

ANNUAL PROGRESS REPORT REGARDING PUBLIC FINANCIAL MANAGEMENT REFORM STRATEGY FOR FINANCIAL YEAR 2018-19.

Public Financial Management (PFM) Reform is one of the important component of Sindh Public Sector Management Reform Project (SPSMRP) initiated by the Government of Sindh in the April 2015, with the Assistance of World Bank i.e. US \$50 million IDA Credit No: 5584-PK, with the objective to strengthen Public Sector performance through improved revenue generation & expenditure management. Enhancing performance of PFM is a focused area, aimed at strengthen PFM System by improving budget formulation, execution and related over sight mechanism. The interventions include: transparency in budget formulation and execution, improving debt management practices, Predictability & availability of development funds. This sub-component is also supported by European Union under Public Financial Management Support for Pakistan with assistance of US \$12.00 million. The project development objectives (PDOs) of SPSMRP and outcomes / milestones of PFM are interlinked & support each other on various activities.

2. The PFM reform strategy is an ambitious program with many inter connected components. The strategy is approved by the Sindh Cabinet in October 2014 and is being implemented by PFM Action Plan (PFM-AP) approved by Provincial Steering Committee of SPSMRP & PFM-SPP headed by Chairman, Planning & Development Board in July 2015. The Action Plan, i.e. 10 years reform agenda consists of 5 pillars & 25 outcomes is phased out as under;

Short term -2015-2017, Medium term -2017-2020, Long term -2020-2025

3. The Government of Sindh took various initiatives since financial year 2015-16 to improve transparency and good governance through PFM reforms strategy.

1. PILLAR

Resource Mobilization & Debt Management:-

4. Tax Reform Unit (TRU) and Debt Management Unit (DMU) have been established in Finance Department during FY 2014-15.

Tax Reform Unit (TRU):

5. In order to implement Sindh Tax Reform Management Reform to mobilize revenue, a Tax Reform Unit was established in Finance Department in July 2014 which would generate data & information, design and implement specific imitative for rising

optimal tax revenue and orchestrate a tax policy dialogue among tax administration entities. TRU will coordinate to three tax collection agencies of Government of Sindh i.e Sindh Revenue Board, Excise, Taxation & Narcotic Control Department and Board of Revenue to enhance revenue collection.

6. Under the STRMP, the Sindh Revenue Board increased its revenue on Sales Tax on Services through various reforms initiated under the SPSMRP and achieved all targets values assigned under the SPSMRP from FY 2014-15 to 2018-19. In addition to that the Sindh Revenue Board has also developed an automation plan for tax collection & administration which increased automation of SRB systems. The risk-based criteria for the carrying out of taxpayer audits and fraud investigations is also in place. Tax base has also been increased under the reforms.

Debt Management Unit (DMU):

7. To keep the Debt Management system in the province, a Debt Management Unit was also established in Finance Department in July 2014 which would have an active and functional debt management office within FD structured along functional lines: Back, Middle and Front Office, where the operational, analytical and execution functions are no longer segregated, developing a procedures, manual for borrowing, consolidating Debt Database, Formulating a Debt Management Strategy and undertaking Debt Sustainability Analysis, designing an Operational Risk Management Plan. External Debt Management procedure and operation manual for Government of Sindh notified in FY 2014-15. Finance Department conducted a debt sustainability analysis and publication on its website.

Internal Audit Unit (IAU):

8. The establishment of Internal Audit function in Government of Sindh is one of the Intermediate Result Indicator under the SPSMRP. The purpose of this reform is to strengthen internal controls and public governance standards. Internal audit function through process mapping and work assessment exercise will greatly add to improved operations, which in turn improve service delivery. With the approval of competent authority, i.e. the Chief Minister Sindh the Internal Audit Function is rolled out in the following four departments.

- i. Finance Department;
- ii. Home Department;
- iii. Health Department;
- iv. School Education & Literacy Department.

9. A National level Information Dissemination workshop on Internal Audit was organized in Karachi on February 7, 2019 in which all stakeholders participated including officials of sister provinces and representative of World Bank team.

PILLAR 2. PLANNING & BUDGETING

10. Main activities under this Pillar include:

- i. Diagnostic study on issues in Regional Statistics and way forward.
- ii. Diagnostic study on Public Investment Management in Sindh presented to P&DD.
- iii. Completion of a new and improved website for P&DD.
- iv. Concept Note on establishment of a Research & Training Wing (R&TW) in P&DD, including TORs, structure of the wing, qualifications of the researchers etc. This was approved and the work on establishing the wing was initiated.
- v. Draft of the Planning Manual was submitted to P&DD for approval.
- vi. Initiation of Strategic Planning exercise to prepare sectoral plans in the Environment Department and Livestock & Fisheries Department.
- vii. Continued support for preparation of Budget Strategy Paper (BSP). BSP is 3 years rolling plan that sets policies & priorities of the Government in medium term. BSP is a concrete framework for the preparation of departmental budget forward estimates and the development of detail budget policies. Budget Strategy Paper was developed for financial year 2018-19 and approved by the Provincial Cabinet of Sindh and submitted to the Secretary Provincial Assembly for placing it before Standing Committee on Finance.
- viii. Support in preparation of an improved Salient Features of the Budget.
- ix. Further improvement was done in Budget Call Circular (BCC).
- x. Cash flow forecasting tool designed.

PILLAR 3. BUDGET EXECUTION, REPORTING, ACCOUNTABILITY, AND TRANSPARENCY

- i. Initiation of exercise for measuring contingent liabilities in Government of Sindh.
- ii. Support provided on Commitment Accounting.
- iii. Continued support in FMIS for preparation of Revised Estimates, and the Final Re-appropriation Order.
- iv. Continued support for Development of Quarterly Report for Sindh Assembly from FMIS.
- v. Analysis of budget, expenditure, and payroll issues in Schools Education & Literacy Department with subsequent correction in budget and posts.
- vi. Support to AG Sindh in final accounts.
- vii. Continued support to FD and AG in accounting matters such as revaluation of investments and its reporting.

PILLAR 4. EXTERNAL OVERSIGHT

10. The activities pertaining to Provincial Assembly are henceforth dealt with under a separate EU funded project called SUBAI and is not part of the existing Action Plan.

PILLAR 5. INSTITUTIONAL FRAMEWORK AND SUPPORT SYSTEMS

- i. Seminar was conducted to develop consensus on the positions of Chief Financial Officer (CFO) in Public Sector.
- ii. Training on BCC for Administrative Departments.
- iii. Training on PFM to Budget Officers at divisional level. Three divisions were covered during the year. More than hundred DDOs attended.
- iv. Training on Pension Rules & Regulations to Administrative Departments.
- v. Submission of draft Sindh Public Finance Administration Act to Provincial Assembly.
- vi. Submission of draft Sindh Financial Rules to Finance Department.
- vii. Submission of draft Treasury & Subsidiary Rules to Law Department for legal vetting.
- viii. Delegation of Financial Powers and Financial Control Rules, 2019 approved by Provincial Cabinet and notified by Finance Department in May, 2019.