

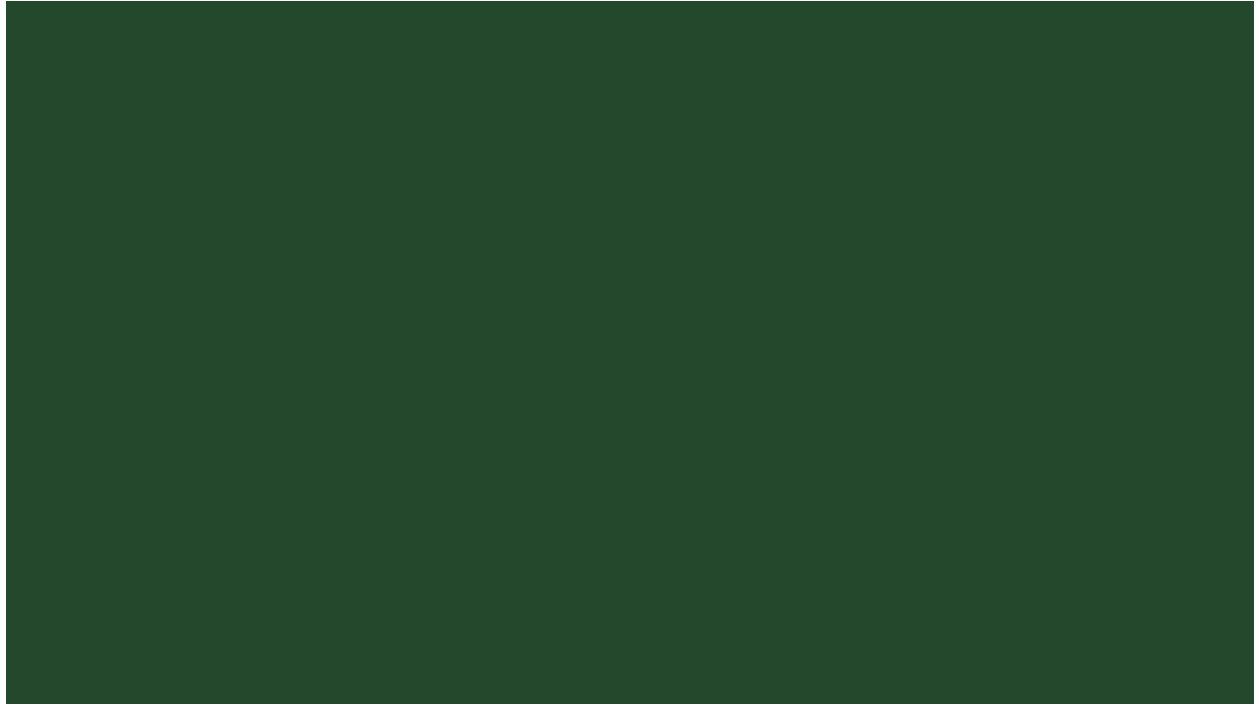
SNG

Sub National Governance



SNG - YEAR 5 HIGHLIGHTS

Despite a turbulent political environment, SNG continued to deliver high-impact reforms in Khyber Pakhtunkhwa and Punjab, and significant value for money for the FCDO and British taxpayers. This included developing sustainable foundations that the provinces can build on after SNG finishes, and providing high-level support to the Federal Government to facilitate further reforms beyond SNG.



A QUICK NAVIGATIONAL TIP

You can either scroll through this page (our recommended approach) or navigate between different sections by clicking on the small box in the bottom-right corner of your screen. The box will always be there as you scroll through.

ABOUT SNG



Pakistan's drive to improve public services will only succeed if there are effective systems to collect the necessary revenue, target it at points of need, and plan and budget for its distribution. Everything ultimately hinges on strong public resource management, including the impact of donor-funded programmes.

SNG is enabling KP and Punjab to strengthen those systems. Working closely with both provincial and local governments, we focus on four main objectives:



1. **Strengthening planning and budgeting** through better PFM processes and systems;
2. **Sharpening public service delivery** through better-organised institutions;
3. **Improving revenue and expenditure efficiency** through greater fiscal capacity;
4. **Enabling greater local accountability** through stronger local governance.

4

main objectives

SNG is funded by the UK's Foreign, Commonwealth & Development Office (FCDO) and managed by Oxford Policy Management.



KEY ACHIEVEMENTS IN 2023-24



SNG's fifth year was primarily a period of building on earlier achievements, with some notable new advances, and laying the foundations for sustainability.

During that time, the programme enabled KP and Punjab to generate an additional £894 million in funds for public services via extra tax revenue and efficiency savings - equivalent to a return of £253 for every £1 invested by UKAID in SNG during the year.

Below, we summarise some of SNG's key achievements between 1 April 2023 and 31 March 2024, and discuss specific advances in the later sections.

1 STRENGTHENING PLANNING & BUDGETING

Our initiative to phase out Punjab's costly wheat subsidy saved **£683 million** million by cutting the subsidy and lower interest payments.

We identified over **£2 billion** of funds that were owed to KP by the Federal Government. We've helped retrieve £130 million, with more to come.

Integrated budgeting in Punjab and KP has enabled a more **joined-up**, cross-departmental approach to planning and budgeting.

2 SHARPENING DELIVERY CAPABILITIES

KP's Climate Expenditure Tracking System and Punjab's Green Financing Strategy have enhanced their abilities to address **climate change**.

Our recommendations to strengthen local **disaster risk management** (DRM) capabilities in KP are being implemented, after testing via mock exercises.

A data-sharing agreement with Punjab has given the Federal Government more detailed, dynamic data for targeting **social protection** assistance.



3 IMPROVING REVENUE AND EXPENDITURE

An SNG-designed Defined Pension Contribution scheme in Punjab will reduce the province's pension liabilities by more than **£300 million** in its first five years.

A novel pilot, using GIS technology, has shown that KP could increase its Urban Immovable Property Tax (UIPT) revenue by as much as **600%**.

Punjab has introduced a **new tax** for online services such as Amazon and Netflix. Sindh has recently adopted the same SNG-devised model.



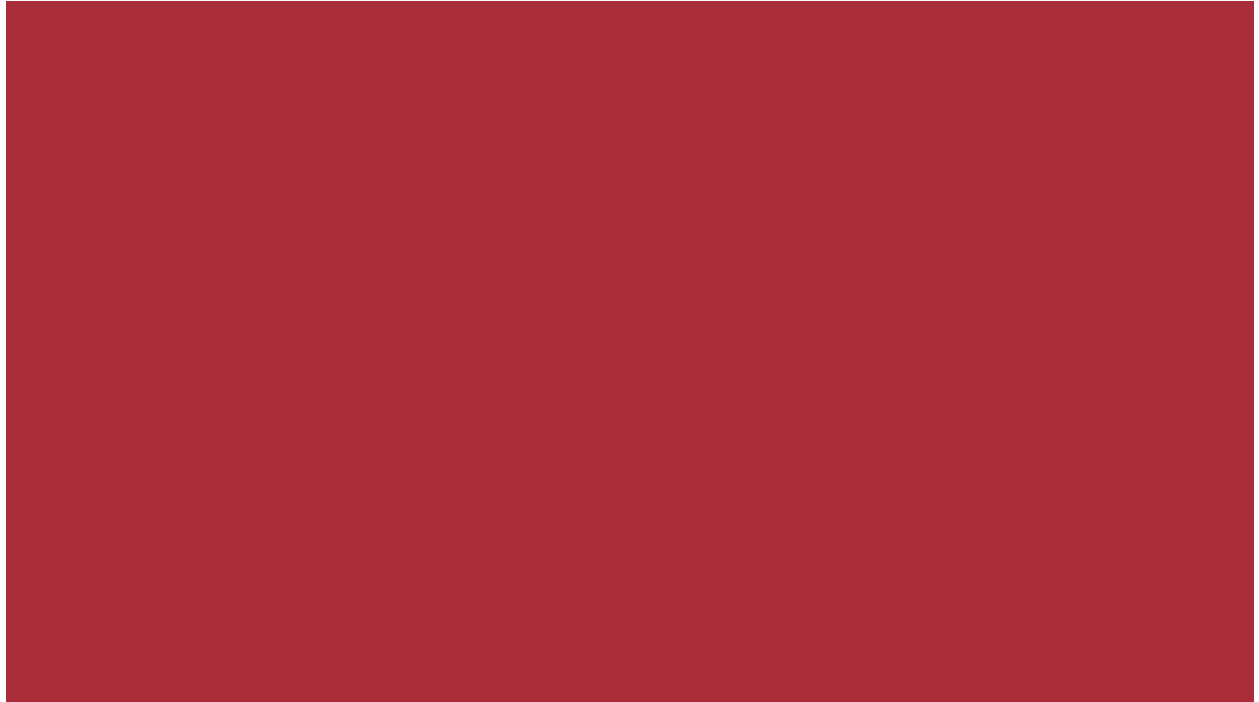
4 ENABLING GREATER LOCAL ACCOUNTABILITY

KP's solid waste management scheme has encouraged the provincial government to invest **£300,000** in integrated resource recovery centres.

MC Rahim Yar Khan became the first local government in Pakistan to apply the **deliverology** methodology, potentially increasing its own-source revenue by nearly £1 million.

Punjab's Local Government and Community Development boosted its revenue from its Tax on the Transfer of Immovable Property by **37%** by automating the tax's collection.

1. STRENGTHENING PLANNING AND BUDGETING



WHEAT SUBSIDY REFORM HARVESTS £683 MILLION

Phasing out of Punjab's costly wheat subsidy enabled the government to reduce its expenditure on the subsidy by £354 million during the year under review, saving £329 million in interest payments.

For decades, the government of Punjab has kept the price of flour relatively low for everyone by buying huge quantities of locally-grown wheat at an above-market-rate 'support price' and releasing it to flour mills for a lower price, typically 23% lower. The government funds its purchases through commercial loans, but as it is selling the wheat at a lower price, its debts have spiralled upwards.

During the previous financial year (2022-23), SNG persuaded the government to phase out the subsidy. By October 2023, the debt had been reduced by 66% to £1.96 billion, saving £329 million in interest and £354 million in general subsidy during 2023-24. Now that the wheat is sold at a market price, the value of the government's stock of wheat is high enough to offset the remaining debt.



£2 BILLION REVENUE OPPORTUNITY FOR KP

Sharp analysis from SNG consultants embedded in KP's Finance Department has identified £2.1 billion of potential, additional revenue, predominantly due to underpayments to the province from the Federal Government.

Nearly £130 million of the underpayments have already been repaid. Negotiations are underway to claw back the balance, totalling more than £1.9 billion. Some of the major sources of potential revenue identified by SNG include::

- Over £430 million a year to redress the imbalance for Newly Merged Districts;
- £179 million of arrears from the windfall levy on oil;

- £434 million of unpaid Federal Excise Duty on oil.



TSA POLICIES DELIVER £5.3 MILLION PROFIT

Our initiative to establish Treasury Single Account (TSA) policies in Punjab earned the provincial government an extra £5.3 million in non-tax revenue during the year.

A TSA brings together all of the financial information from the commercial bank accounts of a government's departments and projects so that it has a holistic view of its total cash position, including idle funds that could be used more productively. Punjab used spare funds to invest in short-term federal government securities, earning a £5.3 million profit and enabling it to liquidate the securities in time to meet the IMF's end-of-year cash requirements.

JOINED-UP PLANNING AND BUDGETING REAP REWARDS

Steps to establish a more coherent, cross-departmental approach to planning and budgeting have not only enabled more development projects to be properly funded and completed, including hospitals, but also helped align spending more strategically with sectoral plans.





Key developments during the year included:

- **Integrated budgeting accelerates project completion rates:** With SNG's support, Punjab's Finance Department and Planning and Development Board have introduced integrated budgeting involving 20 departments, including all education departments. This enables a holistic budgeting perspective so that sufficient funds can be allocated to departments' projects that are nearing completion for them to become operable. As a result, more than 50% of their ongoing projects were fully and properly funded in the first four months of the current fiscal year, compared to 33% at the same point in the previous fiscal year. This has enabled swifter operationalization of critical projects, including improvements to the DHQ Sahiwal Hospital and DHQ Hospital Gujranwala
- **Planning cells return to strategic role:** KP's planning cells, had become ineffective, administrative units until SNG assessed and revitalised them over the last two years so that they played their intended role of ensuring strategic alignment with sectoral priorities. An analysis of plans for 2023-24 across various departments revealed that the rejuvenated cells have had a significant impact. For example, 45% of energy schemes included provisions for climate change and community needs, while 30% of new health schemes took into account gender and disability issues.

KP ADOPTS GENDER BUDGET TAGGING

KP is now able to target parts of its budget at women and girls more effectively thanks to its adoption of an SNG-designed methodology for Gender Budget Tagging (GBT).



An analysis of the province's budgets and expenditures over the last three financial years, using the methodology, revealed that KP has invested relatively little in women and girls. For example, over that period only 5% of its budget was targeted specifically at them.

The methodology will be incorporated in the government's Integrated Financial Management Information System (IFMIS) so that all departments can systematically apply gender budget tagging to ensure initiatives properly support women and girls.

2. SHARPENING DELIVERY CAPABILITIES



SOCIAL PROTECTION MOVES UP PROVINCES' AGENDAS

Both provinces took steps to improve their focus on social protection during the year, supported by SNG:

Notable advances included:

- **KP to create a dedicated social protection agency:** Building on the model established in Punjab. SNG will help design a dedicated agency for coordinating all public sector social protection initiatives in KP, and advise on sustainable financing options. During the year, we also created a social protection expenditure tracking system.
- **Punjab earmarks £250 million for social protection:** : On SNG's recommendation, Punjab allocated more than £250 million for social protection in the budget, including cash transfers to the poor to compensate them for the withdrawal of wheat subsidy (see earlier story).
- **Bahimmat Bazurg programme highlights the value of providing support:** The SNG-devised programme provides 2,000 rupees to 82,000 impoverished women in Punjab. An independent analysis found that the programme has had a significant positive impact, especially amongst

beneficiaries in rural areas, with 90% of recipients of the cash using the money to fund health costs, in addition to food costs, and with satisfaction with the scheme as high as 90%, depending on the area.



DISASTER RESPONSIVENESS STRENGTHENED

Our recommendations to strengthen local disaster risk management (DRM) capabilities in KP, in the wake of the July 2022 floods, have been tested through mock exercises and are now being implemented.

The recommendations included improving coordination between local agencies responsible for disaster risk management and a fully-funded, local-level DRM system. To put some of the solutions to the test, mock exercises and training were conducted in six girls' schools in TMA Bahrain involving over 1,000 participants.



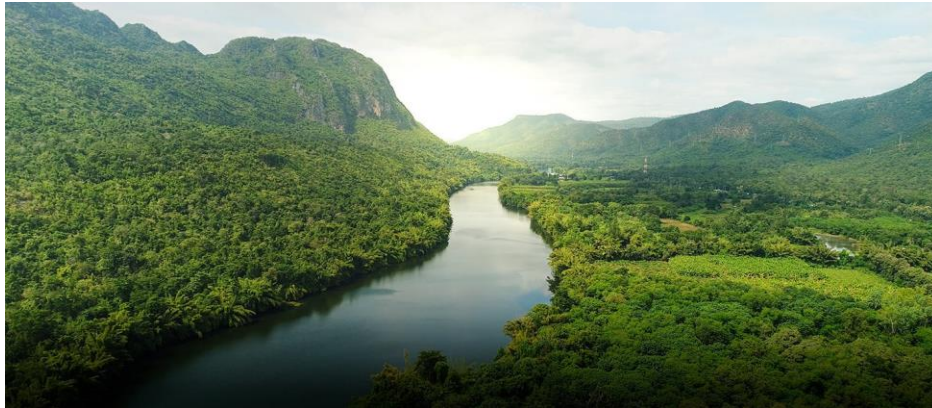
A MORE SYSTEMATIC APPROACH TO CLIMATE CHANGE

Both KP and Punjab have introduced more systematic ways to address climate change in their planning, budgeting and expenditure:

- **KP's Climate Expenditure Tracking System:** This will not only enable the Finance Department's Climate Finance Unit to track budget allocations and expenditure on adaptation and mitigation

measures across departments, but also provide data to support Pakistan's applications for international climate finance.

- **Punjab's Green Financing Strategy:** The Cabinet-approved strategy is designed to encourage private investment in green growth. Its approval also enabled Punjab to receive \$50 million from the World Bank, under the PRIDE programme. SNG will now help establish a Climate Finance Unit in the Planning & Development department to manage the strategy's implementation.



DATA SHARING ENABLES BETTER TARGETING

A data-sharing agreement between Punjab and the Federal Government will not only enable the province to target its social protection assistance more accurately but also provide the Federal Government's socio-economic registry with more dynamic, up-to-date information.

The SNG-supported Memorandum of Understanding will facilitate data sharing between the Federal Benazir Income Support Programme (BISP) and Punjab's Provincial Socio-Economic Registry. This will help Punjab develop more granular insights into the relative poverty of households and individuals, leading to better targeting. The Federal Government, in turn, will be able to use the provincial data to shape its national programmes, based on dynamic, regularly updated information, as opposed to the current, 'static' survey-based information.



3. IMPROVING REVENUE AND EXPENDITURE



BIG PENSION SAVINGS

SNG's design for Punjab's new Defined Pension Contribution Scheme for civil servants has been approved by the government, paving the way for a £307 million reduction in its pension liabilities within the first five years of the scheme.

Over the next 30 years, it is estimated that the scheme could save the province as much as £8.3 billion by reducing the government's contribution to pensions from 65% of employees' basic pay to 22%.

In addition, an amendment to the Punjab Pension Fund rules enabled the government to use £17 million from the Fund's profits to help pay civil servants' pensions, as opposed to using money from the budget, making more money available for public services. Next year, it is estimated that nearly £35 million of profits could be used for this purpose.



PILOT HIGHLIGHTS VALUE OF PROPERTY TAX CHANGE

An SNG pilot using GIS technology has demonstrated to KP that it could increase Urban Immovable Property Tax (UIPT) revenue by as much as 600% in certain locations by taxing commercial properties on the basis of their capital value, rather than their rental value. We are now working with KP's ET&NC Department to develop a roadmap to introduce this solution.



Property tax is an underutilised instrument in Pakistan, accounting for just 0.05% of the provinces' GDP, on average —approximately one-sixth of the rate in low-and-middle-income countries (LMICs). One of the problems is that Urban Immovable Property Tax (UIPT) is based on rental values, which are relatively

easy for owners to manipulate and under-report. Taxing commercial properties on the basis of their capital value overcomes this issue.

Significantly, it is now possible to establish these properties' capital value remotely, without site visits, using Geographic Information Systems (GIS). SNG applied this approach in different commercial areas in Peshawar and Kohat District and found large differences in claimed rental values as a proportion of capital values, indicating significant under-reporting. In some areas, UIPT revenue could be up to 600% if based on capital values.

128% RISE IN VEHICLE TRANSFER REVENUE

SNG persuaded the government in Punjab to increase the fee for transferring vehicles between owners for the first time in nearly 20 years, producing an additional £2.5 million of revenue within the first eight months of its introduction - a 128% year-on-year increase.

Significantly, the government agreed to increase the fee by 10% each year in future. By the end of 2034, this is projected to generate an extra £61.5 million of revenue.



£1.2 BILLION REVENUE MOBILISATION STRATEGY

The Government of Punjab approved its first revenue mobilisation strategy, with the goal of raising its tax-to-GDP ratio from 0.78% to 1.1% within three years, potentially generating an extra £1.2 billion in revenue.

The SNG-supported strategy covers all the province's tax collection agencies and involves a range of tax policy and tax administration measures to modernise Punjab's taxation system. The Punjab Revenue Authority, Board of Revenue and Excise and Taxation department have now developed medium-term business plans with specific targets, timelines, and performance indicators.



TIGHTER SALES TAX RULES UNLOCK ADDITIONAL FUNDS

We helped the Khyber Pakhtunkhwa Revenue Authority (KPRA) release tax revenue that has been tied up in legal disputes by tightening the rules for sales tax on services.

Since the tax was first introduced in KP in 2013, as part of a finance bill, legal challenges to its validity have prevented the KPRA from collecting more than £30 million of tax revenue.

SNG helped close those loopholes by developing clearer rules for the Sales Tax on Services Act. Assuming a minimum 10% reduction in litigation, KPRA is expected to collect £6 million in additional revenue each year.



NEW STREAM OF REVENUE

A new mechanism in Punjab for taxing online streaming services, such as Amazon and Netflix, has generated £1 million in revenue in its first three months, and is expected to rise to £2.5 million by the end of the year. Moreover, the total annual income from this tax is forecast to grow by 20% a year as the demand for online services increases and compliance is strengthened.

With SNG's support, Punjab's government amended its Sales Tax Act so that it could tax online streaming services. As the revenue for these internationally-owned services is sent overseas, banks have been authorised to collect the tax on a reverse-charge basis.

The government in Sindh recently adopted the same SNG model for taxing online services.



DATA PLAN TO CUT TAX EVASION AND OTHER 'LEAKAGES'

After a successful SNG pilot, Punjab's numerous tax-collecting organisations have started implementing a plan to integrate their taxpayer databases, making it easier to identify tax evaders and unreported tax liabilities, as well as improving the efficiency of the tax collection process.

It is estimated that just a 1% improvement in tax collection would yield a £9.5 million annual increase in tax revenue, which equates to a return of £400 for every £1 spent on SNG's pilot. The databases of the Punjab Revenue Authority (PRA), Punjab Food Authority (PFA), Excise & Taxation Department (ETNCD), Board of Revenue (BOR), and the Punjab Employees Social Security Institution (PESSI) have already been integrated under a data integration plan approved by the cabinet.

4. ENABLING GREATER LOCAL ACCOUNTABILITY



AUTOMATING LOCAL TAX COLLECTION

We helped Punjab's Local Government and Community Development (LG&CD) automate the administration and collection of its Tax on the Transfer of Immoveable Property (TTIP), boosting its revenue and increasing transparency and efficiency.

TTIP is the largest source of tax collected by local governments, providing £30.8 million of own-source revenue for Punjab's local governments in the 2022-23 fiscal year. To automate its collection in Punjab, SNG brought together all the relevant stakeholders - including the Board of Revenue (BOR), the Bank of Punjab, the Punjab Information Technology Board (PITB), and the Punjab Land Record Authority (PLRA) - to create the necessary rules and service level agreement (SLAs). By the first quarter of the province's 2023-24 fiscal year, automation had increased collection of the tax by £4.7 million - a 37% increase on the same period the previous year.



SMARTER FINANCIAL MANAGEMENT

A Computerised Financial Management System (CFMS) has been rolled out in 52 Tehsil Municipal Administrations (TMA) in KP and already demonstrated its transformative potential.

One of the advantages of the system is that it enables TMAs to analyse their financial data in detail and to use Excel-based, budget-execution dashboards to identify areas where revenue mobilisation and expenditure efficiency can be improved. For example, TMA Kohat used the system to develop a £186,000 revenue mobilisation plan - an X% increase on the amount of revenue it originally thought it could raise.

FIRST LOCAL APPLICATION OF 'DELIVEROLOGY'

The Municipal Corporation Rahim Yar Khan became the first local government in Pakistan to apply the 'deliverology' methodology, enabling it to increase its own-source revenue by nearly £1 million.

Originally pioneered in the UK and later applied to Pakistan's education sector by Sir Michael Barber, deliverology involves creating and systematically monitoring a timed roadmap for achieving results, supported by a traffic light dashboard for measuring progress.

With SNG's support, MC Rahim Yar Khan developed a roadmap and supporting progress indicators for four key sources of revenue: approval of construction plans, commercial property rentals, sale of water, and parking fees. The roadmap is expected to produce £923,000 of additional revenue.



WASTE MANAGEMENT PILOT ATTRACTS FUNDING

The success of SNG's solid waste management pilot in two Tehsils in the Swat District of KP - Bahrain and Babuzi - has encouraged the provincial government to allocate over £300,000 for integrated resource recovery centres. GIZ and other donors have also expressed interest in rolling out the scheme more widely.

In Bahrain, over 1,200 households are receiving door-to-door waste collection services across two neighbourhood councils, while in Babuzai more than 5,000 households in four neighbourhood councils are using the service.

SNG-devised guidelines for reducing waste at landfill sites are estimated to cut green waste by 60% and recover 15-20% of waste as recyclables. A pilot waste segregation unit in Bahrain reduced 360 kilos of plastic bags in the first 20 days. Green waste from the vegetable market is now being used for composting.

GIZ is exploring the possibility of replicating the model through the Centre for Governance and Public Accountability (CGPA).



REVITALISED LAND-USE COMMITTEES PRODUCE RESULTS

SNG's efforts to revitalise previously inactive District Land Use Planning & Management Committees (DLUPMCs) in seven tehsils in KP have paid off, leading to a clamp-down on illegal land usage, a stronger focus on climate-friendly land management, and improved revenue.

DLUPMCs are supposed to enforce land regulations but have been relatively inactive for years. SNG has brought them back to life in seven tehsils in KP through a range of support, including developing guidelines and a reporting system for capturing data on construction permits, applications, land conversions, fines and other issues. These and other initiatives have enabled stricter enforcement of the regulations, including declaring 60 housing societies illegal, a move that has safeguarded agricultural and protected lands. There is also now tighter control over industrial waste management and the protection of forests, and increased revenue from land fees.

5. SUPPORTING THE FEDERAL GOVERNMENT



TRANSITION PLAN TO SUSTAIN REFORMS

SNG helped the Prime Minister's Office develop a transition roadmap that will keep the federal government's reform agenda on track, once the new government is in office. Drawing on that experience, we are now creating similar transition agendas for both provinces.

We also continued to support the Prime Minister's office in delivering its strategic roadmap, including the areas that are essential for meeting the IMF's loan conditions.

'RULES OF BUSINESS' TAKE SHAPE

We reviewed and updated the Federal Government's Rules of Business to help it operate in a more efficient and systematic manner - something that has not been done for nearly 50 years.

The updates focused on two key areas:

- Improving inter-governmental coordination, which will facilitate the work of federal forums, such as the Council of Common Interests (CCI) and the Economic Coordination Committee (ECC);
 - And establishing more systematic procedures for developing policies, from producing a concept paper through to consultations.
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'DELIVEROLOGY' ROADMAPS PRODUCE RESULTS

SNG's roadmaps to help the Strategic Investment Facilitation Council (SIFC) strengthen different aspects of the economy have produced some impressive results, including the successful privatisation of the Heavy Electrical Complex (HEC).

The roadmaps set out the issue to be resolved, the proposed solution, milestones for achieving that solution, and who is responsible for delivering different parts of the roadmap.

In addition to the privatization of HEC, roadmaps have helped progress the privatisation of PIA, now in its final stages, and laid the foundations for stronger IT exports by enabling IT exporters to keep 50% of their dollar sales.

SNG is now mainstreaming this approach at a provincial and local level in Punjab. This includes developing revenue mobilisation roadmaps for the Punjab Revenue Authority and Excise department, and for the local government in Rahim Yar Khan.



For more information, visit www.pk-sng.org



