REPORT NO.: RES41827

DOCUMENT OF THE WORLD BANK

RESTRUCTURING PAPER

ON A

PROPOSED PROJECT RESTRUCTURING

OF

PK SINDH PUBLIC SECTOR MANAGEMENT REFORM PROJECT

APPROVED ON JANUARY 28, 2015

TO

ISLAMIC REPUBLIC OF PAKISTAN

GOVERNANCE

SOUTH ASIA

Regional Vice President: Hartwig Schafer
Country Director: Patchamuthu Illangovan
Regional Director: Zoubida Kherous Allaoua
Practice Manager/Manager: Ismaila B. Ceesay
Task Team Leader(s): Charles Victor Blanco, Jose Eduardo Gutierrez Ossio
I. BASIC DATA

Product Information

<table>
<thead>
<tr>
<th>Project Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project ID</td>
</tr>
<tr>
<td>P145617</td>
</tr>
<tr>
<td>Original EA Category</td>
</tr>
<tr>
<td>Not Required (C)</td>
</tr>
<tr>
<td>Approval Date</td>
</tr>
<tr>
<td>28-Jan-2015</td>
</tr>
</tbody>
</table>

Organizations

<table>
<thead>
<tr>
<th>Organizations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Borrower</td>
</tr>
<tr>
<td>Islamic Republic of Pakistan</td>
</tr>
</tbody>
</table>

Project Development Objective (PDO)

Original PDO

The development objective of the Project is to strengthen public sector performance in the Province of Sindh through improved revenue generation and expenditure management.

Summary Status of Financing

<table>
<thead>
<tr>
<th>Ln/Cr/Tf</th>
<th>Approval</th>
<th>Signing</th>
<th>Effectiveness</th>
<th>Closing</th>
<th>Net Commitment</th>
<th>Disbursed</th>
<th>Undisbursed</th>
</tr>
</thead>
<tbody>
<tr>
<td>IDA-55840</td>
<td>28-Jan-2015</td>
<td>11-Mar-2015</td>
<td>28-Apr-2015</td>
<td>31-Aug-2020</td>
<td>50.00</td>
<td>47.38</td>
<td>0</td>
</tr>
</tbody>
</table>

Policy Waiver(s)

Does this restructuring trigger the need for any policy waiver(s)?

No

I. SUMMARY OF PROJECT STATUS AND PROPOSED CHANGES
Project Status

1. The Sindh Public Sector Management Reform Project (PSMR) (US$50 million) was approved by the Bank on January 28, 2015 and became effective on April 16, 2015. The objective of the Project is to strengthen public sector performance in the Province of Sindh through improved revenue generation and expenditure management. The Project consists of two components: (1) Results-based financing to provide an incentive for achieving Public Sector Management (PSM) reforms; and (2) Technical Assistance (TA) to support capacity building and institutional strengthening associated with the achievement of eligible reforms.

(i) Result-based Financing: Under Component 1, the Project reimburses expenditures incurred by the Government of Sindh (GoS) in selected key budget line items, so-called Eligible Expenditure Programs (EEP), through credit disbursements based on the achievement of disbursement-linked indicators (DLIs). The activities comprise increasing tax revenue mobilization, enhancing the performance of public financial management (PFM) systems, improving management of the development portfolio, and strengthening of public procurement.

(ii) Technical Assistance (TA): Under Component 2, the Project supports technical consultancies and capacity building activities, including training seminars, conference participation, and equipment purchase.

2. The project was restructured on June 16, 2018 after the mid-term review mission. The main objective of this Level 2 restructuring was to adapt the design of the project to the current context without changing the Project Development Objective (PDO). The restructuring comprised the revision of some DLIs and intermediate results indicators (IRIs) to make them more substantive and to better adapt them to the current project’s conditions. In particular, the restructuring enabled the project to clarify the scope of activities in public financial management and debt management. In addition, public procurement challenges in defining the right scope and commencing implementation delays were addressed. The Project had a moderately unsatisfactory (MU) rating at the time of restructuring which over time has gradually improved thanks to the client’s commitment and the changes made during the restructuring of the project.

3. The Project’s results to date show good progress and the PDO is on track to be achieved. The PDO 1 indicator on the Sales Tax on Services (STS) revenue collection has been performing satisfactorily. Also, the PDO 2 indicator on budget credibility shows satisfactory progress.

4. Currently all DLIs have been achieved as well as the related intermediate indicators except for the IRI of the establishment of internal audit function, which is partially achieved. On the latter, some reports and decisions for the Principal Accounting Officer (PAO) of the involved departments are still pending and the Economic Reform Unit (ERU) is working and coordinating with them to achieve the established objectives.

5. Overall, the Project is currently rated Moderately Satisfactory (MS) as a result of the slow use of the TA funds of Component 2 under the Sindh Revenue Board (SRB). SRB has been proactive in planning key ongoing procurement processes to speed up the use of the TA funds.

6. As of May 15, 2020, the Project has disbursed around US$47.38 million of its project envelope of US$50 million and completed the disbursements against all its DLIs. There are no outstanding audit reports under the Project. The audit report for the financial year ended June 2019 was received in due time.

7. The Project has complied with the 12 legal covenants. The last legal covenant about the Tax Reform Unit (TRU) has been completed and is operational.
Rationale for Restructuring


9. The current COVID-19 situation has created a health as well as an economic crisis with an uncertain time span. Moreover, the containment measures that Federal and Provincial Governments have taken to mitigate its impact are delaying the pace of project implementation. Even though most of the procurement activities under the project were progressing adequately in recent months with a high likelihood of being completed on time, the COVID-19 has impacted their effective completion by the project closing date. First, vendors under already signed contracts are facing challenges to effectively deliver the goods as some supply chains have been disrupted. Second, the lock down of Karachi and closure of some government departments are delaying vendors’ access to government facilities to deliver, setup and configure the Information and Communication Technologies (ICT) equipment. Third, the lock down is also holding back some technical assistance activities as some of them require data collection from administrative records that are not available in digital format and/or in electronic version.

10. Proper completion of these procurement activities is key for the improvement, strengthening and above all the sustainability of the objectives and targets achieved. Some of these procurement activities include (i) ICT equipment for Monitoring and Evaluation Cell (MEC), (ii) ICT equipment for the Planning and Development Department (P&DD) and Bureau of Statistics (BoS), (iii) the replacement of the data center in SRB, and (iv) the acquisition and implementation of an Enterprise Resource Planning solution and Business Intelligence for SRB. Completion of these activities will allow the continuity of project targets achieved after the project closing date, such as the automation of SRB systems for the effectiveness of taxpayer registration and collection of tax payments through increased automation of several key systems, including the issuance of automated notices. Therefore, the task team recommends the extension of the project closing date by six months, from August 31, 2020 to February 28, 2021.

11. The task team has recommended that the counterparts be vigilant about the health guidelines during the lock down and after it is lifted to ensure the health of the public officers and the vendors’ staff. In addition, the task team has recommended that activities that can be completed remotely should be prioritized.

12. Consistent with this request, the restructuring proposes an extension of the project closing date until February 28, 2021 and related revisions of the procurement time-frame plan and implementation schedule. There are no other changes to the project. In particular, the Project Development Objective (PDO), the implementation arrangements, and the project’s risks and safeguards remain unchanged. The proposed changes of the restructuring are:

(i) Extension of Project Closing Date: To allow for a completion of project activities, particularly the procurement for the data centers, it is proposed to extend the project closing date by six months from August 31, 2020 to February 28, 2021,

(ii) Change in Procurement time-frame: To align the procurement time-frame to the new closing date without substantial changes in the scope and modalities of the activities.
# II. DETAILED CHANGES

## LOAN CLOSING DATE(S)

<table>
<thead>
<tr>
<th>Ln/Cr/Tf</th>
<th>Status</th>
<th>Original Closing</th>
<th>Revised Closing(s)</th>
<th>Proposed Closing</th>
<th>Proposed Deadline for Withdrawal Applications</th>
</tr>
</thead>
<tbody>
<tr>
<td>IDA-55840</td>
<td>Effective</td>
<td>31-Aug-2020</td>
<td>28-Feb-2021</td>
<td>28-Jun-2021</td>
<td></td>
</tr>
</tbody>
</table>