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Islamic Republic of Pakistan

KP- Spending Effectively for Enhanced Development (P175727)

TECHNICAL ASSESSMENT

March29, 2021

Governance Global Practice

South Asia Region

ABBREVIATIONS AND ACRONYMS

ADP	Annual Development Plan
AGP	Auditor General of Pakistan
AGPR	Accountant General Pakistan Revenues
DDO	Drawing and Disbursement Officer
DLI	Disbursement-Linked Indicator
E&SED	Elementary and Secondary Education Department
ESP	Education Sector Plan
ESA	Education Sector Analysis
FATA	Federally Administered Tribal Areas
FD	Finance Department
GER	Gross Enrollment Rates
GoKP	Government of Khyber Pakhtunkhwa
KP	Khyber Pakhtunkhwa
KP-BOIT	Khyber Pakhtunkhwa Board of Investment and Trade
KP-PPRA	KP Public Procurement Regulatory Authority
LG	Local Government
ICT	Information and Communications Technology
MDTF	Multi-Donor Trust Fund for Khyber Pakhtunkhwa, Balochistan and FATA
MTFF	Medium-Term Fiscal Framework
OSU	Operations Support Unit
PAP	Program Action Plan
P&DD	Planning & Development Department
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PFMRU	Public Financial Management Reforms unit
PFMRS	Public Financial Management Reform Strategy
PforR	Program for Results
PREP	Pandemic Response Effectiveness in Pakistan
PSEs	Public Sector Enterprises
R&M	Repairs and Maintenance
RETF	Recipient Executed Trust Fund
SSU	Shared Services Unit
TA	Technical Assistance
TPVA	Third Party Verification Agent
TSA	Treasury Single Account
OSU	Operations Support Unit
SSU	Shared Services Unit
TA	Technical Assistance
TPVA	Third Party Verification Agent
TSA	Treasury Single Account

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Strategic Relevance and Technical Soundness

Country and Provincial Context

1 **Pakistan is at a crossroads as it deals with the Coronavirus (COVID-19) pandemic.** Periodic macroeconomic crises and a low human capital basis have constrained the country's growth prospects. Between FY00–FY19, annual economic growth in Pakistan averaged around 4.3 percent, below the South Asian annual average of 6.2 percent. Low investment in human capital, slow progress of structural reforms, low private investment, and slow export growth, among others, have hindered growth prospects. The country was making good progress in stabilizing its economy and implementing much needed structural reforms. However, the COVID-19 pandemic has had significant negative impacts on the economy. Real GDP growth (at factor cost) is estimated to have declined from 1.9 percent in FY19 to -1.5 percent in FY20, the first contraction in decades, reflecting the effects of COVID-19 containment measures that followed monetary and fiscal tightening prior to the outbreak. Due to significant uncertainty over the evolution of the pandemic, demand compression measures to curb imbalances, along with unfavorable external conditions, Pakistan's near-term economic prospects are subdued. Economic growth is projected to remain below potential, averaging 1.3 percent for FY21–22.

2 **Khyber Pakhtunkhwa (KP) has transitioned from vulnerability to recovery over the past few years**. Following the 31st Amendment in 2018, the province now includes the Newly Merged Areas, previously known as the Federally Administered Tribal Areas (FATA). Under the Amendment seven agencies of FATA were merged with the province. Prior to this, FATA was governed by the Federal Government. World Bank engagement in the province was initiated through the Multi-donor Trust Fund (MDTF) for KP, FATA and Balochistan. In the aftermath of the security crisis in Pakistan, the MDTF was established in August 2010 to support the reconstruction, rehabilitation, reforms, and other interventions needed to build peace and create the conditions for sustainable development.

3 **The Spending Effectively for Enhanced Development (SPEED) Program (The Program) is strategically based on the GoKP's strategic plans covering the period 2017-2025.** The proposed Program supports GoKP strategies to improve health and education service delivery including (i) Public Financial Management (PFM) Strategy (2017-2020); (ii) Health Policy (2018-2025); and (iii) Education Sectoral Plan (2020-2025). These three documents constitute the government's program. Additionally, it aligns with the Economic Recovery Plan (2019-2023) that was launched in July 30, 2020 to help the province recover from the impact of COVID-19. More specifically, the Program aligns with pillar 8, "Adopting Innovations to Governance and Service Delivery" to support actions to improve Government processes, increase transparency, and improve service delivery. Altogether, these strategic documents constitute the GoKP's plan to address both the upstream structural weaknesses in the management of public resources and downstream operational issues in service delivery such as procurement, funds release, timely budget execution, and accountability mechanisms to facilitate the availability of resources for the delivery of education and health services. The proposed Program is designed to advance the reform plans outlined in these strategic documents.

STRATEGIC RELEVANCE

A. Key issues in financing health and education service delivery

4 **The 18th Constitutional Amendment of Pakistan 2010, devolved health and education functions and legislative authorities to the provinces, and hence marked the advent of critical reforms in these sectors.** Devolution has also granted local governments the ability to allocate resources in their priority

areas. [1] However, devolution remains incomplete and not nearly successful. The GoKP has established a comprehensive legal framework to support health governance, financing and service delivery and has also established adequate legal and policy environment to undertake critical reforms in education. However, these policies have not transformed the delivery of education and health services given the slow pace of institutional reforms linked to the intra-governmental fiscal transfers.

5 **Inadequate resource allocation hampers service delivery in KP.** The provincial budget allocation has not been consistent. For instance, KP's budget receipt for secondary health care facilities increased by 74 percent in FY 2014, but only 7 percent in FY 2015.[1] It is anticipated that KP risks losing 2.2 million patient admissions by 2035 if investments are not adequate in health services including infrastructure. [2] During 2020-2021, budget receipts for KP's settled districts increased by 2.5 percent that the past year, while expenditures grew by 8 percent more than the previous year's budgeted expenditure.[3] This inconsistency is largely because sector plans and budget are delinked, making investments inadequate for service delivery costs. For instance, KP's budget for health care facilities increased by 3.4 times during the period 2012–2013 to 2016–2017.[4] According to the Education Sector Assessment (ESA), education budget declined from 28 percent of KP's budget in 2013-14 to 21 percent in 2017-18. Inclusion of Newly Merged Districts (NMDs) have further increased the budget.

6 **Limited fiscal space makes it challenging for GoKP to invest adequately in health and education.** For instance, the ESP projects that in the next five years, 79 percent of the education budget will comprise of recurrent budget while only 21 percent will be available for development budget.[5] Analysis of the trajectory of allocations in both sectors indicate a decline in development spending. For example, health sector development spending comprised only 15.6 percent of health expenditure in FY19 while education sector development expenditure comprised only 19 percent of the total education expenditure between FY12 and FY19. Evidence suggests that increases in real expenditures in these sectors, comprising 44 percent of total provincial expenditure in FY19, have not improved sector outcomes. For instance, despite an average increase of around 8 percent per year in primary and secondary education expenditures during FY12 and FY19, primary Gross Enrollment Rates (GER) declined by an average of 1.5 percent per year.[6] Middle and matriculation GERs only showed marginal increases of 1.1 percent and 0.3 percent per year during the same period (see figure 1). During the same period, health expenditure also increased by almost 11 percent per year on average, but some of the basic health sector indicators worsened. For instance, full immunization based on record and recall fell 6 percentage points during this time (see figure 2).[7]

[1] ADB (2019). Khyber Pakhtunkhwa Health Sector Review. Manila: Asian Development Bank

[1] ADB (2019). Khyber Pakhtunkhwa Health Sector Review. Manila: Asian Development Bank, p.43.

[2] ADB (2019). Khyber Pakhtunkhwa Health Sector Review. Manila: Asian Development Bank, p.24.

[3] GoKP (2020). *White Paper 2020-2021 Budget*. Government of Khyber Pakhtunkhwa.

[4] ADB (2019). Khyber Pakhtunkhwa Health Sector Review. Manila: Asian Development Bank, p.43

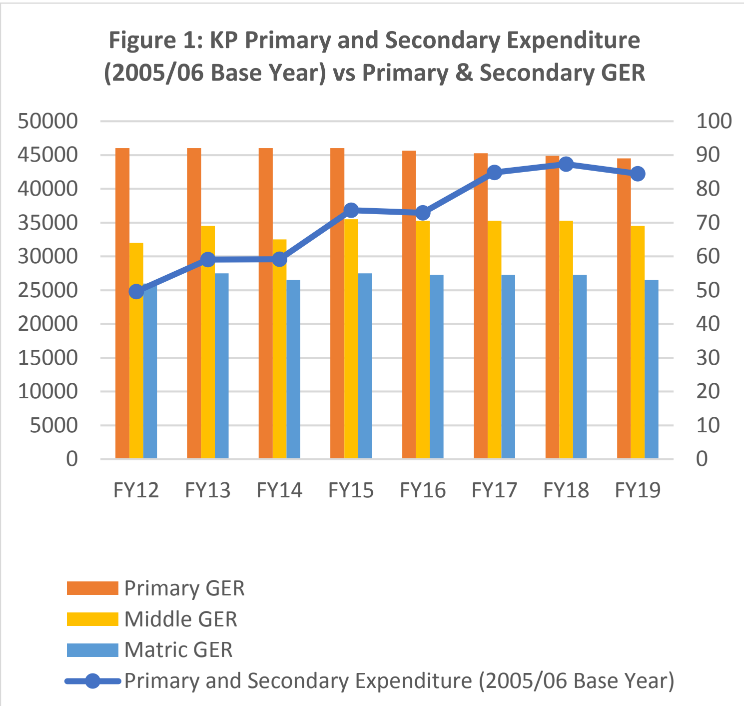
[5] GoKP (2020). *Education Sector Plan, 2020-2025*. Peshawar: Dept. of Education, p. 65.

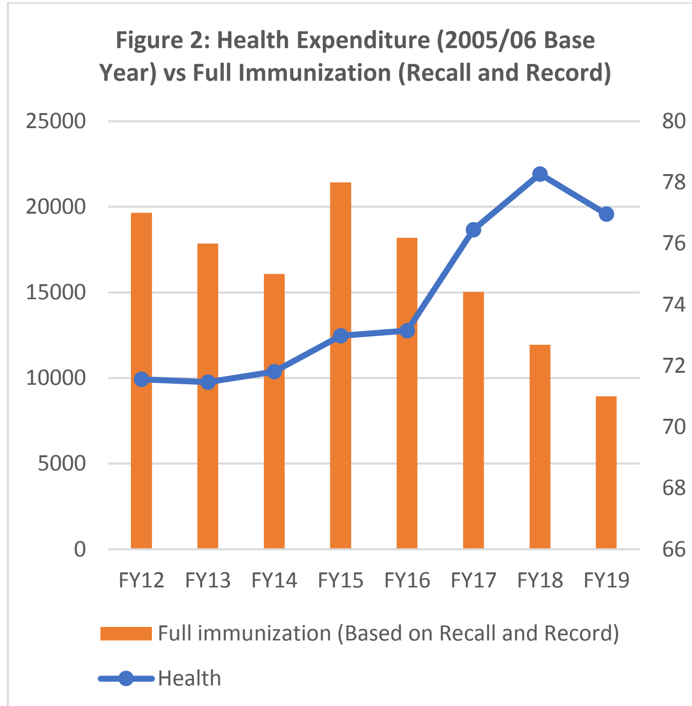
[6] Controller General of Accounts, Pakistan Social and Living Standards Measurement Surveys (Pakistan Bureau of Statistics), and World Bank staff estimates

[7] Pakistan Social and Living Standards Measurement Surveys (Pakistan Bureau of Statistics), and World Bank staff estimates

Figure 1: KP Education Expenditure vs GER

Figure 2: Health Expenditure vs Full Immunization





Source: Ministry of Finance and the Pakistan Social and Living Standards Measurement Survey FY19, and World Bank staff estimates

7 **KP's annual budget is not guided by a strong fiscal management function - an issue that is exacerbated by the fragmentation of the budget preparation and execution processes**. At present, there is no overarching medium-term fiscal framework (MTFF) against which the GoKP can prepare annual or medium-term budget estimates, primarily because the province relies mostly on federal transfers for its revenue.[8] There is no integrated approach in preparing the recurrent and development budgets. Moreover, the Budget Strategy Paper only gives broad-brush overview of the priority sectors but does not provide any bottom-up or top-down priorities within these sectors. There is also considerable budget variation as budget execution differs widely from the approved original budget due to the frequent approval of supplementary budgets throughout the year. There is no structured mechanism for budgeting for fiscal risks during the preparation of the annual budget that impacts its credibility and comprehensiveness. Finally, one-line budget transfer mechanism to districts undermines accountability and efficiency in spending.

8 **These issues in planning and budgeting affect resource allocation to health and education services.** As a result, the province is unable to allocate adequate resources for basic facilities in schools and health units. Nearly one third of schools in KP (including the Newly Merged Districts) do not have boundary walls; nearly two thirds do not have drinking water; two thirds lack electricity supply; while half of KP's schools do not have toilet facilities for students.[9] Inadequate supply of basic infrastructure influences the retention rates of students, especially girls. As a result, the dropout rates are high when

[8] ADB (2019). Khyber Pakhtunkhwa Health Care Review. Manila: Asian Development Bank, p.38.
[9] GoKP (2020). *Education Sector Plan, 2020-2025*. Peshawar: Dept. of Education, p. 71. GoKP (2020). *Education Sector Plan, 2020-2025*. Peshawar: Dept. of Education, p. 20.

students transition to secondary school—around 50 percent and 66 percent of the students in Grade 5 do not make it to secondary school.[10] A review of hospitals in KP found that most health care facilities that were visited did not have basic installations for electricity, water and features for a waste management system.[11]

9 **The GoKP does not allocate enough to health and education compared to other provinces**. Among its provincial counterparts, KP lags in per student education expenditure (PKR28,000) and per public health unit bed health expenditure (PKR 2 million).[12] Similarly, expenditures in education sector can be better aligned with allocations to improve efficiency. For instance, KP's average monthly compensation for teachers is much higher than the other provinces. KP spends more than any other province in compensation, while spending the least of all other provinces in per student non-compensation expenditure. For these reasons, the GoKP has also prepared KP Delegation of Financial Powers Rules, 2018 to enhance service delivery through strengthened financial authority for operational efficiency and improved planning and budgeting. It also intends to prepare a costed medium-term expenditure plan for health and education.

Figure 3: Per Student Total Education Expenditure (PKR- FY17)

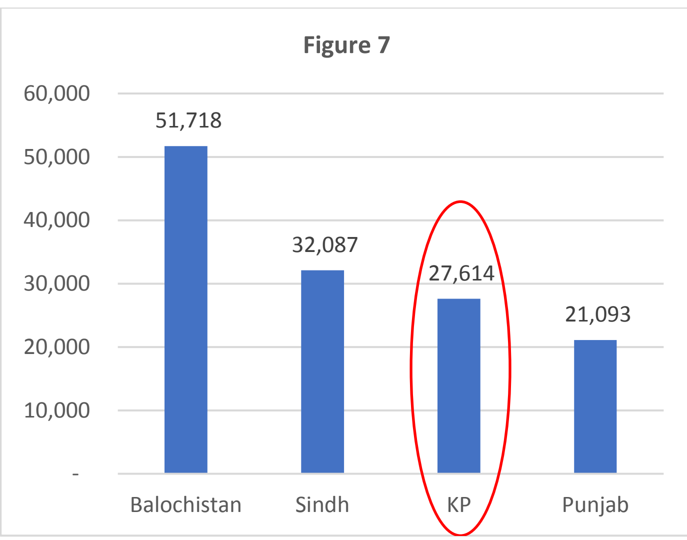
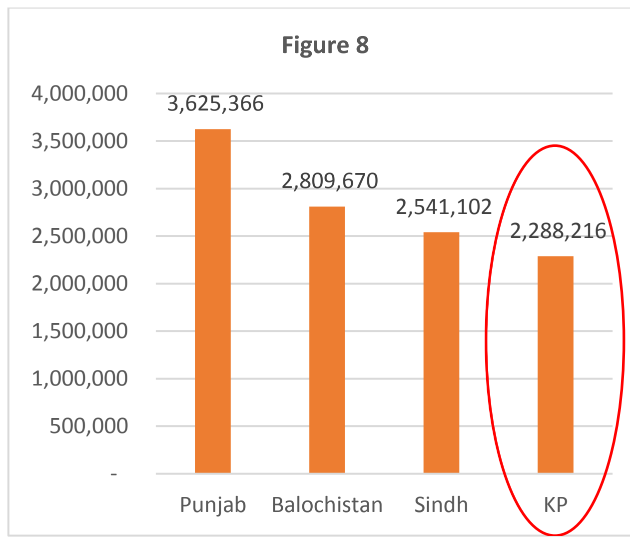


Figure 4: Per bed health expenditure (PKR - FY19)



Source: Pakistan Education Statistics FY17 (AEPAM); Social Sector statistics (PBS); Controller General of Accounts and World Bank staff estimates

10 **Inadequate allocations for repairs and maintenance (R&M) of physical capital impact the quality of spending and maintenance of health and education infrastructure.** Allocation to capital expenditure (measured as development expenditure) has been declining as a share of total expenditure, leading to poor school and health center facilities. The current development budget includes a substantial amount of funding that is recurrent in nature or is focused on R&M. Spending, however, remains inadequate and inefficient because the focus is on rebuilding the same capital. Most assets deteriorate due to poor maintenance and repair. In FY 19, the province allocated only 13.2 percent to development projects.

[10] Ibid

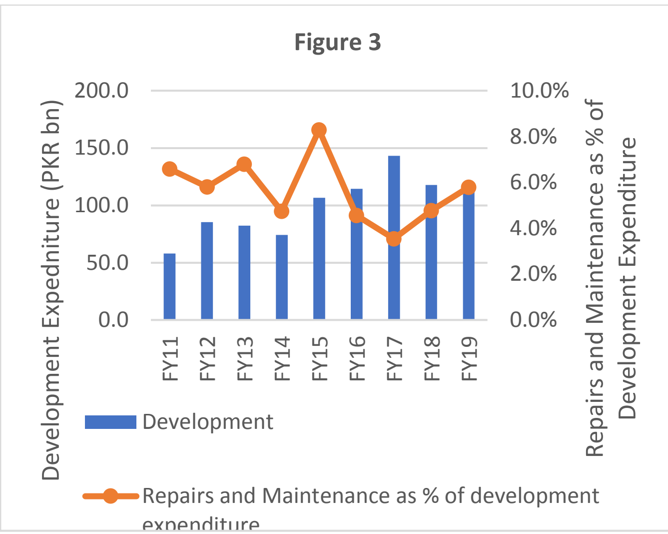
[11] ADB (2019). Khyber Pakhtunkhwa Health Care Review. Manila: Asian Development Bank.

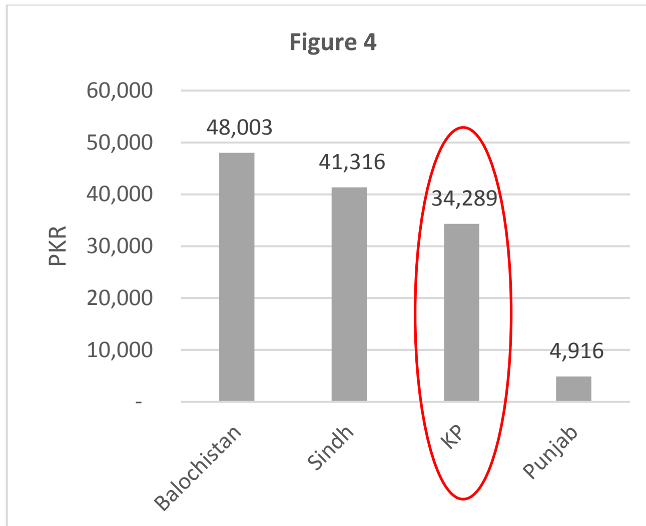
[12] Pakistan Education Statistics FY17 (AEPAM); Social Sector statistics (PBS); Controller General of Accounts and World Bank staff estimates

Additionally, KP spends around 1.3 percent of its total expenditure on R&M, which is under 6 percent of the total development expenditure.[13] In the education sector, this comes out to be less than PKR 35,000 per school per year for KP. Furthermore, there is no inventory on assets, which limits GoKP's ability to make evidence-based allocations towards R&M costs.

Figure 5: Development Expenditure and R&M

Figure 6: Est. R&M per public sector education institute (FY 17)





Source: Controller General of Accounts, Pakistan Education Statistics (AEPAM FY17), and World Bank staff estimates

11 There are currently no ongoing Government reforms to manage the fiscal risks associated with KP's civil servants' pension scheme. KP's payroll grew from PKR 21 billion to PKR 170 billion during 2005-2015 mainly due to increases in civil service headcount, early retirement, substantial real growth in wages and pension benefits. This growth has long term implications as pension liabilities absorb a significant portion of the recurrent budget and squeeze out critical and scarce public expenditures such as health and education. Overall, Civil Service pension expenditures in Pakistan have risen from about 3.2 percent of provincial fiscal revenues in 2009-10 to 20.6 percent in 2017-2018, which has increased Pakistan's fiscal deficit to 9.1 percent of GDP in FY 19. Pensions are financed directly by the budget with no employer or employee contributions, thus creating a heavy fiscal burden. According to the pension law, civil servants are eligible for a replacement rate of 70 percent of final basic salary after 30 years of service. Further, Pakistan is the only country in South Asia that provides post-retirement allowances even though the pension legislation does not include these benefits. These post retirement allowances have increased the effective average accrual rate from 2.33 percent per year of basic salaries to 4.09 percent per year in 2018. Although the retirement age is 60, pension eligibility is determined by length of service i.e. 25 years of service, which increases the retirement period and inflates the cost.[14]

B. GoKP's strategic response

12 The Government of Khyber Pakhtunkhwa (GoKP) has demonstrated strong commitment to improve Public Financial Management (PFM) and service delivery, particularly in health and education. Improved service delivery, particularly with respect to health and education are key elements of the

[13]Controller General of Accounts and World Bank staff estimates

[14] The World Bank (2020). Pakistan Assessment of Civil Service Pensions

GoKP's Health Policy 2018-2025 and Education Sector Plan 2020-2025. Furthermore, in its PFM Reform Strategy 2017-2020, the GoKP outlines its commitment to improve service delivery through better financial management. Accelerating human indicators through investments in health and education is also part of KP's Provincial Reform Plans of 2001 and 2010. Additionally, the GoKP has demonstrated commitment to improving health service delivery by outlining bold reforms in its Public Health Forecasting and Supply Chain Strategy 2017-2022. However, effective implementation remains an issue due to inadequate resource allocation and utilization, incomplete devolution of finances and services, along with weak institutional capacity to plan and manage decentralized service delivery in these sectors. Nevertheless, the GoKP has been reform-oriented in the area of PFM and service delivery. Therefore, the GoKP program provides a strong foundation for the PforR to build on, especially to improve the fiscal space for better resource allocation and utilization for non-wage recurrent expenditure and development spending, and to strengthen capacity and accountability of governance.

13 **The GoKP has introduced initiatives to improve investments in health and education services.** Although initiatives have primarily relied on revenue mobilization and federal transfers, the GoKP has made significant reforms to broaden the tax base and improve tax collection with the sales tax on services as the largest source at 58 percent.[15] However, there are constraints in mobilizing resources that would meet the demands of health and education service delivery—which create a heavy reliance on federal transfers. The GoKP recognizes the limitations of attempting to improve the fiscal space through only revenue mobilization and federal transfers because Pakistan has consistently had a low tax-to-GDP ratio, which has declined to 11.4 percent in 2019/2020.[16] Furthermore, budget is often released with delay. Therefore, the province has outlined the need to improve the fiscal space and introduce measures to facilitate timely budget release of development budget and non-salary recurrent budget.

14 **The GoKP envisions critical reforms in health service delivery through its Health Policy for the period 2018-2025.** The GoKP aims to achieve the following key outcomes, amongst others, to advance its vision to provide accessible, equitable and quality healthcare to citizens: (i) Enhanced Coverage and Access of Essential Health Services for all Especially for the Poor and Vulnerable (Outcome 4.1); (ii) Improved Governance, Regulation and Accountability (Outcome 4.4); and (iii) Enhanced Health Financing for Efficient Service Delivery (Objective 4.5). The GoKP recognizes that inadequate resource allocation is a critical bottleneck to service delivery. Under the Health Policy, it reflects on the need for a balanced recurrent and development budget even though it does not recommend clear initiatives to improve the fiscal space and enhance the adequacy and utilization of development budget for health service delivery. Nevertheless, these policy initiatives demonstrate GoKP's strong commitment to manage devolution of health financing and services efficiently and accountably. Thus, this PforR has been strategically designed to support the achievement of these specific outcomes.

15 **The KP Health Policy 2018-2025 identifies critical bottlenecks related to institutional capacity, adequate budgetary allocations and poorly maintained facilities that hinder health service delivery in KP.** More specifically, the Health Policy identifies the following bottlenecks: (i) jurisdictional overlaps between federal and provincial level governments (Ministry of Health and Department of Health) and between provincial and district authorities (Department of Health and the District Councils) to manage devolution of health financing and services; (ii) inadequate financing for health service delivery; (iii) inadequate financial management skills, institutional capacity and accountability to deliver health care; iv) weak strategic function and financial authority of the Department of Health; (v) low capacity of KP

[15] Asian Development Bank (2019). Khyber Pakhtunkhwa Health Sector Review, October 2019: Asian Development Bank.
[16] http://finance.gov.pk/fiscal/July_June_2019_20.pdf

health care commission to regulate health care providers; (vi) poorly maintained health facilities; (vii) lack of equitable deployment of staff in districts; (viii) inefficiencies in public health spending, and (ix) low access to health services, including essential drugs. Activities in this PforR aim to address these critical bottlenecks in health service delivery to support the achievement of select Health Policy Outcomes.

16 **The strategic vision of GoKP, as outlined in various Plans, illustrate the province's commitment to improve health service delivery.** Calibrating Health Systems and Managing Burden of Disease is pillar 5 of the Economic Recovery Plan. As part of this, the GoKP particularly aims to address the impact of COVID-19. Public health facilities across KP will be strengthened with provision of personal protective equipment. Laborites will be strengthened across the province and ICUs will be improved through provision of essential equipment such as ventilators, oxygen supply, and cooling systems. The Procurement of equipment and materials for this will be carried out by the Health Department. An efficient and effective procurement and distribution system will be essential for this plan that will benefit the 2,200 Public health facilities in the province. In addition, the Public Health and Forecasting and Supply Chain Strategy of the GoKP is focused in areas of i) Integration/optimization of public health supply chains, creating an integrated supply chain management information system, inter-and intradepartmental engagement, and sustainability. The strategy envisions an investment of PKR 3390 million by the GoKP over the next five years.

17 **The Education Sector Plan 2020-2025 anchors the vision of GoKP to strengthen education sector allocation and service delivery.** The ESP draws on lessons from Education Blueprint 2018-2023 and the Education Sector Analysis (ESA) 2019. Key priorities in the ESP include: (i) Improving Access, Retention and Equity (Area1); (ii)Enhancing Quality and Relevance of Education (Area 2), and (iii) Improving Governance and Management of Education (Area 3). GoKP has formulated these priorities based on the challenges identified in the ESA. It outlines inadequate and poorly maintained facilities as an underlying reason for low access and retention of students in secondary school, especially those from vulnerable and marginalized groups. Additionally, the Plan also prioritizes the need to strengthen financial management skills of education sector institutions. However, the Plan has not designed a reform path that will help increase the resource envelope for education service delivery. Regardless, the ESP outlines concrete mechanisms to strengthen provincial and district level education institutions to deliver services efficiently and accountably. The Program activities have been designed to advance these priorities highlighted in the ESP while also helping the GoKP to address PFM bottlenecks in service delivery.

18 **The ESP 2020-2025 encapsulates challenges that impact access, retention and quality of education.** These include: (i) low access and retention of students in secondary school, especially those from vulnerable and marginalized groups; (ii) weak capacity of governance structures to implement devolution of education services; (iii)inadequate capacity of teachers and training staff; (iii) lack of performance management standards in the Elementary and Secondary Education Department (E&SED); (iv) lack of evidence-based decision making, and (v) weak data integration arrangements between education sector institutions.

19 **To manage pension liabilities, Pakistan is gradually beginning to plan interventions at the provincial level** as the high costs are mostly borne by the provinces following the 18th amendment. These efforts include World Bank led evaluations of pension schemes of Punjab and Sindh in response to the request of the Government of Pakistan. Similarly, the GoKP will rely on the robust model developed for Punjab and Sindh to undertake pension reforms.

Figure 7: Pensions as % of KP Revenues

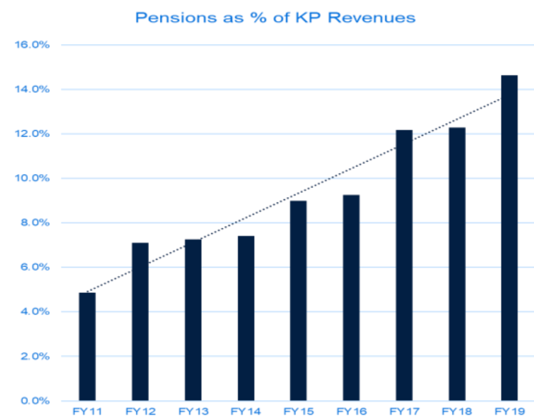
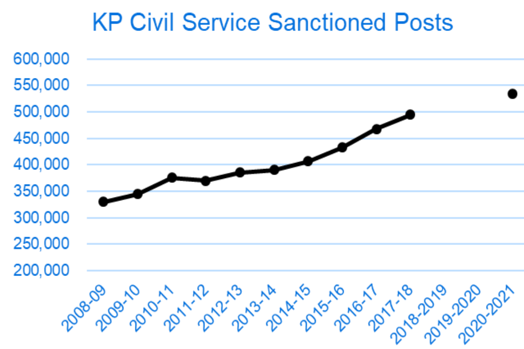


Figure 8: KP Civil Service Sanctioned Posts



20 The Pakistan Federal Government PFM Reform Strategy highlights the importance of financial management to service delivery. Pillar 3 of the strategy is dedicated to improving service delivery by improving planning and budget credibility. In terms of planning, it aims to develop a system of sector planning in the line ministries and aligning it with output-based budgeting with gradual movement to 'programme budgeting', and recasting the existing systems of financial control within a context of empowerment of the Ministries/Divisions and their subordinate offices. In attrition, with regards to budget credibility planning capabilities in Ministries/Divisions, streamlining the process of cash planning and forecasting and related budget releases, improving orderliness in endorsing changes in the budget during budget execution, limiting the practice of block provisioning in the budgets.

21 The PFM Reform Strategy of the GoKP outlines the province's plans to enhance financial management for improved service delivery. Pillar 1 of the strategy aims to better link policies, plans, and budgets. In addition, there are plans to introduce standardized costing for service delivery, which will better link policies, plans, and budgets. Similarly, Pillar 2 aims to improve service delivery through re-engineering of budget processes and expansion of IFMIS for optimal budget utilization. This will include a redefinition of roles and responsibilities of all departments and automation of the budget process. Pillar 3 aims for more predictability and control in budget execution through measures such as integration of public procurement systems with mainstream budget expenditure and expenditure management systems (IFMIS). The GoKP is also committed to improve the regulatory framework for planning and budgeting at the level of service delivery units.

22 The KP Public Financial Reform Strategy builds on earlier reforms and initiatives. This includes the Provincial Reform Programmes I and II, a series of revisions to legal frameworks governing PFM, and the Project to Improve Financial Reporting and Auditing (PIFRA). Examples of PFM reforms include medium term budgetary framework, output based budgeting, conditional grants mechanism, inclusive growth concepts of participative budgeting (pre-budget consultations) and community led local development, public private partnership frameworks, internal control mechanisms and IT based audits, enhanced transparency and accountability, amongst others. In addition, PIFRA has implemented the Integrated Financial Management Information System (IFMIS) in all accounting and budgeting offices of the country.

Technical Soundness

23 The Program is technically sound and relevant. Analytical work by the World Bank, GoKP and development partners inform the design of this Program. More importantly, the Program activities reflect the priority areas of the GoKP's program as highlighted in the ESP (2020-2025), Health Policy (2017-2020) and PFM Reform Strategy (2017-2020). To help advance the GoKP in achieving its policy outcomes, the Program prioritizes the need to improve service delivery by increasing investments in health and education and thus includes specific objectives for measuring the achievement of results. Each result area has specific activities sequenced toward the key results. These results are measurable and attainable. The Program supports the GoKP in its endeavor to achieve better education and health outcomes by targeting reforms to improve public expenditure management, allocative efficiency and development spending in health and education service delivery.

24 The Program's technical design captures the key binding constraints to allocative efficiency and investments in health and education services. At the individual result area level, Program activities address the specific challenges in public expenditure management, creating fiscal space for development spending in health and education, planning and budgeting, inadequate frontline workers, and basic facilities in both sectors. The Program does this by investing in supporting the Government's program for providing adequate resources, inputs and improving public finances for health and education service delivery. All DLIs will support the GoKP's efforts to align resources, staffing needs and basic facilities with health and education service delivery outcomes

Result Area 1: Providing adequate and reliable resources for delivery of education and health services

25 Results Area (RA) 1 will support better budget allocation in education and health sectors with a focus on improving service delivery. To do so, it will support improvement in the resource envelope for development spending in health and education.

26 The GoKP allocates and spends a significant portion of its budget on health and education, but sector outcomes do not commensurate with sectoral spending. Despite the increase in the province's annual budget towards both sectors, a significant portion is allocated to the recurrent budget. Bottlenecks in public expenditure management make it difficult for the GoKP to efficiently plan and target resource allocation towards health and education service delivery. As a result, development spending has been declining despite the increased allocation to both sectors. Between 2013-14 and 2014-15, development expenditures on education in KP fell 12 percent, despite total education expenditure rising 11 percent. This was primarily because spending on recurrent expenditure (largely salaries) rose by 21% over the same period. [17] The GoKP has led initiatives to improve its fiscal space for better investments in both sectors and to strengthen the allocative efficiency. To tackle these issues, the Program aims to help the GoKP in its efforts to improve its resource envelope and efficiency in allocation of resources to sustain provision of health and education service delivery.

27 The Program adequately captures the problems of limited fiscal space and development spending in health and education to strengthen efficiency and predictability of resources. It does so by introducing three specific DLIs: i) adequate, efficient and reliable financing for health and education service delivery; ii) DLI2: Reduction in pension expenditure, and iii) DLI3: Increased recurrent expenditure for repairs and maintenance of public investment assets.

[17] Institute of Social and Policy Sciences (2015). Public Financing of Education in Pakistan: Analysis of Federal, Provincial and District budgets. Islamabad: Institute of Social and Policy Sciences, p. 49.

28 Weak planning and budgeting impacts KP's allocative efficiency and predictability in resources, thus affecting budget execution and credibility. Ad-hoc planning creates uncertainty in budget preparation in the province, which leads to frequent in-year budget adjustments. Furthermore, a Medium-Term Fiscal Framework (MTFF) is not available, and sector plans are not costed and do not adequately capture priorities of all districts. For instance, the GoKP prepares its district education plans based on aggregate data that does not adequately capture intra-district disparities, which impacts resource allocation to education services.[18] Budgeting by districts and facilities in both sectors remain weak. As a result, the GoKP resorts to supplementary budgets throughout the year, which undermines budget credibility. For these reasons, the GoKP has introduced Output Based Budgeting and Medium-Term Budgetary Framework (MTBF) for the period 2019-2022. These processes, however, remain ineffective because plans are often delinked with budgeting. Under the Health Policy, the GoKP highlights the need to implement the MTBF in all districts to improve sector plans.

29 The Program is technically sound as it will support initiatives that align with the plans of GoKP authorities to improve allocative efficiency and predictability in budget execution. The first DLI will support the GoKP to provide adequate financing for health and education service delivery. It will introduce a medium-term perspective to fiscal planning and budgeting through: (i) development of costed medium-term expenditure plans to deliver education and health, consistent with basic service delivery standards including considerations of climate resilience; (ii) restructuring and alignment of sector budget allocations to medium term expenditure plans to costed medium term plans and thresholds; and (iii) introducing a Medium Term Fiscal Framework. Thus, the Program adequately addresses the problem of inefficiencies in allocating resources for health and education.

30 Pensions comprise a significant portion of KP's recurrent budget, thus crowding out investments in health and education. There are currently 106,237 retirees with average monthly pension of PKR 31,537. These expenditures will continue to grow as more civil servants retire. Furthermore, the senior grades have pensions 3.4 times higher than the lower grades. According to GoKP's White Paper 2020-21, the wage bill is expected to grow by 7% and pension by 23%. Cognizant of the implications of rising pension costs on fiscal sustainability, the KP PFMRP highlights pension as a critical reform area under its objection on Predictability and Control in Budget Execution. The GoKP has outlined its priorities in its PFM reform strategy of 2017-2020 to initiate activities on pension: (i) Hire actuarial services and conduct baseline study on pension and postretirement benefits and (ii) Automate the pension budgeting, payment, recording and reporting in IFMIS.

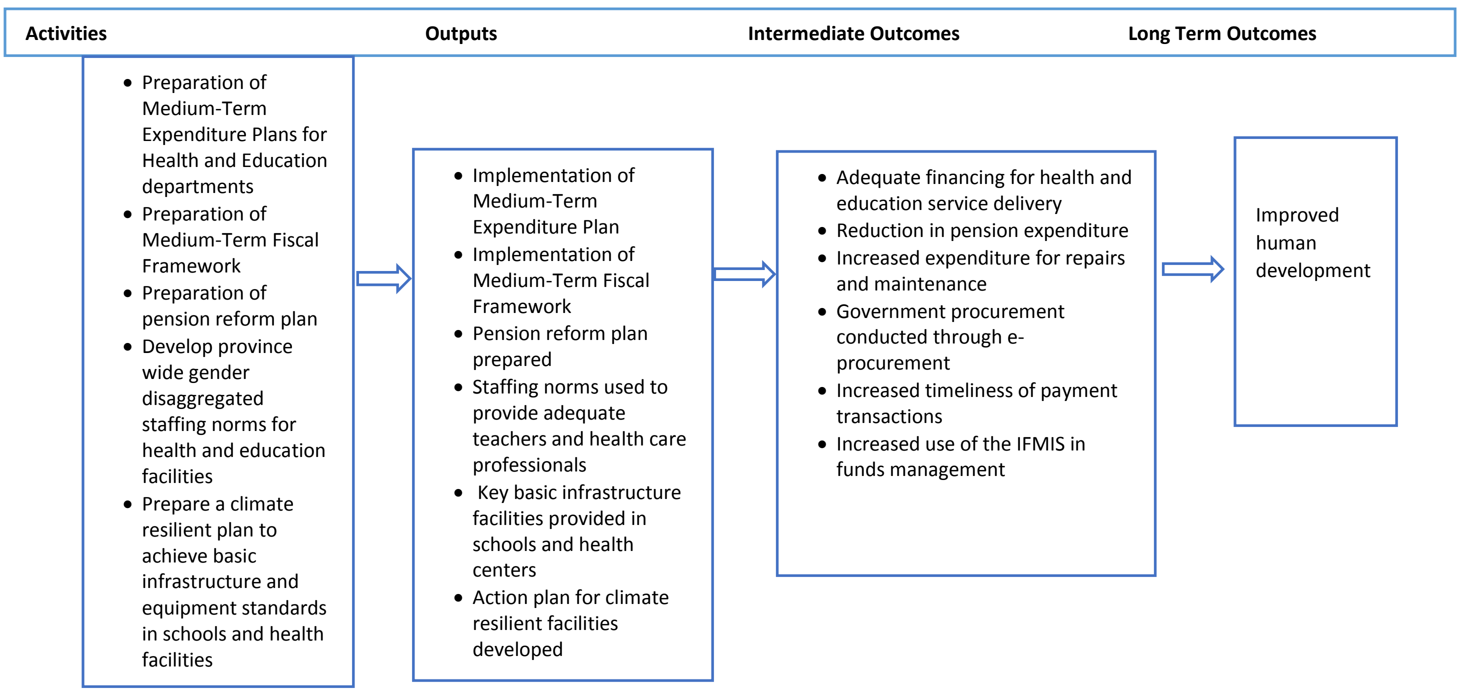
31 The Program is strategically relevant as it supports the GoKP to constrain the growing fiscal costs of pensions. More specifically, DLI2 will disburse against the achievement of the following targets: revision of pension rules—including the establishment of automatic indexation of benefits, gradual increase in the retirement eligibility age, extension of the wage reference period for determining benefits and strengthening of the criteria for receipt of family benefits (survivorship), and formulate an implementation plan including supporting institutional infrastructure. This DLI captures GoKP efforts to introduce parametric reforms to reduce the projected cost of pension benefits, and hence encapsulates measures that will support the province to reduce its pension expenditures. The Government of Pakistan has already initiated analytical work to identify parametric reforms in Sindh and Punjab, which will form the basis of GoKP's efforts to design its pension reform.

[18] The World Bank. Pakistan District Education Management and Service Delivery Study

32 **The issue of managing Public Investment Management (PIM) assets remains largely unaddressed.** The budget for R&M remains inadequate, which impacts the condition of health and education facilities. The GoKP has thus prepared a comprehensive PIM Action Plan that includes developing an inventory of assets and mandatory submission of PC-IV to successfully close projects and update assets. Under the program, the P&DD is getting ready to implement the actions outlined in the PIM Action Plan. To complement the reforms on asset management outlined in the Action Plan, the PDD intends to introduce measures to improve the quality of spending and allocation for repairs and maintenance of public investments assets.

33 **The Program will ensure sufficient R&M funding to better maintain and utilize PIM assets, thereby preventing their premature deterioration and lifting the burden on the fiscal space.** DLI 3 will thus incentivize the GoKP to increase its R&M recurrent expenditure, establish a unified asset registry, and publish completed PC V reports on the department's website. This Program puts in place sufficient measures that will help GoKP be a pioneer among provinces in embarking on a reform path to improve the condition of public investment assets.

Figure 9: RA 1 Theory of Change



Result Area 2: Improved management of public finances for delivery of education and health services

34 **This Results Area will improve management of public finance to improve service delivery.** It compliments Results Area 1 which aims to enhance resources to health and education service delivery by ensuring these are used efficiently and effectively. The targeted improvement in terms of health and education service delivery is enhancing availability of essential facilities and supplies in schools and hospitals.

35 **Greater autonomy for schools and hospitals in terms of budget allocation and execution can improve service delivery.** Centralization of the budget allocation process at the district level have delayed the availability of funds to schools and primary health care centers. Some of these delays include vendor

payments, accumulation of arrears for electricity and utility payments, and non-payment of allowances accrued to teachers and health care workers. These delays can impede schools and hospitals ability to meet basic facility requirements. Greater autonomy can allow schools and hospitals to expedite decisions and access funds more quickly to address these issues. The Khyber Pakhtunkhwa Health Review recognizes managerial autonomy as a successful part of recent reform initiatives in health sector.[19] However, it is critical to strengthen the technical and managerial capacity of facility managers and board members through rigorous training and the adoption of standard management and information tools and processes alongside greater autonomy for service providers through decentralization.[20]

36 The Program supports GoKP's efforts to provide greater autonomy to schools and hospitals in terms of budget allocation and execution. The ESP (2020-2025) aims to increase secondary and primary schools' autonomy in terms of resource utilization for school improvement. This will build on the ESP (2015-2020) which has already extended this to Higher Secondary Schools which, through the plan, obtained increased budgets and authorization to spend as per budget estimates developed by Principals for the year. [21] Similarly, autonomy to hospitals providing tertiary level health care will be strengthened under the Medical Teachings Institutions Act.[22] The Program will support GoKP by supporting delegating of greater FM authorities to line departments and front-line service delivery units through: (i) decentralization of government accounting processes; (ii) empowering the line departments (including within districts) in approval and reporting of financial transactions; and (iii) developing measures to provide budget execution autonomy to service delivery units.

37 Integrated and strengthened management systems can improve health and education service delivery. While an array of legislations (2001, 2012-2013) has led to some decentralization, this has also led to system fragmentation.[23] In addition, systems also need to be strengthened. For example, weak management systems lead to inefficiencies that result in low budget utilization and eventual lapsed funds. [24] In addition, weakness in data and information management and in budgeting and financial management are two of five outlined barriers to education reforms in Khyber Pakhtunkhwa.[25] The GoKP aims to address this under Objective B of the PFMRS, Comprehensive, Credible, and Transparent Budget. This includes business process engineering to configure IFMIS to accommodate real-time system for budgeting, accounting and reporting of tax and non-tax revenue and automation of budget process. The GoKP also aims to roll out IFMIS to local governments. [26]

38 Automated procurement processes integrated with management systems can enhance ability of hospitals and schools to meet service delivery needs. Procurement is currently fragmented, manual and not linked to budget allocation. For example, the health sector has multiple supply chains, leading to duplication of efforts and wastage of resources, including cases of oversupply of medicine. In addition, inventory management is weak and there are multiple management information systems for different health programs.[27] In addition, procurement ability is identified as a challenge in undertaking activities to

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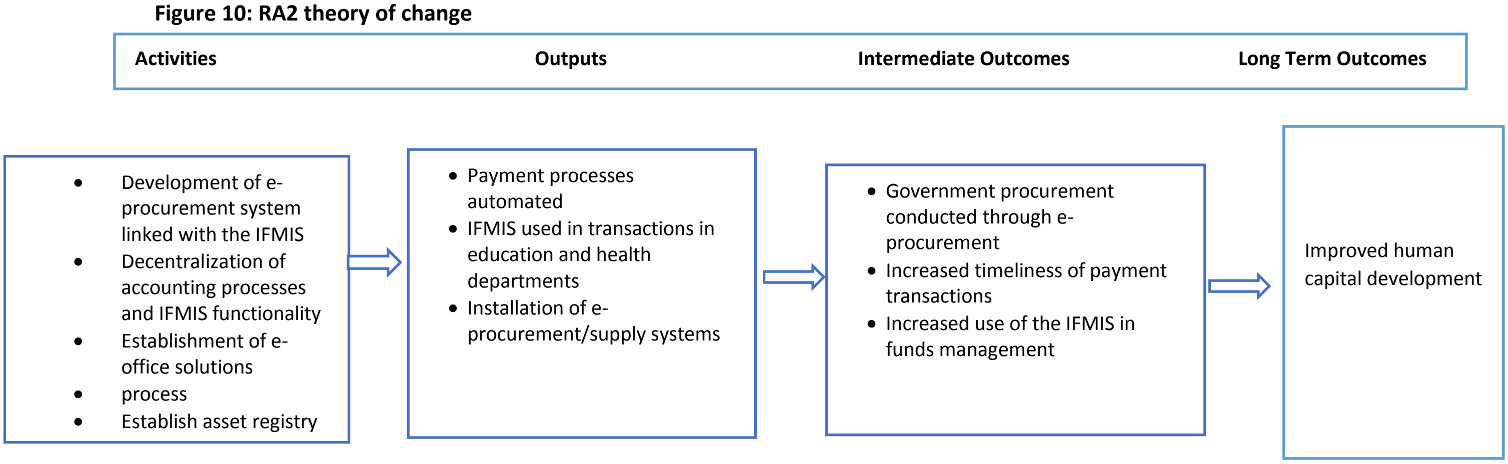
[19] Asian Development Bank (2019). Khyber Pakhtunkhwa Health Sector Review, October 2019: Asian Development Bank, p. 13
[20] Asian Development Bank (2019). Khyber Pakhtunkhwa Health Sector Review, October 2019: Asian Development Bank, p.16
[21] GoKP (2020). Education Sector Plan, 2020-2025. Peshawar: Dept. of Education, p. 56.
[22] GoKP (2019). Health Policy Khyber Pakhtunkhwa. Peshawar: Dept. of Health, p. 26
[23] Asian Development Bank (2019). Khyber Pakhtunkhwa Health Sector Review, October 2019: Asian Development Bank, p. 9
[24] GoKP (2019). Health Policy Khyber Pakhtunkhwa. Peshawar: Dept. of Health, p. 14. GoKP (2018).
[25] GoKP (2020). Education Sector Plan, 2020-2025. Peshawar: Dept. of Education, p. 7
[26] GoKP (2017). Public Financial Management Reform Strategy, 2017 – 2020. Peshawar: Dept. of Finance. P. 20-21. GoKP (2017)
[27] Government of Khyber Pakhtunkhwa (2017), Khyber Pakhtunkhwa Public Health Forecasting and Supply Chain Strategy, Peshawar: Department of Health, p. 3-4

improve education facilities in the Education Sector Analysis. In the highlighted case, it was for hiring of a third party-engineering support firm to ensure school construction is as per standard.[28] Under, Objective C of the PFMRS, Predictability and Control in Budget Execution, GoKP aims to strengthen the procurement regime. This includes integration of the procurement system with IFMIS and issuance of Guidelines at the sectoral level for procurement.[29] The Program will support modernization of procurement processes through: (i) development and implementation of an integrated e-procurement system linked with the IFMIS; (ii) notification on the requirement for an approved procurement plan for budget releases; and (iii) modifying the budget call circular to include a procurement plan for all procuring entities.

39 **Interventions under Results Area 2 are technically sound as they respond to PFM challenges that impede service delivery and are aligned with GoKP's plan to address these.** Lack of autonomy in budget allocation and utilization, fragmented management systems, and manual procurement processes not linked with other systems impact schools and hospitals ability to meet service delivery needs. Activities under the Program, in support of the GoKP's PFMRS, Education Sector Plan, and Health Policy are designed to address these issues. These include delegating greater FM authorities to line departments and front-line service delivery units, IFMIS rollout and related reforms, and modernization of procurement processes. The Program DLIs are structured to ensure that targeted outcome of these activities in terms of improving education and health service delivery is improved. This is covered under DLI 4 which measures timely availability of essential supplies in schools and hospitals and transparency of payments. The DLI aims to have 90% of health facilities have available essential medical supplies and for 85% of budgetary expenditure to be processed through e-procurement for increased efficiency.

Figure 10: RA2 theory of change



Technical Assistance

40 **The TA component is to be delivered under three subcomponents:** (i) Strengthening capacity for transparent management of public finances; (ii) Improving PFM for delivery of education and health services; and (iii) Program Implementation and Accountability for performance and delivery of service.

41 **The TA component will support implementing entities with challenging interventions that require specialized technical expertise.** The TA resources will also finance necessary ICT investments to

[28] Government of Khyber Pakhtunkhwa (2019), Khyber Pakhtunkhwa Education Sector Analysis: Institute of Social and Policy Sciences, p. 157.
[29] GoKP (2017). Public Financial Management Reform Strategy, 2017 – 2020. Peshawar: Dept. of Finance, p. 24 GoKP (2017)

embed the new business processes and specialized technical support to implement capacity-enhancing innovations, including fiscal planning, monitoring and management of fiscal risks, business process improvement, advanced revenue forecasting and tax audit techniques, and database integration and change management. The TA resources will also support the government's effort to evaluate policy and institutional reform options to constrain the growth of wages, allowances, and pensions.

(a) Component 1: Strengthening capacity for transparent management of public finances

42 **The project will finance the following:** (i) development and mainstreaming of an integrated MTFF; (ii) preparation and mainstreaming of budget ceilings consistent with the MTFF, including considerations of climate resilience; (iii) development of rules for public investment management of education and health assets; (iv) upgrade of existing e-systems for inventory, human resource management, and tracking funds flows; (v) development of a single e-platform integrated with the Financial Accounting and Budgeting System for inventory and asset management system at all levels of government; (vi) extension of FMIS to Village Councils and Neighborhood Councils; (vii) improving cash management; (viii) implementation of e-procurement and supply chain management information systems and associated capacity building; (ix) training of parent teacher councils, primary health care management committees, and district level managers in financial management and (x) maintenance of IT security and integrity.

(b) Component 2: Improving public financial management for delivery of education and health services

43 **The project will finance the following:** (i) development of a costed MTEF and investment plan for health and education sectors; (ii) quarterly reviews and reporting of primary, middle, and high school education and primary health expenditure; (iii) developing e-solutions for primary, middle, and high schools and primary health center facility level budgets; (iv) developing efficient e-payment and expense tracking mechanisms for routine operational health and education expenditures; (v) providing backup systems for data recovery; (vi) developing integration plan for parallel run vertical programs in health sector for bringing efficiencies in health budget; (vii) developing policy, regulatory, and legislative reforms for public private partnerships (PPP) in education and health sectors; (viii) development of a framework for mainstreaming gender in the budget; and (ix) development of a mechanism for facility level budget

44 **Program Implementation:** This component will support coordination for implementation, including Third Party Verification as well as staffing and equipment for the Shared Services Unit for Program Management.

Institutional Arrangements

45 **The Program will use the existing country systems to ensure that responsibility for meeting the DLIs (disbursement linked indicators) is within the mandate of the assigned implementing agencies**. The Program will leverage on existing institutional arrangements established to support the KP Revenue Mobilization and Public Resource Management Program (KP RMPRM). The Finance Department (FD) will have the overall responsibility for Program coordination and leverage on its Shared Services Unit (SSU) for day to day Program management. The Minister of Finance will preside over the PFM Steering Committee overseeing Program implementation. Besides the FD, the following entities will engage in Program implementation: Planning and Development Department (P&DD), KP Public Procurement Regulatory Authority (KP-PPRA) and KP Information Technology Board (KPITB), Health and Population Welfare Department, and Elementary and Secondary Education Department

46 **Arrangements for oversight, overall coordination and monitoring are robust.** Existing capacities within the FD and SSU are sufficient to implement the Program. The SSU, staffed with key technical staff covering financial management, procurement, environmental safeguards, social safeguards, communications and monitoring and evaluation (M&E) will be responsible for coordinating other implementing agencies. More specifically, the SSU will have the following responsibilities: coordinating among implementing agencies; monitoring progress towards the results indicators and the implementation of the Program Action Plan (PAP); ensuring timely reporting and third-party verification of annual DLI targets; submitting applications for withdrawal of program funds; and assuring compliance with fiduciary requirements. . The SSU already supports World Bank projects in the province and has a proven track record of effectively monitoring the implementation of KP RMPRM. These projects, including the KP RMPRM have undertaken several capacity building efforts to strengthen M&E and management of Program activities. SPEED will also support such activities, especially since this is the first large cross sectoral World Bank Program in KP.

47 **All six entities will be responsible for supporting the implementation of the Program result areas.** The World Bank has held consultations with these entities to ensure sufficient commitment and ownership for the Program. These consultations have informed the design of the Program, including the DLIs and the Results Framework. The Program will use country systems so, no Program-specific implementation arrangements are required at the level of the implementing agencies.

48 **Stakeholder capacity varies across implementing entities**. The FD has sufficient capacity and experience to anchor the Program and is hence responsible for implementing majority of the DLIs and result indicators (Table 1 below). The P&DD requires more strength in terms of the number of staff and their skillsets to effectively monitor the achievement of the relevant DLI and result indicator. Stakeholder support in the education sector can be bolstered if the technical groups for each ESP (2017-2020) priority area also provide adequate support. As there are several entities in both sectors with varied capabilities, therefore the ability of the E&SED and Health department to coordinate with relevant agencies and generate ownership would influence the Program implementation. Moreover, overlapping mandates—as a result of incomplete devolution—may influence the authorizing environment and stakeholder capacity to support the Program's reforms. While there are capacity constraints, it is anticipated that World Bank Technical Assistance under relevant operations, including SPEED, will continue to strengthen the ability of the various institutions to deliver activities covered by this Program.

Table 1: Entities responsible for specific DLIs

Entity	Responsibility
FD	Main implementing entity. Responsible for the following: DLI 1 on efficient and reliable financing for primary health and primary education service delivery; DLI2 on Reduction in pension expenditure; DLI3 on Increased recurrent expenditure for repairs and maintenance of public investment assets; and DLI4 on Timely availability of essential supplies in schools and hospitals, e-procurement and increased transparency through e-office solutions. PDO indicator 1 related to Total non-wage recurrent expenditure for education. IRI 1 on Multi-year budgeting implemented integrating development and current expenditure; IRI 2 on Composition of expenditure outturn compared to original approved budget (excluding Foreign Project Assistance); IRI 3 on Repairs and maintenance expenditure (% of development expenditure) Reduction in projected cost of pension benefits); IRI 4 on Proportion of approved budget released within 90 days after budget approval; IRI6 on Automated budgeting and

	expenditure reporting systems; IRI 7 on Districts with completed audits within 90 days after the end of financial year; IRI 8 on Invoices paid directly into vendor bank accounts; IRI 10 on Citizens surveyed on budget priorities and receiving budget information
P&DD	Responsible for the following: DLI3 on Increased recurrent expenditure for repairs and maintenance of public investment assets. IRI 3 on Repairs and maintenance expenditure (% of development expenditure)
Health and Population Welfare Department	Responsible for the following: DLI3 on Increased recurrent expenditure for repairs and maintenance of public investment assets; DLI4 on Timely availability of essential supplies in schools and hospitals, e-procurement and increased transparency through e-office solutions; DLI 6 on Primary health care centers that meet agreed staffing norms; and DLI 7 on Primary schools and Primary health care centers that have basic infrastructure facilities. PDO indicator 2, 4 and 6 on Timely availability of essential medicine in primary health care facilities, Districts that comply with defined performance standards for education and health service delivery and Direct project beneficiaries. IRI 9 on Districts with functioning integrated supply chain management information system for health; IRI 11 on Key Performance Indicators successfully achieved by districts, and IRI 14 on Primary health care facilities with all basic facilities
E&SED	Responsible for the following: DLI3 on Increased recurrent expenditure for repairs and maintenance of public investment assets; DLI4 on Timely availability of essential supplies in schools and hospitals, e-procurement and increased transparency through e-office solutions; DLI 5 on Primary schools meeting agreed staffing norms; and DLI 7 on Primary schools and Primary health care centers that have basic infrastructure facilities. PDO indicator 3, 4 and 5 on Primary, Middle and High schools that meet agreed staffing norms, districts that comply with defined performance standards for education and health service delivery, and Primary, Middle and High schools with basic infrastructure. IRI 11 on Key Performance Indicators successfully achieved by districts; IRI 12 on Primary, Middle and High Schools with solar energy facilities; IRI 13 on Primary schools with at least six teachers, and IRI 14 on Primary schools with the four basic infrastructure facilities
KP-PPRA	Responsible for the following: DLI4 on Timely availability of essential supplies in schools and hospitals, e-procurement and increased transparency through e-office solutions. PDO indicator 1 on Government procurement conducted through e-procurement platform. IRI 5 on Procurement process aligned with budget preparation and execution
KPITB	Responsible for TA activities.

49 **The GoKP has established adequate institutional arrangements to plan, coordinate, implement and monitor health and education reforms.** The Department of Health and E&SED are the main agencies responsible for health and education policy, planning, coordination and monitoring. There are several stakeholders supporting these departments in both sectors, as presented in the table below. However, capacity and staffing strength vary in these units, which impacts effective delivery of their mandates. For instance, the HCC does not have sufficient capacity to regulate the public or the private sector. Frequent turnover of senior level officers is another issue.

Table 2: Health and education institutions in KP

Key health and education institutions in KP	Responsibility
Health	
HCC	Regulation and quality assurance
Health financing unit	Health insurance scheme
Health sector reforms unit	Health strategies and coordination
Independent monitoring unit (IMU)	Monitoring public sector health care facilities
Education	
Directorate of Elementary and Secondary Education (DESE)	Planning, budgeting, human resource management and monitoring functions under the policy guidance of E&SED
Provincial Institute of Teachers Education (PITE)	Training and performance management of teachers

Directorate of Curriculum and Teachers Education (DCTE)	Teacher training, curriculum development and research assignments
Education Sector Reforms Unit (ESRU)	Reforms in Policy Development, Planning Coordination, Monitoring and Evaluation of programs under the E&SED
Elementary Education Foundation (EEF)	Capacity development and financing of human resources in education
IMU	Data management
Private Schools Regulatory Authority (PSRA)	Private Schools Regulatory Authority (PSRA)

Expenditure Framework

50 **The GoKP Program:** The overall government program cost for 2020-2025 is estimated at US$2,000 million. The government program supported by this operation is implemented by six entities: FD, P&DD, KPITB, PPRA, Health and Education Departments. The entities cover the full scope of core functions and activities needed to deliver on the outcomes of this operation.

Table 3: SPEED financing

Source	Amount (US$ Million)	% of Government Program
Government Financing	319	45
International Development Association (IDA)	385	55
Total Program Financing	**704**	**100**

51 **Program (PforR) expenditure boundary:** The implementation of the government program supported by this operation primarily requires compensation of staff, operating expenses of the entities, R&M costs and capital expenditure of selected development schemes included in the ADP. The IBRD financing for the Program is US$385 million (55 percent), and the GoKP contribution is US$319 million (45 percent).

52 **The expenditure framework is adequately structured to achieve the Program's objective and includes recurrent expenditure and development schemes.** Ten percent of employee related cost (Table 4) will contribute in achieving overall Program objectives and health and education related DLIs particularly DLI 2, 5 and 6 by standardizing staffing and managing pension liabilities. Moreover, about 28 percent of the expenditure framework includes development schemes, that directly contribute to achieving DLI 4, 5, 6 and DLI 7 (Table 6). (Refer FSA for the budget execution analysis of the existing development schemes). Additionally, grant and subsidies include one-line transfer to the KP Information Technology Board (KPITB) and KP Public Procurement Regulatory Authority (KP-PPRA) providing budgetary support for its operational activities. The cost of operational support to PPRA and KPITB along with operating expense in finance, health and education directly contributes in achieving DLI 1,3, 4 and 5 for improving digitization, planning, expenditure efficiency and enhancing transparency in procurement processes and financial reporting. About 60 percent of the expenditure framework cost relates to operating expenses which includes, utilities, communication expense, occupancy cost and consultancies etc.

53 **The expenditure framework analysis has also highlighted gaps that the Program will help address.** The budget is prepared following GFSM 2001, with clear function and economic classification (see Table 4 and 5 below). However, some gaps are noted in the practice, where large funds are uncategorized under operating cost. Similarly, most of the development budget is allocated as 'others'. Additionally, ninety percent of the operating cost in the expenditure framework is attributable to the

Finance department, whereas the remaining 10 percent relates to other implementing agencies. The further analysis of the operating expense in the finance department showed that a large portion of the operating expense is kept as lump sum allocations, without corresponding sub-object classification, under operating expense classification and remained underutilized. (Refer FSA for budget execution analysis).

54 **The Program improves budget transparency and allocative efficiency.** It will support development of costed medium-term expenditure plan for defined performance indicators in health and education sector. Further, as noted in the fiduciary system assessment, the budget transparency and financial reporting of these budgetary codes will be improved by preparing detailed annual work plans, with defined budgetary requirements in each object codes, in advance of the submission of the budget to the finance department. Additionally, DLIs 1 and DLI 3 address the budgetary inefficiencies for improving service delivery in health and education sector in the province by increasing the share of non-salary budget for operational activities (utilities, training, availability of resources for books/medicines etc. consultancies for improving expenditure processing) and systemic allocation to R&M by improving fixed asset recording and management and linking planning with budgeting for sustainable reforms, subsequent to the completion of development projects.

Table 4: Expenditure Framework Analysis – Economic Classification (PKR, Millions)

Nature of expense	**Economic Code**	**Required Budget for next 5 years**	**%**	**Budgeted Cost.**	**Un-budgeted Cost**	**Program Years**				
						2021-22	**2022-23**	**2023-24**	**2024-25**	**2025-26**
Recurrent Budget										
Employee related expenses (pay and allowances)	A01	11,928	10.60	11,928		1,829	2,012	2,443	2,688	2,956
Operating expenses	A03	68,215	60.59	68,215		10,928	12,021	13,676	15,043	16,548
Grant, subsidies, transfers	A05	1,115	1	1,115		74	81	290	319	351
Repairs and Maintenance	A13	8,022	7.3	22	8000	2,004	2,004	2,004	1,005	1,005
Development Budget *(Existing Schemes with enhanced scope)*	various	23,307	20.70	23,307		3,418	3,799	4,219	5,681	6,189
Program EF *in PKR*		**112,587**		**104,587**	**8,000**	**18,253**	**19,917**	**22,632**	**24,736**	**27,049**
In USD Million		**704**	**100**	**654**	**50**					
				93%	7%					

Table 5: Expenditure Framework Analysis – Classification by Functions (PKR)

Departments	Employee Related Expenses	Operating Expenses	Repairs & Maintenance	Grants Subsidies	Development Expenditure	Total	Percentage
Finance*	664,274,654	61,361,164,280	-		634,943,532	62,660,382,467	55.5
Planning*	1,019,151,109	99,001,575	-	-	224,972,935	1,343,125,619	1
Health[30]	7,865,597,772	662,743,404	13,034,999	-	11,920,637,549	20,462,013,724	18
Education[31]	2,380,018,900	6,092,441,686	9,724,203	-	10,158,810,697	18,640,995,485	17
KP-PPRA	-	-	-	453,303,675	-	453,303,675	0.5
KPITB*	-	-	-	662,000,000	366,672,306	1,028,672,306	1
Unbudgeted development scheme			8,000,000,000			8,000,000,000	7
Total	11,929,042,435	68,215,350,944	8,022,759,202	1,115,303,675	23,306,037,019	112,588,493,276	100

***The Expenditure framework includes the related Program cost of Finance, Planning and KPITB from financial year 2023-24 onwards to avoid duplicate funding for similar resources as the expenditure framework for KP Revenue Mobilization and Public Resource Management Program – (P162302) includes these costs. The KP revenue mobilization program will close in FY 2022-23.

Table 6: Details of development schemes as part of the expenditure framework

Key Program Activities Initiated in the ADP	Implementing Agencies	Approximately Amount (US$)	Related DLI/Results Indicators
Strengthening of planning cell of health department	Health Department	209,863	DLI 1 and DLI 3
Rehabilitation of all Rural Health Centers (RHCs) across KP and conversion of 50 RHCs into 24 7	Health Department	12,591,769	DLI 7
Strengthening of all Basic Health Units across KP and conversion of 200 BHUs into 24 7 facilities	Health Department	12,591,769	DLI 7
Removal of Staff Deficiencies in Newly Opened Areas in Health Facilities FATA*	Health Department	484,070	DLI 6
Removal of Deficiencies in Existing Health Facilities & Provision of Medicines Diagnostic/Laboratory Investigation Materials and Instruments on Need*	Health Department	358,068	DLI 4 and DLI 7
Procurement Warehousing Transportation of medicine vaccines disposables & other supplies (NMA)	Health Department	41,972,563	DLI 4
Facilitation of Health set-up in frontier region	Health Department	6,295,884	DLI 6 and DLI 7

[30] Includes the budget for health secretariat, independent monitoring unit, medicine coordination center and procurement cell in the health department responsible for overall policy making, financial and administrative affairs, budget preparation, re-appropriation, allocation and accountability of resources for primary and secondary health services.

[31] Includes the budget for the secretariat and directorate of the education department responsible for overall policy making, financial and administrative affairs, budget preparation, re-appropriation and allocation of resources for primary and secondary health services.

Key Program Activities Initiated in the ADP	Implementing Agencies	Approximately Amount (US$)	Related DLI/Results Indicators
Improvement of low Performance Public Schools through PPP (SBSE)	Education Department	12,591,769	DLI 5
Establishment of PMU for promoting PPP and other initiatives	Education Department	1,469,040	DLI 5
Establishment of Independent Monitoring Unit (IMU) in Elementary & Secondary Education Department.	Education Department	42,591,826	PDO indicator
Provision of Missing / Basic Facilities Rehabilitation / Construction of Additional Classrooms and Solarization in Existing Educational Institutions in Newly Merged Areas	Education Department	6,839,933	DLI 7
Capacity building and strengthening of the Finance Department	Finance Department	3,968,397	DLI 2 and DLI 3 and DLI 4
Establishment of PPP Support Unit in P&D Department	Finance Department	1,406,080	DLI 7
Introduction of paperless government*	KPITB	2,098,628	DLI 4
Digital Governance initiatives for KPK*	KPITB	193,074	DLI 4

55 **The Program aims to improve expenditure efficiency at the service delivery level:** The Program aims to bring transparency in the budgeting process. The expenditure framework analysis broadly analyzed Program cost in the context of mid-term expenditure plan and noted that the government system lacks proper mechanism to budget and report operational expenses at service delivery level in health and education (refer table 7 below). The Program aims to improve budget transparency and expenditure efficiency at service delivery level through DLI 1.

Table 7: Output level analysis of expenditure framework

Output	**Object codes**	**Total Expenditure in five years (PKR in millions)**
Investment in infrastructure and equipment for service delivery	Development budget for health and education	30,079
Provincial budgeting, HRM, Oversight and strengthening of health and education services	Recurrent cost for health and education	17,023
Provincial Management and Strengthening of Budgetary and FM Systems and practices (FD including KPPRA, planning, and KPITB recurrent and development)	Recurrent and development cost of Finance, planning, Procurement Authority and IT Board	65,485
Operational funding at the service delivery level		0
Total		**112,587**

56 **Adherence of Program expenditures to government priorities**: The Program expenditure from the recurrent budget will support the government to enforce fiscal discipline to protect the development budget by improving planning for salary and pension expenditures. Together, salaries and pensions constitute 71 percent of the budget with an average increase of 10 percent each year. Further, the Program expenditure supports critical development schemes in health and education. There is a risk that

limited fiscal resource may hamper the availability of resources for the Program activities, including the related development schemes/projects. Therefore, the Program includes various mitigation measures which will ensure the adequacy and predictability of the budget. These include, revision of the scope and cost of some of the development schemes (see table 4), preparation of the annual work plan supported by the annual procurement plan and a legal covenant to ensure that development schemes associated with the Program are tagged as priority schemes. The FD will also ensure adequate funding for the Program.

57 Fiscal context and financial sustainability: The total estimated revenue for KP in financial year 2020-21 is PKR 923 billion, with the largest share being of federal receipts, straight transfers and net hydel profit. The federal transfers constitute 51.7 percent of the total provincial receipts in FY 20-21; however, the federal receipts have historically faced a shortfall. The federal receipts shortfall significantly impacts provincial budgeting and the progress on the development programs, particularly in the case of KP where the provincial own source revenue contribution is only 10 percent. A thorough resource mobilization strategy implemented through Bank funded KP Revenue Mobilization and Public Resource Management Program (P162302), has resulted in significant improvement in the own source revenue collection. As a result of these reforms, in spite of the disruption and lockdowns due to COVID, the overall growth in the provincial own source revenue is by 9.5 percent in 2019-20 as compared to the last year. The Bank will support the GoKP in efficiently managing the resources in the priority areas of health and education.

Program Monitoring and Evaluation

58 The FD will be responsible for overall monitoring and coordination in collaboration with other relevant departments that will provide information within their jurisdiction and responsibilities. The PFM Reform Strategy and the ERP do not articulate the M&E arrangements but the SSU demonstrates a strong track record of playing this role through its engagement in other World Bank Programs. Additionally, the Health Policy and ESP define the responsible institutions for monitoring and reporting according to results. The proposed Program includes a detailed Result Framework with time bound DLIs to be measured during implementation. It will also include measures to support the M&E Unit of the Planning and Development Department.

Disbursement Linked Indicators

59 The Disbursement-linked Indicators (DLIs) of the Program capture outputs or intermediate outcomes that are expected to directly contribute to the higher-level outcomes represented by the Program Development Objective (PDO) indicators. The selection of DLIs is informed by two additional criteria: (a) challenging but attainable and within the control of the GoKP and (b) readily verifiable, measurable, and scalable. The rationale for the selection of DLIs is shown in table 8 and 9 below.

60 The Program includes eight DLIs, representing key milestones that the Program intends to achieve. The choice of DLIs is strategic and is based on the priorities outlined in GoKP's program along with lessons from other operations, including other non-PforR results-based lending operations. Rather than dealing with several DLIs with smaller amounts, the use of a limited number of DLIs helps focus attention on key objectives of the Program and provides strong incentives for the achievement of results. The use of a limited number of DLIs also improves efficiency in monitoring and reporting by reducing the data collection burden on Government officials.

61 The DLI verification protocol lays out the data and methods that will be used to determine the achievement of Program results and serve as a basis for disbursement. Table 9 shows the DLIs and the verification protocol. These have been drawn up to ensure precision and accuracy in the verification and to avoid any room for interpretation. They are based on methods that have been shown to be valid and reliable and that make use of existing capacity in the GoKP.

Table 8: DLIs - Rationale, Measurement, Verification, and Scalability

Results Area (RA)	DLI	Contribution to Program outcomes
RA1: Providing reliable resources for delivery of education and health service	**DLI 1**: A costed medium term expenditure plan for primary education and primary health care	This DLI incentivizes the GoKP to provide sufficient financing based on a costed sector plans including for climate resilient and women friendly facilities, and protect the funds for providing primary education and health service delivery
	DLI 2: Reduction in pension expenditure	This DLI supports parametric reforms to reduce and stabilize growing pension costs, thereby contributing to sustainable fiscal space for spending on education and health service delivery
	DLI 5: Primary, middle, and high schools with filled teaching staff positions according to approved staffing norms	This DLI incentivizes the provision of teaching professionals in adequate numbers with specific allocation for female teachers to enhance delivery of primary education services and address the gender gap in teachers
	DLI 6: Primary health care facilities with filled medical staff positions according to approved staffing norms	This DLI incentivizes the provision of medical professionals in adequate numbers to enhance delivery of primary health services
	DLI 7: Primary, middle, and high schools and primary health care centers have functioning basic infrastructure	The DLI incentivizes the provision of climate resilient basic infrastructure in primary schools and health centers
RA2: Improved management of public resources for delivery of education and health services	**DLI 3**: Increased recurrent expenditure for repairs and maintenance of public investment assets .	The DLI incentivizes the GoKP to allocate budget resources for repairs and maintenance. At present, most capital investment deteriorates due to lack of maintenance and repairs and, in some cases, the result of climate related shocks such as flooding
	DLI 4: Availability of essential supplies in schools and hospitals, and increased transparency.	This DLI incentivizes automation to improve supply chain management for supply of essential medicine; improve transparency in payment for services; and ensure business continuity in case of disaster
	DLI 8: Increased facility level responsibility for budgeting and spending in primary and middle schools.	This DLI incentivizes further decentralization of responsibility for budget preparation and spending to the facilities, i.e. schools and health care centers

Risks and Mitigation Measures in the Program Action Plan (PAP)

62 **The proposed reform will need to address stakeholder risk.** The proposed reforms will require consistent policies and strong ownership to succeed. While the Program is anchored in wider Government programs, it will affect behaviors of an array of stakeholders, some of which may be resistant to change. To mitigate this risk, the task team and the CMU must set up a project governing system that enables engagement and supervision through the highest levels of the provincial government.

63 **In terms of institutional capacity, this program will benefit from GoKP's increased experience in administering World Bank projects.** Furthermore, this will be the second Program for Results operation in the province. In light of this, the Program is less vulnerable to institutional capacity risk compared to previous World Bank operations.

64 **The Program will be vulnerable to Macro-economic risks.** This is primarily due to potential exposure to fiscal risks and due to COVID-19 pandemic. To mitigate the fiscal risk, the Program will support FD to strengthen budget credibility, and reform pension payments and PSC financing.

65 **Political and Governance risks may affect implementation.** There is risk of disruption as the

project implementation period will include an election year which may impact the achievement of Program objectives. To mitigate these risks, implementation will focus on laying a strong foundation for results by tackling the most difficult reforms in the early years.

Economic Analysis

66 **The expected net gains from the project are positive and significant.** Given the deliverables of the project, it is difficult to quantify the complete economics gains from the project, but we can project economic gains through reduced pension costs, improved fiscal management, operational efficiency improvements, and through the estimated lagged impact on growth of improvements in education and health expenditures.[32]

67 **The Program is estimated to have a positive net present value (NPV) of US$417 million (Table 9).** Reduction in fiscal risks associated with pensions will create additional fiscal space for public sector spending. Fiscal gains projected from reduced pension costs and improved fiscal management are estimated to be approximately PKR 497 billion. The Program also encourages the use of the fiscal space towards financing education and health expenditures, especially in non-wage recurrent expenditures to aid service delivery. Increase in education expenditure by 1 percent of GDP is expected to have an impact of 0.2 to 0.3 percent on growth. It is estimated that if the majority of the fiscal savings are used for education and health expenditures, the impact on national GDP growth is estimated to be 0.02 percent per annum from FY22 to FY26. The efficiency gains from the Program will serve to improve the investment case for health and education, and the likelihood of larger, sustained allocations.

Table 9: Estimated Summary Cost-Benefit analysis of the project (in US$ million)

		FY21	FY22	FY23	FY24	FY25	FY26	Total
Result Area 1	**Cost**	36	82	91	91	64	55	419
	Benefit	0	133	165	179	189	215	881
Result Area 2	**Cost**	20	59	59	59	49	39	285
	Benefit	32	88	81	74	57	43	376
Other costs	**TA costs**	4	4	4	4	4	4	25
	Total costs	60	145	154	154	117	98	729
	Total benefits	32	221	246	254	246	258	1257
	Net benefits	-28	76	92	99	129	160	528
	Net Present Value at 7% discount rate	-28	71	80	81	98	114	**417**

68 **The project is also expected to have gains by building KP's resilience to economic shocks like the COVID-19 pandemic.** With improved fiscal management practices and institutionalization of measures for improvement of technical efficiency and managing core fiscal risks, it is expected that KP will improve its ability to withstand future economic shocks, as well as mitigate the economic fallout of the COVID-19 pandemic in the province.

[32] The projections for baseline pension costs and revenue are based off the per annum growth rate between FY09 and FY19 using IFMIS and fiscal data made available by the Controller General of Accounts (CGA) and Ministry of Finance.