

Dear reader,

Greetings from PFM-KIN!

It gives us immense pleasure in bringing the Inaugural Newsletter of PFM-KIN to you.

PFM-KIN, a Community of Practice for PFM practitioners started a year back to provide a platform for knowledge exchange to its members, facilitating peer to peer learning. Over the last few months, the PFM-KIN team invested time in strengthening the foundation – i.e. three key areas of Knowledge Products & Content Management, Web Portal Re-Design & Development and Stakeholder Engagement. Based on this, over 80 topics of interest identified by 20 State Governments in India have been collated for further technical deep-dives and documentation of Good Practice Notes. In an effort to make communication more effective, the web portal, www.pfmkin.org, is being re-designed and upgraded, and is expected to be launched by September 2019. To augment engagement, 9 states have nominated nodal officers for PFM-KIN, who represent the interest of the State in the working group meetings of PFM-KIN. The First Meeting of the Working Group of the CoP was organized in November 2018, attended by the states of Himachal Pradesh, Chhattisgarh, Nagaland and Mizoram. In addition to the four annual PFM Conferences held since 2014, three bilateral knowledge transfers have taken place virtually among States under the aegis of PFM-KIN.

Through this newsletter, we bring to you a glimpse of the recently organized PFM Technical Deep-Dive session in New Delhi, with an overwhelming participation of over 90 PFM practitioners from across the country. In addition, you can get an insight into models of effective fund and expenditure management through two good practice briefs discussed in the newsletter.

We look forward to bringing to you an informative newsletter periodically. We will bring to you case studies on ‘e-Kuber integration’ and ‘electronic submissions to the Accountant General’ in our next edition. Please feel free to send us your suggestions, areas of interest as well as contributions for the newsletter at pfm-kin@worldbank.org.

We thank you for your continued support!!



Public Financial Management - Knowledge & Innovation Network

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PFM ROUND TABLE

NEW DELHI | MAY 9 & 10, 2019

Under the aegis of 'Lighthouse India', the World Bank organized a PFM Round Table on May 9 & 10, 2019 in New Delhi with the objective of facilitating a peer-to-peer exchange among State governments on their experience of implementing reforms in select areas of public financial management (PFM). A total of 93 PFM practitioners attended the event, with representation from senior officials of Finance Departments of eight states - including those with on-going PFM projects supported by the World Bank and Asian Development Bank, and representatives from Department of Economic Affairs (DEA), Comptroller & Auditor General (C&AG), Controller General of Accounts (CGA), National Informatics Centre (NIC) and Government e-Market Place (GeM). This was the fourth knowledge sharing event in a series of exchanges organized by the World Bank in public financial management in India since 2014.

The agenda for this consultation was decided after considering the priorities of participating states. Three specific areas of interest were selected for this first technical deep-dive - i) Discontinuation of Letter of Credit (LoC) for Works Department & Submission of accounts and vouchers to the AG in the electronic form; ii) E-procurement; and iii) Budget Transparency and Accountability. The sessions were designed to facilitate a high degree of interaction. The Roundtable concluded with a high-powered panel discussion, co-chaired by Mr. Junaid Ahmad, Country Director, World Bank and Mr. Sameer Khare, Additional Secretary, DEA, on way forward.

Key takeaways from the two-day event were:

Overall,

1. States must be clear about the objective of change and should assess whether new systems have successfully delivered the requisite change.
2. Multi-lateral development agencies like the World Bank, ADB and IMF must work together to enable India to achieve its developmental goals more effectively and without duplication in efforts.

Interventions at the Union level,

1. There is a need for proactive guidance and active engagement from the C&AG in the PFM reform process for coherent and uniform development across states. An agreement to form a core group of Finance Departments of Assam, Himachal Pradesh, West Bengal and Kerala, under the chairmanship of DG (Govt. Accounts), C&AG was reached.
2. Central and State institutions must act as a 'Lighthouse' for one another to build capacities down to the level of the local government. They must 'implement, share and innovate' to prevent re-inventing the wheel while undertaking PFM reforms.
3. It is time to think about an overarching legislation in Public Finance in India.

States,

1. See merit in discontinuing with the LoC system. While there is no uniformity in the approach and processes adopted to achieve this, they acknowledge that transformation is more behavioral than technological.
2. While e-procurement first started in India in 2003, an inertia has crept into the full-scale adoption of e-procurement systems among Indian states. An impetus is required to invigorate the process again and incentivize states to use e-procurement platforms to their full potential.
3. Budget transparency is a low hanging fruit that can have far reaching effects for state governments. To achieve this, the Executive must lead from the front as in other countries.

“In the process of this partnership with the World Bank, you [Punjab] will have to develop institutions in the state, and build that capacity so that after 5 years when the partnership ends, the state is in a position to do everything on its own and can become a lighthouse for the other states.”

- **Sameer Khare, Additional Secretary, DEA, Government of India**

“Projects don’t necessarily mean strengthening of state capabilities. For strengthening of state capabilities, the states will have to invest in systems whether it is system of PFM or monitoring & evaluation of local governments. The shifts that the Union Government is making, whether it is bringing in GST, or a shift from Planning Commission to Niti Aayog, necessitates State Governments to rethink how they plan, budget and execute both at the state and local government levels.”

- **Junaid Ahmad, Country Director, The World Bank**

“There are different systems in different states and each is at a different level of maturity. If we want to get a common software developed and get online systems in place, we should recognize that there is commonality in the programming and rules which can be codified. The Government of India came out with an entirely new concept ‘IndEA’ last year. That could be a framework for easy replication across states which are at the initial stages.”

- **Pawan Kadyan, Joint Secretary, Government of West Bengal**



GOOD PRACTICE BRIEFS

Efficient Fund and Expenditure Management

BRIEF # 1

Ensuring timely and full salary payments to field staff

Tejaswini - Socioeconomic Empowerment of Adolescent Girls and Young Women | Jharkhand



The Tejaswini project is being implemented through by the Jharkhand Women Development Society (JWDS), a society under the administrative control of the Department of Women & Child Development and Social Security, through several non-governmental organizations (NGOs) which hire professionals to execute initiatives on the ground. The arrangement under the project is that the JWDS shall reimburse 'salaries' paid to these professionals by the NGO. The government did not want to pay a lumpsum amount to the NGO for salary reimbursements as they feared that the NGO would pay less than the total amount claimed, and use the balance funds for other purposes. Therefore, the government decided to adopt

the 'Parent – Child' account concept on this project. The process flow was so designed that the NGO would prepare a detailed salary sheet and send it to the District Office for approval. The District Office would approve and forward the same to the JWDS, which would then release the total amount from its bank account (called 'Parent' account) to the NGO's bank account (called 'Child' account) to be transferred into staff's salary accounts immediately, so that the balance of the 'Child' account would be zero at the end of any given day. This approach addressed the twin problems of delay and lower payments to field staff by NGOs.

Earlier practice:



New process:



Improved liquidity management & accountability

Agribusiness and Rural Transformation Project | Assam

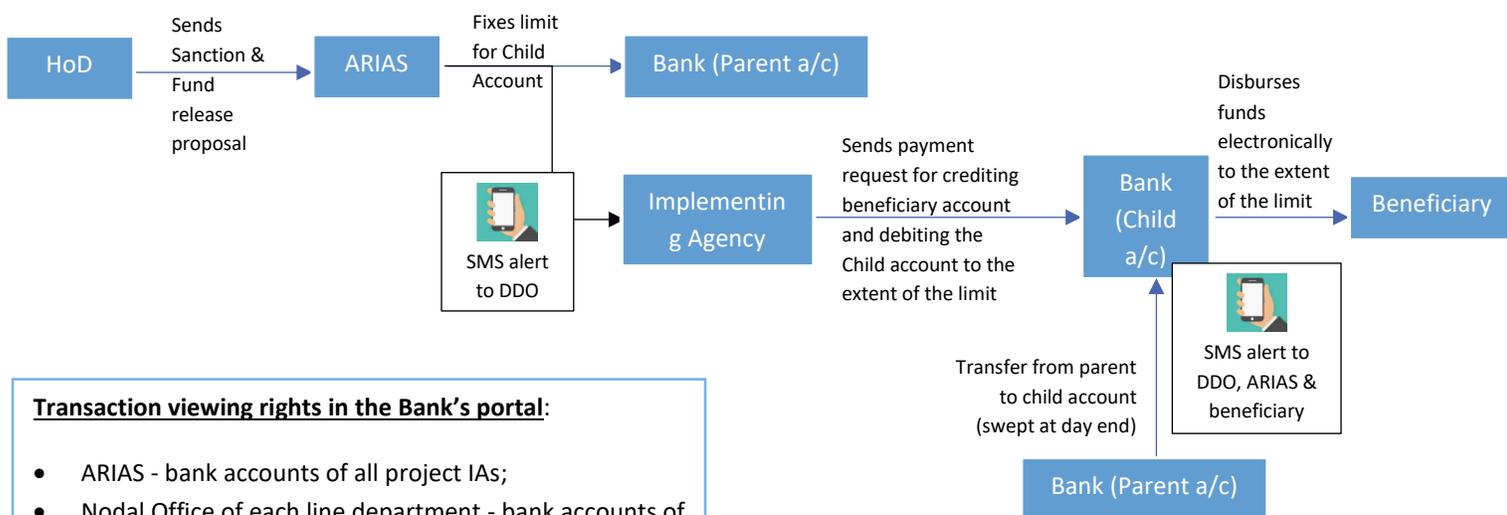
The Assam Agribusiness and Rural Transformation Project (2017-24) is a third in the series of agriculture and rural development investment in the state. The project is led by the Agriculture Department, with 7-9 other departments involved in implementation. In the earlier two projects (1995-2004 and 2004-2015), a decentralized approach to fund transfer was adopted to drive activities at the department and community level. ARAIS, a society formed by the Agriculture department – the Project Coordination Unit (PCU), would transfer funds to over 80 implementing agencies (IAs) which financed on-field efforts of more than 1000 community groups. It was observed that fund utilization rates were often low, and funds would lie idle in some IAs and there would be shortfall in other.

To overcome these issues, a Centralized Fund Management system has been adopted in the latest project. MoUs have been signed between ARIAS and various banks across Assam for specific departments to maintain parent-child accounts. Each IA has opened a zero-balance bank account (Current Account) with a convenient branch of the same bank where the parent account is opened by ARIAS for respective line Departments - this is the Child account. Any payment made from child account within the limit would be swept from the Parent account (maintained by ARIAS) at the end of every day, thus the Child account at every day end will have a zero

balance. Based on the Annual Work Plan, each Drawing and Disbursing Officer (DDO) prepares a quarterly expenditure forecast and submits to ARIAS through the respective Head of Department (HoD). This is used by ARIAS to authorize a sanction limit for the quarter to the IA, which is used for releasing payments by the latter. The detailed process is explained in the diagram below. This business process change has improved cash management significantly:



- Cash withdrawal above INR 5,000 have been discontinued;
- All beneficiary payments are transferred electronically, with reported efficiency of payments being released within a day, as compared to the earlier timeline of 2 months;
- ARIAS can now effectively monitor the unutilized amount and take necessary steps to reallocate authorizations between departments in a timely manner;
- Banks provide a monthly MIS to ARIAS to ensure accurate financial reporting and accounting of transactions.



Transaction viewing rights in the Bank's portal:

- ARIAS - bank accounts of all project IAs;
- Nodal Office of each line department - bank accounts of all IAs under the respective line department;
- DDO – respective Child A/c only

Union Budget 2019-20

The new government is ready to present the first budget of its second term on July 5th, 2019. While the highlight of the first term was the Goods and Service Tax (GST) Act, the focus of this Budget is expected to be on reviving agriculture and stabilizing GST besides undertaking structural reforms across sectors to aid growth. Achieving the objective of becoming a \$ 5 trillion economy over the next 5 years propelling India to be the fastest growing economy in the world requires broad-based reforms and the Budget provides the perfect opportunity for ushering those in.

Many articles in the news are providing insights into the expectations of the citizens from the budget. Below are some of the article that may interest our reader:

Budget may address issues in strategic sectors to support growth: Report

The expectations of the private sector from the upcoming Budget are manifold. There is emphasis on reviving the domestic growth momentum with focus on strategic sectors like infrastructure, aviation and power, as claimed in [this](#) report from Dun and Bradstreet.

<https://www.livemint.com/budget/expectations/budget-may-address-issues-in-strategic-sectors-to-support-growth-report-1561646702851.html>

Improving investor confidence: Good opportunity in the Union Budget 2019-20

Budget is also being seen as an [opportunity](#) for simplification of the tax brackets, introduction of Direct Tax Code and reforms by the government to bolster investor confidence and boost economic growth.

<https://www.livemint.com/budget/expectations/improving-investor-confidence-good-opportunity-in-the-union-budget-2019-1561044158504.html>

Budget 2019: Social sector seeks fiscal incentives for boosting health, education

[Expectations](#) of the social sector include incentives for public investment in social infrastructure like education, health in the form of increased budgetary allocations.

<https://www.indiatoday.in/budget-2019/healthcare/story/budget-2019-social-sector-seeks-fiscal-incentives-for-boosting-health-education-1549339-2019-06-15>

On the expenditure side, the government is likely to continue its endeavor of cooperative federalism as well, which got impetus post implementation of the 14th Finance Commission recommendations. The States now have greater autonomy and flexibility to make development choices which best fit their needs. Efficient governance structures for transfer and management of these resources, intra-State as well as between the Centre and States, will aid and enable such endeavors. With larger resources being allocated to the States, emphasis on transparency and accountability is also expected to increase. This objective will hopefully translate into PFM reforms.

PUBLICATIONS

Would UDAY brighten up Rajasthan finances?

2017, India
NIPFP

A **Discussion Paper**, this 10-page publication analysis the state of finances of Rajasthan and how it will be impacted by the power sector consolidation & debt restructuring under the UDAY scheme. The authors project the fiscal profile of Rajasthan over the period 2017-18 to 2026-27 after taking into account restructured power sector debt to conclude that Rajasthan will produce a revenue surplus only in fiscal year 2026-27. It raises some pertinent questions towards the end in terms of what barometers be used for states to judge their fiscal position and performance and what will be the likely impact of rationalizing state debt to GSDP down to 20% by 2023, among others.

https://www.nipfp.org.in/media/medialibrary/2017/08/Pages_from_Seminar_papers-3.pdf

Challenges in Analyzing Public Expenditure for Nutrition in Bihar

2017, India
CGBA & UNICEF

A **Working Paper** about gaps in data generated by government information systems. Taking the example of nutrition in Bihar, the paper states failures and challenges in accumulating data while tracking nutrition budget at the state and district level. It is a starting point for governments interested in addressing data concerns.

<http://www.cbgaindia.org/wp-content/uploads/2018/04/Challenges-in-Analysing-Public-Expenditure-for-Nutrition-in-Bihar.pdf>

Public Investment Management

2016, London
Overseas Development Institute

An **Introductory Guide** to Public Investment Management (PIM), this publication discusses three main topics over a span of 10-pages – i) Definition and Challenges of PIM; ii) Systems of Public Investment Management in Low-Income Countries and iii) Lessons for Low Income Countries. The publication delves into operational aspects such as investment appraisal, selection of new investments in the budget, project implementation, operating and maintaining assets and investment evaluation.

<https://www.odi.org/sites/odi.org.uk/files/resource-documents/11064.pdf>

Managing Change in PFM System Reforms

2015, Washington DC
The World Bank

A **Publication** is a guide to change management while implementing digital solutions in the public sector. While its findings may appear generic, its uniqueness lies in the change management practices captured across the OECD, MNA and LCR regions as well as at a country level, covering Argentina, Chile, France, Philippines and Turkey. There is a checklist provided at the end for practitioners to use.

<http://documents.worldbank.org/curated/en/993981509959603664/pdf/120928-3-11-2017-7-50-10-ManagingChangeinPFMSystemReformsFMISGuidanceNote.pdf>

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Step 2 – Click on **Login/Register** on the top right side of the page

Step 3 – Enter your details in **Register**

Step 4 – Check Inbox of the email ID given by you for email from PFM_KIN. **Ensure you check your SPAM folder.**

Step 5 – Once you receive the Admin's approval, you shall be asked to re-set your password within 24 hours.

Step 6 – Login on the home page after re-setting your password to access the website.

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