents and on the FD's website.
6. Improve transparency of budget by including information on debt stock, including, details for at least the beginning of the current fiscal year presented in accordance with Global Financial Standards (GFS) or others comparable standard.
7. Establish mechanisms in the FD to manage public debts and guarantees, and to identify, monitor, and manage fiscal risks arising from contingent liabilities of the autonomous organisations, public sector enterprises, PPPs, and other entities (e.g. Bank of the Punjab).
8. Improve capacity and performance of DMU for the effective monitoring of fiscal risk.
9. Identify opportunities for efficiency savings, e.g. through debt swaps.

PILLAR 2

THE QUALITY OF **BUDGETING IS IMPROVED**

PILLAR 2
THE QUALITY OF BUDGETING IS IMPROVED

Budgeting in Punjab is largely bottom-up, with little focus on policy (Punjab Growth Strategy 2023). It follows an annual budget-making horizon against the modern budgeting techniques that emphasise policy-based, top-down and medium-term budgeting. Furthermore, there is little participation of the legislature and civil society in the budget-making process. As a result, the quality of budgeting in Punjab is not of the desired standard; this is marked by a large number of changes to the approved budget during execution, many of which could have been foreseen if due diligence had been exercised while preparing the budgets.

Pillar vision: The overall vision of this pillar is to strengthen strategic planning and performance orientation in budgeting.

Result areas:

1. Strengthening of top-down budgeting
2. Consultative and performance-based budgeting with greater legislative scrutiny
3. Enhanced transparency of budget
4. Effective monitoring of results

RESULT AREA 1 **STRENGTHENING OF TOP–DOWN BUDGETING**

Issues: The budget-making exercise is largely bottom-up for the recurrent budget, i.e. all cost centres are requested to provide their estimates and these are consolidated at the level of FD and submitted to the Cabinet for endorsement before being presented to the legislature. The modern world has now shifted to a policy-based system of budgeting in which budget ceilings and priorities are provided by the political leadership, and the departments develop proposals to achieve these targets within the given resources by pursuing efficient and effective service delivery practices.

Objective: Strengthen and institutionalise policy-based, top-down, medium-term budgeting in the Government of the Punjab.

Actions

Short to medium term

1. Line departments prepare costed medium-term sector plans and operational plans on a rolling basis by December every year.
2. Develop statistical basis for macro-fiscal forecasting and update on a regular basis.
3. Prepare Medium-Term Fiscal Framework by December each year to establish resource envelope for the medium term.
4. BSP drives key policy priorities and sectoral allocation of resources, and determines risk management Strategy, which is approved by the Cabinet by the end of February each year.
5. Issue budget ceilings to each line department as per the sectoral allocations approved by the Cabinet.

RESULT AREA 2 CONSULTATIVE AND PERFORMANCE–BASED BUDGETING WITH GREATER LEGISLATIVE SCRUTINY

Issues: Input based budgets, developed in Punjab, do not allow performance monitoring by line departments. The Government, therefore, is unable to identify the outputs (goods and services) that its resources produce. The line departments are unable to effectively monitor their service delivery. Further, there is a great need to strengthen the role of legislature in budget making. The participation of legislature in budget making, along with that of other key stakeholders, is likely to improve the quality of budgeting and legislative oversight on budget.

Objective: Shift from the input-based budgets to performance-based budgets to enable better performance monitoring in the Government and to enhance the participation of members of legislature in budget making. The latter will also require the simplification of budget documents and the technical assistance of members of the legislature so that they can play an effective role in budgeting.

Actions

Short to medium term

1. Ensure properly structured pre-budget discussions in provincial assembly.
2. Increase participation of citizens (especially women) and civil society in pre-budget consultations.

3. Hold round tables to develop budget proposals/schemes that aim to improve efficiency and effectiveness of public expenditure.
4. Ensure citizens' participation in planning and budgeting through: (i) establishing a website for citizens' input; (ii) developing citizens' engagement guidelines; and (iii) creating institutional spaces for citizens' participa- tion in provincial and local budgeting.
5. Line departments prepare budget proposals based on sector Strategies.
6. Joint review of budget proposals by FD and Planning and Development (P&D) Department aligned with sector strategies.
7. Early submission of budgets to legislature and assignment of at least one month for legislative scrutiny.
8. Changes in Rules of Procedure to allow for review of budget by Standing/Select Committees.
9. Prepare multi-annual budget in line with resource constraints established through medium-term fiscal framework.
10. Simplify budget books presented to the Assembly (separate grant for each department).
11. Introduce Results-Based Budgeting in all departments in phases using a simplified methodology.
12. Review existing Schedules of New Expenditure and shift ones that involve expenditure of the permanent nature to permanent budget.
13. Thoroughly review permanent expenditure every five years to identify redundancy.

RESULT AREA 3 ENHANCED TRANSPARENCY OF BUDGET

Issues: PEFA 2019 identified a number of weaknesses in budget transparency in Punjab, e.g. the information on fiscal risks, budget execution, etc., is not made available to citizens in a manner that is easy to understand. Lack of transparency further leads to poor accountability and facilitates corrupt practices.

Objective: Improve transparency of budget by establishing a system to provide financial information in budget in accordance with international best practice. Another objective of this result area is to help the Government develop various reports that help in sharing information on budget execution with citizens and the legislature in a timely and comprehensible manner. The Government can periodically use the available instruments (e.g. OBI and PEFA) to measure the progress it has made on budget transparency.

Actions

Short to medium term

1. Improve transparency of budget by inclusion of information on:
   - a. macroeconomic assumptions, including at least estimates of GDP growth, inflation, interest rates and the exchange rate;
   - b. forecast of the fiscal deficit or surplus or accrual operating result;
   - c. summary information on fiscal risks, including contingent liabilities such as guarantees, and contingent obligations embedded in structure financing instruments, such as PPP contracts, and so on. Since disasters are quite frequent in Pakistan, the inclusion of fiscal risk arising from disasters could be considered;
   - d. deficit financing, including its anticipated composition;
   - e. medium-term fiscal forecasts;
   - f. quantification of tax expenditures;
   - g. explanation of budget implications of new policy initiatives and major new public investments, with estimates of the budgetary impact of all major revenue policy changes and/or major changes to expenditure programmes;
   - h. financial assets, including details at least for the beginning of the current fiscal year presented in accordance with GFS or other comparable standards; and
   - i. debt stock, including details at least for the beginning of the current fiscal year presented in accordance with GFS or other comparable standard.
2. Undertake periodic Open Budget Index assessment.
3. Develop citizens' budget in Urdu and English, and report on execution/progress on initiatives taken under last budget.
4. Reorganise budget grants to ensure that no budget grant is administered by more than one departmental head/Principal Accounting Officer.
5. Publish monthly, quarterly, mid-year and year-end budget execution reports.

Long term

1. Publish annual statement on assets and liabilities.

RESULT AREA 4 **EFFECTIVE MONITORING OF RESULTS**

Issues: Input-based budgeting creates major hurdles in effective monitoring of results. However, a number of institutions and systems are also weak, which is a cause of ineffective monitoring in the Government. Weak monitoring creates incentives for the inefficient use of resources. Capacity of key institutions for legislative accountability, i.e. Public Accounts Committee, also needs to be strengthened.

Objective: Strengthen monitoring system in the Government by creating/operationalising bodies responsible for the monitoring of results and building their capacity to perform their roles effectively.

Actions

Short to medium term

1. Regularly hold Fiscal Monitoring Committee meetings to review receipts and expenditures vis-à-vis the budgetary allocations.
2. Undertake expenditure reviews in selected sectors/cross-sectoral themes.
3. Gradually establish system of results monitoring; prepare annual report on progress made by line departments against budget targets.
4. Carry out feasibility study to determine new coding and mapping systems for cross-sectoral themes, such as gender, climate change, poverty, sustainable development goals, etc., and their linkages with the government's Chart of Accounts structure.
5. Develop the capacity of the Public Accounts Committees of the Provincial Assembly to scrutinise public expenditure, clear backlog and define a system of tracking decisions; implement recommendations on audit observations.
6. Form Local Councils' Account Committee(s) to examine the audit reports of local councils on the pattern of the Public Accounts Committee.

Long term

1. Discuss and strengthen the role of the standing committees in oversight of budget and expenditure.
2. Gradually introduce a results-based management system in IFMIS/SAP.

PILLAR 3

THE BUDGET IS **EXECUTED AS PLANNED AND FISCAL RISKS ARE MANAGED BETTER**

PILLAR 3

THE BUDGET IS EXECUTED AS PLANNED AND FISCAL RISKS ARE MANAGED BETTER

It is extremely important that the budgets are executed as planned/approved by the legislature, i.e. that there are minimal changes to the approved budgets. Further, the objectives set out in the budgets should be achieved at least cost, in a timely manner. Therefore, the Government aims to strengthen its budget execution system, ranging from the release of funds, the system for making changes to the approved budget, cash planning, procurement planning and undertaking procurements. It also aims to bring greater predictability in budget execution through the development of a policy for the release of allocated funds. The strengthening of procurement systems (through the use of IT) is required to ensure the competitive and transparent purchase of goods and services. Similarly, internal controls need to be strengthened through the development of an effective internal audit system.

Pillar vision: : The vision of this pillar is to improve budget predictability by minimising differences between the original budget and the actual expenditure.

Result areas:

1. Disciplined and orderly budget execution
2. Strengthened internal controls
3. Effective and proactive fiscal risk management

RESULT AREA 1 **DISCIPLINED AND ORDERLY BUDGET EXECUTION**

Issues: As indicated by the recent PEFA assessment, there are currently significant variations between the original budget and the budget outturn, both in aggregate terms and in terms of the sectoral composition of expenditure. Addressing this weakness requires improved and more realistic budget preparation, and measures to combat the factors underlying the widespread use of technical/net supplementary budget appropriations, which leads to high variances in the composition of the budget executed, as compared to the original budget.

Objective: Strengthened systems for budget control that lead to a closer match between original budget and budget outturn.

Actions

Short to medium term

1. Improve system of changes in approved budget with a view to empower legislative oversight by the Provincial Assembly; supplementary grants/inter sector re-appropriations beyond an agreed threshold to be approved ex-ante by the legislature.
2. Make funds available to spending units and schemes on time, using a cash forecasting system and ensuring that releases are made according to the release policy.
3. Put in place a legal framework for cash management/cash planning.
4. Review and update the system of delegation of financial powers with a view to allowing greater authority to spend.
5. Review the full cycle of release of funds to simplify releases to line departments.

RESULT AREA 2 **STRENGTHENED INTERNAL CONTROLS**

Issues: Internal controls are important to ensure financial discipline and avoid the misuse of resources. A number of internal controls are still weak in Punjab. Some of the weaknesses stem from incomplete activation of the capability of IFMIS/PIFRA system, whereas, others result from a lack of compliance with fiscal rules. There could be other instances where compliance with internal controls could benefit from automation.

Objective: Strengthen internal controls to improve financial discipline in the Government and reduce risk of the misuse of public funds.
Actions

Short to medium term

1. Gradually implement budget availability control/check on payroll and pension expenditure (introduction of organisation management module of IFMIS/PIFRA system).
2. Complete pension roll and implement direct credit system for all pensioners.
3. Automate system-for-life certification of pensioners.
4. Strengthen internal control systems in line departments, including the establishment of internal audit system (hiring of internal auditors, conduct of internal audits of systems, development of reports and response by the management).

5. Improve usage of SAP in FD and line departments for budget making, control and monitoring with improved classification coding and mapping.

Long term

1. Strengthen assets and liabilities registers in SAP.

RESULT AREA 3 **EFFECTIVE AND PROACTIVE FISCAL RISK MANAGEMENT**

Issues: : Fiscal risks can arise due to a multitude of events, including lower revenue collection by tax collection agencies and increased expenditures due to grants to autonomous bodies, companies/public sector enterprises, etc. Most substantially, the risk associated with future liabilities arising from the public sector enterprises may have a detrimental effect on the budget.

Objective: To establish a mechanism for identifying fiscal risks and managing them proactively.

Short to medium term

1. Establish a system to record, monitor, and manage expenditure arrears.
2. Devise a system to account for recurrent liability arising out of development schemes.
3. Improve capacity and performance of DMU, Risk Management Unit, and CFU for the effective monitoring of fiscal risk.
4. Strengthen pre-audit, payment, reconciliations (banks, revenue collecting agencies, and Deputy District Officers) and reporting processes.
5. Undertake system-based payroll and pension audits at least once every three years to identify weaknesses in payroll management system, if any.
6. Identify opportunities for savings (e.g. through payroll and pensions audits, review of subsidies, debt swaps, expenditure reviews, identification of over budgeting, outsourcing, etc.).
7. Develop and implement an alternative (defined contribution) pension scheme for employees in next three years.

Long term

1. Develop a system of commitments and multi-annual commitments defined, regulated and linked to budgeting.

PILLAR 4

DEVELOPMENT
BUDGET SYSTEMS
ARE REFORMED

PILLAR 4
DEVELOPMENT BUDGET SYSTEMS ARE REFORMED

The development budget constitutes an integral part of overall efforts of the Government of the Punjab to utilise public resources to enhance the delivery of services in the province. In addition, the development budget helps augment total investments that increase economic growth rate by catalysing private sector investments. Therefore, its importance has increased substantially in recent years as the Government strives to achieve a higher growth rate in the economy. The well-defined system of development budget identification, appraisal, budget making and execution, and monitoring has been defined by the Federal Planning Commission and the Provincial Governments follow these frameworks.

However, recent decades have witnessed compliance issues. Indicators of these issues are the prevalence of unapproved projects in the budget, the steady build-up of a large throw-forward of uncompleted projects, the breakdown of the linkage between sectoral plans and priorities and the projects approved. In addition, the use of block grants has reduced the transparency of the purposes for which funds are approved in the budget. Recent PEFA Assessment indicated that the economic analysis of projects is completed for large projects, reviewed by P&D, but the results are not published, which again makes the whole process of selecting/approving projects non-transparent. The Planning & Development Board, the Government of the Punjab has formulated Punjab's post-COVID-19 Public Investment Strategy titled Responsive Investment for Social Protection and Economic Stimulus. The Strategy integrates seven critical pillars of Punjab's economy in dealing with economic and social protection challenges. The document serves as a guiding tool for public sector investments in the short to medium term, to re-develop Punjab's growth framework and priorities. The Strategy also includes an Annual Development Programme (ADP) Prioritisation Framework, which will help Administrative Departments and the Government of the Punjab in the prioritisation of development schemes for inclusion in ADP 2020–21.

Pillar vision: : An orderly process of provincial and sectoral planning provides the foundation for identification, preparation, appraisal and execution of projects which contribute efficiently and effectively to the improved delivery of public services across the population of the province and act as a catalyst for economic growth in the province.

Result areas

1. Planning process is comprehensive
2. Strengthened compliance with planning procedures
3. Effective project monitoring systems for management decisions
4. Efficient and transparent procurement management
5. Appropriate opportunities and subsequent management of PPPs

RESULT AREA 1 **PLANNING PROCESS IS COMPREHENSIVE**

Issues: While Punjab Economic Growth Strategy 2023 (2019) is available, the link between the strategy and budgets needs to be strengthened. Sector plans exist in some departments; however, despite repeated instructions from P&D, there is insufficient focus by line departments on sector planning, leading to an ad hoc process of identification of priorities for development budget.

Objective: Well-constructed sector plans in each department provide the principal drivers for the identification of priorities for development projects.

Actions

Short to medium term

1. Rolling, costed sector plans feed into budgets and become the source of identification of projects/schemes.
2. Hold sector round tables to identify projects.
3. Ensure that projects are in line with the approved growth Strategy and sector plans.
4. Establish clearer and transparent systems to ensure the adequate provision of operating costs of completed development projects/schemes.
5. Develop and apply prioritisation and efficiency filters on all sectoral plans in line with budget ceilings.

RESULT AREA 2 **STRENGTHENED COMPLIANCE WITH PLANNING PROCEDURES**

Issues: Although the province has adopted the planning processes and procedures established by the Federal Planning Commission, The degree of compliance with those procedures needs to be strengthened. Strategic Planning Units have been established in major departments; however, their capacity needs to be strengthened.

Objective: Development projects are identified and appraised in conformity with planning procedures prior to consideration for approval and entry in the annual budget.

Actions

Short to medium term

1. Undertake a formal Public Investment Management Assessment and develop a Planning Reform Strategy.
2. Make adequate funding available for project preparation, improving coordination between line departments, FD, and P&D.
3. Build capacity of the planning staff for economic analysis, and social and environmental assessment of projects.
4. Appraisal of development project proposals with the inclusion of disaster risk management considerations (i.e. building more resilient infrastructure).
5. Provide adequate funding for on-going schemes before approving new schemes, and approve all projects before inclusion in the budget.
6. Establish Project Management Units (PMUs) for projects over PKR 500 million. Establishment of PMU for such projects will be a condition for release of funds. The step will ensure the timely completion of projects. A separate source of bridge finance will be provided in the development budget for the establishment of PMUs.
7. Ensure timely and adequate provision of operating funds for completed schemes to start provision of services.
8. Gradually remove block grants (i.e. lump funds included in the budget for which no clarity of schemes exists at the budget presentation and approval stage).
9. Effectively manage assets generated by development schemes, including adequate provision made for maintenance in recurrent budget, and ensuring that assets are geo-tagged.

RESULT AREA 3 **EFFECTIVE PROJECT MONITORING SYSTEMS FOR MANAGEMENT DECISIONS**

Issues: While progress has been made in the monitoring of the development budget, especially in respect to the physical implementation of projects, the full potential of the IFMIS/SAP system to provide an integrated IT platform for the management of the development budget, from planning to execution and monitoring, is not fully exploited, and feedback from monitoring to the design of subsequent years' ADP requires strengthening. Similarly, a draft M&E Policy has been developed; however, its approval and implementation are delayed.

Objective: An integrated and comprehensive Monitoring and Evaluation Policy and Implementation Framework has been developed by the Government. The Policy will be implemented in a phased manner for the effective monitoring and evaluation of the development expenditure. Systems will also be developed to incorporate lessons learnt from monitoring and evaluation into future planning and implementation of ADP.

Actions

Short to medium term

1. Monitor all projects using Geographic Information System and smartphones.
2. Build capacity of P&D in undertaking, using and analysing monitoring and evaluation; administrative departments will also be made part of monitoring mechanism by building capacity in the ADs to do M&E.
3. Develop annual MEL plan for ADP.
4. Provide necessary resources for effective implementation of MEL plan.
5. Regularly monitor progress of ongoing schemes and evaluation of major completed projects.
6. Publish monthly, quarterly, and annual progress reports on ADP execution.
7. Feedback to line departments and sections of P&D on lessons learnt from the implementation of ADP.

RESULT AREA 4 EFFICIENT AND TRANSPARENT PROCUREMENT

Issues: An efficient and transparent procurement system is an essential prerequisite for a sound system of management of the development budget. The system of procurements is still manual; this slows down the process and increases the costs of monitoring the progress of procurements.

Objective: Public procurement of works and services on the Government of the Punjab's development budget is fully Compliant with the norms Established by the procurement regulatory environment and fully in line with transparency guidelines on individual procurements.

Actions

Short to medium term

1. Propose procurement reforms in a procurement Strategy and develop an action plan.
2. Ensure certification of procurement officials and put certified procurement officers in place in the line departments.
3. Introduce an e-procurement system for procurements under development budget.
4. Advertise all government tenders online.
5. Ensure that a system of annual and multi-annual commitments is developed and linked with an improved system of contract management.

RESULT AREA 5 APPROPRIATE OPPORTUNITIES AND SUBSEQUENT MANAGEMENT OF PPPs

Issues: Given the limitations on the fiscal space, there is a need to seek out appropriate opportunities for involving the private sector in PPP operations.

Objective: Over time, well-designed and well-managed PPP operations contribute to economic growth and provision of public goods.

Actions

Short to medium term

1. Utilise PDF to prepare simple PPPs (service and management contracts) to facilitate learning-by-doing.
2. Establish well-governed and earmarked funds that can offer viability gap grants and risk-sharing solutions to make projects commercially viable for investors.
3. Develop PPP nodes in each administrative department.
4. Provide appropriate training to address the knowledge gap and aversion towards PPPs.
5. Ensure representatives of the Board of Revenue on the PPP steering committee.

6 Establish escrow accounts for the transfer of funds to private partners from the Visibility Gap Fund; detailed legislation will be undertaken to enable such transfers.

7 Promote innovations to develop efficient alternatives to service delivery.

8 Publish a list of priority projects that are compatible with a Provincial Government's capacity.

9 Advocacy with the Securities and Exchange Commission of Pakistan and State Bank of Pakistan for making regulations on venture and crowd funding more enabling to ensure higher availability of finance for private sector.

10 'Financing for the PPP project' may also be considered through private sector equity; this provides some or all of the up-front capital required to fund the project's costs. The Government of the Punjab may need to work with the State Bank of Pakistan to develop the space for such funds to be created by the private sector.

PILLAR 5

PFM AND DISASTER **RISK FINANCING SYSTEMS ARE PUT IN PLACE**

PILLAR 5
PPFM AND DISASTER RISK FINANCING SYSTEMS ARE PUT IN PLACE

COVID-19 presents a unique set of challenges for Pakistan. While there has been a huge impact on the health sector, it has also provided a major macroeconomic and fiscal shock of unprecedented scale in the country. It will result in the contraction of the country's economy for the first time in its history and a consequent squeeze on already dwindling public revenues. The situation will be further aggravated because of the demand for greater expenditure for health, social protection, and economic revival.

Disaster management should ideally be an off-budget item in a country with a robust PFM system. Major public infrastructure, livelihoods and private assets should be protected against disaster risks. This, however, is seldom the case in developing countries. The absence of systems for disaster risk management results in an erosion of budget credibility in the event of disasters. Governments are forced to divert resources/allocations from projects and initiatives included in the budgets. The diversion of these resources means that the budget targets are not achieved. In this way, the opportunity costs of funding disaster relief are huge.

Pillar vision: The Government of the Punjab should strengthen its PFM systems to mitigate fiscal risks arising from disasters.

Result areas

1. Forecasting the macro-fiscal impact of pandemic
2. Taxation policy and administration response
3. Managing expenditure for disaster relief
4. Reduce fiduciary risks of disaster management funds
5. Disaster risk financing Strategy

RESULT AREA 1 FORECASTING THE MACRO–FISCAL IMPACT OF PANDEMIC

The impact of COVID-19 on Pakistan's economy is estimated to be between 4% and 6% of GDP, as estimated by different local and international researchers/research organisations under different scenarios and assumptions. Such a major loss is bound to result in a major dent in public sector revenues and require

a massive rehabilitation cost, even if the cost in terms of the immediate relief and health response is ignored. Further, it forces the economy to move along at a lower growth trajectory compared to a world without COVID-19, which implies lower revenues and fewer resources for development.

Under Pakistan's system of fiscal decentralisation, Provincial Governments rely heavily on federally collected tax revenue, which is distributed between the Federal and Provincial Governments in accordance with the National Finance Commission Award. The current formula/award assigns a 57.5% share of Federal Divisible Pool to Provincial Governments. Taxes collected by FBR dropped from a pre-COVID-19 estimate of PKR 4,803 billion in financial year (FY) 2020 to PKR 3,997 billion, implying a revenue shock of approximately 2% of GDP, the bulk of which has been passed on to the Provincial Governments. Similarly, the Government's own tax and non-tax revenues fell short as compared to pre-COVID-19 forecast. Such a sudden revenue shock crippled provincial budget management. It required a complete reassessment of the MTFF of the Government to put the budgeting on sound footing. Therefore, the following action areas are suggested for this area in the post-COVID-19 development Strategy:

Issues: There are weaknesses in the system in terms of its ability to forecast the impact of disasters.

Objective: Develop instruments and build capacity to forecast the impact of disasters.

Actions

Short to medium term

1. Revised estimates of growth.
2. Revised projections of Government revenue in FY 2019–20
3. Forecast of revenue projections for the medium term (2020–23).
4. Consolidate the resource requirement of all sectors to revive economic growth.

RESULT AREA 2 TAXATION POLICY RESPONSE TO PANDEMIC

In order to provide relief to small and medium businesses and poor citizens, the Government announced a tax relief package of PKR 18 billion in FY 2019–20. This included concessions in sales tax on services, stamp duty, urban immovable property tax, infrastructure development cess, professional tax, and electricity duty. Due to the urgency of the situation, some of the concessions granted by the Government may have benefited taxpayers across the board. However, in future, the government aims to provide targeted tax benefits to businesses and households.

It further aims to make the tax policy more progressive. In any case, it is important to strike a balance between the economic stimulus and resource requirements of the Government so that it is able to run its business of providing public goods to citizens. The situation also requires that in the post-COVID-19 scenario, the Government incentivises businesses that promote social distancing, e.g. a reduction in sales tax on telecommunication and internet will promote online businesses and help deal with coronavirus threat more effectively. The resource mobilisation committee provided recommendations for tax policy response to COVID-19. Some of these measures were announced as part of budget 2020–21. These included reduction in rate of stamp duty and introduction of reduced rate of sales tax on a number of services.

In the medium term, the Government needs to review its revenue mobilisation Strategy after thorough deliberation to mobilise optimum amount of revenues. The Strategy also needs to take into account a COVID-19-sensitive approach to tax administration and compliance. This may involve the development of IT-based systems of tax collection that minimise the interface between taxpayers and tax collectors.

Issues: There is lack of interest of evidence on impact of disasters and how taxation policy could be used to help the economy deal with the impact of COVID-19.

Objective: Recommend policy and administrative response to COVID-19.

Actions

Short to medium term

1. Identify targeted tax concessions to ease the tax burden and revive economic growth.
2. Review and revise concessions and compute revenue impact.

Long term:

1. Minimise interaction between taxpayers and tax collectors through the use of IT.

RESULT AREA 3 MANAGING EXPENDITURES FOR DISASTER RELIEF

The macroeconomic and fiscal challenges posed by COVID-19 severely constrain the Government's ability to make cash available to the front-line service delivery agencies where it is most needed. In this situation, the government needs to review and adjust spending authorisations to allow funds to flow quickly to where they are required the most. There may also be a need to disburse funds directly to service delivery units in some cases. Due to the emergency, some ex-ante controls for payment processing could be lifted based on a fiduciary risk assessment.

The existing situation clearly requires strengthening the Government's cash management systems. In order to ensure continued liquidity, the Government needs to develop a cash management plan and review it at least on a monthly basis. Besides ensuring liquidity, the emphasis on cash planning will ensure that unabated resource provision is prioritised by the Government.

Despite its efforts, the government is likely to face a liquidity crunch due to the pandemic and will need to be able to access all available resources, including overdrafts with the State Bank of Pakistan. Many entities within the Government of the Punjab have large sums of funds sitting outside the Treasury. The Government will consider sweeping these funds into the Treasury to ease its liquidity challenges.

Issues: A numbers of expenditure management practices cause obstacles in Government responses to disasters such as COVID-19.

Objective: : Improve expenditure management practices to facilitate government response to disasters without compromising on financial controls.

Actions

Short to medium term

1. Review of spending authorisations and reprioritisation through reallocations and virements.
2. Release funds directly to service delivery units.
3. Review of cash plans to prioritise essential expenditure.
4. Consolidate Government cash by bringing to treasury the funds lying outside the Treasury.

RESULT AREA 4 REDUCE FIDUCIARY RISKS OF DISASTER RELIEF

Pakistan is a country prone to disasters. In the recent past, the country and the Province of Punjab has suffered from floods, earthquake, dengue, and now coronavirus. Despite the frequency of disasters, the country's public financial management systems for the use of disaster relief and management operations are not as well developed as they should be. This implies that the fiduciary risk of expenditure for disaster relief and disaster management needs to be reduced. One important weakness in the system is the absence of budget classification codes, due to which it is difficult to track expenditure on disasters such as COVID-19. Similarly, there needs to be a mechanism for the regular reporting of expenditure on disasters. This will help promote the transparency of disaster expenditures and help reduce fiduciary risks. The strengthening of internal controls of agencies using disaster management funds will go a long way towards reducing the fiduciary risk of disaster funds. Finally, it is extremely important that expenditure reviews are instituted to review the efficiency and effectiveness of expenditure for disaster management. The following are the action areas under the result area that aim to reduce the fiscal risks of disaster-related expenditure:

Issues: Weaknesses in internal controls increase the fiduciary risk of expenditure on disasters.

Objective: Overcome weaknesses in internal control relating to expenditure on disasters.

Actions

Short to medium term

1. Establish budget classification codes to track expenditure on COVID-19 response.
2. Allocation for contingencies in budget.
3. Regular reporting of expenditure on disaster.
4. Strengthen internal controls for disaster-related expenditure.

Long term

1. Track the expenditure on disaster management for efficiency and effectiveness.

RESULT AREA 5 **DISASTER RISK FINANCING STRATEGY**

Although Governments in Pakistan have made some progress on the establishment of financing mechanisms for dealing with disaster losses, significant work still remains to do to operationalise structures and ensure that financing mechanisms are appropriately provisioned. A structure for a dedicated provincial fund for disaster risk management has been established under the National Disaster Management Act, 2010. However, challenges remain with respect to the operationalisation of the funds and the standardisation of procedures.

While the Government recognises the need to allocate resources in its budgets for disaster response prior to a disaster, it lacks the technical basis to determine such allocations. At present, post-disaster expenditures are financed from supplementary budgets during the relief and recovery phases and from the annual development plan. The inaccessibility of data on the underlying hazards, and their past and possible future financial implications, is one barrier to the process of informed ex-ante provisioning of funds. The development of the technical capacity and necessary tools to quantify likely needs for disaster-related expenditure would help the Government to both: (i) determine appropriate allocations through the budget; and (ii) explore and make informed proposals for possible sources of financing outside the budget.

The implementation of a provincial disaster risk financing Strategy would require significant institutional capacity building, and further work to quantify the likely needs for disaster-related expenditure. Disaster risk financing is just one component of a comprehensive fiscal risk Management Strategy, which requires specific financial and actuarial expertise.

Issues: There is no disaster risk Financing Strategy.

Objective: Develop and implement Disaster Risk Financing Strategy for the Government of the Punjab.

Actions

Short to medium term

1. Ring fence disaster-related aid (ensure propriety in use of funds).
2. Capitalise disaster management funds.
3. Development of disaster risk financing strategy.
4. Training of key government staff on disaster risk financing.

Long term

1. Implementation of 'Disaster Risk Financing Strategy' to ensure that risk-based financing mechanisms are in place before the next shock appears.

PILLAR 6

THERE IS **IMPROVED MANAGEMENT OF FUNDS IN LOCAL GOVERNMENTS**

PILLAR 6
THERE IS IMPROVED MANAGEMENT OF FUNDS IN LOCAL GOVERNMENTS

The Government of the Punjab has recently established a new Local Government system through the Punjab Local Government Act, 2019. The Act is now operational, Local Governments have been established, and preparations are being made to hold Local Government elections in the province. Financial autonomy or fiscal devolution is an important pillar of effective devolution. Therefore, it would be important to establish a predictable, transparent and equitable system for transfers to Local Governments. In this context, there needs to be a significant emphasis on local revenue mobilisation; this will not only improve financial autonomy of Local Governments, but also reduce the dependence on provincial transfers and help establish a link between local services and local revenue mobilisation. The transfer formula will, therefore, be designed to incentivise local revenue mobilisation. Similarly, it is critical that budgeting at local level is needs based and that PFM systems promote the efficient and effective use of public resources.

Pillar vision: : A needs-based, equitable and transparent system for the determination of fiscal transfers from the provincial level to lower levels of Government, combined with adequately developed planning and PFM management capacities at the local level to support the effective and efficient deployment of public resources in support of locally determined priorities for service delivery.

Result areas

1. Implement a needs-based, transparent, and equitable fiscal transfer system
2. Strengthen the PLGFC Secretariat
3. Mobilise local revenues
4. Improve PFM systems at local level

RESULT AREA 1 IMPLEMENT A NEEDS–BASED, TRANSPARENT, AND EQUITABLE FISCAL TRANSFER

Issues: Since a new Local Government system has been established, the Government needs to design and implement a new fiscal transfer system for Local Governments and eventually graduate to a performance-based transfer system.

Objective: A formula-based system is developed and drives fiscal transfers from the Provincial Level to Local Level Government organisations.

Actions

Short to medium term

1. Design, approve, and implement interim PLGFC Award.
2. Transfers funds to Local Governments in a predictable and transparent manner.
3. Leave development projects of the devolved sector to Local Governments.
4. Design a regular PLGFC Award under Punjab Local Government Act, 2019.
5. Pilot performance grant system (including performance grant for own source revenue collection) in a sample of Local Governments in Punjab.
6. Learn lessons from implementation of the pilot system of performance grants and design a performance grant system for all Local Governments.

RESULT AREA 2 **STRENGTHEN THE PLGFC SECRETARIAT**

Issues: PLGFC has an important role in efficiently running the system of fiscal transfers. The existing capacity of the Secretariat, however, is insufficient to adequately support the commission.

Objective: The objective is to build the capacity of PLGFC to perform its role envisaged under the Punjab Local Government Act, 2019.

Actions

Short to medium term

1. Develop a new organogram for the PLGFC Secretariat, its functions, qualifications, and job descriptions of staff for the PLGFC Secretariat.
2. Hire professionals with the requisite qualifications to build the capacity of the secretariat.
3. Develop protocols for maintaining the fiscal and service delivery data of Local Governments by the PLGFC Secretariat.
4. Ensure effective support to PLGFC by its Secretariat in the design of PLGFC Award and its implementation.
5. Regularly publish the annual report of PLGFC.

RESULT AREA 3
MOBILISE LOCAL REVENUES

Issues: Local revenue generation is important for fiscal autonomy, revenue adequacy and local accountability. However, current revenue mobilisation is meagre when compared with potential of Local Governments. It is important to support Local Governments in realising their available capacity for revenue mobilisation.

Objective: Mobilise local revenue sources and reduce the dependence of Local Governments on provincial transfers. This will help strengthen the link between local taxation and local service delivery. Effective local revenue mobilisation can also help divert provincial transfers towards Local Governments with lower revenue potential.

Actions

Short to medium term

1. Report on the review of rates of existing taxes and determining upper and lower limits by PLGFC.
2. Ensure the effective role of Local Government in determining rate, exemptions and scope of UIPT.
3. Improve the capacity of Local Governments to monitor collection of UIPT.
4. Map the revenue collection process (at least major revenue sources) of Local Governments to increase the transparency and efficiency of the processes.
5. Digitise the tax bases for Local Government.
6. Develop an implementation plan for the automation of revenue collection systems/processes.
7. Develop a system to establish a link between local revenues and local service delivery.

RESULT AREA 4 **IMPROVE PFM SYSTEMS AT LOCAL LEVEL**

Issues: The basic elements of the systems required for effective Public Financial Management at the local level are currently lacking. These include the capacity for planning, determining local priorities for service delivery, the preparation and execution of local recurrent and development budgets, and the monitoring of public expenditure against budget, in terms of outputs and outcomes achieved.

Basic budget controls, including the preaudit of expenditures from funds transferred to the local level, are largely absent, creating a high risk of irregularities.

Objective: Basic systems of planning, budget management and monitoring established by the Local Governments/councils ensure that public funds, whether transferred down from the provincial level or locally generated, are efficiently and effectively applied in line with planned and budgeted priorities for local service delivery.

Actions

Short to medium term

1. Strengthen systems of Local Governments for:
    - a. planning;
    - b. budget making and approval;
    - c. budget execution and reporting;
    - d. cash planning; and
    - e. monitoring of expenditure.
2. Role of Local Fund Audit is defined and strengthened.
3. Audit reports of local councils to be examined by local councils' accounts committee on the pattern of Provincial Accounts Committee.

PILLAR 7

THERE IS AN **IMPROVED LEGAL AND REGULATORY FRAMEWORK**

PILLAR 7
THERE IS AN IMPROVED LEGAL AND REGULATORY FRAMEWORK

Background: In the absence of a law envisaged under Article 119 of the Constitution, public finances are managed through the rules approved by the Governor. These rules include: (i) Punjab Financial Rules Vol-I and Vol-II; (ii) Delegation of Financial Powers Rules; (iii) Treasury Rules and Subsidiary Treasury Rules; and (iv) Budget Manual. The Financial Powers emphasise more on a system of centralised financial controls. The Rules, with the exception of Delegation of Financial Power Rules, are not in line with the needs of the modern era.

Pillar vision: An integrated, consistent and regularly updated set of rules and procedures, with a clear legal basis, provide the procedural foundations for efficient, effective, transparent and accountable public financial management in the province.

Result areas

1. Overarching PFM system is defined by a PFM law
2. Comprehensive and consistent set of regulations underpin sound public financial management
3. Updated budget manual provides a sound basis for the management of the budget cycle

RESULT AREA 1 OVERARCHING PFM SYSTEM IS DEFINED BY A PFM LAW

Issues: While the Constitution (Article 119) envisages the passing of a provincial law for the management of moneys going into and coming out of the Provincial Consolidated and Public Accounts Funds, such an act has not yet been passed. Matters such as fiscal management, budget allocations and spending, treasury management, annual and multi-annual commitments, linkages of planning and budgeting, and the roles and responsibilities of key individuals and institutions are currently either not clear or are part of rules and regulations.

Objective: To create the legal underpinnings for the system of public financial management in Punjab.

Actions

Short to medium term

1. Hold an internal debate on major reforms to be implemented through the PFM Act.
2. Prepare a layman's draft of the Public Finance Administration Bill.
3. Consult with stakeholders.
4. Approval of draft bill by the Cabinet and enactment by the Provincial Assembly.
5. Train all relevant stakeholders in the application of the PFM Act.

RESULT AREA 2 COMPREHENSIVE AND CONSISTENT SET OF REGULATIONS UNDERPIN SOUND PUBLIC FINANCIAL MANAGEMENT

Issues: There is a need to update the Financial Rules and Treasury Rules to incorporate changes resulting from the adoption of the NAM, the Chart of Accounts, and the use of electronic software in processing transactions. While the Federal Government has drafted updates, these updates have not yet been approved.

Objective: The regulatory instruments underpinning sound PFM are progressively updated and placed on a sound legal foundation.

Actions

Short to medium term

1. Update Financial Rules and Treasury Rules.
2. Review system of delegation of Financial Powers Rules, 2016.
3. Train stakeholders on financial rules and Treasury rules and the delegation of financial powers.

RESULT AREA 3 **UPDATED BUDGETING MANUAL PROVIDES A SOUND BASIS FOR THE MANAGEMENT OF THE BUDGET CYCLE**

Issues: The existing Provincial Budget Manual is outdated, leading to poor compliance.

Objective: An updated, comprehensive and implementable set of budget manuals guides the management of the budget cycle.

Actions

Short to medium term

1. Consult with FD and other stakeholders on preparation of a comprehensive budget manual.
2. Revise the budget manual to guide the process of budgeting in the line with modern principles of budgeting.
3. Approve the budget manual.
4. Train all relevant stakeholders in the application of the updated budget manual.

PILLAR 8

CAPACITY **ENHANCEMENT PROVIDES FOR BETTER PFM**

PILLAR 8
CAPACITY ENHANCEMENT PROVIDES FOR BETTER PFM

Background: FD and P&D are the core institutions responsible for the management of the budget cycle, with accounting and audit functions performed by the Accountant General and Auditor General of Pakistan, respectively. Line departments also have responsibilities in the preparation and execution of the budget. The level of capacities for PFM in the provincial government needs substantial improvement and this is reflected in the recently undertaken PEFA assessment scores for functions falling under the responsibility of the provincial authorities.

Pillar vision: The institutions of the Provincial Government at central and local level have the capacity in terms of individual staff capabilities, systems and procedures for PFM management, and institutional and organisational capacities to implement PFM across the province in an efficient, effective, transparent and accountably manner.

Result areas

1. Improved systems of PFM training
2. Improved capacity of stakeholder institutions to manage PFM systems
3. Strengthening/capacity building of tax departments

RESULT AREA 1 IMPROVED SYSTEMS OF PFM TRAINING

Issues: Officers responsible for the implementation of PFM lack the training and capacity to fulfil their functions adequately. In the absence of a PFM cadre, there is no effective system of pre- and in-service training. The capacities for managing PFM systems is especially limited in line departments.

Objective: The capacity of individuals responsible for PFM functions is progressively enhanced

Actions

Short to medium term

1. Seminars and workshops on PFM reforms for various stakeholders, as required.

2. Pre-service and in-service trainings/certifications of ex-cadre and PMS officers in planning, finance, project management, M&E, procurements, statistics, GFMIS, etc.
3. Specialised PFM related qualifications are provided to different PMS cadres through the local universities/institutes.
4. Training of staff of revenue authorities on a regular basis, including areas such as the expansion of the tax base, revenue forecasting, tax assessment techniques, conducting tax audits, facilitating taxpayers, enhancing awareness of taxpayers, etc.
5. Trainings of staff of provincial ombudsman, anti-corruption establishment, procurement regulatory authority and civil society organisations for raising awareness of grievance-redressal mechanisms;
6. Knowledge products capacity development, e.g. manuals, guidelines, training brochures, etc.

RESULT AREA 2 IMPROVED CAPACITY OF STAKEHOLDER INSTITUTIONS TO MANAGE PFM SYSTEMS

Issues: The current capacities to implement even core PFM functions are very limited in the Provincial Government, and even more so at the local level. The level of awareness and competence in PFM concepts and procedures is poor, and this is reflected in poor compliance with existing procedures.

Objective: A progressively implemented programme of capacity development based on four main themes puts in place a sustainable capacity to implement effective PFM systems and policies across the provincial and Local Governments.

Actions

Short to medium term

1. Develop web portals for FD and P&D housing all relevant guidelines, notifications, etc. for easy access.
2. A province of the size of Punjab requires the establishment of professional services for effective public financial management and revenue mobilisation in Punjab. Therefore, the Government will establish the following two new service cadres in Punjab:

i. The Punjab Revenue Service: This service is urgently required for effective revenue collection by provincial and Local Governments. It would be staffed by qualified professionals who would be provided with comprehensive training on taxation before they are assigned to the task of revenue mobilisation; and

ii. The Punjab PFM Service: This service would be established to perform PFM functions in provincial and Local Governments, such as planning, budgeting, budget execution, accounting, internal audit/internal control, etc. The existing financial services, such as Treasury Service and Local Fund Audit, will be merged into this service. Specialisations in different aspects of PFM and Revenue Mobilisation services (such as Budgeting, Accounting, Internal Audit, etc.) would be created in a gradual manner over time. The Government will provide proper training and career growth opportunities for the members of this service.

3 Revitalise core FD services – strengthening the treasuries service and local fund audit service of FD through training, recruitments (if required), review of service structure, service rules and systems/process within organisation.

4 Establish a PFM unit in FD to take a lead on PFM reforms in Punjab.

5 Establish a dedicated financial unit headed by Chief Financial Officers in selected key departments to assist the secretaries in strengthening PFM in departments. The staff of the unit will also include Internal Auditors and Procurement Specialists.

6 Strengthen the PLGFC Secretariat in the FD.

7 Establish a pool of experts, including professional accountants, tax experts, etc. Local Governments will be able to use their services to help them set up their PFM systems for better service delivery.

8 Improve PFM syllabus in Management and Professional Development Department.

9 Appoint Procurement Ombudsperson for immediate redressal of grievances against the decisions of the procuring agencies. The initiative will improve the transparency of public procurements and build the confidence of private sector that they can do business with the public sector.

RESULT AREA 3
STRENGTHENING/CAPACITY BUILDING OF TAX DEPARTMENTS

Issues: There is limited capacity in tax departments with regards to PFM.

Objective: Strengthen capacity of tax departments.

Actions

Short to medium term

1 Operationalise Tax Policy Unit in the FD for the provision of tax policy analysis and revenue forecasting with nodes in the major tax collection departments.

2 Assess the human resources needs of PRA and recruit personnel to augment the authority's capacity to administer sales tax on services.

3 Establish audit wings in tax collection departments.

4 Increase the effectiveness of grievance redress mechanisms and expand outreach to citizens through establishing the office of Tax Ombudsman.

5 Increase the involvement of Local Governments in collection of UIPT:

a Divide responsibilities with Local Governments along functional lines, for example leave the preparation of valuation table and record-keeping with the province, but let the Local Government be responsible for collection and for identification of new properties to be added to the tax rolls;

b Build the capacity of Local Governments to set the tax rate, within upper and lower limits set by the PLGFC; and

c Devolve collection to Metropolitan Corporations/Municipal Corporations in the first instance; allow the remaining Local Governments to assume administrative responsibility when they demonstrate readiness, as measured by an objective benchmark.

6 Train staff of revenue authorities on regular basis, including areas such as expansion of tax base, revenue forecasting, tax assessment techniques, conducting tax audits, facilitating taxpayers, enhancing awareness of taxpayers, etc.

7 Training for key budget and planning staff of departments on Disaster Risk Financing.

8 Campaign to promote the awareness amongst taxpayers highlighting the importance of paying taxes.

Long term

1 Develop a blueprint for the integration of tax collection departments into a single province-wide tax collection authority.

2 Establish a land bank for the Provincial Government.

PILLAR 9

IT ALLOWS FOR **EFFECTIVE PFM AND REVENUE MOBILISATION**

PILLAR 9
IT ALLOWS FOR EFFECTIVE PFM AND REVENUE MOBILISATION

Background: The Government of the Punjab is connected to the IFMIS, which is also established in the Federal Government and the other three provinces. Accordingly, the PFM Strategy builds on the already established architecture to fill in the gaps identified, steer the focus from accounting system towards an informational tool, and lay the ground for more sophisticated technology to be added on/integrated in the future (in the long term). While doing so, it aims to establish, in the short and medium terms, a mechanism to provide quick, easily accessible and meaningful information for PFM decision makers.

Second, a number of important PFM systems need to be computerised to improve the efficiency of Government's revenue collection and expenditure management.

Third, the outbreak of COVID-19 pandemic has emphasised the need for more comprehensive automation of Government systems/processes.

Pillar vision: Across the Government digital reforms, a non-paper-based and citizen-friendly governance system will be created through the smart use of technology. A fully integrated and easily accessible budgeting, expenditure, accounting and reporting landscape will be established which will enable the Government to be more efficient through its use of complete, timely and critical information for decision making. In addition, key PFM processes will be automated to improve governance mechanisms in the Government.

Result areas

1. Automation of key PFM processes
2. Technology enables timely reporting and supports better management of public finances
3. Automation of payments
4. Automation of tax systems for greater transparency

RESULT AREA 1 **AUTOMATION OF KEY PFM PROCESSES**

Issues: Some of the key PFM processes are still manually performed in the Government of the Punjab, e.g. procurement is done manually; and many taxes can only be paid at branches of National Bank of Pakistan or the Bank of Punjab. The efficiency of Government expenditures and revenues can be enhanced by automating these key processes.

Objective: Help Government create fiscal space through automated processes.

Actions

Short to medium term

1. Implement E-procurement system in Punjab.
2. Undertake system-based payroll and pension audits.
3. Automate human resources data and integrate with FM data/system.

RESULT AREA 2 TECHNOLOGY ENABLES TIMELY REPORTING AND SUPPORTS BETTER MANAGEMENT OF PUBLIC FINANCES

Issues: The IFMIS connects the FD, the Accountant General and the District Accounts Offices/Treasury Offices, where transactions are entered in the system at the time of recording expenditure. However, the existing system suffers from a set of technical shortcomings which limit its effectiveness both as a basis for timely and reliable accounting and reporting, and for management information to support effective service delivery.

Objective: Through a series of technical fixes and sustained training and capacity building in the utilisation of the IFMIS, the implementation of basic PFM systems will be facilitated and enhanced.

Actions

Short to medium term

1. Improve usage of SAP in FD and line departments for budget making, control, and monitoring.
2. Introduce organisation management module of IFMIS/SAP to strengthen authorised vs. filled posts registers.
3. Strengthen pension and GP fund modules; undertake feasibility of decentralisation of payment of pensions and GP fund at the district level.
4. Strengthen technology in revenue administration and its linkages with IFMIS.
5. Enhance user-friendliness of FD's website.

6. Strengthen assets and liabilities registers in SAP.
7. Gradually introduce results-based management system in IFMIS/SAP.

RESULT AREA 3 AUTOMATION OF PAYMENTS

Issues: A large fraction of Government payments are still manual. As a result, it is difficult to track the submission of bills and the timeliness of their disposal by the accounting offices. The manual process also reduces the transparency of the transactions and increases the costs for vendors/suppliers to receive payments from the Government. Finally, the lag between the issuance of cheques and the actual debit to Government account creates difficulties for the FD to ascertain its cash balance at a certain point in time, especially towards the end of the financial year.

Objective: : Automate Government payments to increase transparency of Government payment, ensure timely disposal of bills, and make it easier for the FD to ascertain its actual cash balance at a point in time.

Actions

Short to medium term

1. All G2B (Government to Business) payments to be made through direct credit system.
2. Completion of pension roll and payment of pension only through Direct Credit System.
3. All payments to be made through the direct credit system.

RESULT AREA 4 AUTOMATION OF TAX SYSTEMS FOR GREATER TRANSPARENCY

Issues: The Government has made a number of improvements to its taxation systems by using IT to its advantage, e.g. the introduction of E-Stamping, E-payment for some taxes, and developing digitised property records. However, there is need to expand the scope of automation to extend its benefits to all taxes. Further, manual systems still pose undue costs of compliance for taxpayers.

Objective: Automate tax system to increase transparency of the system, make compliance easier for taxpayers, and simplify collection by the tax departments.

Actions

Short to medium term

1. Automate/cleanse tax records for all provincial taxes.
2. Develop an IT strategy for tax departments.
3. Start collecting National Identity Card numbers of property owners for UIPT record.
4. Review existing mapping of properties and Management Information System data of UIPT to develop a plan to use both data sets to efficiently collect the tax.
5. Pilot the most efficient way of finding out identity of properties on site (installation of plates, use of National Identity Card numbers, etc.).
6. Use of technology, including Google Maps, integrated with existing tagged data, and other innovations to capture property information for taxation.

Long term

1. Establish an information technology and data management company under the FD to provide specialised IT services to all tax departments and agencies of Punjab.

WAYFORWARD

IMPLEMENTING **THE PFM REFORM STRATEGY**

4.WAY FORWARD:
IMPLEMENTING THE PFM REFORM STRATEGY

The PFM-RS is an ambitious reform programme based on a vision extending from medium to long term. Effective and timely implementation of the PFM-RS requires a well-designed structure for oversight of implementation, coordination across the multiple stakeholders responsible for implementation and learning from experience as the reform process proceeds. This calls for a robust approach to change management. The approach to change management for the PFM-RS will be built on:

1. Engagement with the top leadership to ensure buy-in at the political level;
2. Close consultation with stakeholders in the finalisation of the Strategy and in the periodic implementation reviews;
3. A regular process for reviewing progress in the implementation of the strategy based on a robust monitoring system with clearly defined sequencing of reforms with appropriate milestones; a clear process for lesson-learning during implementation based on the periodic progress reviews;
4. Establishment of a Donor Coordination Committee under the Finance Minister for regular oversight of the implementation of the Strategy;
5. Clearly defined institutional responsibilities and accountability for implementation of each component and activity falling under the Strategy.

PFM is an essential part of the development process. Good public financial management systems are important for democratic Governance, macroeconomic stability, the effective use of resources available and poverty reduction. Effective implementation of the PFM strategy can result in increase of tax and non-tax revenue for the Government, reduction of fiduciary risks, enhanced capacity of Government officials in PFM and better facilitation processes for the taxpayer.

Annex 1

Overview of the scores of the PEFA indicators (Assessment 2019)

Pillar	Indicator		Dimensions Rating				Indicator Rating
			1	2	3	4	
HLG	A. Transfers from HLG	*M1*	*C*	*C*	*D*		D+
I. Budget reliability	PI-1. Aggregate expenditure outturn						B
	PI-2. Expenditure composition outturn	*M1*	*D*	*C*	*A*		D+
	PI-3. Revenue outturn	*M2*	*D*	*D*			D
II. Transparency of public finances	PI-4. Budget classification						A
	PI-5. Budget documentation						C
	PI-6 Provincial government operations outside financial reports	*M2*	*D**	*D**	*D**		D
	PI-7. Transfers to SNG	*M2*	*A*	*C*			B
	PI-8. Performance information for service delivery	*M2*	*D*	*D*	*D*	*C*	D
	9. Public access to fiscal information						A
III. Management of asset and liabilities	PI-10 Fiscal risk reporting	*M2*	*C*	*D*	*D*		D+
	PI-11 Public investment management	*M2*	*C*	*B*	*C*	*B*	C+
	PI- 12 Public asset management	*M2*	*C*	*C*	*D*		D+
	13. Debt management	*M2*	*B*	*A*	*D*		B
IV. Policy-based fiscal strategy and budgeting	14. Macroeconomic and fiscal forecasting	*M2*	*NA*	*C*	*NA*		C
	PI-15. Fiscal strategy	*M2*	*D*	*C*	*C*		D+
	PI-16. Medium-term perspective in expenditure budgeting	*M2*	*D*	*D*	*C*	*D*	D
	PI-17.Budget preparation process	*M2*	*A*	*D*	*D*		C
	PI-18. Legislative scrutiny of budgets	*M1*	*C*	*C*	*A*	*B*	C+
V. Predictability and control in budget execution	PI-19. Revenue administration	*M2*	*B*	*D*	*D*	*D**	D+
	PI-20. Accounting for revenue	*M1*	*A*	*A*	*C*		C+
	PI-21. Predictability of in-year resource allocation	*M2*	*A*	*D*	*B*	*C*	C+
	PI-22. Expenditure arrears	*M1*	*D**	*D*			D
	PI-23. Payroll controls	*M1*	*B*	*A*	*A*	*C*	C+
	PI- 24 Procurement	*M2*	*D**	*D**	*C*	C	D+
	PI-25. Internal controls on non-salary expenditure	*M2*	*A*	*C*	*A*		B+
	PI-26. Internal audit	*M1*	*D*	*C*	*D*	*D*	D+
VI. Accounting and reporting	PI-27. Financial data integrity	*M2*	*D*	*D*	*D*	*A*	D+
	PI-28. In-year budget reports	*M1*	*C*	*B*	*C*		C+
	PI-29. Annual financial reports	*M1*	*C*	*B*	*B*		C+
VII. Legislative scrutiny and audit	PI-30 External audit	*M1*	*C*	*C*	*C*	*C*	C
	PI-31. Legislative scrutiny of audit reports	*M2*	*D*	*A*	*A*	*C*	B