Report No.

Mini-Evaluation: The Extent to which SNG Interventions have Enhanced Fiscal Space

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Acknowledgements

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[1] A three member team worked on the assessment. The team comprised of the following members; Maliha Hamid Hussein (Team Leader), Hammad Yunus (Public Financial Management Specialist), Nauman Rafique Chugtai (Public Financial Management Specialist).

Abstract

This report presents the main findings of a mini-evaluation of the initiatives undertaken for enhancing fiscal space as part of the Sub-National Governance (SNG-II) Programme which is aimed at strengthening Pakistan's public financial management and planning system, increase resource mobilization and allocation of funds for efficient service delivery. The Programme is a four-year technical assistance programme (September 2019-23) financed by the Foreign, Commonwealth and Development Office (FCDO) and its objective is to strengthen local and provincial government's build sustainable institutions in the provinces of Punjab and Khyber Pakhtunkhwa (KP). At impact level, the programme is expected to contribute to the high-level objective of helping Pakistan to consolidate its democracy, prioritise economic growth and reduce poverty. To achieve this, SNG-II is designed to foster behaviours needed to achieve key transformations in creating a performance driven culture, enhance fiscal decentralisation and efficiency and ensure transparency for citizens to hold government to account. This exercise was undertaken between January to March 2023.

While the programme is broad in its scope, the purpose of this mini-evaluation was to focus on the several key interventions in Punjab and Khyber Pakhtunkhwa designed to enhance fiscal space available for service delivery. These interventions focus on both the revenue generation side through enhancing provincial own-source revenue capacity and on the expenditure side through promoting efficiency savings in government expenditures. While SNG has worked on a fairly large range of such interventions, a shorter list was chosen based on a participatory process with SNG's provincial and national teams and the views of FCDO.

The criteria for selection of the case studies included those which had been approved by Government, the level of effort which SNG had devoted to the interventions over the last three years, the stage of completion and the extent to which some results were either beginning to emerge or which were expected to be realised, and those which were expected to be adopted based on Government ownership and commitment. Eight interventions were selected for deeper analysis and a synthesis report prepared based on the review. However, in assessing the lessons learnt and the recommendations, the team took a broad view and identified some lessons emerging from a wider range of SNG interventions related to fiscal space.

The evaluation followed a case study approach and used both qualitative and quantitative methods to review each of the interventions. The main focus was to identify the specific contribution of SNG in each intervention area and the outputs and outcomes generated by SNG and their actual or expected impact in increasing own source revenue and in helping government generate efficiency gains and savings.

The main report is divided into several chapters that present the overall context in the two provinces with respect to fiscal space, the approach and methodology and the rationale and basis for selection of interventions, presents a brief profile of each of the case studies and provides a synthesis of key findings, lessons and recommendations from the experience. The report also includes separately the eight case studies which were examined in detail. Some of the OECD evaluation criteria is used in the deeper examination of some of the case studies. However, the focus is on identifying SNG contribution to enhancing fiscal space in Punjab and Khyber Pakhtunkhwa.

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List of Abbreviations

DAs	Designated Accounts
SBP	Stat Bank of Pakistan
GPP	Global Procurement Partnership
PWC	PricewaterHouseCoopers
CGA	Controller General Accounts
NADRA	National Database and Registration Authority
PTCL	Pakistan Telecommunication Company Limited
DC	Defined Contribution
DB	Defined Benefit
ADP	Annual Development Programme
BOR	Board of Revenue
ET&NCD	Excise Taxation and Narcotics Control Department
FCDO	Foreign, Commonwealth and Development Office
FD	Finance Department
FY	Financial Year
CERP	Centre for Economic Research in Pakistan
GDP	Gross Domestic Product
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit.
KP	Khyber Pakhtunkhwa
KPRA	Khyber Pakhtunkhwa Revenue Authority
LG&CD	Local Government & Community Development
MVA	Motor Vehicle Authority
NFC	National Finance Commission
NMDs	Newly Merged Districts
OPM	Oxford Policy Management
OECD-DAC	Organisation for Economic Co-operation and Development's Development Assistance Committee
RISE	Responsive Investment in Social Protection and Economic Stimulus
OSR	Own Source Revenue
PITB	Punjab Information Technology Board
PFM	Public Financial Management
PFM	Public Financial Management
PRA	Punjab Revenue Authority
PRA	Punjab Revenue Authority
PRIDE	Punjab Resource Improvement and Digital Effectiveness Programme
RIMS	Restaurant Invoice Management System

RMC	Resource Mobilisation Committee
SNG	Sub-National Governance
SEED	Sustainable Energy and Economic Development
STS	Sales Tax on Service Act
TSA	Treasury Single Account
TTIP	Tax on transfer of immoveable property
TTIP	Tax on Transfer of Immoveable Property
UIPT	Urban movable Property Tax
UMVRS	Universal Motor Vehicle Registration System

Background

1.1 Introduction to SNG

The Sub-National Governance SNG-II was initiated in September 2019 for a four-year period and was expected to end in September 2023. However, the programme is being extended for another two years to allow for the completion of activities which could not be completed due to the pandemic and the uncertainties generated by the reduction in financial resources available for the programme. The current programme was preceded by SNG-1 (April 2013 – March 2018) in the Punjab and Khyber Pakhtunkhwa provinces. The SNG-II Programme aims to strengthen Pakistan’s public financial management and planning system and focus on resource mobilization and allocation of funds for efficient service delivery. The Programme is a technical assistance programme financed by the Foreign, Commonwealth and Development Office (FCDO) and its objective is to strengthen local and provincial governments and building sustainable institutions in the provinces of Punjab and Khyber Pakhtunkhwa. The SNG programme objective is to improve the way provincial and local governments are governed and manage their resources for better service delivery. At impact level, the programme is expected to contribute to the high-level objective of helping Pakistan to consolidate its democracy, prioritise economic growth and reduce poverty. To achieve this, SNG-II is designed to foster behaviours needed to achieve the following four transformations:

- Create performance driven culture across the civil service.
- Enable true fiscal decentralisation on evidence-based local needs.
- Improve fiscal efficiency and revenue collection to fund those needs.
- Ensure transparency for citizen to hold government to account.

SNG-II explicitly recognises that reforms must be sustainable, and this requires the programme to look beyond technical solutions, focusing instead on transformations within government. SNG aims to achieve the following outputs: (i) plans and budgets are more evidence-based and executed as planned; (ii) institutions are better organised to deliver (with a focus on COVID recovery and climate adaptation); (iii) fiscal space is increased with more resources available for service delivery and (iv) innovative approaches developed and piloted. The programme works across the following four workstreams to achieve its objectives:

- ***Planning and budgeting:*** technical assistance to strengthen planning and budgeting capacities and processes in provincial and local government, including citizen engagement.
- ***Institutional strengthening (with a focus on Covid recovery and climate adaptation):*** helping provincial and local governments improve institutional capacities to plan and deliver post-Covid recovery; support to plan and finance management of climate change.
- ***Fiscal space:*** to help the government generate and free up more resources that can be utilised for the better delivery of services.
- ***Innovative approaches:*** to pilot and scale up innovative approaches to improve evidence-based policymaking and planning, governance, and to undertake action-oriented research to inform policy and governance solutions.

1.2 Scope of Work of the Mini-Evaluation

This report presents the main findings of the mini-evaluation of Output 3 namely: “Fiscal space is increased with more resources available for service delivery.” Economic and fiscal challenges have placed pressure on both Punjab and Khyber Pakhtunkhwa (KP) provinces to manage their finances more effectively, and to return a surplus to the Federal Government as part of an International Monetary Fund (IMF) deal. This led to a renewed commitment to raising provincial own-source revenues and identifying efficiency savings in both provincial Governments and paved the way for greater SNG support in the area of enhancing fiscal space. Output 3 in the SNG Phase II Log-Frame was formulated to help the provincial governments increase resource availability for service delivery”. Two indicators were specified for measuring progress on this output. The first indicator was identified as “Provincial own source revenue capacity” which was to be measured by year 4 (March 2023) against the log-frame milestone “five out of six initiatives supported by SNG delivered, and two of them internally assessed” in Punjab and “7 out of 8 initiatives of E&T revenue mobilisation plan delivered and at least 2 of them internally assessed” in KP. The second indicator was “Efficiency savings in government expenditure.” This was to be measured through the log-frame milestone “four out of five initiatives delivered, and internal review conducted for at least two completed initiatives” in Punjab and “five out of six interventions under the agreed efficiency savings plan delivered and 2 internally assessed” in KP.

The evaluation was conducted between January and March 2023, towards the end of the fourth year of SNG-II’s implementation period. By this time most of the interventions related to fiscal space were expected to have been delivered. Thus, the purpose of the assignment was to assess the impact of SNG interventions in terms of contribution to enhancing fiscal space through (i) an increase in provincial Own-Source Revenue, either realised or as identified potential, and/or (ii) achieving/promoting actual or potential efficiency savings in government expenditure; and b) identify learning for course correction and future programming. Within own source revenue mobilization, SNG has focused only on the tax revenue sources and thus the non-tax revenues sources were not examined in this mini-evaluation. The evaluation was based on a review of SNG reports, background documents, review of Government reform and strategy papers, Budget White Papers, in-depth discussions with SNG teams at the provincial level, Government staff, key resource persons, technical specialists and the firms contracted to develop and install the various data management software for enhanced data integration, e-payment gateway, formulation of supportive legislation, rules, and regulations.

The mini-evaluation was also expected to outline the key challenges, achievements, outcomes, and lessons of SNG’s Fiscal Space interventions in KP and Punjab. From a learning and sustainability perspective, the evaluation was important to assess whether SNG-supported revenue and expenditure reforms are (i) aligned with principles of good taxation, expenditure efficiency, and sustainability; (ii) focused on high-potential and high-impact; aspects of revenue mobilization and expenditure efficiency in the medium- to long-term; (iii) robust and amenable to greater use of technology: (iv) emphasizing meaningful changes in the taxation and expenditure system including policies, laws, processes, and technology, and (v) have the potential to or resulted in actual improvements in revenues and expenditure savings.

1.3 Evaluation Approach

While the approach used the OECD DAC criteria to provide an overarching framework for the design of evaluation questions, the team focused on identifying the specific contributions that SNG made in the interventions implemented to enhance fiscal space through either increased OSR or increased savings. The team began with a long list of interventions provided by SNG and from this it selected a short list based largely on the progress of the work on ground and the extent to which it was feasible to assess either the actual or potential impact on fiscal space. Based on the OECD criteria some of the following aspects were also assessed based on the following Evaluation Questions. However, given the focus of the mini-evaluation on SNG’s contribution to fiscal space this criteria was only highlighted in some cases.

- **Relevance:** The appropriateness of the design to achieve objectives and meet stakeholder needs.
- **Coherence:** The extent to which there are synergies and interlinkages between the portfolio and other initiatives funded by FCDO or country governments.
- **Effectiveness:** The extent to which the programme objectives have been or will be achieved and the overall portfolio's results.
- **Impact:** The ultimate significance and potentially transformative effects of the intervention – the indirect, secondary and potential consequences of the intervention.
- **Sustainability:** The extent to which results achieved are likely to be sustained beyond the completion of programme implementation).
- **Lessons and Recommendations:** Strong emphasis on identifying lessons and recommendations to inform the development of future programming.

While the OECD criteria provided an overarching design approach to the evaluation, each of the initiatives which were selected for further review, used a case study methodology to examine the interventions at depth due to the uniqueness of each in terms of scope, the underlying problem analysis and tailored nature of the activities that were designed to address the constraints, the tools and metrics needed to assess the potential and actual results, timelines, etc. The analysis assessed eight interventions focusing on their effectiveness and (potential) impact, efficiency and appropriateness of the tools used, the challenges faced, the lessons learnt and the recommendations for any future interventions.

1.4 Context

1.4.1 Overview

The review took place in the backdrop of significant economic and political uncertainty in the country. The fiscal space has been shrinking in the last few years as a result of several factors related to the COVID-19 pandemic, political and economic uncertainty and the devastation caused by the recent floods in 2022. Even before the damage caused by the catastrophic floods which hit the country, Pakistan's economy was expected to grow by only 2 percent in the current fiscal year ending in June 2023. The slower growth reflects a tight monetary stance which and a less conducive global environment. Recovery is expected to be gradual, with real Gross Domestic Product (GDP) growth projected to reach 3.2 percent in fiscal year 2024.[2] Macroeconomic risks also remain high as Pakistan faces challenges associated with a large current account deficit, high public debt, and lower demand from its traditional export markets amid subdued global growth. Inflation in Pakistan is expected to reach around 23 percent in Financial Year 2022-23, reflecting flood-related disruptions to the supply of food and other goods, higher energy prices, difficult external conditions, including tighter global monetary conditions[3] and the considerable devaluation in the value of the rupee.

The Federal Government is faced with a structural fiscal imbalance due to a combination of low revenues and high expenditures. As a result, the federal fiscal deficit has been persistently high despite the fiscal discipline introduced under the current IMF programme. Fiscal Responsibility and Debt Limitation Act, 2005 requires the fiscal deficit in any financial year to be equal to or less than 3.5% of GDP. Debt-to-GDP Ratio is also above the ceiling of 60% prescribed by the Fiscal Responsibility and Debt Limitation Act and needs to be brought down.[4] On the revenue side, the tax to GDP ratio was reported to be 9.2 percent in 2022 which is very low compared to other regional countries. On the expenditure side, the costs have increased significantly with the salary budget and pensions on the rise. Like most

[2] Pakistan Development Update. World Bank's October 2022.
[3] Pakistan Development Update. World Bank's October 2022.
[4] White Paper: Finance Department. Government of the Punjab. White Paper FY 2022-23.

developing countries, Pakistan is plagued with issues of an undocumented economy the consequence of which is a burgeoning tax gap due to a narrow base and ineffective enforcement. The tax mix has been changing in the country with a much higher dependence on indirect taxes and slower growth in the increase of direct taxes. In 2016-17, direct taxes were 40% of the total and indirect taxes made up 60% of the total. By 2020-21, direct taxes had dropped to 36% of the total and indirect taxes have grown to 64%. The growth rate in direct taxes has grown 29% in the last five years while indirect taxes have grown by 50% in the same period. Within the indirect taxes, the Sales Tax is the largest portion of the revenue base followed by customs duties and federal excise. The table below shows these trends.

Table 1: The Changing Composition of Tax Collection at Federal Level

	2016-17	2017-18	2018-19	2019-20	2020-21
(a) Direct Taxes	**1,343**	**1,537**	**1,446**	**1,524**	**1,732**
(b) Indirect Taxes	**2,018**	**2,306**	**2,384**	**2,474**	**3,032**
Customs Duties	496	608	685	626	765
Sales Tax	1,323	1,491	1,465	1,597	1,990
Federal Excise	199	206	234	250	277
FBR Taxes (a+b)	**3,361**	**3,842**	**3,829**	**3,998**	**4,764**
Growth Rate		**14%**	**0%**	**4%**	**19%**

Source: FBR

The economic situation at the national level is key as the provinces are all highly dependent on the Federal Government for their budgets. Annually, the financial resources of Pakistan are distributed between the federation and the provinces through the National Finance Commission (NFC) Award. The major fiscal challenge being faced by the Federal Government since the introduction of the 18th constitutional amendment and 7th NFC Award is transfer of 57.5 percent of divisible pool taxes and the straight transfers to the provinces, constituting almost 59.7 percent of the gross federal revenues, which leaves very limited fiscal space for current and development spending for the Federal Government. The Government's inability to lower the fiscal deficit to a reasonable level is a serious economic challenge for the country. Overcoming this challenge requires major increases in tax revenues and long-term expenditure reforms in several areas. The main pillars of this approach would be strengthening enforcement measures for both broadening and deepening of tax base as well as policy measures aimed at simplifications and harmonization of tax laws.

1.4.2 Punjab

In Punjab, during FY2021-22, the fallout from COVID-19 continued to exert pressure on finances of the Government. The year also witnessed rising trends in international commodity prices, with accompanying domestic inflationary pressures and widening of the current account deficit. Uncertainty in accessing external financing sources at a time of elevated import bill also impacted the parity of Pak rupee against other currencies. Punjab is adopting prudent budgetary targets with renewed focus on enhancing social safety nets for marginalized sections of the society.[5] An effort has been made for effective utilization of resources to facilitate and support economic activity in the province. Punjab, on its part, is committed to run a budget surplus during FY23 and to pursue medium-term fiscal planning and strategy. Major initiatives and priorities of Punjab include adoption of a fiscal risk management framework and preparation of a series of policies and strategies to address existing or potential fiscal risks, devising a medium-term revenue mobilization strategy to set higher targets, and introduce a series of tax policy and administration reforms to achieve

[5] White Paper: Finance Department. Government of the Punjab. White Paper FY 2022-23.

those targets, introducing pension reforms to reduce the burgeoning pension expense to a fiscally sustainable level, formulating a strategy to manage the debt pertaining to commodity operations, and assigning high priority to the healthcare and education sectors.[6]

The primary concern for FY2022-23 remains high inflation caused by higher petroleum prices, increase in gas/electricity tariffs, continuation of geopolitical crisis and supply side risks, impact of rupee devaluation with adoption of restrictive monetary policy by the central bank. Management of the external account will, therefore, stay at the forefront. Compression of non-essential imports and increasing export earnings and remittances will be crucial amid global economic slowdown. The Government of Punjab remains committed and focused to provide relief to vulnerable segments of the population.[7] The Government is initiating programmes to enhance safety nets while keeping substantial development investment to spur growth. Continuity of tax relief measures for businesses and sectors most hit by the economic downturn will provide the necessary impetus for recovery. Despite tough conditions, the tax base widened, compliance levels improved and number of economic transactions increased as a result of targeted reduction of rates and tax incentives for several service sectors.[8]

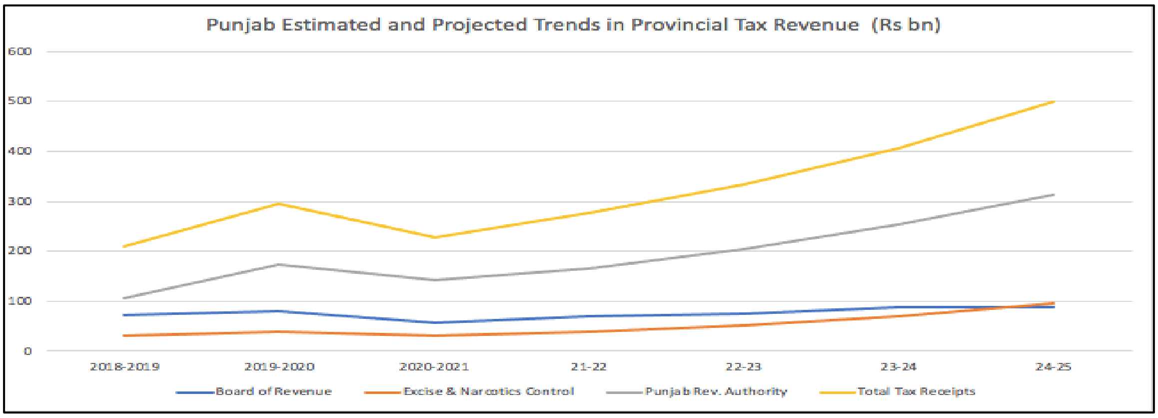
The Government of the Punjab has strived for a delicate balance amongst tax relief, resource generation, social protection and essential development.[9] Moreover, substantial public investment continues in key social sectors like health and education. In recent years, Public Financial Management (PFM) reforms have contributed to a marked increase in provincial own-source revenue, informed and reliable budget preparation, fiscal responsibility, improved quality of technical input for strategic and operational level decision making, budget transparency and participatory governance. Punjab Resource Improvement and Digital Effectiveness (PRIDE) Programme is one such project with the objective to support the implementation of Government policies, improve service delivery and reduce fiduciary risks. The Programme supports selected actions under Responsive Investment in Social Protection and Economic Stimulus (RISE) Punjab and the Public Finance Management Reform Strategy, both of which were developed through SNG support. In FY 2021-22, effective planning by the Government of Punjab to trigger drivers of growth enabled the provincial economy to improve significantly, reporting a growth rate of 6.2%.[10]

Provincial Receipts comprise Federal Divisible Pool transfers, Own Source Revenue (Provincial Tax Receipts and Non-Tax Receipts) along with loan amounts raised by and returned to the province. It is pertinent to mention that the Divisible Pool transfers per capita (inflation adjusted) have decreased over recent years, resulting in shrinking resources for provincial governments. To address the shortfall, Government of the Punjab has been strategizing to enhance the Provincial Own Source Revenue while reducing dependence on Federal Divisible Pool transfers. This is essential to ensure financial sustainability and consistent allocation of adequate resources for development in the province. A major area of focus has been increasing tax base through improvement in tax compliance and enhanced documentation of the economy. Enhancing the provincial resource base is a key challenge for the Government in the medium term. A low-tax-to-GDP ratio is a core constraint to economic growth. Punjab's reliance on federal transfers exposes its economy to fiscal risks as any fluctuations or policy changes at the federal level changes the revenue side of the fiscal equation for the province. This was experienced recently during the COVID-19 onset. It is, therefore, essential for Punjab to enhance its own source resource base, particularly on the tax side. [11]

[6] White Paper: Finance Department. Government of the Punjab. White Paper FY 2022-23.
[7] White Paper: Finance Department. Government of the Punjab. White Paper FY 2022-23.
[8] White Paper: Finance Department. Government of the Punjab. White Paper FY 2022-23.
[9] White Paper: Finance Department. Government of the Punjab. White Paper FY 2022-23.
[10] White Paper: Finance Department. Government of the Punjab. White Paper FY 2022-23.
[11] White Paper: Finance Department. Government of the Punjab. White Paper FY 2022-23.

The total General Revenue Receipts of the Government of the Punjab are being targeted at PKR 2,521.3 billion for FY 2022-23; including Federal Divisible Pool transfers of PKR 2,020.7 billion and Provincial Revenues of PKR 500.5 billion. This shows that 80% of the revenue of the Punjab Government comes through the Federal Government. Within Punjab there are three major revenue collection agencies/authorities namely: Punjab Revenue Authority (PRA), the Board of Revenue (BoR), and the Excise and Taxation Department (E&TD). Following the 18th Amendment, Punjab created its own authority to collect General Sales Tax on Services (GSTS). The PRA started with the collection and enforcement of sales tax on services. Currently, this body is collecting sales tax on 70 services.[12] E&TD is responsible for collecting Urban Taxes, e.g., Property Tax and Motor Vehicle Tax. The BoR operates in rural areas and collects land revenue, agricultural income tax, and stamp-duties. Figure 1 shows the estimated and projected trends in provincial tax revenue in Punjab over the last three years as well as its projections into the future. The figure shows that a key source of revenue for the future in Punjab is expected to be through the Sales tax on Services levied by the Punjab Revenue Authority.

Figure 1: Estimated and Projected Trend in Provincial Tax Revenue-Punjab



The Current Expenditure of the Government is expected to be PKR 1,711.9 billion in the current FY. The Government has proposed an amount of Rs. 685 billion for the Annual Development Programme 2022-2023.[13] An analysis of the actual and estimated expenditure pattern for the last few years in Punjab is shown in Table 2 below. In the current capital expenditure head, the largest share goes to subsidies in wheat through state trading in the commodity and repayment of commercial debt. The wheat subsidy is Punjab's largest subsidy and at Rs 378.8 bn in FY 2022-23 it exceeds the pension bill. Each year, the Punjab government procures millions of tons of wheat during harvest season at above-market prices and sells wheat to flour mills over the year at below-market prices. The objective is to protect farmers from a price crash at harvest time and to subsidise consumers' flour purchases. Critical analysis[14] has tried to assess the incidence of the benefit of the wheat subsidy and show that small farmers are largely excluded from the process and receive only a fraction of the benefit, if at all. However, political governments have been reluctant to deal with this issue due to fears that reform would result in low wheat prices in the harvest season and high and volatile flour prices in the rest of the year, both of which may lead to violent unrest.

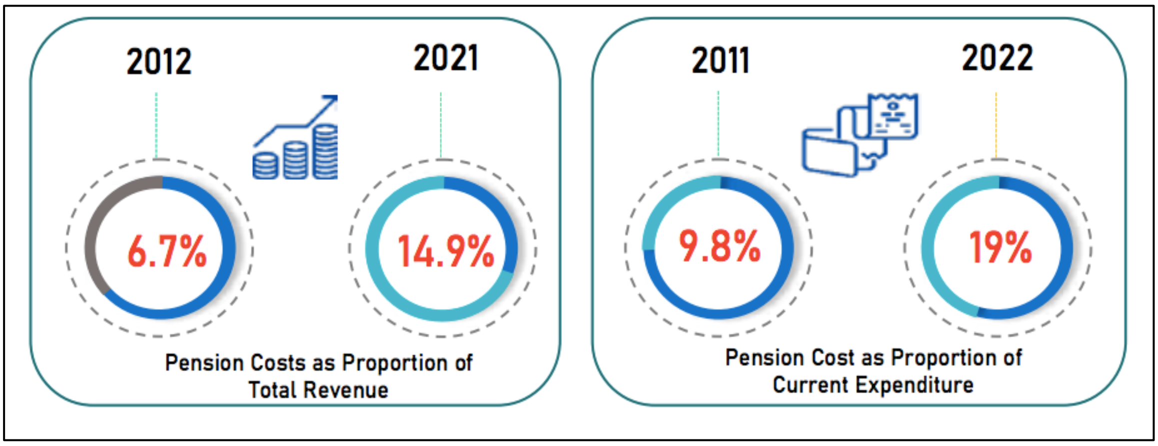
[12] 2nd Schedule to the Punjab Sales Tax on Services Act, 2012
[13] White Paper: Finance Department. Government of the Punjab. White Paper FY 2022-23.
[14] Friendly Fire: Wheat Subsidy in Punjab, Pakistan. PIDE Muhammas Ahsan Rana and Muhammas Nadeem Malik

Table 2: Actual and Estimated Expenditures in Punjab (FY 2018-2023)

	2018-19	2019-20	2020-21	2021-22	2022-23
Current Revenue Expenditure	64%	65%	62%	53%	55%
Current Capital Expenditure	24%	22%	22%	22%	23%
Repayment of Principal	2%	0%	2%	0%	2%
Investments	2%	1%	1%	1%	1%
Loans and Advances (Principal)	2%	1%	1%	1%	1%
State Trading (Wheat) (A/C-II)	9%	12%	10%	13%	12%
Repayment of Commercial Bank Loans (A/C-II)	8%	6%	5%	6%	6%
Development Expenditure	12%	13%	16%	24%	22%

A large proportion of the budget in Punjab goes to current expenditure and within that to the salary and pension expenditure. Control of current expenditure through measures such as pension reforms and minimizing non-essential expenditure is key for the province. Pension costs have been rapidly growing from 6.7% of revenues in 2012 to about 14.9% in 2021 and are expected to rise to 17.7% of revenues by 2030 and 21.4% of revenues by 2040, at current pace with the existing policy. Similarly, as proportion of current expenditure, pension liabilities have increased from 9.8% in 2010-11 to 19% in 2021-22. Unmitigated pension liabilities pose a significant challenge to provincial finances.

Figure 2: Growth in Pension Costs in Punjab



1.4.3 Khyber Pakhtunkhwa

Khyber Pakhtunkhwa KP) is Pakistan's third-largest provincial economy and currently contributes 10 per cent of Pakistan's GDP and 20 per cent of its mining output. The province has undergone significant changes in the past two decades. These changes have been at multiple levels across economic, social and political dimensions resulting in a profound impact on the province’s long-term economic stability and growth. The 18th Amendment has led to a greater transfer of resources along with the autonomy to spend on their own development needs at the provincial level. The size of the provincial government has been expanding since the passage of the 18th Constitutional Amendment impacting the government’s wage and pension bills. Investments under the China Pakistan Economic Corridor (CPEC) resulted in further spending on massive infrastructure development in KP with the potential to change its economic landscape.

The Government of Khyber Pakhtunkhwa had to face several challenges including stagnant transfers from the Federal Government, low revenues, rising wage and pension bills, huge throw forward, accumulated NHP arrears, and additional financial responsibilities with respect to the integration of the Federally Administered Areas (FATA)[15] into KP added to the provincial government's responsibilities to cater to a region that is largely rural and underdeveloped with implications on budgetary outlays. The development outcomes in these Newly Merged Districts (NMD) lag behind by large margins as a vast majority of their population lives in rural conditions with limited access to services. This presents opportunities for economic growth but also challenges in building human capital, stimulating investments and generating employment.[16] The Government has taken a set of measures to mitigate risks emanating from these challenges particularly to boost province's own-source revenue. As a result, the provincial Government reported a growth of over 50% in provincial OSR during the first ten months of the current fiscal year. The Government also took measures to streamline Net Hydel Profit (NHP) payments which resulted in Rs.3 billion transfers since November 2020. The Government successfully prioritised its development spending during COVID-19 and at the same time set aside a greater portion of its budget for development spending. To cope with the pandemic, the Government redirected Rs.33.6 billion to development.[17]

The total estimated revenue in KP for FY 2022-23 was estimated to be Rs. 1,332 billion with the largest share being of Federal Receipts and Net Hydel Profits (NHP). An analysis of the sources of revenue indicates that Rs. 570.8 billion was Federal Tax Assignment, Rs. 85 billion was from Provincial Own Revenue Receipts, Rs. 61.89 billion was Net Hydel Profits, Rs. 68.59 billion was the 1% for War on Terror transfer, and Rs. 208.7 billion were for grants from the Federal Government to fund the budget of the Merged Areas, prior to the settlement of the NFC award.[18] Total budgeted receipts of Rs. 1,332 billion are 19% higher than last year's budgeted amount of Rs. 1,118.3 billion. Khyber Pakhtunkhwa increased its own source revenue by around 138% compared to FY 2018-19.[19] A further analysis of the Own Source Revenue in KP shows that indirect taxes make up the largest share (84%) with Sales Tax Revenue constituting 61% of the total tax collection, followed by stamp duty and electricity tax. As far as the direct taxes are concerned, land revenue makes the highest share at 8% followed by 6% collected as property and wealth tax.

Table 3: Types of Tax Revenues from OSR in KP

Type of Tax	2018-19	2019-20	2020-21	21-22	2022-23	2023 (%) Share
Total Direct Taxes	5.4	4.4	5.97	4.1	8.4	16%
Land Revenue Fee	2.9	2.4	3.38	2.4	4.4	8%
Property & Wealth Tax	1.3	0.9	1.62	1.3	3	6%
Total Indirect Taxes	14.8	22.8	29	40.1	44.3	84%
Sales Tax on Services (GST)	10.4	17	19.4	28.3	32	61%
Motor Vehicle tax	1.1	1.1	1.7	1.3	1.3	2%
Stamp Duties Fee	1.5	1.7	3.6	4.3	4.4	8%
Electricity Tax	0.5	1.9	1.9	2.3	2.5	5%

15 Newly Merged Areas (NMA).
16 Road-to-economic-prosperity-revitalizing-khyber-pakhtunkhwas-cities. July, 2021
17 Budget Strategy Paper. Finance Department. KP. FY 2021-2024.
18 White Paper-2022-23. Khyber Pakhtunkhwa. Finance Department
19 White Paper-2022-23. Khyber Pakhtunkhwa. Finance Department

The trends in the actual and estimated expenditures of the KP Government in the last few years from 2018 onwards show that the current expenditure makes up the most significant share with almost 50% being spent on salaries and around 12% on pensions from the current budget. In the last five years, there has been a growth of 108% in the salary budget and 59% in the pension budget. There is significant concern about this unsustainable increase driven by wages and pensions. The increase in these heads comes at the cost of the development budget, as well as non-salary expenditure, which fund infrastructure improvements, textbooks for children in school and essential medicine for patients.[20] There has been a rising throw-forward in the development portfolio which was at 6.5 years in FY2018-19.

Table 4: Expenditure Trends in KP (FY 2018-2023)

	Actuals				Budget
	2018-19	**2019-20**	**2020-21**	**21-22**	**2022-23**
Current Revenue Expenditure	377.8	464.9	599.8	677.6	913.8
Salary	215	278.5	287	345	448.1
Pension	67.5	70.1	83.6	91.5	107.1
Non-Salary	95.3	116.3	229.2	241.1	358.6
Development Expenditure	143	170.3	214.2	253.3	418.2
	520.8	**635.2**	**814**	**930.9**	**1332**

The Government has had limited resources to deal with the emergencies which have been on the rise in the last few years. The COVID-19 pandemic is estimated to have economically impacted about 8% of the population as around 2.8 million workers, particularly daily wagers, lost their livelihood due to the pandemic induced slowing down in aggregate output and demand. The extensive flooding in 2022 and the related emergency measures affected the implementation of government's development projects, as funds were directed towards relief and rehabilitation activities. Food and medicine shortages have been reported across the province due to the damage caused by floods and the limited resources at the disposal of the provincial Government to deal with the emergency. Pressure on the health sector has increased, with outbreaks of diarrhea, dengue and malaria reported across the province.

The foreign loan portfolio of the Government of Khyber Pakhtunkhwa consists of a total outstanding debt of Rs. 313,778 million as of June 30, 2022, out of which 80% is denominated in US dollars. The majority of these loans have been obtained on concessional terms from multilateral institutions by the Federal Government and on-lent to the Government of Khyber Pakhtunkhwa. Out of a total of 105 loans, 90 loans have fixed interest rates, while only 15 loans are on floating terms. The debt levels of Khyber Pakhtunkhwa are relatively low when measured as a percentage of its total annual revenue, currently at around 44.3% of the KP Revenue. However, the interest cost is likely to increase significantly because around 43% of the outstanding loan portfolio is with variable (floating) interest rates, and the 6-month USD LIBOR is currently hovering around 2% per annum.[21]

The Finance Department of the Government of KP introduced the Fiscal Responsibility and Debt Management Act 2022 (bill) to establish a legal framework for responsible fiscal and debt management by the Government. The bill was approved by both the provincial cabinet and assembly and is now at implementation stage. Meanwhile, the KP Finance Minister has indicated an inability to generate a budget surplus – which was a pre-condition for the next IMF loan tranche. The Finance Department declared the province was facing a PKR 275

[20] White Paper-2022-23. Khyber Pakhtunkhwa. Finance Department
[21] KP White paper 2022-23

billion (£1.2 billion) deficit and would not be able to implement the provincial development programme without additional federal funds. Financing gaps include missing federal transfers of PKR 66 billion (£292m), missing net hydel profits of PKR 61 billion (£272m), a shortfall in NMD funding of PKR 26 billion (£115m), NMD arrears from the previous year of PKR 20 billion (£91m), and a flood relief requirement of PKR 102 billion (£455m). The fiscal situation led to a one-week delay in the disbursement of September 2022 salaries and pensions, raising concerns about the solvency of the province. The financial situation appears to be very fragile in the province.

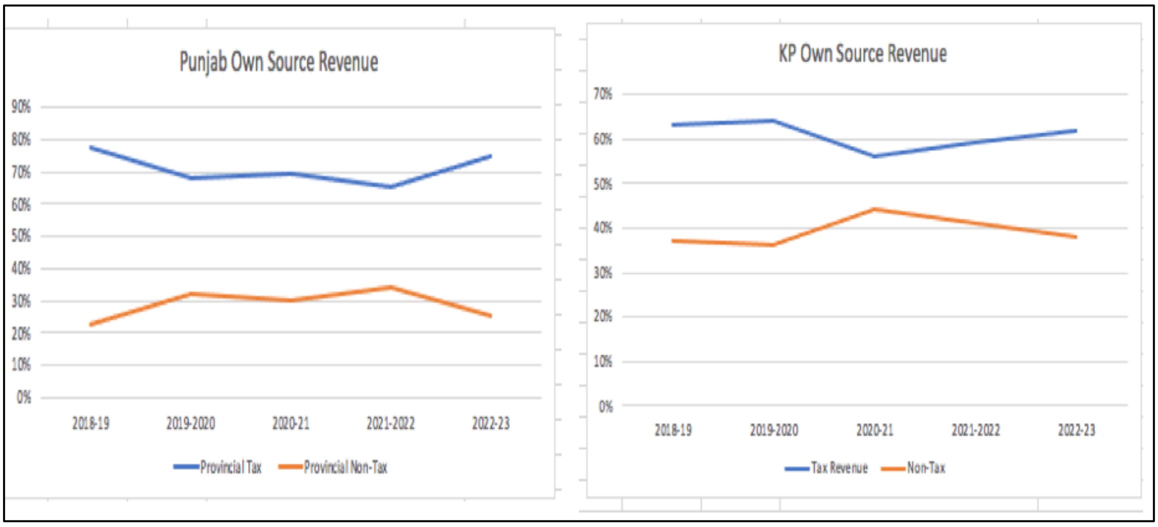
SNG Contribution to Fiscal Space

2.1 SNG Fiscal Space Interventions

SNG played a critical role in supporting the formulation of the Public Finance Management (PFM) Act in both KP and Punjab that will strengthen the legal framework governing public financial management and many of the interventions regarding fiscal pace. The Acts are expected to improve the definition and implementation of fiscal policy for macroeconomic management, clarify roles and responsibilities related to financial management, strengthen budgetary management, and put significant constraints on discretionary spending. The interventions in this area were identified in close interaction between SNG and the Government counterparts. SNG selected a range of interventions to enhance fiscal space in close collaboration with the two provincial Governments at the start of the SNG programme. The interventions are at various stages of uptake, approval, and implementation, etc. Specific working groups were established, and a close working relationship was established with the Finance Department, the Punjab and KP Revenue Authorities and the Excise and Taxation Departments in both provinces to identify opportunities for enhancing fiscal space and undertaking the overall regulatory and strategic reform that was required within which the interventions could be anchored and implemented.

SNG’s interventions focused on own source revenue and efficiency savings. Own source revenue consists of both tax and non-tax revenue. Within Own Source Revenue, SNG focused on tax revenue as the activities associated with non-tax collection had more to do with administrative elements and were not always suited for outside technical interventions. For example, non-tax revenue sources deal with Net Hydel Profits (NHP), land disposal by the Board of Revenue, interest on loans advanced by the Government to financial and non-financial institutions and the revenue from civil administration and other functions such as court fees, toll on provincial roads and bridges and receipts from different social services like health and education. An analysis of the own source revenue in the two provinces shows that provincial tax revenues are much higher than non-tax revenues in both provinces. The proportionate share of these taxes for the last five years is shown in Figure 3 below.

Figure 3: Own Source Revenue



In public sector expenditure efficiency savings occur when the inputs required for an output are reduced, or when outputs (or their quality) are increased without increasing the number of inputs. The measure of inputs is the expenditure incurred by the government whereas outputs may be defined as the 'quantity' of goods & service provided. In some cases, greater efficiency in the way funds are managed also generates savings through reducing transaction and interest costs. One of the objectives of the SNG programmes was to assist the government in creating efficiency savings to be able to create fiscal space for service delivery by the Government. In this area, SNG picked those interventions which were likely to have the most significant impact on the budget such as the recurrent budget and within that the expenditure on human resources and pensions, the management of funds which were scattered in a large range of accounts. The pension reform focused on Punjab as KP was being assisted in the area of pensions through the Sustainable Energy and Economic Development (SEED) project. The long list of interventions undertaken by SNG in the area of fiscal space is given in Table 5.

Table 5: Long List of Interventions to Enhance Fiscal Space

Focus	Punjab	Khyber Pakhtunkhwa
Enhancing provincial own-source revenue capacity	1. Drafting a medium-term strategy for mobilisation of Own-source Tax Revenues (OSTR). 2. Revision of Excise Duty Act and Rules. 3. Support to Excise, Taxation and Narcotics Control Department (ETNCD) in reviewing property tax law and policy for undertaking reforms. 4. Drafting a database Integration plan and supporting its implementation. 5. Review and revision of Service Level Agreement among key stakeholders for the automation of Tax on Transfer of Immovable Property. 6. Review and revision of Rules pertaining to Tax on Transfer of Immovable Property	**E&T department** 1. A reform roadmap for revenue mobilisation with a focus on Urban Immovable Property Tax (UIPT), and Motor Vehicle Taxation (MVT). 2. Development and scaling up of E-payment Gateway. 3. Development of draft proposal for revision of E&T Legislation 4. Supporting Excise and Taxation Department in the development of Universal Motor Vehicle Registration System (UMVRS) 5. Rapid operational review of the field practices of the Excise & Taxation staff to identify public pain points. **Finance Department** 6. Supporting FD in revenue forecasting and preparation of

	7. Developing a methodology and system for identification of highway properties for implementation of a new tax regime alongside highways 8. Supporting the piloting of database integration software. 9. Supporting ETNCD in piloting of a system for Automatic Number Plate Recognition (ANPR) for improved enforcement of motor vehicle tax. 10. Supporting Excise, Taxation and Narcotics Control Department (ETNCD) in piloting of a track and trace system for distilleries and breweries	Receipts Budget and quarterly monitoring. **KPRA** 7. Legal framework – KPRA Act and STS Act 8. Property Valuation using GIS based Model for UIPT. 9. Development and piloting of Restaurant Invoicing Management System (RIMS) 10. Development of performance-based incentive system at KPRA **Local Government** 11. Supporting local council board in the development of reform roadmap for TMAs
Promoting efficiency savings in government expenditure	1. Contributing to the change in policy regarding the minimum age limit for early retirement on voluntary basis. 2. Assisting Finance Department in evaluating pension reform options and selecting defined-contribution pension scheme as the viable option for future. 3. Assisting Finance Department in identifying the anomalies in the existing defined-benefit pension scheme and selecting a set of reforms that seem feasible in the first phase. 4. Drafting a Pension Reforms plan and providing technical support in the approval and implementation phases of pension reforms. 5. Develop a pension audit methodology and conduct a limited scale audit using the methodology. 6. Support in pension administration by automating biometric verification of proof of life of pensioners.	**Finance Department** 1. Support to FD in budget in rationalisation through budget and expenditure reviews 2. Development of a TSA policy and support in review of designated banks accounts 3. Pension audit software 4. Policy framework for public sector enterprises

From among the long list, the SNG team identified a short list of eight interventions for an in-depth examination. Many of the first-year interventions laid the groundwork for subsequent interventions for both revenue generation and efficiency savings at the provincial level and were designed to culminate in a reform measure or action plan in subsequent years. Some of these interventions have also been selected as building blocks for the eventual creation of fiscal space. The short list was selected based on the approval and execution by Government, the progress on the ground and the realisation of results from the intervention. In some cases, the results may not yet be evident but there is significant potential to realise those benefits. A list of the interventions included or excluded have been identified with the reasons for their inclusion or exclusion indicated below.

2.2 Selection of Fiscal Space Interventions Undertaken by SNG in Punjab

The list of interventions in Punjab undertaken by SNG is given in Tables 6 and Table 7 below. The Table 6 outlines the interventions associated with revenue generation interventions and Table 7 identifies the interventions regarding efficiency savings. The rationale for selection or exclusion for the current study is given with each of the interventions. The interventions selected for further review in the area of revenue generation in Punjab are given at serial 4 which is a database integration plan for the Government of Punjab and the piloting of the database integration software which is listed separately at serial 8. These two were combined and reviewed as one as the plan developed to support the uptake and institutionalisation of the database integration software. The second intervention that has been selected for Punjab is developing a methodology and system for identification of highway properties for implementation of a new tax regime for properties alongside highways. The intervention included developing a methodology and system for identification of highway properties for implementation of a new tax regime “abutting” highways. SNG has made progress on this intervention and the expected output is ready for delivery to the government. This activity is the second one which has been selected for evaluation in the revenue generation category in Punjab.

Table 6: Interventions regarding Revenue Generation in Punjab

Serial No	Intervention	Status of Progress	Rationale for Selection or Exclusion	Inclusion or Exclusion
1.	Drafting a medium-term strategy for mobilisation of Own-source Tax Revenues (OSTR).	Medium OSR Strategy drafted for FD including all tax collection agencies. The FM has endorsed it for the approval of the CM who was expected to forward it to the Cabinet Committee for approval. With the change in Government, the strategy is pending approval.	The strategy presents a broad spectrum of activities and as such specific activities need to be selected from within it for further review to assess SNG contribution. The interventions that will be evaluated will be from within the list in the action plan but the overall medium-term strategy will not be evaluated per se.	Excluded
2.	Revision of Excise Duty Act and Rules.	Revision of Excise Duty Act and Rules were drafted by SNG but there has not been any further progress. Detailed deliberations were held. A revised draft was provided, and a comparative analysis of the changes was presented for proper review. SNG is in the process of incorporating the revisions after which the rules will be amended/	While the SNG assisted with the drafting of the legislation, the Act has not yet been approved by cabinet or implemented. The progress under this activity is not yet at a stage that will yield any outcomes.	Excluded
3.	Support to Excise, Taxation and Narcotics	Comprehensive property tax review has been undertaken. Deliberation started.	UIPT reforms are still being studied and have not yet been approved by the cabinet. Picking these	Excluded

	Control Department (E&TNCD) in reviewing property tax law and policy for undertaking reforms.	Recommendations were included in the Revenue Mobilisation Strategy. A key reform measure was the change in the valuation basis from rental value to capital value using the DC rates as a proxy for the capital value.	reforms will be premature from an evaluation perspective.	
4.	Drafting a database Integration plan and supporting its implementation.	The database integration plan has been developed and is being used by the Punjab Revenue Authority.	The Database integration plan has been approved and its software has been developed and is being scaled up by the government. There is considerable potential for using the database to enable the various data sets to talk to each other, widen the tax net, help prevent tax evasion and improve tax assessment.	Selected
5.	Review and revision of Service Level Agreement (SLA) among key stakeholders for the automation of Tax on Transfer of Immovable Property.	The SLA has been drafted.	Due to shift of collecting agency from local government to BOR this draft is yet to be approved by the BOR	Excluded
6.	Review and revision of Rules pertaining to Tax on Transfer of Immovable Property	The rules have been revised.	The SLA has not yet been finalised due to the shift of collecting agency from Local government to BOR and thus the intervention has not yet been implemented.	Excluded
7.	Developing a methodology and system for identification of highway properties for implementation of a new tax regime alongside highways	The pilot project to support effective enforcement of this new tax regime is expected to be completed soon.	The software has been developed and beta testing has been completed. Handover of the pilot is expected to ETCND after incorporating the feedback generated during field testing. The activity has therefore been selected for evaluation.	Selected
8.	Supporting the piloting of database	The software has been developed and is being used by the Punjab	Given the on-ground implementation of this intervention will be	Selected

	integration software.	Revenue Authority.	evaluated together with the database integration plan given at Sr no 4 above.	
9.	Supporting ETNCD in piloting of a system for Automatic Number Plate Recognition (ANPR) for improved enforcement of motor vehicle tax.	This intervention was aimed to facilitate the job of ET&NC in identifying vehicles which have not paid token tax.	Handing over the application in in process.	Excluded
10.	Supporting Excise, Taxation and Narcotics Control Department (ETNCD) in piloting of a track and trace system for distilleries and breweries	There was progress on the ground with various measures tried to monitor the distilleries through flow meters, etc.	This intervention faced significant technical issues during implementation with waning commitment to continue it from the changing Government counterparts.	Excluded

There were six interventions identified with respect to efficiency savings in Punjab. All of them were directly linked to pension reform in the province. Some were expected to lay the initial groundwork by studying the various options with respect to determining the minimum age limit for early retirement, others provided assistance to the Finance Department in Punjab to review feasible options with respect to Defined Contribution and the Defined Benefit pension schemes and helping to properly administer the pension schemes through bio-metric verification for proof of life. All the pension related interventions in Punjab were selected as one intervention. The only aspect of SNG's intervention which was not selected for review was the pension audit methodology which was considered to be at a slight tangent to the overall reform effort. The various elements of the pension reform are outlined in Table 7 below. In the case studies, the main pension reform plan is used as one case study and the bio-metric verification is presented as a separate case study because of the importance of this verification system to ensure that payments are provided to the people who qualify as a major cost saving measure.

Table 7: Interventions Regarding Efficiency Savings in Punjab

Serial No	Intervention	Status of Progress	Rationale for Selection or Exclusion	Inclusion or Exclusion
1.	Contributing to the change in policy regarding the minimum age limit for early retirement on voluntary basis.	Completed	After discussion with Punjab SNG team, development of Pension Reform Plan comes out as one of the most critical	Selected

2.	Assisting Finance Department in evaluating pension reform options and selecting defined-contribution pension scheme as the viable option for future.	Completed	interventions in the context of enhancing fiscal space. Government pension bill has been growing with Compound Annual Growth Rate (CAGR) of 21% and would not be sustainable in medium to long term if reform measures are not taken urgently. It was further agreed that the development of the pension reform plan was a comprehensive exercise and the various interventions that have been listed separately are key elements of the reform and also form part of a logical and sequential process that was key to reform the pension plan. Thus, the change in the existing minimum age for voluntary retirement (1), pension reform option analysis (2), identification of weakness/anomalies (3), automating biometric for pension administration (6). For the purpose of this evaluation all interventions will be evaluated except for the pension audit which is unlikely to have a significant impact.	Selected
3.	Assisting Finance Department in identifying the anomalies in the existing defined-benefit pension scheme and selecting a set of reforms that seem feasible in the first phase.	Completed		Selected
4.	Drafting a Pension Reforms plan and providing technical support in the approval and implementation phases of pension reforms.	A Pension Reform plan has been developed.		Selected
5.	Develop a pension audit methodology and conduct a limited scale audit using the methodology.	Methodology audit on pension audit has been prepared and partly applied. This would a small impact on fiscal space generation.		Excluded
6.	Support in pension administration by automating biometric verification of proof of life of pensioners.	Despite the fact that this mechanism has not been fully implemented due to an attempt to synchronise it with efforts at the federal level, it has been selected because of its potential to impact cost reductions.		Selected

2.3 Selection of Fiscal Space Interventions Undertaken by SNG in Khyber Pakhtunkhwa

The list of SNG interventions for enhancing fiscal space through measures to increase the revenue base in KP are listed in Table 8 below. A total of nine separate interventions were initiated in KP. These dealt with a range of different interventions that included review of Excise & Taxation legislation, operational review of the field practices of the Excise & Taxation staff to identify public pain points, increased options for enhancing revenues from property, motor-vehicles, etc. In addition, one of the interventions has dealt with ensuring that there is a solid legal foundation for the establishment of the KP Revenue Authority and the principal tax that it collects, namely the Sales Tax on Service (STS) Act. There was also work done on improving the systems of collection of the various taxes such as through the development and scaling up of the E-payment Gateway and supporting Excise and Taxation Department in the development of a Universal Motor Vehicle Registration System (UMVRS). Given that a centralized database of motor vehicle registration is a pre-requisite for an e-payment gateway, these two were treated as one intervention. Hence, from among the interventions listed in the table below, those at serial 2 and 4 have been selected as one intervention. In addition, the one at serial 6 on the Legal framework – KPRA Act and Sales Tax on Service (STS) Act has been selected for further review. While the team was originally thinking of including the development of performance-based incentive system for KPRA (serial 9), it was subsequently decided not to include the performance-based incentive system at this stage given that the support for this came mainly from the Revenue Advisor at the ISU in the Finance Department.

Table 8: Interventions regarding Revenue Generation in KP

Sr. No.	Intervention	Status of Progress	Rationale for Selection or Exclusion	Decision on Selection or Exclusion
1	A reform roadmap for revenue mobilisation with a focus on Urban Immovable Property Tax (UIPT), and Motor Vehicle Taxation (MVT).	Completed	The road map provided consists of a long wish list that has not been properly scrutinised and is not at a stage where it is mature for assessment.	Excluded
2	Development and scaling up of E-payment Gateway.	Completed	E Payment gateway is a cross cutting intervention which has benefitted from two output areas i.e., fiscal space (output 3) and use of innovative technologies (output 4). The intervention has been executed and results are beginning to emerge and verifiable. The intervention is being used for the implementation of a system of Universal Motor Vehicle Registration System (UMVRS) listed at serial 4.	Selected
3	Development of draft proposal for revision of E&T Legislation	Completed	The draft legislation has yet not been enacted therefore it is premature to evaluate its impact and success.	Excluded

4	Supporting Excise and Taxation Department in the development of Universal Motor Vehicle Registration System (UMVRS)	Completed	The E payment gateway reform intervention is being used to implement the UMVRS.	Selected
5	Rapid operational review of the field practices of the Excise & Taxation staff to identify public pain points	Completed	The reform is designed to identify pain points for taxpayers and provide them facilitation. The direct or indirect impact on revenue mobilization will be difficult to establish or measure.	Exclude.
6	Legal framework – KPRA Act and Sales Tax on Service (STS) Act	Completed	The KPRA law was designed to establish proper legal basis for the KPRA as it had been formed under a Fiscal Act which was not appropriate. In addition, the STS was not well drafted and was found to have lacunas which hindered proper assessment and collection of sales tax. The KPRA and STS have been drafted and are at a stage where they can be assessed.	Selected
7	Property Valuation for UIPT	Completed	The draft proposed by SNG has not been approved by the cabinet and therefore it is premature to evaluate its contribution.	Excluded
8	Development and piloting of Restaurant Invoicing Management System (RIMS)	Completed	The software application has only recently been piloted and is not at a stage where it can be evaluated for its impact on the ground.	Excluded
9	Development of performance-based incentive system at KPRA	Completed	While it is an important initiative the intervention has not been included due to the selection of other more significant interventions due to time constraints.	Excluded

Four specific interventions were undertaken by SNG for efficiency savings in KP which are given in Table 9 below. These included rationalization of the budget expenditures, development of a Treasury Single account, pension audit reform and policy framework for public sector enterprises. SNG did not work on pension reform in the province because the FCDO funded SEED project has been working on this area in KP. The two interventions selected for deeper review in KP was the intervention dealing with HR budget rationalization intervention as this could impact salaries which are the most significant component of the budget expenditures and rationalizing it has the potential for generating significant savings for the province. The second area that was picked up was the development of a Treasury

Single account policy to enable more effective utilization of the funds scattered in different accounts.

Table 9: Interventions Regarding Efficiency Savings in KP

Sr. No.	Intervention	Status of Progress	Rationale for Selection or Exclusion	Decision on Inclusion or Exclusion
	Expenditure Efficiency			
1.	Support to FD in budget rationalization through budget and expenditure reviews		It's been third year since this intervention was first implemented. One of the key features of this intervention is the HR rationalization as claimed by the SNG. It's an important intervention with significant implications.	Selected with a focus on HR rationalization aspects in the budget
2.	Development of a TSA policy and support in review of designated banks accounts		This is one of the most important reforms from a PFM perspective. FD KP is quite upbeat about it and highlighted that significant amount of work has been done under this intervention with meaningful implications.	Selected
3.	Pension audit software		The software was commissioned in FY 2021-2022 and has been deployed as an internal audit check. At this stage the intervention impact is not significant (in its first report it has identified Rs.55M irregularities from a six-month data) base. Its complete roll out is in process and full potential will not be visible until next 2-3 years.	Excluded
4.	Policy framework for public sector enterprises		Though, FM Policy framework for public sector entities has been developed and approved, it is yet to be implemented. Therefore, it's too early to evaluate the intervention at this stage.	Excluded

The final list of interventions for both provinces for both revenue generation and efficiency savings is summarised in Table 10 below. The database integration plan in Punjab is being used by the Punjab Revenue Authority and is being manged by the Punjab Information Technology Board under the auspices of the Finance Department in Punjab. The system for identification of highway properties abutting highways is being implemented by the Excise and Taxation Department. Similarly, in KP, a legal framework was developed for the KP Revenue Authority and the implementation of the Sales Tax on services. An E-payment system was developed to facilitate online payments of token tax. Later on, the UMVRS was built upon the centralized data platform to issue motor vehicle registration numbers. With reference to efficiency savings, in Punjab the main intervention undertaken was the pension plan with all its associated reforms with a special focus on the administration of an automatic bio-metric verification of proof of life indicating the scope of the problem and the savings that could be generated from this intervention. In KP, the two interventions selected included the rationalization of the Human Resources that included an estimation of the sanctioned posts vs the vacant posts and how this impacted allocation of funds and the actual expenditures and the development of a TSA policy and support in review of designated banks accounts.

Table 10: Final List of Interventions Evaluated

Focus Area/Sub-Output	Punjab	Khyber Pakhtunkhwa
Enhancing provincial own-source revenue capacity	1. Technical support to integration of tax-databases including development of a data integration plan and taxpayers' data integration software for the Punjab Revenue Authority and other Departments. 2. Developing a methodology and system for identification of highway properties for implementation of a new tax regime alongside highways	3. Development and support to the implementation of a legal framework for the KP Revenue Authority and STS. 4. Support the development and scaling up of e-payment gateway including supporting Excise and Taxation Department in the development of UMVRS.'
Promoting efficiency savings in government expenditure	5. Drafting of and support to approval and implementation of a pension reform plan along with its associated interventions. 6. Support in pension administration by automating biometric verification of proof of life of pensioners	7. Support to FD in rationalisation of Human Resources through budget and expenditure reviews. 8. Development of a TSA policy and support in review of designated banks accounts

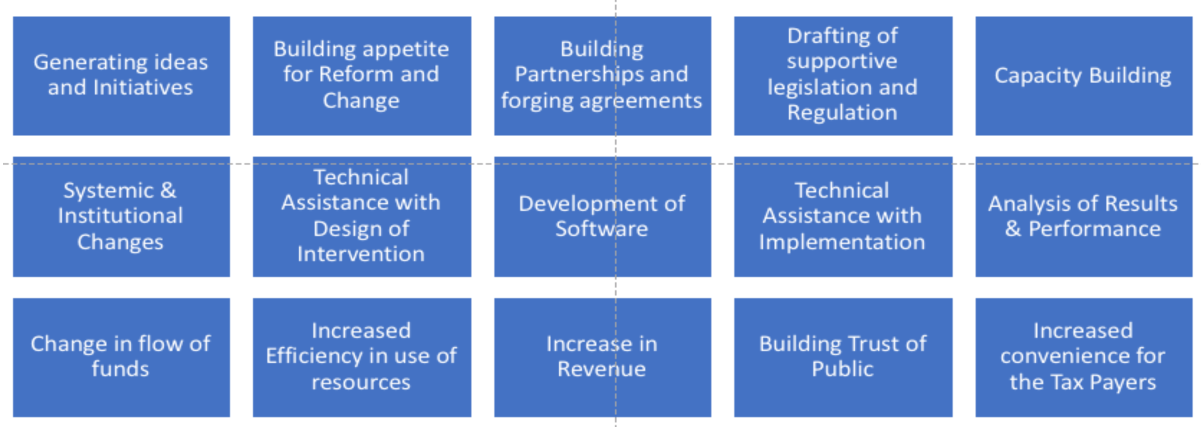
Synthesis Analysis of Contribution of SNG

3.1 Overview

The interventions selected by SNG for enhancing fiscal space were identified in close collaboration with some of the key stakeholders in both the provinces responsible for own source revenue mobilization such as the Excise and Taxation Departments, Provincial Revenue Generation Authorities as well as by the Finance Department responsible for overseeing financial management at the provincial level and assessing where savings and efficiency gains could be made. There appears to be strong commitment at the provincial level for the measures proposed through the SNG interventions given that increasing Own Source Revenue (OSR) is a priority for both provincial Governments. The various stakeholders have been working closely with the SNG team in developing a resource mobilization plan and ways in which savings can be made given that the current financial trajectory is unsustainable. Both governments recognise that urgent action is needed or they will be unable to meet the growing costs of operations, service delivery and investments. In the selection of the interventions, SNG and Government have picked those aspects of revenue enhancement and savings which can yield high value added and select measures which can be sustained through a concerted change in policy, regulation and supported through technology and change in systems and capacity building. The work on some of the interventions selected under SNG II is not new to the provincial Governments as they have been dealing with some of them for many years such as pension reform, rationalisation of expenditures, innovative out-sourcing mechanisms for service delivery and introduction of information technology, etc. The government typically finds it difficult to undertake the work due to their focus on routine tasks and daily firefighting, frequent transfers and postings, lack of coordinated and sustained efforts to see some of them through. SNG's role in sensitising key stakeholders regarding their importance, assistance in putting in place a systematic approach to identifying an action plan, providing technical support in designing and delivering solutions was instrumental in seeing some of them through to completion.

Each of the eight interventions selected for this assessment were examined in detail to assess which type of specific contribution was made by SNG in its fiscal space interventions. Each of the case studies is summarized in this report with the key problem they intended to resolve, SNG's role and contribution and its (potential) contribution to fiscal space. A potential list of the types of contributions which were likely as a result of SNG's intervention in fiscal space in Punjab and KP are summarized below in Box 1 below.

Box 1: Range of SNG Contributions



3.2 Alignment of SNG Fiscal Space Interventions with Good Principles

Due to the embedded nature of SNG's approach in which it provides on-going technical support, many of the interventions have emerged and evolved in an organic manner from the way in which the problems were either initially identified, solutions conceived and tested and then refined over time to counter some of the practical difficulties and challenges which emerged during implementation. Not all the ideas embodied in the interventions are new, the provincial Governments have been wrestling with many of them for years such as pension reform, improved financial management and budget rationalization, etc. However, the combination of focused and readily available technical assistance, development of background research and analysis, drafting of appropriate legislation, formulation of rules and regulations, forging partnerships, providing capacity building and support in soft-ware development, etc, by SNG have led to a range of results such as increased coordination between the tax levying agencies through better data sharing, broadening the new tax base and devising new system of evaluation, establishing a solid institution basis for revenue collection agencies, reducing chances of litigation, identifying a more effective system of tax collection, etc are all expected to increase revenue. SNG interventions are likely to lead to increased savings through revising the pension plan and more efficient administration in Punjab, rationalizing the human resource budget in KP and improved management and use of funds scattered in a large number of accounts.

The Fiscal Space interventions designed under SNG II are not standalone interventions but are anchored in the Public Financial Management (PFM) processes and systems which SNG has helped the provincial Governments to develop and implement over the last few years. The two Governments are also committed to the Public Expenditure and Financial Accountability (PEFA) Framework. SNG has tried to ensure that all Fiscal Space interventions are supported by the requisite provisions in the legal or regulatory framework. This is the reason that some of the interventions have experienced delays in their implementation as changes in the policy and regulatory framework is a time-consuming endeavour. Nevertheless, this was considered to be critical to ensure that the reforms had legal backing and to ensure their sustainability.

The reform areas picked for enhanced revenue generation were especially focused on high-potential and high-impact areas and in both provinces the Provincial Revenue Generation Authorities were included as they represent the largest source of own source revenue generation in each of the two provinces (61% in both provinces). In Punjab the focus was on helping PRA to enhance its systems of data management and coordination using technological solutions for better co-ordination and helping to avoid tax evasion and in KP the focus was in helping the KP Revenue Authority to establish the proper legal foundation for collection of Sates Tax on Services thereby securing its largest source of own source tax revenue and avoid any litigations based on lack of clarity regarding its legal foundation or lack of clarity on the law. Similarly, in choosing areas for efficiency savings, SNG picked interventions related to salaries (HR Rationalization in KP) which constituted 34% of the total budget of the province or Rs 448 bn and pension reform (Punjab) which constitutes 18.23% of the total budget or Rs 312 bn in FY 2022-23.

One important area for realising efficiency savings is the wheat trading which amounted to Rs 378 bn in FY 2022-23 in Punjab. This area was discussed in Punjab several times but was dropped due to the political sensitivities associated with it. The state trading of wheat procurement in KP is kept separate from all other transactions of the Provincial Government. Receipts and expenditure on state trading in wheat are credited and debited respectively to the Food Account of the Provincial Government which is maintained separately with the State Bank of Pakistan. Funds required for the procurement of wheat are normally obtained from commercial banks and guaranteed by the Government. The State Trading in wheat in KP has grown significantly in the last five years[22] and a budget of Rs 97.7 bn was allocated for it in FY 2022-23.

SNG has worked with government to introduce innovative technological solutions where feasible and appropriate. The Innovation Challenge Fund (ICF) provided grants for the purpose. However, there are high risks involved in the introduction of these technologies due to the limited capacity within the Government to manage, operate and update them. ICF interventions under Fiscal Space output focused on increased provincial own source revenue capacity include:

- the integration of tax-payer databases with the introduction of a software for PRA;
- the introduction of track and trace system for distilleries and breweries in Punjab;

[22] Rs 34.6 bn in 2019-20. White Paper FY 2022-23.

- the improved administration of property tax through onsite mapping, the scope of which was modified to include the survey of abutting highways; and
- the technological solution for improved enforcement of motor vehicle tax in Punjab through handheld devices using Automatic Number Plate Recognition (ANPR). The scope of this intervention was changed from its first concept to link it to safe city cameras and use instead mobile phones and link it with Excise data for recovery of token tax payments.
- The highway property mapping and the motor vehicle taxation pilots have been tested and are expected to be formally handed over to ETNCD by the end of March 2023.

The issue with some of them has been that due to reasons of vested interests or "political economy" some were never fully implemented like the one designed to track and trace distilleries in Punjab and the development and piloting of Restaurant Invoicing Management System (RIMS) and the GIS based property valuation system and the software for the pension audit in KP. Some of these applications and tools have been handed over to the counterpart agency. However, the actual tracking and use and value added of some of the outputs is not always tracked or reported to identify its impact on fiscal space aspects.

3.3 Evidence of contribution to increase in fiscal space

An analysis of the contribution of each of these interventions to fiscal space was a core aspect of this evaluation. The results of this analysis are detailed in the case studies but summarised in this section. Given that the results from some of the interventions have not been fully realised and will emerge over time, this analysis examines both actual and potential impact on fiscal space. Scenarios have been developed in cases where some of the key elements expected to have an impact on revenue generation or the savings potential were not fully known at this stage. The overall summary of the impact on fiscal space of the eight studied cases is given in the Table below. It is important to mention that none of the measures have had an impact on the fiscal space yet. However, the measures are expected to generate a significant impact in the medium to long-term.

An analysis of the potential impact of the interventions selected on fiscal space for the review shows that in Punjab there could be significant impact on fiscal space. The most significant impact is expected from the reforms regarding pensions and within that specifically from the reforms to the existing Defined Benefit Pension Scheme and the introduction of a Defined Contribution Pension Scheme, both developed with SNG's support and approved by the (elected) government on November 04, 2022, as part of the Pension Reform Plan, the change in the Minimum Voluntary Retirement Age[23], and biometric verification of pensioner's proof-of-life. Table 11 shows the figures and indicates that the increased potential of revenue generation and savings could mean an increase of up to 56% of the own source tax revenue expected for FY 2022-23. However, this would of course depend on how effectively the pension reforms and some of the other reform interventions are implemented and scaled up. The change in MVRA criteria alone is expected to result in PKR 178 bn deferment of pension pay outs by 2029-30. It is already reported to have resulted in deferments of PKR 37.4 billion as of end-Feb 2023.

[23] The provincial cabinet had approved that the minimum voluntary retirement age be increased to 55 years or 25 years of service, whichever is later in Punjab. SNG supported the regulatory change to affect this reform.

Table 11: Fiscal Impact of selected Interventions in Punjab

	Fiscal Space- Punjab	Budget (2022-23) Rs (bn)	Potential Rs (bn)	Percentage Share of Total Tax Revenue in Punjab
1	Database Integration Plan*	204.47	2.76	
2	Highway Properties	16.93	1.5	
3	Pension Reform	312	178	
4	Biometric Verification		7	
	Own Source Tax Revenue	337.03	189.26	56.16%

*Current revenue generated by PRA

An analysis of the potential impact of the interventions selected on fiscal space for the review shows that in KP there could be significant impact on the fiscal space. The most significant impact is expected from the HR rationalization efforts given that Rs. 328 billion in the current year was budgeted for salaries in the province and this could lead to savings of Rs 71.4 billion on an annual basis. The second area which can lead to more efficient use of funds is the TSA policy which could make Rs 55.2 billion available currently sitting in dormant accounts. This could help to also save the cost of borrowing funds from the commercial sector. However, the funds released from TSA would be a one-time gain and is therefore not counted in the total figure to assess the increase in fiscal space. Table 12 shows the figures and indicates that the increased potential of revenue generation and savings could mean an increase of up to 138% of the own source tax revenue expected for FY 2022-23 in KP.

Table 12: Fiscal Impact of selected Interventions in KP

	Fiscal Space- KP	Budget (2022-23) Rs (bn)	Potential Rs (bn)	
1	KPRA	52.7	1.5	
2	UMVRS			
3	HR Rationalization	448.1	71.4	
4	TSA Policy	328	55.2	
	Own Source Tax Revenue	52.7	72.9	138%

The estimated fiscal space that is expected to be created from all the interventions that SNG initiated is given in Table 13 below. This is based on the initial estimates of the revenue that would be increased or the savings that would be generated in the two provinces (Annex A). This analysis shows that if all the expected revenue that the interventions were expected to generate were realized in would mean an increase of 30% of the total OSR in Punjab and 8% in KP. On the efficiency savings side, it was initially estimated that if all the potential savings were realized it would save Rs 82 billion in Punjab which represents 3% of the entire expenditure in FY 2021-22 and 2% of the entire expenditure in KP. Thus, the major fiscal space enhancing measures from SNG's efforts appear to be on the savings side and not on the revenue generation side. This will only change if the economy grows and there is greater generation of goods and services to generate a higher STS and if there is greater wealth creation in order to generate increased revenue from property and motor vehicles tax.

Table 13: Creation of Fiscal Space from SNG Interventions (Rs mn)

Punjab	FY 2021-2022	Fiscal Space	(% of Total)
OSR	276,800	83,454	30%
Expenditure	2,664,000	82,195	3%
Khyber Pakhtunkhwa	**FY 2021-2022**	**Fiscal Space**	**(% of Total)**
OSR	44,100	3,604	8%
Expenditure	1,332,000	33,000	2%

Case Studies on Fiscal Space

4.1 Case Study 1

Technical support to integration of tax-databases including development of a data integration plan and taxpayers' database integration software for the Punjab Revenue Authority and other Departments.

4.1.1 The Problem

The most significant share of own source revenue in Punjab is from the provincial tax collected by a host of agencies such as the Punjab Revenue Authority, the Board of Revenue, and the Excise & Narcotics Control Department. The key problem was high tax evasion, low tax base and the low level of tax collection. Tax evasion is a serious problem in Pakistan and is highlighted by the low tax to GDP ratio which has persisted over the years.[24] A study carried out by the World Bank in 2009 claimed that the tax gap of the country was 79%, terming it as one of the lowest in the world (World Bank, 2009).[25] IMF in its report in 2015 claimed that Pakistan's Tax to GDP ratio was only 11% while only 16% of the potential taxpayers were included in the tax base of the country. This problem exists both at the federal and provincial levels. Over the years, several studies have tried to estimate the magnitude of the total tax evasion problem in Pakistan. A very early study by the Pakistan Institute of Development Economics (PIDE) estimated that the total tax evasion in Pakistan was valued at Rs 1.5 billion in 1973 and increased to Rs 152 billion in the year 1996.[26] In 2012, the National Accountability Bureau (NAB) claimed that the loss of government revenue to the nation as a percentage of GDP stood at 6%.[27] There are no specific studies for Punjab which are available to help identify the magnitude of the problem of tax evasion. Punjab's collection of property tax is only 0.04% of the provincial GDP (estimated at 55% of the National GDP) which ranges between 0.30% to 1% of GDP in other developing and developed countries. As regards the tax collection by PRA, even though its Tax-to-GDP ratio stands at 0.45% (much higher than property tax), its total registered taxpayers as of 2020-21 were only 94,600, despite 70+ services being taxable in Punjab.

While various anomalies and distortions in the tax law and policy also contribute to Punjab's low tax-to-GDP ratio (such as lack of transparency in valuation basis, generous exemptions, five times higher tax incidence on rented property as opposed to self-occupied property, etc.), a sizable portion of this gap can be associated with the inefficient collection and weak enforcement due to several factors, one of the key ones being lack of data availability. For instance, several exemptions are available based on the land area of the property and the type of the owner e.g. Most properties up to 5 marlas land area, properties owned by retired government servants, widows, etc. are exempt from tax altogether. In fact, around two-third

[24] Tax Evasion in Pakistan: Determinants and Requisite Policy Interventions
[25] Pakistan Tax Policy Report - Tapping Tax Basis for Development. World Bank.
[26] The Underground Economy and Tax Evasion in Pakistan: A Fresh Assessment. Islamabad: Pakistan Institute of Development Economics.
[27] The Tribune. December 2021.

of all properties registered with ET&NCD have become completely exempt from tax due to these wide-ranging exemptions.

4.1.2 SNG Specific Contribution

It was felt that a comprehensive and integrated database would enable the various agencies to coordinate with each other to bring into their net a larger number of tax payers through detection of evaders and broaden the tax base, identify taxpayers that had been under-reporting their tax liability and enable PRA and other agencies to coordinate and introduce stronger enforcement of tax laws and achieve enhanced efficiency in the revenue collection processes. The database integration plan and the associated software were designed to develop a system that would enable the various databases with the tax levying authorities to communicate with each other. The idea of such a plan was a key part of the PFM Reform Strategy which was developed with the assistance of SNG.

The World Bank's Punjab Resource Improvement and Digital Effectiveness Program PRIDE (2020-21 to 2024-25) included the Database Integration Plan as a key Disbursement Linked Indicator. SNG worked closely with PRA and provided them technical assistance for the development of a data integration plan and taxpayers' data integration software for the Punjab Revenue Authority and other Departments. This enabled PRA to meet the World Disbursement Linked Indicator for the release of a cumulative USD 37 million with SNG assisting PRA to access the payment associated with DLR 7.2: for PRA's linkages with 3 third parties' databases operational.

4.1.3 Impact on Fiscal Space

SNG has delivered its key outputs agreed under the intervention. However, there has not been any impact on the fiscal space yet because the system has not yet become operational. The cabinet has approved the data integration plan and all departments are now legally bound to implement and share their data on the common platform. Some of the data bases have been uploaded into the system such as the data from the Excise & Taxation Department, data from private schools, the *Artis* dealing with the inputs and outputs from the agriculture sector, the Punjab Employees Social Security Institution (PESSI) data, etc.[28] All the data from the Punjab Revenue Authority and the Food Department has not yet been uploaded in the system. Datasets of Agriculture Deptt. (Mandi App), Tourism Department (Punjab Tourism App), School Education Department (PEPRIS), ETNCD (Motor Vehicle Registration) and PESSI have been integrated through APIs. The next step will be to develop a live dashboard and use the system for improved revenue generation through enhanced enforcement and transparency.[29]

The largest share of the taxes collected in Punjab is through the Punjab Revenue Authority which is expected to collect 61% of the total tax OSR of Rs 332.09 billion in the FY 2022-23. The tax collected by the various agencies in Punjab in the last five years is shown in the table below. There has been uneven growth in the various taxes due largely to the economic slowdown and the impact of COVID-19. While the nominal value of the tax amounts has increased due also to inflation and the general increase in prices, GST on services makes up the largest share of the OSTR followed by Stamp Duty, Motor Vehicles Tax and Urban Immoveable Property tax. Working to improve the system of data integration and the system of the PRA is likely to have a significant impact in the future given that there has already been a growth of 94% in the revenue stream from PRA in the last five years which is the largest source of growth in the OSR in Punjab.

[28] Companies with more than 10 employees have to register with PESSI.
[29] World Bank Implementation Support Unit. Punjab.

Table 14: Own Source tax Revenue in Punjab (Rs bn)

Tax Receipts	2018-19	2019-20	2020-21	2021-22	2022-23
Board of Revenue	72.126	81.156	70.85	75.23	75.23
Excise & Narcotics Control	30.5	39.7	30.5	39.22	52.39
Punjab Rev. Authority	105.874	174.107	141.35	165.5	204.47
Total Tax Receipts	208.5	294.963	242.7	276.8	332.09

Source: White Paper: 20-21, 21-2022, 2022-23

There is significant potential for impact in the future based on the assumptions one makes regarding the following; (i) scale of tax evasion and how many more people and firms can be brought into the tax net; (ii) detection of cases of underassessment of tax; (iii) reduce the claims of undue exemption; (iv) improved enforcement based on more efficient and timely detection of evaders; (iv) improved recovery in tax collection; (v) the potential to assess if there is scope for further tax rate increase based on analysis of different taxes and their rates. SNG has assessed conservatively, that at a minimum, even if tax collection improves by an incremental 1% due to these interventions, as a result of the elements mentioned above, it will increase the tax revenues by Rs 2.87 billion per annum given the collection of Rs 276 billion own-source tax revenue in Punjab in (FY2021-22) and by Rs 3.33 billion in FY 2022-23.

4.2 Case Study 2

Developing a methodology and system for identification of highway properties for implementation of a new tax regime alongside highways

4.2.1 Key Problem

The Government of Punjab (GoPb) introduced a tax on properties abetting provincial, national highways or motorways through the Finance Act of 2019. This was the first time such a tax was imposed in the province. The Excise Taxation and Narcotics Control Department (ET& NCD) relies on a manual system of registering properties, as these properties are not within the limits of any municipal corporation and lack street numbers or property numbers for identification. The manual system relies on revenue records to identify and record properties, which is complex and involves issues like common *khasra* numbers and the issue of common land (shamlat) on which use rights can be bought and sold. The issue of land ownership and use becomes even more complex when there are encumbrances and disputes within the revenue records which are not always easy to decipher and resolve.

One way to deal with this problem is to record properties using GIS mapping technology through a computerised system of data management. The ET&NCD requested the development of an IT-based solution for registration of properties using GIS-mapped data. This was expected to streamline the process of registering and assessing tax on properties abutting highways and making it more efficient and effective.

The solution involves use of a GIS based application for detection of property and using the notified tax rates to automatically calculate the tax liability which is then electronically approved by the Excise and Taxation Officer. The taxpayer can be served a bill generated electronically with calculation of tax through electronic processing.

4.2.2 Specific Intervention and Role of SNG

SNG used the funds available with the Innovation Challenge Fund (ICF) and through a competitive procurement process, appointed a sub-grantee to implement the pilot intervention. Red Buffer, a technology firm, was selected for the purpose and with its sub-contractor named the Centre for Economic Research in Pakistan (CERP), it developed and delivered a pilot software to ET&NCD for the registration and implementation of the Highway

Property Tax, as mandated by the Finance Act of 2019. The system is equipped with advanced capabilities, such as capturing the GIS location of properties, as well as pictures and covered area and other characteristics of the property. Designed with both field inspectors and Excise and Taxation Officers (ETO) in mind, the pilot system includes a cellphone application; *Highway Immovable Property Tax Field Application* and a computer-based *Highway Property Dashboard*. These tools ensure that the tax registration and enforcement process is both efficient and accurate, with real-time data available to all relevant parties.

The Highway Immovable Property Tax Field Application is specifically designed for Excise and Taxation Inspectors, providing them with an IT- based tool to register new properties. Using the data collected, the system can calculate the annual tax for each property, streamlining the registration and enforcement process. Once the PH1[30] form is completed, it is transmitted to the office system where the ETO can approve or reject it. In the event of a rejection, the form is sent back to the inspector for correction before resubmission. This process ensures that accurate data is entered and that all necessary steps are taken to implement the Highway Property Tax as mandated by the Finance Act of 2019.

The Highway Property dashboard is a tool that allows ETOs to generate a comprehensive listing of properties in each circle under their supervision, with an online maintenance system for the property register. ETOs can easily download PH1 forms and other documents related to a property in PDF format. Additionally, the system is capable of accurately calculating tax based on the notified Deputy Commissioner (DC) rate. By leveraging GIS technology driven by Machine Learning module for property mapping and integrating property information, the Highway Property dashboard provides ETOs with instant access to critical information about each property. This includes details such as the owner's name, property tax, property mutation, and any disputes related to the property. This streamlined process significantly reduces the time required for tax levies and other related transactions, ultimately benefiting both the government and property owners.

The pilot developed and presented by Red Buffer to the ETNCD covers the department's requirements adequately. The evaluation team held meetings with users at ET&NCD. At the time of the evaluation, the field testing of the software was at an advanced stage for the identification and removal of bugs and any modification to process flows or software features, required by ET&NCD, before the finalisation and handover of the software.

The SNG team is expected to resolve the issues that are being reported by ET&NCD through the technology partner. The target of the SNG team is to ensure that the software being developed or modified meets the requirements and expectations of ET&NCD. SNG is expected to address any technical glitches, bugs, or other issues that are reported during field testing. The final version of the software is expected to be handed over to ET&NCD by the end of March 2023 for its implementation and scale-up.

4.2.3 Contribution to Fiscal Space

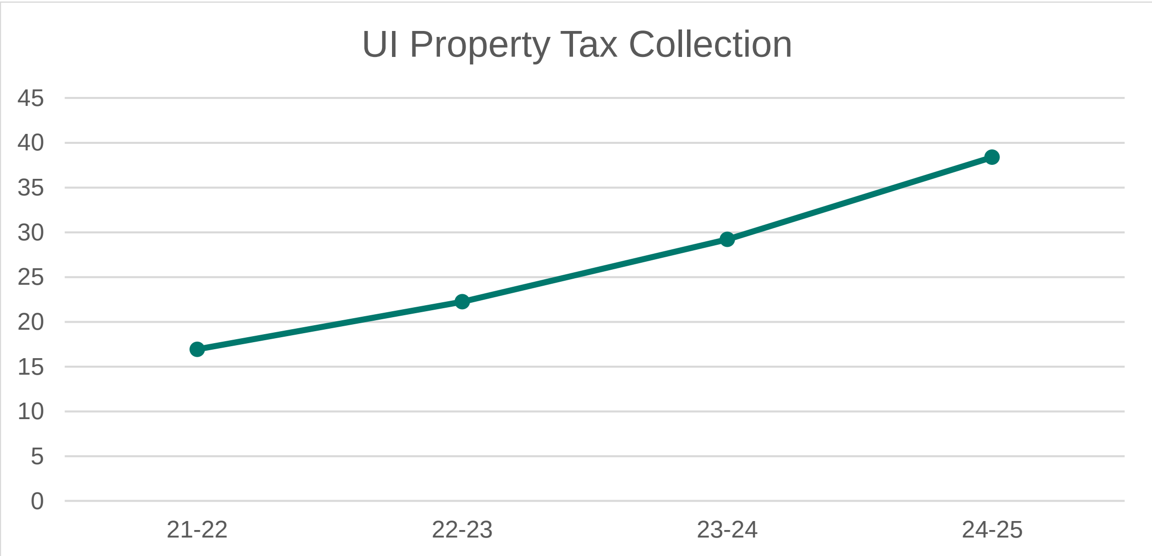
Database with geo tagged properties is expected to help in monitoring property tax revenue by creating a common platform that links all property-related data, including the number of floors in the building, the total constructed area of building, individual plot areas, details related to the locality, and road facing details, along with the principles of applied tax calculation. It can store accurate information regarding tax payables and revenue collection. These can be monitored electronically ensuring completeness in tax assessments and payments. The system is capable of sending automated notices to taxpayers on a yearly basis giving details of the outstanding amount and any surcharge thereon.

[30] PH1 is a form prescribed under law which is basic document at the time of registration of the property for property tax purposes. This contains details of property and assesses annual tax due for a property.

Having a visual representation of the entire property tax system can improve the efficiency and accuracy of tax collection while reducing the need for field visits to address complaints. Additionally, utilizing GIS technology can improve accessibility for all related civic departments, creating a transparent and consistent tax assessment system. In the future, this system could be upgraded to include service delivery departments such as the Water and Sanitation Agency (WASA) and the Highway Department, enabling better resource management and service reforms. Linking tax collection to service delivery could also enhance voluntary compliance with tax laws by allowing taxpayers to match their tax payments with the services they receive.

There is significant potential for tax revenue from properties located on highways and motorways. The SNG team has estimated that potential revenue of Rs. 1.5 billion can be generated from highway properties based on certain assumptions. SNG has generally erred on the side of caution in identifying the revenue potential from its interventions because there are many factors that can influence the underlying assumptions and are difficult to predict. Nevertheless, Urban Immovable properties contributed 7% to the overall tax OSR in Punjab in the current FY and it has been growing rather significantly in the past and is projected to grow by 120% from FY 2022-23 to FY 2024-25. The expansion of the area of taxable properties along highways can be another important source of revenue. Its dimensions are difficult to predict without a detailed overview of the properties and urban growth rate and development in the areas marked for the purpose.

Figure 4: Projected Growth in tax from Urban Immovable Properties



4.3 Case Study 3

Development and support to the implementation of a legal framework for the KP Revenue Authority and STS

4.3.1 The Problem

The Sales Tax on Services (STS) is the largest tax collected by the Government of Khyber Pakhtunkhwa (GoKP). It was enacted through the Khyber Pakhtunkhwa Finance Act of 2013. To administer the STS, the KP legislature inserted certain provisions in the Finance Act of 2013 to establish the Khyber Pakhtunkhwa Revenue Authority (KPRA). The GoKP had concerns that the legal foundations of the KPRA were weak due to its establishment through the Finance Act of 2013 rather than a separate legislation for the purpose. The Finance Act, 2013 was subsequently amended multiple times through Finance Acts of 2014, 2015, and 2016, creating confusion for taxpayers who did not have access to one updated law.

Furthermore, there was a perception that the legal framework may not withstand scrutiny by the courts, posing a serious threat to its sustainability thereby endangering one of the key sources of revenue for the province i.e., the revenue from STS. This concern became even more pressing when the Pakistan Telecommunication Company Limited (PTCL) challenged the constitutionality of the STS in KP. PTCL submitted a petition before the Peshawar High Court, seeking to declare the STS as against the fundamental rights of the people of KP, as protected under the Constitution.[31] This generated significant fears that the legal basis of the law could be questioned as happened in Punjab where the Court had declared that the Punjab Revenue Authority had not been established or constituted in accordance with the law.

4.3.2 Specific Intervention and Role of SNG

To mitigate the risk of revenue loss from Sales Tax on Services and strengthen the legal foundation of the KPRA, the KP government sought technical assistance from SNG to strengthen the legal framework of the KPRA for the Sales Tax on Services. It was decided that a new law for the STS and KPRA needed to be established. In collaboration with the KPRA team, SNG identified areas in the legal framework that needed improvement for the administration and collection of STS.

- KPRA was to be established in line with the Sindh Revenue Board (SRB) and the Punjab Revenue Authority (PRA) as an autonomous body.
- The criteria for appointment of Director General were not clear, and a lot of powers were vested in the position which called for a more balanced sharing of authority.
- There was a need for a mechanism for scrutiny of tax policy matters as these had not been prescribed in the Finance Act 2013.
- Recruitment of staff in the KPRA was key to success. However, the Finance Act, 2013 was silent in the matter.
- The issue of Pension Funds for the employees had also not been covered under the law.
- For any taxing statute, it is important to precisely define taxpayer’s liabilities which had not been done.

KPRA lacked the internal capacity to draft the new legislation, which was required to strengthen the legal framework of KPRA and STS. The SNG procured the services of a legal expert for 40 days to draft the KPRA Act and STS bills. The lawyer's draft was then scrutinized by KPRA, the Finance Department, and the Law Department of GoKP. The bills were tabled by the government, and after being approved by the KP provincial legislature, the STS Act 2022 and KPRA Act 2022 were approved and notified in June 2022.

The new legal framework introduced administrative reforms that can have a significant impact on the revenue collection drive of the KP government in the medium term. SNG provided technical support and proposed the formation of a tax Policy Board, which was accepted by the government and incorporated into the KPRA Act, 2022. The statute now defines the terms of reference of the Policy Board and gives it the necessary powers to

[31] Through constitutional petition titled PTCL Vs. KPRA, STS was challenged on the grounds of fiscal hardships. It was argued that purpose of KP government to enact STS has come at the cost of restricting the usage of internet which is a lifeline for students and small businesses in the province that is already ravaged by terrorism and poverty. The PTCL highlighted that the importance of internet in business and education that must be considered as an extension of the fundamental rights to do business, the right to free speech and the right to education under Articles 18, 19, 25-A respectively. It was argued that in the case of students from lower income groups it is entirely plausible that internet has become simply too expensive to avail, at least for any meaningful amount of time/quantity. After giving a detailed deliberation, the Peshawar High Court dismissed the petition of PTCL.

make transparent and efficient decisions. Some of the key elements of the reforms introduced included the following:

- Institutional strengthening by enabling KP Revenue Authority to be administratively, financially, and functionally autonomous.
- Incorporation of principles of corporate governance and a lean corporate structure in KPRA.
- Moving away from the wide discretionary powers of the Director General by constituting a Management Committee to perform administrative duties and a Policy Board for oversight over important tax policy decisions.
- Encouraging open market appointments for the provision of capable human resources for KPRA.
- Hiring of professional staff in KPRA through a competitive process.
- The Policy Board was given powers to arrange a third-party audit of KPRA accounts, including performance audits.
- The Policy Board was also given the mandate to advise the KP government on amending, adding, or deleting taxable services and policy decisions, for which there was no institutional framework in the past.

In addition, in order to avoid the potential challenges, which Punjab had to face, the legal reforms in KP were introduced with a holistic view, which was legally sustainable for smooth functioning of the Authority. Some specific changes made in this regard include the following;

- Insertion of a validation clause to save all the previous executive actions issued under the legislation.[32]
- Fix the tenure of the members and Chairperson and state the qualifications and required experience in the parent statute.[33]

Box 2: The Provisions of the Sales Tax on Services Act

• Scope of taxable services • Application of principles of origin and reverse charge. • Introduction of open market price system. • Special procedures and tax withholding provisions • Delegation of power to collect and enforce sales tax on services. • Clarity to make adjustments into tax credits. • Refund joint and several liabilities, tax recovery. • Taxpayer registration, invoicing, bookkeeping and audit proceedings. • Filing of tax returns • Appointment of authorities and their powers.	• Enhance tax base and record keeping obligation in the interest of fairness and transparency. • Clear demarcation of jurisdiction of tax officers of KPRA. • Simplify the calculation of default surcharge in accordance with modern principle of taxation. • Introduction of the power monitor or track electronic transactions through modern techniques. • Removal of automatic transfers of undecided appeals on the expiry of limitation. • Introduction of incentives and rewards for well compliant taxpayers and whistleblowers. • Introduction of performance-based incentive system for KPRA employees. • Removal of the power to issue a search warrant from the domain of collector and detaining it only with the magistrate. • Provided the right to claim adjustment of tax credits and refunds.

32 See s. 3 of the Khyber Pakhtunkhwa Revenue Authority Act, 2022
33 See ss. 5 and 6 of the Khyber Pakhtunkhwa Revenue Authority Act, 2022

4.3.3 Contribution to Fiscal Space

Tax revenues constitute the main source of Own Source Revenue and have always been higher than non-Tax revenues in the province of KP. Table 15 gives the growth of the two revenue streams for the province.

Table 15: Growth in Own Source Revenues in KP (Rs bn)

	2018-19	2019-20	2020-21	2021-22	2022-23
Tax Revenue	20.3	26.9	33.5	44.1	52.7
Non-Tax	11.9	15	25.9	30.7	32.3
	32.2	41.9	59.4	74.8	85

Within the tax revenue, Sales Tax on Services has been the largest source of revenue and has shown consistent growth over time. Table 16 below shows collection of STS over the past 5 years. Since its establishment under the 2013 Finance Act, KPRA has shown exponential growth in terms of tax collected and the number of taxpayers starting from 700 in 2013 to 19,000 in 2023. The revenue from sales tax has grown more than three times from Rs 10.4 million in 2018/19 to 32.3 million in the current year. In FY 2022-23, indirect taxes were projected to constitute 84% of the total tax revenue in KP. Within this category, STS was the largest source of income constituting 61% of the projected revenues in the current FY. Thus, it was important to secure this vital source of revenue by ensuring a sound institutional and legal basis for its collection and management.

Table 16: Trends in the Tax Collection in KP (Rs bn)

	2018-19	2019-20	2020-21	2021-22	2022-23	2023 (%) Share
Total Direct Taxes	**5.4**	**4.4**	**5.97**	**4.1**	**8.4**	**16%**
Land Revenue Fee	2.9	2.4	3.38	2.4	4.4	8%
Property & Wealth Tax	1.3	0.9	1.62	1.3	3	6%
Total Indirect Taxes	**14.8**	**22.8**	**29**	**40.1**	**44.3**	**84%**
Sales Tax on Services (GST)	10.4	17	19.4	28.3	32	61%
Motor Vehicle tax	1.1	1.1	1.7	1.3	1.3	2%
Stamp Duties Fee	1.5	1.7	3.6	4.3	4.4	8%
Electricity Tax	0.5	1.9	1.9	2.3	2.5	5%

The immediate impact of the new legislation is in securing its most important source of revenue by placing it on a sound legal foundation and ensuring that no one challenges the collection of STS in the province following the precedent that has been established in Punjab and the case filed against the authority by PTCL. The new legal framework provides the necessary powers and authority to effectively enforce the STS law and its procedures. In the future, there is also bound to be an impact on increasing the revenues from this tax as in the past the efficiency of KPRA in administering STS has been hampered by weak institutional capacity and unresolved policy issues. Timely decisions by the Policy Board have the potential of increasing revenue from STS through better administration. The KPRA Act, 2022 also requires recruitment through a competitive process which is likely to encourage professionally qualified, and experienced human resources to be attracted to the Authority. Competent staff is imperative for sustainable revenue growth, as demonstrated by the success of the Sindh Revenue Board (SRB), which recruited professionals from the beginning and has since become a model for other provinces.

Some areas where policy decisions may increase future tax revenue include: (a) setting tax rates and brackets for individuals and businesses in different service classes to encourage compliance and increase the tax net and increase revenues over time, (b) consulting with all stakeholders and deciding tax policies to establish the manner and rate of tax where compliance with STS is very limited e.g. legal services, (c) expanding the tax base by using FBR and other government agency databases to identify new taxpayers, and (d) imposing penalties for non-compliance with tax laws.

It is also expected that the new legislation will reduce the chances of litigation which entails a loss of revenue, delay in revenue collection and in costs of the legal appeals. An Appellate Tribunal of KP Sales Tax became functional in February 2020 and since then, it has decided over a dozen appeals involving revenue of **Rs.1.5 billion**. It is expected that the reform in the KPRA and STS Act will have a positive impact in minimising court litigation cases in the future. This in turn will help KPRA in meeting ambitious targets of sales tax collection while containing the litigation cases to a minimum.

By and large, the objectives of introducing a new legal framework has been achieved though there are certain concerns on quality of output and a few missing elements from the legal technical perspective. The evaluation team has reviewed the STS and KPRA Acts, which were promulgated with the assistance of SNG, and found some drafting errors that may cause issues in the collection and levy of sales tax on services in the future. Taxing statutes are interpreted strictly, and any mistakes in drafting or ambiguous provisions may result in loss to the government exchequer. While this was beyond the scope of the work of the current evaluation these have been mentioned because they could impact tax collection and be challenged if they are left open to interpretation.

4.4 Case Study 4

Support the development and scaling up of e-payment gateway including supporting Excise and Taxation Department in the development of UMVRS

4.4.1 The Problem

A key administrative reform in eradicating corruption and easing tax payments is the introduction of an online payments system. This reform has been successful in many countries including other provinces in Pakistan. For instance, after the introduction of e-stamp paper, Punjab Government witnessed a doubling of the increase in stamp duty collection. The Government of KP wanted to initiate a system of E-payment to establish an efficient eco-system for collection of taxes. The E-payment pilot was awarded to Evamp and Saanga to develop and test an on-line payment system in Peshawar, which was branded as "*Zama KP".* The objective of the E-payment system was to facilitate the payment of the token tax online. The E-payment pilot paved the way for launch of another Pilot i.e., provincial data base for the Motor Vehicle Registration System (MVRS). The centralization of vehicles data from various districts was an outcome of the pilot, and it organically facilitated the scale up of the E-payment system to the entire province without any additional costs and efforts.

The Excise, Taxation and Narcotics Control Department (ETNCD) is responsible for the collection of a range of taxes including tax on vehicle registration, payment of the annual token tax, and transfer fee upon change in ownership. The system of payment of the token tax was being maintained manually using challan forms. This process posed problems for taxpayers, as they had to visit the office of excise and taxation and wait in long queues to pay the tax. The data was scattered in each district and there was no centralized system of data management. Additionally, the Excise, Taxation Narcotics Control Department (ET&NCD) had to gather and reconcile data of tax collected from different branches of the National Bank or the Bank of Khyber and submit it to the Treasury.

When the on-line payment system was being developed, it was discovered that there was no centralized system for maintaining the data on motor vehicles in the province. Unlike Punjab and Sindh, where vehicles are registered with a universal number plate for each province, each district in KP has its own motor vehicle registration authority issuing localized serial numbers. The weakness in registration systems resulted in private motor vehicles owned by residents of KP province being registered outside the province, leading to revenue loss for the motor vehicle registration and the annual token tax on motor vehicles. The Excise and Taxation Department perceived that if the token and registration taxes are automated, this would facilitate the taxpayers and eventually increase the tax base and improve the efficiency of collection for the government of KP. A centralised database had to be developed before an e-payment system could be developed and used. To address these issues, the ET&NCD requested the development of a centralized system and an IT-based solution for data management. The MVRS system was expected to allow for unified number plates of the vehicles registered in the province, thus giving a better service to the residents of KP province at par with other provinces and increase revenue from motor vehicle registration.

4.4.2 Specific Intervention and Role of SNG

SNG followed a competitive procurement process to select Evamp & Sangaa (E&S) Pvt Ltd through the Innovation Challenge Fund (ICF) to develop to develop and pilot an E-payment system in order to make online payments. However, during implementation it was realized that the e-payment system could not be launched without centralising the data of motor vehicles from other districts as well. This then led to the centralisation of vehicles data from all across the province on one platform, synchronizing district data into central database for the processing of tax payments through an e-payment gateway. A pilot project for an e-payment system was launched for the payment of Token Tax. The aim of the pilot project was to test whether the system developed through the Challenge Fund was compatible with the requirements of the ET&NC department. The system features evolved to accommodate the features which were required in such a system.

The main objective was to deliver an E-payment system in Peshawar. However during the duration of the pilot it got scaled up organically to the entire province without any additional efforts and cost. Building upon the IT infrastructure developed for the E-payment system, a full-fledged new system of MVRS was developed that has been successfully piloted in Peshawar. The total grant size of the E-payment was Rs 59 million. With a minimal addition of Rs 3.7 million through grant amendment, a new and centralised MVRS system was developed that has the capacity to issue province wide registration numbers and can handle the entire spectrum of functions related to vehicles registration business processing. The pilot software, as demonstrated by the Peshawar Motor Vehicle Registration Authority, is functional but needs to be further refined to fix the bugs before the system is scaled up. However, ET&NCD have used the system to register thousands of vehicles in Peshawar District and feel it is important to continue to use the system.

The ET&NCD has expressed concerns regarding the training of its staff, as they were not given access to the back-end database during training due to proprietary rights claimed by the developer. The pilot software needs a simple interface and clear instructions that allows users to complete tasks efficiently. Additionally, there is a need for system documentation, flow charts, and user manuals for system administrators and Excise and Taxation Officers and Inspectors. During the contract period, E&S supported ET&NCD and trained the relevant staff. While the system was handed over to the Excise Department in January 2022, it is not being updated by the entry of new cars which are being registered. Thus, on-line payments cannot be made for cars which are not entered in the system. However, in view of the potential in the application, the ET&NCD wants continued support for the system and the World Bank has agreed to provide additional funding for refining and scaling up the system to the whole province.

4.4.3 Contribution to Fiscal Space

A review of the revenue collected in KP under the head of Motor Vehicles is shown in the table below. This shows a very variable performance with collections being under Rs 2 billion and generally falling short of the expected revenue. The centralized system for issuing number plates has been tested in Peshawar, resulting in an increase in private vehicle registrations from 700 per annum to 1600 in the first year of operations.[34] The system hand over was completed in September 2022, with handover of the login credentials. So far more than 30,000 vehicles have been registered using this system, and collected close to Rs 1 billion revenue. It is too early to assess if there will be any additional revenue from this head for owners who may decide to register their cars in KP and therefore migrate the tax revenue to the province.

Table 17: Tax Revenue from Motor Vehicles in KP (Rs bn)

	Actual			Estimate	
	2018-19	**2019-2020**	**2020-21**	**2021-22**	**2022-23**
Motor vehicle tax	1.84	1.33	1.71	1.9	1.337
(%) of Estimated	92%	72%	80%		

The system is designed more for convenience and may not have a significant impact on increase in revenue given that token tax has to be eventually settled at some time when the car is sold or transferred to another buyer. To the extent that the system will encourage vehicle owners to register cars in KP rather than other provinces, it may bring additional revenue to the province and increase its revenue. However, the system is designed more for greater transparency, ease of payments and registration. It is also likely to considerably reduce the payments made to middle-men who acted as agents who for a fee helped to negotiate the amount of token tax due. The system when it functions properly will eliminate the need for these agents. The need for the system was especially highlighted during the pandemic when people were unable to visit the tax officer for payment of their taxes.

- ***Increased convenience:*** Electronic payment system allows taxpayers to pay their taxes online from anywhere at any time, reducing the need for them to physically visit a ETNCD office.
- ***Faster processing***: Electronic payment systems facilitate faster processing of tax payments, which can help reduce administrative costs and improve the efficiency of tax collection. Taxpayers use to stand in long ques in front of ETNC department and banks for payment of tax.
- ***Improved accuracy:*** Electronic payment systems can reduce errors in tax collection by automating tax assessment calculations e.g., the Pilot introduced by SNG can now calculate tax liability of motor vehicles based on the tax rates as per law. Whereas, previously, the same process was done manually and could cause errors in calculation of tax.
- ***Enhanced transparency:*** Electronic payment systems is expected to provide a more transparent process for tax collection, with taxpayers receiving real-time confirmation of their payment and tax authorities having access to a centralized database of tax payments. For instance, there have been cases in the past where fake payment receipts of bank have been recorded and even duplicate entries were made in different districts.

[34] The registration of private vehicles is also increased because of announcement of reduced rate for registration of vehicle registration fee of Rs. 1 only by the government of KP.

- ***Cost savings***: Electronic payment systems can reduce the cost of tax collection of the ETNC Department by eliminating the need for paper-based processes and manual data entry.

4.5 Case Study 5

Drafting of and support to approval and implementation of a pension reform plan along with its associated interventions

4.5.1 The Problem

The Government of Punjab has a Defined Benefit Pension Scheme in place for its employees, which entitles civil servants to receive a pension under the Punjab Civil Servants Act, 1974. Civil servants are not required to make contributions to the scheme. The Government is responsible for funding the scheme and the payment of pensions. In practice, the Government has not made pension contributions regularly and the scheme has remained largely unfunded. Pension payments are made by government from the annual budget. Due to generous increases in pension benefits over time, the scheme has become one of the most expensive in the world. The existing Defined Benefit Scheme is not sustainable and is causing accrued pension liability to grow exponentially.

- Pension expenditure has grown due to generous emolument policies over the years and induction of new employees due to political expediency and without consideration for future implications.
- The pension expense currently accounts for 12.3 percent of the provincial revenues. If this trend is expected to continue, the pension expense as a percentage of provincial revenues will reach an unsustainable level of 63% by 2041, which could cause fiscal distress.
- The current Contribution Rate, i.e., the amount (measured as % of pensionable pay) needed to fund the pension promise, is 65 percent, which is very high by international standards.
- The financial discipline required of government to make pension contributions on a regular basis has been weak. The government ran an unfunded pension scheme until 2007. Although a pension fund was established in 2007, government has not made adequate contributions into the fund on a regular basis.
- High contribution requirements combined with poor funding have led to sharp increases in annual Pension Expense over time. As the Pension Expense has been growing faster than revenue for many years, the fiscal space for other operational and investment needs has been shrinking.
- There is a need to implement reforms to establish a realistic and sustainable state pension scheme, and to release fiscal space necessary for other critical areas of expenditure.

4.5.2 SNG Contribution

The SNG programme undertook the following specific tasks; (i) supported the review of the existing pension regime and recommended measures to better manage the pension liability; (ii) SNG used the actuarial report from 2019 to expand on the analysis to identify the problems; (iii) undertook an analysis of the current pension formula, and the impact of previously announced pay increases on new retirees and the commutation of pension; (iv) developed an option analysis for the Government of Punjab to reform the existing pension system; (v) SNG proposed changes to MVRA in Civil Service Act. Section 12 of the Pension Civil Service Act was amended in 2021 to increase the early retirement age to 55, subject to completion of 25 years of service; (vi) submitted proposals for improvements in the management of pension liabilities and presentation of the proposals to senior policy makers to inform evidence-based policy discussions and (vi) technically supported the government in developing a Pension Reform Plan, which was approved by the (elected) government in November-2022.

The pension reform plan provided two reform strategies - introducing a new Defined Contribution (DC) Pension Scheme for new employees and making reforms to the existing Defined Benefit (DB) Pension Scheme for existing employees. After the approval of the plan, the Government, on November 24, 2022, notified a committee, with SNG's representation, to work out modalities, contours, and road map for the implementation of the plan for approval of the Provincial Cabinet, however, meeting of the committee could not be held due to dissolutions of the Provincial Assembly of Punjab and the Punjab Cabinet. The committee was re-notified by the government on March 13, 2023, with SNG's representation. The committee held its meeting on March 16, 2023 and deliberated upon the design and key parameters of the DC Pension Scheme, which had been worked out by the Finance Department.

The SNG team sensitized key stakeholders in Punjab about the urgent need to reform the pension scheme and assisted the Finance Department in developing an approved pension reform plan. The proposed reforms to the existing DB scheme include rationalizing pensionable pay by linking pension to basic pay, applying discount factor for early retirement, reducing maximum commutable portion, replacing medical allowance with health insurance coverage, indexation of annual pension increases, introducing a Pension Act to implement changes, and implementing a 'Proof of Life' Biometric Verification System to prevent fraud or mistakes. The new DC scheme will have predetermined contribution rates, investment of contributions until retirement, and control for employees over their pension accounts, with predictable pension payments by the government. The new defined contribution pension scheme will involve contributions from both the government and the employee at a predetermined rate. The accumulated balance in the employee's pension account will be invested until retirement and further invested to generate post-retirement monthly income. The government will have predictable contributions and no additional liabilities, while employees will have control over their accounts and access to updated statements for transparency.

Based on the role SNG has played in the pension reform in Punjab, it appears that SNG has made a significant contribution to the process. The report[35] produced by SNG provided a comprehensive analysis of the factors that led to the exponential growth of pension liabilities and highlighted the potential financial consequences of maintaining the existing pension system. SNG has also played an important role in stakeholder engagement and sensitization. Through presentations and stakeholder meetings, SNG has ensured that key stakeholders in Government of the Punjab understand the urgency of pension reform and its importance in making the pension system financially sustainable. Finally, SNG has assisted the Finance Department in developing a pension reform plan that has been approved by the government. This demonstrates SNG's capacity in undertaking reform design and its ability to help the key stakeholders understand and adopt the plan.

The plan is based on comprehensive analytical work covering international literature review, actuarial reports, and study of existing legislative and institutional pension frameworks in Punjab. The evaluation of the reform plan's development process[36] indicates that planned outputs were delivered through close coordination with relevant officials of Finance Departments and Punjab Pension Fund via face-to-face meetings, emailing, and online meetings. The government has acknowledged SNG's support in developing the pension plan, recognizing that they were aware of the pension problems but didn't know how to approach them. SNG's efforts in building a strong case for the Finance Department were

[35] Pension Reform Option Analysis report written by SNG.
[36] Presented under section 5.3 SNG Activity Flow Analysis of this report.

instrumental in obtaining approval from the Chief Minister and Cabinet, making it a significant outcome of this intervention[37].

4.5.3 Contribution to Fiscal Space

The reformed Defined Benefit scheme will affect only those employees who are currently active in government service, not those who have already retired. The new Defined Contribution scheme will apply to new employees only. The implementation of the Defined Contribution Pension Scheme will result in significant reduction in the future accrual of pension liabilities, which would otherwise continue to accrue under the existing DB Pension Scheme if it were continued for new employees as well. The introduction of the Defined Contribution Scheme is the most significant part of the plan, and it can potentially take the pension bill out of the government budgets in the future.

- SNG-supported pension reforms have so far achieved actual savings of Rs 37.4 billion due to the change in Minimum Voluntary Retirement Age through deferment of commutation payouts.[38]
- The SNG-developed Pension Reform Plan can entail a potential annual saving of at least Rs.178 billion in pension expenditure and Rs.1,683 billion in deferred liability by FY29-30.
- The savings will reduce accrued liabilities in relation to the existing Defined Benefit Scheme if no reforms are implemented i.e., the implementation of the reforms to the Defined Benefit Pension Scheme will significantly reduce the contribution rate of the existing scheme from the current 65% and thus greatly reduce the future accrual of liabilities that would otherwise take place at a much higher contribution rate under the existing DB Pension Scheme.

4.6 Case Study 6

Support in pension administration by automating biometric verification of proof of life of pensioners – Punjab

4.6.1 The Problem

Government pension liability is increasing every year and there are concerns that the expense on this account is growing to unsustainable levels (Case Study 5). As one element to make the system more efficient and avoid any leakages through payments to people who may not be eligible or avoid the payments going in the name of people who may have already expired, there was a requirement to call for periodic verification of the pensioners or their family members who qualify to receive the payment. Presently, a pensioner is required to provide a six-monthly life certificate to be signed by the prescribed attesting authorities. This arrangement is however, considered loose and vulnerable to misuse and fraud. As a matter of top priority, there was an immediate need to provide a system for the biometric verification of the existence of a pensioner.

Biometric verification is also likely to assist in the resolution of other issues associated with the payment of pensions. The Accountant General's (AGs) Office has identified two key areas that require immediate attention. First, about 70,000 pensioners' accounts registered in the Direct Credit System (DCS) are dormant, according to the AG Punjab/District Accounts Officers (DAOs). The status of these beneficiaries needs to be clarified as the actuarial report in 2019 did not include their impact. Second, the AG Office has reported that

[37] Evaluation team's meeting with Additional Secretary Finance (Budget) Finance Department, Government of Punjab dated 3rd February 2023

[38] The figure has been independently confirmed by the Punjab Pension Fund through a comparison of Budgeted Commutation expense vs actual commutation expense since the implementation of MVRA reform.

there are 22,944 inactive non-DCS pension beneficiaries who are not receiving monthly pensions. It is possible that these pensioners may have fake beneficiaries.

A report by the Inspectorate of Treasuries and Account (IoTA) points to the need for a reformed pension processing and disbursement system through biometric verification of pensioners to replace the current requirement of a six-monthly life certificate. Accordingly, the Finance Department through the auspices of the Punjab Pension Fund worked out details for verification of pensioners thumb impression as proof of life with PIFRA. Consequently, technical aspects were shared between PIFRA and NADRA. This led to the concept that the pensioners would visit any of the telco's or government operated facilitation centre and render their thumb impression which would be verified by NADRA's system. Once the pensioners thumb impression was verified by NADRA, it would pass on this information electronically to the application server (middle ware) from where CGA's server would retrieve verified thumb impression data which would be processed by the pension roll. This exercise would be repeated for a pensioner after every six months. If a new thumb impression was not made available in the CGAs system after six months, it would notify the pensioner and the pension of that particular pensioner would not be paid. This procedure does not involve any human intervention for the proof of life of a pensioner, and it is efficient and transparent. In this regard the CGAs office would be required to develop a module for proof of life through pensioners' thumb impression. The Finance department has already taken up the matter with the CGA, beside indicating to finance this initiative on urgent basis. The Federal Government has already implemented a biometric verification for its pensioner, but it is only limited to the pensioners receiving pensions from AGPR Islamabad and it is yet to be rolled out across Pakistan.[39]

4.6.2 SNG Contribution and Role

SNG piloted a project in Year 2 to automate the verification of proof of life through biometric systems. However, the pilot implementation was stalled in Year 3 as it required an amendment to provincial pension rules. SNG worked on the amendment, which was notified on April 08, 2022. While the revision was ongoing, it was discovered that the Federal Government was already working on a similar project, so the pilot was closed in consultation with FCDO.

Although the pilot could not be implemented as originally planned, the rule amendment enabled the Punjab government to collaborate with the Federal government and NADRA on this initiative. The Pension Reform Plan developed by SNG recommended replacing the biannual submission of physical life certificates by pensioners with biometric verification. The plan suggested that the Government of Punjab collaborate with the Federal Government, which is already implementing biometric verification for pensioners through NADRA and the CGA office. This would provide a more reliable and cost-effective verification method for both the government and pensioners.

4.6.3 Contribution to Fiscal Space

The biometric verification system when it is implemented is expected to improve the internal controls of the pension administration system and result in an expected efficiency savings of around 3% to 5% per annum, which is equivalent to Rs 6-9 billion per annum.

[39] Notification issued by State Bank of Pakistan dated January 8th, 202

4.7 Case Study 7

Support to FD in rationalisation of Human Resources through budget and expenditure reviews

4.7.1 The Problem

The collective salary bill of the Government of KP has been growing exponentially and is estimated to increase by about 20% from Rs. 374 billion in Financial Year FY 2021-22 to Rs. 448.1 billion in FY 2022-23. The Newly Merged Districts (NMD)' salaries bill has also added to this liability and is expected to grow by 26% over the previous year, at a much higher rate than the overall provincial growth rate. This case study takes an in-depth look at the intervention aimed at the salary rationalization exercise in KP and its impact on reducing the expenditure on this account in the provincial budget. The Government of Khyber Pakhtunkhwa recognizes the need to create a leaner service structure with a focus on service delivery. The economic recession and the Covid pandemic presented significant challenges to the government's ability to create fiscal space, despite SNG's efforts to identify cost cutting measures.

4.7.2 SNG Role

Austerity Measures Framework: The Provincial Government implemented austerity measures for the Financial Year (FY) 2020-21 with support from to improve financial management and scale up savings. These measures included budgeting for actual filled positions, subjecting hiring against vacant positions to budgetary ceilings, restriction on expenses such as workshops/seminars and training abroad involving provincial funds, and the abolition of posts that have been vacant for the last three years unless justified by the concerned administrative department. SNG played a significant role in developing the austerity framework, which has provided the government with a sustainable basis for designing austerity measures on an annual basis. The government acknowledges and appreciates the efforts made by the SNG. Annex A provides a list of the austerity measures that were undertaken in KP.

The evaluation of the austerity measures intervention highlights both the potential benefits and drawbacks of implementing such policies. On the one hand, the measures can help improve fiscal discipline and create more fiscal space for important public investments. By reducing unnecessary spending and increasing savings, resources can be freed up for critical areas such as health, education, and infrastructure development, which can lead to long-term economic growth. On the other hand, the measures may have significant implications for service delivery and the overall functioning of the government. Restricting hiring and the potential abolition of vacant posts can lead to a shortage of skilled and experienced staff, affecting the quality and quantity of services delivered. Limitations on participation in workshops and training abroad can also hinder the ability of the government to innovate and improve services. The requirements for prior clearance and bans on utilizing funds for annual and special repair of roads and buildings can delay projects and lead to deteriorating infrastructure, negatively impacting service delivery.

HR Budget Rationalization exercise: Additionally, SNG's assistance to the GoKP involved analyzing the staff strength of seven departments and identifying posts related to what were described as “dying cadres”, followed by financial analysis to determine the financial implications of these posts. This has enabled the GoKP to rationalize employee salaries and pensions, in alignment with the government's objective to create a leaner service structure. At the same time, the government has shifted its focus to outsourcing supporting roles to private companies. This move aims to improve employee performance management and avoid creating permanent liabilities.

Statement of New Expenditures (SNE): SNG also assisted with analyzing the Statement of New Expenditures. As a result, the Finance Department was able to streamline and improve the overall SNE approval process, which helped to identify and create service delivery positions. Consultative sessions were held regularly with departments to rationalize SNE demands. Therefore, the SNE analysis helped to improve financial management by optimizing expenditures and identifying areas where savings could be made.

4.7.3 Contribution to Fiscal Space

The Covid pandemic and economic recession led to a 30% shortfall in federal government receipts and a 20% shortfall in provincial own-source revenue, amounting to Rs 295 billion.[40] This required the government to reduce non-essential expenditure and prioritize spending on pandemic response. To address the situation, the SNG provided strategic and technical assistance to the FD in developing an austerity proposal for the 2020/21 budget. ***This proposal successfully identified cost savings worth Rs. 40 billion.***

In Year-3, the budget rationalization exercise completed for FY 2021-22, resulted in savings of **Rs. 16.217 billion**. The exercise involved a review of the budget to identify areas where cost savings could be made. The review identified savings, including redundant and non-essential government posts (10,000 posts) which resulted in an annual saving of **Rs. 5 billion**, rationalization of SNE posts, saving **Rs. 11 billion**, and improved budgeting of vacant government posts, **Rs. 217 million.** SNG also supported KP in the implementation of a job creation policy that rationalized new recruitments using a comprehensive cost-benefit analysis. The process involves inter-departmental meetings, creating an assessment dashboard, and prioritizing service delivery posts. The policy has resulted in overall savings of Rs. 15.2 billion, the creation of 46,026 new jobs in the past 3 years, including 16,900 posts for police, 3,000 posts for education, and 3,500 posts for health and relief departments. The policy aims to minimize overhead costs while maintaining the highest level of service delivery-related job creation. Total savings in three years is estimated to be around Rs. 71.4 billion.

The Finance department's efforts in streamlining and improving the SNE approval process through regular committee sessions and granular scrutiny of positions have resulted in a successful outcome. By prioritizing service delivery positions and holding consultative sessions with departments to rationalize SNE demands, the government of Khyber Pakhtunkhwa has achieved impressive savings in the FY 20-21. This success highlights the government's commitment to better financial management and its ability to efficiently allocate resources towards service delivery.

4.8 Case Study 8

Development of a TSA policy and support in review of designated banks accounts

4.8.1 The Problem

There are a large number of accounts which Government line agencies maintain with commercial banks which can limit the working capital available to the Finance Department during the Fiscal Year if these are sitting scattered in dormant accounts, with the owner of the accounts not aware of their existence. There was very little analysis of the total amount held in these accounts and they could not be used for any purpose without a proper understanding of these accounts, their ownership or volume. These government funds were held in many accounts which were dormant, unclaimed and represented a loss to the public exchequer as these funds were not being used and at the same time Government had to borrow from both the domestic market and incur international debt to meet its expenditures, thereby also assuming the foreign exchange risk. It was evident that there was need for a proper assessment of these accounts, consolidation of the cash and the development of a policy framework for effective use of these funds. It was decided to implement a Treasury Single Account (TSA) policy as a key component of the overall debt and treasury

[40] GoKP White Paper 2021-2022

management reforms in KP. The introduction of TSA Policy aims to achieve the objectives of efficient cash management, enhanced transparency and accountability, and improved debt management.

4.8.2 SNG's Specific Role

SNG contributed to several on-going initiatives in improving the system of public financial management in Khyber Pakhtunkhwa most notably by the World Bank under the Khyber Pakhtunkhwa (KP) Resource Mobilisation Programme (2019 to 2025). A key development objective of the KPRMP was to reduce cash deposits held by government departments in commercial banks and cash management based on regular consolidation of cash balances and regular cash plans. However, despite this on-going support, SNG was asked to assist in the process and based on the information provided, it appears that SNG supported the Finance Department in the following tasks:

- Development of Cash Management Policy and Treasury Account.
- Support in approval of Cash Management Policy by Cabinet by preparing the background working papers.
- SNG participated as a member in the Liquidity Management Committee.
- Prepared templates for monthly cash balance reporting and training staff of FD. Template.

SNG developed a Cash Management Policy and Framework 2020 to bring the money into Designated Accounts (TAs) under the Treasury Single Account (TSA) through unification of TSA-I and TSA-II. The TSA policy has been approved by the cabinet. However, it would be difficult to credit the success solely to the efforts of SNG. The World Bank's KPRMP has a Disbursement Linked Indicator (DLI) for TSA, which would have provided a strong incentive for the government to approve the policy. Although the TSA policy has been notified and cash management policy has been approved, the overall design of reform needs further clarity and the reforms under the policy have yet to be implemented by the government. The development of the policy has been acknowledged by the government, and when implemented, it is expected to increase fiscal space and improve efficiency savings. Under this policy, DAs supported through Provincial Budgetary Funds will be closed, and the balances parked in these accounts will be transferred back to TSA-I. DAs maintained by the Departments through own source revenue will be consolidated in TSA-II.

The Finance Department with the help of PricewaterHouseCoopers (PWC) identified Designated Accounts (DAs) in commercial banks, which hold over Rs. 100 billion. The stock take of the government's bank accounts in commercial banks was undertaken by PWC under the Multi Donor Trust Fund Global Procurement Partnership (GPP) programme*.* Finance Department worked with the World Bank and the State Bank of Pakistan (SBP) to develop two options for consolidation, and the SBP agreed to provide Statistically Consolidated Quarterly Reports of Designated Accounts (DAs). These reports will be prepared under Phase 2 of the World Bank programme and have not yet been provided. Additionally, the World Bank has been supporting the government's efforts to reduce the amount held in commercial bank accounts. While progress has been made in preparing a roadmap for implementing the Cash Management Policy, the World Bank noted that the year 2 (FY 2020-21) and year 3 (FY 2021-22) programme targets had not been met, and progress has been slow on part of the provincial Government.

4.8.3 Contribution to Fiscal Space through Expenditure Savings

The Finance Department with the help of PWC has identified Designated Accounts (DAs) in commercial banks, which hold over Rs. 100 billion equivalent to about 8 percent of the total budget of the Government of KP in the current Financial Year (2022-23) indicating that the amounts are significant and could have a significant impact on unlocking idle funds. According to SNG records, savings amounting to Rs. 28.2 billion has been achieved, with a potential for further savings of Rs. 27 billion based on the consolidation of accounts. It is not possible to review these numbers as the workings on which they are based have not been reviewed. Nevertheless, what is meant by savings in this regard is that the funds lying in dormant accounts can now be more efficiently utilized where needed.

- Y-2, Rs.4.6 billion savings
- Y-3, 28% increase in revenue due to cash management policy and in the same Y-3 APR it is also mentioned that expected saving of Rs. 23.6 billion due to identification of DA accounts.
- Y-4 Q2, Rs. 27 billion identified in government bank accounts to be repatriated to the Treasury in the form of reserve fund account.

Key Learnings and Recommendations

The timeframe for SNG II has been extended to 2026 to allow for the completion of activities which could not be completed earlier due to the social distancing measures enforced by the COVID-19 pandemic and the uncertainties generated by the reduction in financial resources available for the programme. This provides an opportunity to reflect on some of the lessons that have been learnt during the implementation of SNG II interventions so far and incorporate them in the remaining two years. The lessons that have been reflected in this section deal with the measures adopted for enhancing fiscal space through strengthening the institutions and systems designed to generate Own Source Revenue from enhanced tax collection and through introducing efficiency savings in expenditures in the Government budgets in Punjab and KP. Some of the key lessons in this regard are outlined below.

Sustainable Increase in increasing Fiscal Space will come from factors which grow the economy and generate growth, create wealth and assets: The estimation of fiscal space potential from the SNG-II interventions in both revenue collection and efficiency savings shows that while currently the greatest scope for fiscal space comes from savings measures (Table 13 and Annex A), for sustainable increase in the future there will be need to be a greater focus on revenue generation measures mainly through growing the economy which will lead to expansion of the goods and services produced and the sales taxes that can be generated from this source which makes up the largest proportion of OSR (60% in Punjab and 61% in KP). In addition, wealth and assets need to be created as tax on property (8% in Punjab and 6% in KP) and motor vehicles (11% in Punjab and 2% in KP) can be another source of enhanced revenues in both provinces. SNG-II did well to focus on the PRAs strengthening and systems improvements as it is the agency which collects STS and in introducing innovative models to identify and improve the system for collection of taxes on urban property and motor vehicles by working with ET&NCD. In this context, some of the interventions selected were innovative and potentially high pay-off such as the Restaurant Invoice Management System (RIMS) piloted in Peshawar and Abbottabad since the restaurant services sector has no system for the declaration and collection of sales tax and the GIS for property valuation intended to revise property valuations, using micro-zoning approaches, to make tax incidence more transparent, and increase its yield.

SNG was called upon to extend its technical assistance in a large number of fiscal space interventions. In hindsight it may have been better for SNG to focus on fewer and more focused interventions: SNG started with identifying the potential areas for enhancing fiscal space by developing a revenue mobilisation plan in Punjab for the E&T Department and identifying potential areas for revenue mobilisation which was endorsed by the Finance Department in KP in the first year of the programme in 2020. However, these plans quickly became very ambitious and were expanded in scope (Annex A). In Punjab, a proposal was submitted to Cabinet to expand the revenue mobilisation plan to include the Punjab Revenue Authority (PRA), Excise Taxation and Narcotics Control Department (ET&NCD), and Board of Revenue (BOR). The strategy proposed to set tax collection targets in terms of Tax-to-GDP Ratio and increase this ratio from 0.8% in FY2020-21 to 1.1% in FY2024-25. In KP, the assistance by SNG in assisting with the fiscal space reforms roadmap moved from a focus on UIPT and MVT to other areas of support as they emerged from requests made by the FD. SNG contributed to these improvements through direct support measures and procuring technical assistance for the various provincial agencies implementing the reforms. This led the fiscal measures to spread in their scope and in hindsight it may have been more effective to focus on a few selected areas.

Strong political support is a pre-requisite for fiscal space interventions without which the reform areas are unlikely to be implemented. SNG recognised from the outset that it would not pursue any area of reform without strong political support and the presence of committed champions from within the system. SNG did not pursue any area for which there was not full commitment such as the issue of wheat procurements which could have been a significant source of savings for both provincial governments but was sensibly not selected by SNG because of the issues of political economy. SNG experience also shows the need for champions to lobby for change within the system. Some of the areas selected for development by SNG-II such as the Track & Trace of Distillery & Brewery pilot suffered due to the transfer of one of its main champions – the secretary of ET&NCD. While technical issues may have been part of the problem in this instance, one of the real issues was the need for a strong lobby to enforce the system. SNG has also tried to spell out the implication of various options in close collaboration with key stakeholders when decisions have to be made which are sensitive and there are vested interests that have to be negotiated. For example, in the case of the GIS-based Property Valuation Model pilot, SNG identified the implications of using the different ways of valuing the property based on capital value, rental value or the use of DC rates.

Experimenting with innovative areas of reform entail a high risk and there needs to be much greater acceptance of failure and a more flexible and open-ended scope of work and technical assistance. This was evident in the case of the implementation of the E-payment gate way and the UMVRS in KP, both of which were enhanced significantly from their original scope. The implementation of the Database Integration plan required considerable background work to secure agreement of the Punjab Cabinet to instruct line agencies to provide the data to be integrated into the PITB system. The bio-metric verification system required changes in the Civil Service Rules. Similarly, there was a major change in the scope of the pilot, which turned an end-to-end track and trace process to a partial digital monitoring of the production lines of distilleries and breweries. The revised scope required installation of digital flow meters on the production lines of the identified distillery and brewery, which was not likely to plug any potential leakages.

Providing a policy and regulatory framework and securing approval at the highest level proved to be a critical approach followed by SNG and led to ensuring that the changes were embedded in the legal and institutional system with a strong basis for enforcement. This was true in the case of many of the interventions that SNG supported. Some of them are highlighted below.

- ***Data Integration Plan in Punjab:*** An overarching approval for the data integration plan was secured when the political environment was favourable to ensure subsequent governments agreed with the plan and the system had access to the data from all departments. In Punjab the Data Integration Committee in FD gave its approval for scaling up of the pilot and access to the relevant data was secured from the Punjab Cabinet which then persuaded the line agencies to provide the requisite data.
- ***Biometric verification procedure in Punjab:*** The proposed system required an amendment to provincial pension rules on which SNG worked and was able to get the rules amended and notified on April 08, 2022. Even though this intervention was dropped, the change in rule has made it possible to implement the reform when it is continued in collaboration with NADRA and the Federal Government.

- ***Motor vehicle registration regime:*** Amendment in the West Pakistan Motor Vehicles Registration Act, through the Finance Bill 2022, to provide legal cover to the new motor vehicle registration regime.
- ***KPRA and Sales Tax Act:*** Similarly, in KP it was important to promulgate a KPRA Act which provides a legal framework for the KPRA Authority and the STS Act which provides functional autonomy to the KPRA and provides clarity in matters relating to tax assessment and KPRA jurisdiction.
- ***Absence of rules for operationalization of TSA:*** the TSA policy was developed and approved before the PFM Act, which caused a delay in its implementation and created challenges due to the lack of statutory coverage. The TSA policy required the framing of rules for the TSA and introduction of Real Time Gross settlement (RTGS) system by the State Bank of Pakistan. In the absence of these rules, it is difficult to operationalize the TSA policy. The rules were required to embed the TSA process within the function of MoF, State Bank of Pakistan and Controller General of Account (CGA). The RTGS system is crucial as it ensures daily clearing of bank accounts for line departments by transferring the money back to the government central account at the end of the day. The next morning, the funds are then transferred back to the line department's account. The RTGS system is expected to be approved in the next phase of the WB project.

Provide the background calculations in a clearly laid out file to provide an assessment of the underlying assumptions made to estimate the impact on fiscal space: SNG started each intervention through an estimation of the revenue or the savings that would be generated because of the intervention (Annex A). SNG provide many of the figures in the annual reports. While in some cases broad assumptions were made to make the projections, there was little clarification provided in the main document on how the calculations had been made. However, SNG did not revisit or examine the extent to which the initial assumptions proved to be valid in a systematic manner. While it is true that some of the interventions have not yet yielded any increase in revenue or generated savings because they have not yet been fully implemented, it would still be useful to state this in a matrix of all interventions in a systematic manner. Where estimations have been provided, they need to be backed up by a clear explanation of how they were estimated, and the assumption made explicit. This document should also be explained to the host partner of the intervention to enable them to track progress over time. It is recommended that at the time of the PCR, a document should be prepared to compare the initial estimates of revenue generated or savings in the report with clear assumptions outlined. This will help in a better understanding of the fiscal impact of each of the interventions.

Need for a user-friendly matrix which can provide a consolidated assessment of the Fiscal Space interventions: The annual log-frame lists each of the interventions undertaken each year as part of the fiscal space interventions. Some of the interventions which supported the fiscal space output as part of the Challenge Fund grants are also identified in the Log-frame. However, it is not always easy to decipher which have been completed and are functional and yielding increased revenue or savings, which have been completed and are functional but not yet yielding any revenue or savings, which are completed from the perspective of SNG but are not yet functional, which have been discontinued for some reason or another and which have been added and are new. The log-frame format is not very user friendly, and it is not easy to make this assessment from a quick look at the Annual or Quarterly Reports. SNG should prepare an annex which provides a matrix clearly elaborating the fiscal space interventions on the basis of their current status in terms of functionality and the extent to which they are being used. SNG currently hands over to the Government and thereafter there is not much tracking of it.

It is important to identify the residual problems and assess how some of them can be dealt with to ensure that the investment made in them can be fully realised and used

to enhance system efficiency: SNG selected a wide set of interventions under the broad theme of fiscal space under Output 3. While all the ideas selected emerged from discussions with one of the two provincial Governments and were agreed to by them, many of them were innovative and may have been a bit ahead of their time in terms of the capacity and the systems within the public sector to implement and manage them. One of the areas which was dropped was the intervention regarding bio-metric verification. The work done in this regard has not been wasted as it forms the basis for changes in the underlying rules can be used when bio-metric verification is implemented in Punjab. While the annual reports and quarterly reports give an update of each, it is not always immediately evident which were dropped, and which were completed. While SNG indicates that most of them were completed, some of them have not yet been completed in the sense that the outputs produced especially the software and data management systems are not fully functional.

Proper assessment of scope of work and capacity within the host agency prior to initiating any intervention: In some instances the scope of work agreed did not meet the requirements of the intervention to bring it to a successful completion or there was limited understanding of what could actually be achieved such as in the case of UMVRS system which needed a longer period of testing, training and implementation for scaling up. Moreover, some systems require strong capacity within the host agency for managing the system after its handover and regular up-dating of the records on the on-line platform created. In the case of the UMVRS, the ET&NCD needs to maintain and update the data on the motor vehicles registered after June 2022. This limits the utility of the system. The Data Integration Plan was successfully pilot tested by SNG in Punjab and now needs to be scaled up by the PITB.

Proper assessment of the scope of work and the level of effort required for each intervention: From a review of the specific case studies it appears that while SNG did well to respond efficiently to the requests made by the various departments and agencies and provided assistance for interventions designed to strengthen the systems for revenue generation or collection or reformed the systems of financial management to improve efficiency and reduce the financial burden on the Government through various reforms such as the reform of pension plans or rationalization of expenditure, the full scope of the responsibilities that this entailed for the implementing line agency was not always properly understood or undertaken by the department concerned. The ET&NCD in KP needs to ensure that the records of motor vehicles was regularly updated. Similarly, while SNG has completed its part and tested the pilot for PRA with respect to the database integration plan, there is now need for PITB and other line departments to input their data into the system to make it functional in accordance with the multi-year phased approach of the plan.

System of monitoring and follow-up of the progress on each intervention: During the process of this assessment, it was not always easy to assess what had been done with the outputs produced as part of the SNG intervention and the actions or progress that had been made subsequently. This required going to the parent department and getting an update from them on current state of progress. While, it is always a matter of debate as to when the responsibility of a TA team ends and the Government ownership begins, and who is responsible for the implementation of the TA outputs produced for most effective use, given that many of these areas of work are new and require systemic changes. It is suggested that SNG maintain a record of the outcomes of the TA investments on a periodic basis at least until the project closes. Such a log would track the use of the specific outputs delivered by SNG to the concerned Department such as the Pension Reform plan, Database integration Plan, the UMVRS system, the E-Payment Gateway, the TSA Policy, the HR Rationalization plan, the UIPT system, and all the other aspects of its work. This would allow SNG to better understand the value-add of its work, assess impact on fiscal space and make a better assessment of how the interventions may need to be structured for higher level of impact on fiscal space.

Annex A: List of all SNG Interventions and the Potential Impact on Fiscal Space

Own Source Revenue Potential		
Punjab		
Review of ET&NC Department legal framework		
Converting UIPT into a benefit tax		Per annum (Rs mn)
Piloting a 'Safai Tax' in local government		54
KPRA-performance-based monitoring approach		
TA for local government own-source revenue		
Improved administration of property tax through onsite mapping	ET&NCD conduct property surveys and compute tax liabilities	1,000
Technological solution for improved enforcement of motor vehicle tax	Identify Motor Vehicles tax defaulters by using handheld readers which can read the registration numbers of the vehicles from their number plates and extracting the tax dues and payments data from the database of ET&NCD.	
Provincial database integration plan	1% increase in revenue from improved tax enforcement would deliver an additional PKR 2.87 billion of tax revenue	2,870
Review of Excise Duty Act	The revised act will strengthen the regulatory framework for excisable goods, which accounts for more than PKR 4 billion in annual revenue	200
Review of Property Tax Law and Policy	Deliver a 500% increase in revenues (current collection is approximately PKR 13bn per annum).	65,000
Revenue Mobilisation Strategy	The strategy proposes to set tax collection targets in terms of Tax-to-GDP Ratio and increase this ratio from 0.8% in FY2020-21 to 1.1% in FY2024-25.	
Automation of tax on transfer of immoveable property (TTIP) – LG&CD	As a major source of revenue for the local governments TTIP has an annual collection of around PKR 14 billion	
Study on Covid Impact	SNG's technical advice (based on a study of Covid impact on provincial revenues) to the Revenue Mobilisation Committee (RMC) resulted in inclusion of the increased rate of stamp duty in the Finance Bill 2022 with an estimated additional revenue of PKR 15 billion (£66.6 million).	15,000

Punjab (Total)		**84,124**
KP		
Tax awareness workshops	E&TD estimate a 38% increase in revenue collection in FY 2021-22 for these two districts (Kohat: PKR 141m up to PKR183m, and Haripur PKR134m up to PKR 196m).	104
E-payment gateway launched for Token (vehicle) Tax and MVR		
GIS for property valuation	GIS to revise property valuations and make tax incidence more equitable and transparent, and increase its yield	
Review of E&T legal framework	frequent litigation against the department	2,000
Khyber Pakhtunkhwa Revenue Authority (KPRA) – Draft Act	a legal framework for KPRA as an autonomous public body responsible for sales tax on services	
KP-STS Act 2022 (Draft)		1,500
Restaurant Invoice Management System (RIMS)		
Action Research on digital economy		
KP (Total)		**3,604**
Efficiency savings in government expenditure		
Punjab		
E-procurement system in Mayo Hospital		375
Pensions – Biometric Proof of Life	While the pilot could not be implemented, SNG supported revisions to the pension rules which has enabled the Controller General of Accounts (CGA) to implement a similar project in collaboration with NADRA. The FD has acknowledged SNG contribution in drafting the revised rules.	7,000
Reforms to the Pension Scheme	lower the government's pension liability by an amount of	20,800
	reduce government's pension liability on existing employees	54,000
Pension audit		
New minimum voluntary retirement age legislation		20
Punjab (Total)		**82,195**

KP		
TSA and cash management (efficiency savings of PKR 23.6 billion)		5500
Software for pension auditing developed		1,900
Budget rationalisation exercise completed FY 2021-22		33,000
Fiscal Responsibility and Debt Limitation Act		
Manual for sub-national borrowings		
The GIS-based Property Valuation Model (ICF Round I)	Pilot has been completed, identifying significant potential for increased tax revenue through evidence-based valuation of property.	52
KP (Total)		**40,452**