CSEP-World Bank Seminars on
India’s Public Financial Management (PFM) System –
Post-COVID-19 need and opportunities for reforms

Session 2: Taking stock of the PFM reforms – the road ahead

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Opening Remarks:

Hisham Waly – Practice Manager, World Bank.

Panellists:

Pinaki Chakraborty – Director, National Institute of Public Finance and Policy

Ashutosh Vajpeyi – Joint Secretary (Economic Affairs), Government of Rajasthan and Project Director, Rajasthan PFMS Project

Prabodh Saxena – Additional Chief Secretary (Finance), Government of Himachal Pradesh

Mridul Saggar – Executive Director, Reserve Bank of India

Closing Remarks:

Anoop Singh – Distinguished Fellow, CSEP

Moderator:

Manoj Jain – Lead Governance Specialist, World Bank

For more details on the event:


The following is an edited and revised transcript from the event. It has been generated by human transcribers and may contain errors. Please check the corresponding video for the original version.
Manoj Jain: Hello, good afternoon, good evening and good morning to all from wherever you’re connecting from. Just to introduce myself, I am Manoj Jain. I work with the World Bank. I’m a Lead Governance Specialist, and I’m leading the governance and PFM program for the World Bank in India. And I will be your host and moderator for this webinar. As you know, this is the second of the three-part series being hosted by CSEP in collaboration with the World Bank. The 15th Finance Commission has outlined in the chapter 12 and 13 of its report, the fiscal consolidation roadmap as also the fiscal architecture, essential for improving the quality and efficiency of public spending and PFM across ail levels of the government. In the first one, which was held last week, the discussants focused on fiscal governance issues and how quality and timeliness of the underlying PFM is very important for this purpose was actually highlighted. In the second one, which is being held today, we propose to take forward the discussion to explore the PFM Reform landscape.

Firstly, to understand what reforms have been undertaken so far, and what are the political reform areas in which more work is actually required? Secondly, how can stakeholder consensus be built around the proposed reforms and how to develop a roadmap for this implementation. And just to build in the context, the FFC in its report, has emphasized on the following reform aspects. Number one, strengthening macro-economic and fiscal forecasting at the union and the state level, making planning more strategic and holistic with union and state at presenting the medium-term policy statements like, MTFP, MTEF and MTBF. Enhancing performance orientation of the budgets to integrate the performance information in the budgets being prepared by the unions and the state, which will help in the monitoring as well as the decision making, along with the required reforms in the operation access, which should include one of the accounting standards, the one in terms of the budget and account code or the classification, in terms of the entire representation of the budget, in terms of implementing, monitoring and the evaluation aspects as well.

And last, but not the least, in terms of strengthening accountability and transparency in the entire PFM process. So as a start, let me turn to Hisham, who will provide the opening remarks today. Hisham is currently working in the global practice of the governance of the World Bank, as a practice manager and is responsible for the program in India and Pakistan. He has spent more than 20 plus years in the bank in the areas of the operational policy, and in the regions of Middle East, North Africa and Africa regions, which includes actually preparing and supervising complex and innovative PFM operations in large set of countries such as Nigeria. So, I’ll hand over to Hisham for the opening remarks.

Hisham Waly: Thank you so much, Manoj. Good morning, good afternoon, good evening, everyone. So, I’m delighted to open the second webinar on India’s Public Financial Management System – Post COVID, Needs and Opportunities for Reform organized by CSEP and the World Bank. And it’s fair to say that we’ve seen how governments in many countries were at the heart of the response to COVID-19, which required the whole of government approach, which sometimes put stress on these governments because working across departments sometimes could be a challenge. But the pandemic itself required action on multiple fronts, ranging from public health measures to contain the virus, delivery of services, all the way to efforts to cushion the economic and fiscal effects.

The crisis in a way, when you think about it, acted like a stress-test in real life for PFM systems and the measure of their quality, capacity to adapt and resilience in the face of the pandemic as we’ve seen over the past, almost two years. I understand that the 15th Finance Commission has for the first time,
devoted a comprehensive and dedicated chapter on the subject and has encouraged government of India to improve PFM architecture and its performance. And this is absolutely critical for us, because it creates the needed entry points and also champions that we always rely on and seek guidance and support from. In this context, of course, I’d like to commend the FFC for recognizing the strong linkage between the fiscal issues and underlying Public Financial Management systems and architecture. I just also would like to add here, that I joined the first webinar, and it was great for someone that recently started to work on South Asia in general, and India and Pakistan, more specifically, to hear from the panellists, their perspectives on the fiscal governance issues that was held, I think, last Monday.

I think three observations that I was discussing with Manoj that came to mind based on the webinar, that I thought were the right observations from the teams, the stakeholders that joined, and also quite relevant to us, as we think about the way forward and our engagement in India as a bank. One, was the need for strong institutions and frameworks to plan, allocate, implement, report and assess the quality of public spending and public infrastructure. So, this came very clearly in the discussions, and I think it’s an excellent point. The second, which I was fascinated by, because our research at the Bank tells us, this is where most reforms fail. So, I was very glad and pleased and comforted to hear this raised as an issue of need, which is the need to build stakeholder consensus across all levels of the government. We’ve seen from different researches done in the bank, that durability of political will and government commitment, are key to PFM reform progress. It’s not only a technical aspect, it’s the non-technical drivers that we’ve seen key to the success of PFM reforms in many countries. So, having this political will, government commitment beyond cycles, is extremely important to ensure there is this sustainability of reform. And if you have time, at one point, I suggest you read the report on the political economy of PFM reform that was issued, I think, two years ago. And so, I think this report is also fascinating because it looked at case studies, and how the difference in when it came to this ‘political economy’ aspects led to success or failure of reforms. And the third point, which we’ve seen in many countries, and it’s easier said than done, and it’s so fascinating to hear many of us think of it as a logical step, which is having a holistic and coordinated approach to reform. And maybe one idea is to have a strategy for PFM reform in a specific country. I worked, as Manoj mentioned, around 78 countries. And those 78 countries, I would say, 10% had a clear strategy for Public Financial Management reforms. And it’s just fascinating as an entry point, but sometimes, you need to be opportunistic in your approach, because windows of opportunities open, and you need to capitalize on these opportunities.

But having a coordinated and holistic approach that looks at the big picture of what is needed, how to sequence reform, how to prioritize reforms, how to look at the nature of these reforms, is something that is quite important. And again, I was so pleased to hear the panel last Monday, discuss this as an area that we need to reflect upon. So, that was great for someone that recently joined South Asia. On the same part, is sometimes, we look at what other countries are doing and start to learn from them. And this is I think, one of the good things about the World Bank, is this global knowledge to know what’s happening in Brazil, what’s happening in Mexico, and take the experience from India, share it with them, and vice versa. One of the countries I worked on recently is Nigeria. And Nigeria is a federal state. And one of the things that we discussed at the time with the government of Nigeria at the federal level was, there were these big reforms and big acts have been put in place, but the implementation at the state level was lagging.

So, the conversation was how to incentivize the states to implement these actions. This was one. And two, as well, is how to create a process where bailouts, so the conversation around it is approached differently from federal to states. So, we designed with the support, of course, and the partnership with the Nigerian governments and the states, a $1 billion program that was called, State’s Fiscal
Transparency Accountability and Sustainability Program. So really, it's a program to support and incentivize participating states in the implementation of strategic set of reforms, with indicators ranging, for example, decrease in debt levels at the state level, increasing in the internally generated revenues at the state level, citizen access to procurement information, improve Treasury Single Accounts, removal of ghost workers from payroll, etc. So, these were some of the things that we discussed with the government of Nigeria in addition to the states, about implementing in order to improve the PFM, and of course, the impact on the ground, and how to move the PFM systems and the conversation from being a control function to more focused on how to improve public service delivery. In India, the Bank has close collaboration with the Government of India and states in the areas of PFM.

And of course, because it’s critical to India and critical to us as well in the bank. So, this perfect partnership is something that we’re very proud of, and definitely would like to continue and take to the next level in the relevant areas. Currently, we have five operations focusing on PFM in the state of Rajasthan, Himachal Pradesh, Uttarakhand, and Chhattisgarh, financing range of interventions in Public Financial Management. And I understand the finance secretaries and representatives from Rajasthan, and Himachal are here with us today, and I look forward to hear from them and also, exchange ideas going forward. The session today concentrates on taking stock of PFM reforms and how we build a road ahead in aligning the recommendations of the FFC, especially the need to evolve and agree on a comprehensive phase-bound sequence and time-bound PFM reform strategy for both the union and the states recognising the need for policy regulatory institutional reforms and leveraging technology to drive these reforms. Finally, I offer the World Bank’s full support in the process and look forward to the discussions here in the second webinar. And of course, meeting you in person hopefully, when I visit India, to take this conversation to the next level. I will now turn back to Manoj who has been leading this work program in India for us in an excellent manner, and to begin the moderation for today’s session.

Manoj Jain: Thank you so much for those remarks, which actually set the tone for this webinar and also, thanks for sharing the international examples, which are really very relevant for India in terms of looking at the political economy side of it, looking at the holistic reform side of it in terms of a clear-cut strategy and how to coordinate. But I think there will be a lot of lessons that would need to be learned, but they will need to be contextualized to India as we move along this reform path as laid down by the FFC. So, let’s start with the panel discussion now. We have four eminent speakers today, as you can see from the agenda which was circulated and the structure will be there. I will pose a common question about the implementation roadmap on the recommendations contained in the chapter 13 to each of the panel members along with a specific question which will be related to their domain. They will have about 12 minutes to actually provide their responses and after that, if we have time, we can ask them back for the second round. I’ll open up the panel to speak about the issue that have been raised and the others. We will also take up issues from the chat box later.

So, all those attending could actually post their questions in the chat box, and if also, I could possibly identify the specific members who should address them as well. So, first of all, we have Dr. Pinaki from NIPFP. He doesn’t need many introductions, but let me say a few words. He’s actually currently the director at the NIPFP in Delhi and prior to that, he has worked for several UN organizations. He was also a member of the Advisory Council for the 15th Finance Commission. He was also a member secretary for the Committee of Fiscal Statistics as well. So Dr. Pinaki, it will be really good to hear your suggestions on how to go about implementing the recommendation, which have been actually contained in these chapters of the FFC. And more specifically, you know, one of the major issues that FFC has raised, is about the absence of the medium-term focus on the resources and the expenditures
as part of the budgetary process, which often leads to unrealistic allocations, unrealistic projections, and as a result of which, the entire realism in the entire process is actually lost. So, what are the challenges in preparing a realistic medium-term fiscal plan both on the revenue side and the expenditure side, including the investment as well as the borrowing, and what could be the possible solutions to address them in the Indian space?

**Pinaki Chakraborty:** Thank you, Manoj. Dr. Singh, Mr. Vajpeyi, Dr. Mridul Saggar, Mr. Saxena, Dr. Hisham Waly, friends, I'm really grateful to World Bank and CSEP for inviting me to speak today on PFM reforms, especially on the recommendations of the 15th Finance Commission. I wanted to mention three specific observations made by the 15th FC in this regard. And these are; first one is to bridge the gap between high level PFM framework on constitution and the detail rules. Rationalizing the existing rules and make them internally consistent across union and states. And the third one is, build resilience in PFM framework. I think these are three very important pillars of PFM management. So, I would try to make comment on the last point that is, building resilience in PFM framework, which will include also, the Medium-Term Expenditure Framework. Now, it is well known that the weakest links in the PFM framework as mentioned in the FFC report, is the link between Medium Term Expenditure Framework and bottom-up costumer programs and budgets prepared by line departments.

So, that we have been discussing for quite some time and commission also has emphasized on having a more credible departmental Medium Term Expenditure Framework. We have a macro level MTFP if we are talking about states as well as for the centre. A lot has been said on this, in the past, attempts were also made by some states but it really hasn’t taken off. I don’t want to repeat those ideas here, but I wanted to emphasize that for a credible MTFP, a bottom-up plan is critical. Today, as I said, I shall focus on resilient PFM framework in a federal system for a credible Medium Term Expenditure Framework. Resilience of a system is based judged in times of crisis. So, I will also provide some fiscal data from state budgets for the year 2021 and 2021-22 B, which we have compiled in IPAP.

To emphasize this point, as it captures fiscal shock emanating due to the COVID 19 pandemic, resilient PFM framework in a federal system in my view, should also focus on source of instability in a PFM system arising due to the federal structure – I think that is something which is critical. And to my view, there are three very important issues here. First is, in the context of COVID, the increase in fiscal asymmetry across levels of government, particularly in times of shock, depending on revenue and expenditure assignments. Second is, the borrowing power of different levels of governments and availability of fiscal space and the issue of soft and hard budget constraints. We know that states operate under a hard budget constraint under Article 293. And the third issue is, reprioritization of expenditure depending on what is needed most in times of crisis. Now, let me focus on fiscal shock arising due to COVID. This is based on data of 28 states we have compiled in the institute. In the fiscal year 2021, most state governments except Madhya Pradesh, and Andhra Pradesh, had presented their budget during February-March 2020. That means it was before the pandemic.

Hence, the 2021-22 budget did not capture the likely impact of pandemic on finances of states. So, 2021-22 budget of state is therefore significant, as it is the first budget that captures the impact of COVID pandemic on the finances of the state governments for the year 2021, based on the revised estimates and 2021-22 budget estimates. Now, if we look at the revised estimates of 2021, and its comparison or deviation with the budget estimate of 2021 and the actuals of 2019-20, it will show the impact on state finances of the pandemic. Let me provide some fiscal data, very micro data, I want to say much on the data. Just three numbers. One is, the tax revenue. So, if we take own tax revenue aggregated across 28 states in 2021 revised estimate, that means last year’s data, was 15% lower than the budget estimate of 2021 and 16% lower than 2019-20 actuals. Among the social services, I just
took the health expenditure, we find the expenditure on medical and public health increased by 24%, which is higher than the 24% when you compare with 2019-20 actuals. Aggregate expenditure shows an increase of 14% when we compare with 2021 RE and 2019-20 B actual.

So, the point, and there has been a significant increase in debt and deficit. State level deficit increased from 2.6 to 4.4%. All this deviation in terms of standard PFM indicators, would appear as bad fiscal management. However, given the pandemic, can such a conclusion be made? How do we then evaluate Medium Term Expenditure Framework presented in 2021 budget and for that matter, in 2021-22 budget. Given that countries globally are dealing with the COVID and there will be fluctuations and deviations going forward in the medium term on both receipts and expenditure side, at the macro level, I think exposed evaluation need to go deeper into these issues that reflect reality of the situation. At a conceptual level, we need to discuss this issue and arrive at an indicator framework to evaluate and incorporate these shocks in MTFP during the COVID and the post COVID, at least, in the medium term. And in Indian context, I'd say, after FC cycle, we should at least, try to think of something which better reflect this crisis, better reflect the constraints, better reflect the resource constraints, as well as expenditure priorities.

Now, if we talk about analysis of the sources of shock in the federal system, as mentioned in the beginning, the analysis of sources of shock on the expenditure side of the budget needs careful analysis for the credible Medium Term Expenditure Framework. State service ceiling in India on capital expenditure imposed by the FRBM Act, it is important to understand, given the fluctuation in revenue and its implication on capital spending and our data shows that 24 states may have revenue deficit in 2021-22 budget. There is a risk as far as the fiscal space for capital spending at the state level is concerned. Again, if we examine 2021 B against 2021 RE, there has been a declining capital expenditure, then this year, it shows a 34% increase in capital expenditure. These numbers I believe, need to be decomposed into two components. I'm just talking about capital expenditure. It can be done for other components of expenditure as well. So, I believe this decomposition should have two components. If you're talking about a medium-term expenditure framework, which should reflect the crisis induced by the pandemic. One, deviation in a normal year and the deviation in an abnormal period.

In other words, some non-metric judgment is absolutely necessary, in my view, to understand the credibility of budget forecast, we just cannot say budgets have or there has been a deviation and so it was listed. I think we need to decompose between these two components; the abnormal component and the normal deviation. It cannot be judged by just looking at the deviation between an RE and B. And probably, we need to take at some stage, this discussion forward and then, see whether up to the half of the FC cycle, that means up to 2023-24, we can really have a better understanding of how do we reflect Medium Term Expenditure Framework that incorporates this shock. The next point is unplanned and non-planned distinction. A comprehensive PFM system will be the key to improve the PFM system. With that objective, the non-planned distinction was abolished, and it was also emphasized that this will also increase operation and maintenance expenditure and reduce bias towards having new developments beam. We need to examine how this has changed fiscal management at both central and state level.

So, we are, I think, in the fourth year of the abolition of planned and non-planned distinction, with that, such changes have occurred at the state level and central level in terms of abolition of scheme, better expenditure on operation and maintenance. And whether it is anything different than earlier years when we had planned and non-planned distinction. The last issue that I wanted to talk about is the Leading versus Lagging indicators. Not that I have a solution, but just at the conceptual level, and briefly speak about the Lagging versus Leading indicators in the PFM system, and number of
frameworks have been developed to standardize assessment of PFM performance over time and across countries. These are extremely important tools and significant contribution to the work of PFM. There's a need to work on the frontiers of these tools for better and improved fiscal management for better public service delivery outcomes. Most framework use lagging indicators by acknowledging the benefits of using leading indicators, which are more useful for analysis and desired gains from PFM reforms.

These leading indicators can be based on analysis of previous budget cycles to assess the strength of the current budget cycle, which also, using interim indicators to help policymakers cost correct during the cycle, instead of relying on end-to-end exposed expenditure data. For instance, tracking aggregate expenditure on revenue outturn, is a lagging indicator. But complementing these with leading indicators, such as the capacity of the personnel flexibility and reach of the IT system to allow just-in-time fund release, are equally important and can be monitored. Similarly, tracking fiscal risk indicators need to be supported by assessment or process, which ensures synergy between revenue expenditure stream and overall, fiscal target to ensure optimization of service delivery. These are my initial comments. I shall be happy to answer questions you may have later on.

Manoj Jain: Thank you, Dr. Pinaki, for those excellent observation, especially the one on the Leading versus Lagging indicator. I think that is a very interesting concept, because I think what you're actually suggesting is that you can use the entire year information in a much more proactive manner to help influence the policymaking, as well as the program implementation during the year itself, rather than waiting for the entire year to go and do a post-facto analysis from a PFM perspective, which does not even lead to policy issues. So, we will actually come back to these issues later on. Now, let me turn to Mr. Prabodh Saxena from Himachal Pradesh. Mr. Prabodh Saxena is currently in the government of Himachal Pradesh and he has been previously, principal secretary in the Department of Urban Development, Town and Country Planning, Housing Power and Non-Conventional Energy. He is also the main counterpart of the World Bank PFM project in the state. He has also been a senior adviser to the director at the ADB and joint secretary in the Department of Economic Affairs.

So, for synergy, it will be really great to hear your actual position on how to implement these recommendations, which are there in these two chapters of the FFC report, especially from a sub-national perspective; and what do you really think that more specifically, could actually be done in this regard? FFC has also identified an issue in terms of the interactive plethora of schemes, which exists both at the union level and at the state level as well. And you’ve also identified this as an issue in the state level, and I believe that you have been actually taking certain steps in rationalization of these teams and you actually have a plan in the offing, which will help you more bring the expenditures in line with the outcome. So, it'll be really great to hear from you as to what those initiatives are and how can the other state actually learn from those initiatives?

Prabodh Saxena: Thank you, Manoj. Thank you for inviting me to join this panel with such esteemed panellists. But before I come to your specific question, I just wanted to make a very small point, you know, it’s actually slightly strange in the sense that the budget which we presented in 2021, after COVID, we were most comfortable, we were most comfortable despite the pandemic for two, three reasons. One was that never before Himachal has got such a high revenue deficient grant; it was almost to the extent of 11,400 Crores. Secondly, is that our own share of resources, both the revenue sources and non-revenue resources will not contribute much. So, even if there is a setback there, it doesn't actually affect our budget. So, we were quite comfortable in 2021, I think it must be quite a unique situation. We are now feeling heat in the current year. Coming to your question of the Finance Commission recommendation, particularly in chapter 12 and 13, you yourself said that rationalization has been very clearly highlighted. And this is what we are attempting to do in Himachal Pradesh. But
it has to be understood in a context. Context of a very strong political fact that since 1990, we have always had a new political party as a ruling party – no government has repeated.

And that actually, is a major reason why the schemes have multiplied manifold. There’s a clamour that each successive government should have more new schemes to its credit, they even change the name of the scheme, and at the same time, declaring a scheme to be dead is not something which is considered to be politically favourable. So, this is a huge challenge. And in fact, it is when the chief minister presents his budget and goes to the press, one favourite question which always comes is that, “How many new schemes have been declared in the budget?” And budgets actually have to be prepared in advance, and we give a list. And when we are in discussions with the chief minister, this portion often comes that how many new schemes are coming? Are they more than the previous budget? So, this is the political context in which we are doing the so-called rationalization. Let me also say, and many of you may empathize with me, that finance secretary is a very lonely job. He is alone in the cabinet, vis-à-vis all of the ministers, is alone, also vis-à-vis his colleagues who don’t actually view finance secretary very favourably. They think he is there to put obstacles.

So, this is something which we have to do as a part of a strategy, to do it very silently. And the first thing which we do is, that when we start sitting for the Pre-budget consultation, we get an idea without making any noise about it, we start and we started doing it in the last four or five years, deleting some schemes, merging some schemes without actually declaring it to the world because that will have its own implications and own noises. Particularly if the scheme has been announced by a previous government, then, we don’t do it. So, we in the last two, three years, what we have done is that we have actually merged various schemes and we have deleted large number of schemes and more than that, what we have done is that in many schemes, without declaring them dead, we have actually derived the resources. So, maybe in coming times, this comes becomes redundant, and the department itself may propose that please obliterate these schemes from the budget book. But fortunately, we have a chief minister who is actually alive to the idea of rationalization. And with this support, in this budget, we have actually made two, three things.

Number one, he makes a very clear statement in the budget, that “My government is committed to rationalization of schemes, the process has started and we would like to bring it to an end”. So, this is a major statement, which actually is a message to all the departments that at the political level, the chief minister is not averse to the idea of rationalization. Another thing which we have done in the budget this time, is that we, actually, in the pre-budget meeting we realized that there is huge amount of conflict between two very important departments of the state; one is agriculture and the other is horticulture. Agriculture is the parent department, but horticulture over a period of time, has assumed significant importance. So, there are various schemes that the Agriculture Department is running both for agriculture department as well as for horticulture department. So, there is a tremendous amount of duplication, overlapping and also conflict. Another very important issue about Himachal if you look at these schemes, is that 90% of the population is rural.

And therefore, all the people who are working in the government department are also agriculturist, a farmer in their own right and horticulturist as well. So, the schemes are not properly targeted. Maybe if you give a scheme on floriculture, a section officer in my secretariat may be the first to get the subsidy. So, these are some of the issues and therefore in the budget, I actually made a very broad statement and we said that we will constitute an expert group to look into the issues of agriculture, horticulture, animal husbandry and other allied sectors, and we will look at rationalization, we will look at convergence, we will look at merger, we will look at deletion, we will look at removal of the duplicity. And when the statement was made and the budget was passed, the general view was that, let us organize a committee under the chairmanship of Chief Secretary. I said, “This is not the idea. And this
was never the idea. We have to actually go for an expert group”. And we went and requested the member of the NITI Aayog, “Please, head this committee”. And then, he gave us seven, eight names. So, this committee has now been formed, it has had its first meeting where all the department presented what type of schemes they have, and then the next meeting is on 8th. So, we are very hopeful that something very sensible will come out, because we have been able to actually constitute a very expert-oriented committee. I’m sure when this committee will come up, given the public proclamation of the Chief Minister that he’s all for rationalization, we will be able and if we can correct this, at least in these two very important sectors of agriculture and horticulture and animal husbandry, it will give a very important message. Another thing which I am doing, because we have made an announcement that we are trying to bring the process of rationalization to a close, we are hiring an agency, which will assist us in identifying these schemes, because now we are going into the budget making and we will not be able to devote as much time. And as I was saying, the departments are not very proactively engaged in this, and they’re not very keen also. So, this agency will actually give us all the material and data. I’ll just give you one, two examples.

For example, in this budget itself, when a child is born in a particular category of families, we give them a post-birth grant, and we also used to give them a scholarship over years and we realized that there is no way we can monitor the second aspect. So, we merged the two schemes and the budget itself says that, we will not have scholarships anymore, but we will have a post-birth grant of 21,000. So, these are some of the other ways. One more thing which we have done in the name of rationalization, though it is not exactly rationalization, we have taken it to next level and we have done is, actually reduced subsidies. And we have no way talked about rationalization. So, taking the advantage of COVID, we made three prominent announcements: One, that there will be rationalization of whatever is the grant of the state government in the power sector. And we did it very well, and we have actually retained the amount of subsidy which goes to the lower consumers, but as far as higher consumers including me, are we concerned, the rates have been increased, it is the saving of almost 100 Crores, but we have no way said that we are reducing subsidy, we only say that we are rationalizing the scheme.

Second thing which we have done in the COVID is that we said that as far as the food subsidy is concerned, because Himachal Pradesh is universal PDS. Everybody is entitled to a PDS. So, we actually made a statement in the budget that we will rationalize this also, and we have taken out the income tax base. And when the matter came, we said we take out the income tax base, but we are not actually totally saving the money, there is still a scope of increasing the number of beneficiaries under the National Food Security Act. So, we took out about one lakh 50,000 beneficiaries over income tax base and increased the beneficiaries by about 50,000. So, though strictly speaking, it is not rationalization, but in view of the fact that rationalization is a progressive term, we have used it to correct this power and the food sectors. So, this is what we actually have done, and I am very sure that because of the two important decisions and measures we have taken, including the committee, headed by the member of the NITI Aayog, and our decision in the FD to hire a professional agency to help us in identifying the schemes and given the political commitment at the level of Chief Minister, in the next budget, I am very sure that we will be able, as was designed by the finance commission also, to a large extent, rationalize as much as possible, these schemes. Thank you.

Manoj Jain: Thanks, Prabodh. I think that that was really very informative, especially because of the multi-pronged effort that you actually put in place and also, handling the political economy side of the process as well. You didn’t go for a big bang approach, but for a smaller and modular approach, which were looking at these actually verticals, in order to actually have a practical way of achieving it. So, I think that’s a great example as to how you can undertake reforms without going for a full bang
approach as well. So now, let me now turn to Rajasthan. For Rajasthan, we were not able to get Akhil Ji because he was accidentally pulled into a meeting with the Chief Minister. But luckily, we have Ashutosh Ji, who is the Joint Secretary in the government of Rajasthan, he has been in several departments, including finance and the EAD. He has been a key proponent leading reforms to the PFM which has made Rajasthan one of the leading states in the domain. He is also the Project Director of our Assembling PFM project in the state. And some of the reforms which have been done under this leadership, are Integrated Financial Management Information System, the work on the public procurement, the work on the intelligent commitment control, big data analytics, and decentralized participative planning.

So, let me turn to Ashutosh Ji. Ashutosh Ji, just from your side, as well, from the state side, I mean, it’d be really great to hear your suggestions as well, especially about these recommendations and how can you actually connect the dots over there, especially in terms of leveraging the technology? We've been actually working with the state right now for a long period of time, and we know that you've done a lot of reforms on the ICT and the technology side, which have actually worked both on the revenue side and on the expenditure side as well. So, what are the key PFM reforms that FFC has recommended, which could be implemented using the ICT and the information technology part, both on the revenue side and expenditure side. So, it'll also be good to hear your own examples in terms of what you've been doing in the last few years.

Ashutosh Vajpeyi: Thank you, Manoj, and all the esteemed panel members and participants in the webinar. This is an opportunity for the state of Rajasthan also, to bring forward not only the views concerned with the recommendations of the 15th Finance Commission, but at the same time, the efforts which the state of Rajasthan has been undertaking since past many years in the same direction. I've been fortunate to prepare the memorandums for the 15th Finance Commission as well. So, there were two consecutive revisions of the memorandums, and it has given us the opportunity to interact with the 15th Finance Commission honourable members the entire team as well. So, the basic idea of implementing the recommendations placed by the 15th Finance Commission is centred around two, three very important aspects as far as they are related with the subnational context. The first one in my opinion, goes with the and how to ensure the fiscal discipline, and that has remained a real challenge to many of the state governments for quite some time.

Fortunately, Rajasthan has been one such state that has almost come over to this, one of the big challenges of managing and maintaining the fiscal discipline. And this has been possible because of our continued efforts since last almost, 10 to 12 years, while we have been building a thoroughly integrated financial management system. So, Rajasthan as on today, is the only state or the sub national government in India which has the most advanced system of financial management. So, this IFMS which we have contains almost really around 60 different types of modules covering entire revenue and entire expenditure side, and there is not even a single transaction which is not happening on the system. So, that is 100% coverage of all revenue transactions and expenditure transactions. This journey has been really tough, no doubt in that. But now, we have come to a stage where we have been able to implement the Second-Generation Financial Management Reforms with the support of the World Bank also.

Now, the time is slowly coming to enter for us into the third phase of the development. One of the critical things which was in the direction of ensuring the fiscal discipline was that, annual budget provision and the subsequent expenditures, they were not in sync when the manual processes were under operations. Many a times, it happened that some of the departments used to overspend than their budgetary provisions. And this IFMS has enabled us to put both the things; annual budget provisions and subsequent expenditure in one sink for now, with the help of this umbrella system, this
major challenge which was being faced by the state almost seven to eight years back, has totally covered up. Now, we do not face any such challenges because the system now gives us a real-time information – all the transactions are real time basis. So, this system which has been created on an end-to-end basis, this also helps us creating substantial data not only in terms of financial data, but in terms of other data related to various other activities and programs as well. Then, there are facilities the system which provides us to go for a detailed analysis of the data and information available with us, and then it helps us and appropriate decision making.

So, this is one important aspect that the budgetary provisions and subsequent expenditure now are in sync. Then comes the next stage, what we have introduced in our system is a just in-time expenditure. This concept has been introduced with the help of IFMS system that whenever the fund is really required, it is released with the help of the system. So, the processing time has been reduced drastically, and now, everything works on the system. So, this just-in-time expenditure is the best example of use of information technology tools into the area of financial management, where all the transactions are real time transactions and every information is available in hand. As the Finance Commission has also recommended, many critical aspects related to the centrally sponsored schemes. One of the major developments that has happened after that, that the union government has instructed a mechanism to the state governments for the fund transfers of the centrally sponsored schemes. And an important aspect is creation of the SME system.

This SME system is basically, will be put in place with the help of transactions taking place through bank accounts. Now, here, there is a case which is very important to understand. Usually, what used to happen many years back, that the states and the subnational governments were taking help and reports of their personal deposit, that is, PD account mechanism, operated through their presidents. So, this was quite an old system and traditional approach. Rajasthan has stepped forward and introduced a different system of the same PD account, which is quite unlikely and quite contrary to the existing traditional system of operations of the PD accounts. Now, all the PD accounts are working in Rajasthan, just at par with the bank account. So, there is practically no difference operating a bank account and operating a PD account. The only difference is that you don’t have to go to the bank, you just have to go to the treasury. And the IFMS takes care of every transaction; it’s on real time basis. So, practically there is no funds dumping in the PD accounts. That used to be the major concern of the union government, that the states are dumping their funds into their PD accounts and using for their cash balances management.

So, the advancement which Rajasthan has ensured is that, we have even created escrow PD accounts. So now, we don’t have to like, put money into bank so that bank earns interest on that and money goes out of our pocket, and we are not able to use it on a real time basis. So, we have introduced this system of even escrow PD account system. So, this is a very latest development and now, the PD account system can work at par with the banking system. This is one of the major advancements. Then going to the aspects of the state government, how it is managing the efficiency and other aspects while managing the finances. One of the very important aspect is managing the cash balances. As the Finance Commission report has highlighted, not only in case of revenue deficits, in case of major subnational governments, but also in case of the debt part. Because as on today, post COVID era, majority of the states, including ours, are struggling with cash management along with the debt management. Majority of the state governments must be fighting how to manage their debt to GSDP ratio, because that is growing high day per day.

So, that is one of the concerns. And realizing all those aspects, we have started making efforts into creating an integrated cash and debt management system as a part of our IFMS system, it will again be this computer web-based system, we will be creating different kinds of modules in the system, and
that will be overall linked with the IFMS and that could help us in making appropriate decisions regarding our borrowing plans, our borrowing systems, our borrowing restructuring, and all those kinds of aspects. I hope that within a year or so, we’ll be bringing an entirely new system in the country for managing this cash balances integrated with the debt management system. The use of information technology is very critical. Unless you do not have a sophisticated Advanced Management System based on information technology, many of the things will not be possible. It is easy to talk theoretically and conceptually about many things, but when you put into action, you face so many challenges, because the majority of the processes have been manual.

So, the first task which was for us, was to translate those manual processes into IP based processes. Now, we are going in a third phase, that is we have founded IFMS 3. So, that is the third phase of IFMS where we are going to include advanced aspects on, not only on information technology, our platforms will be revised, our systems will be revised and one very important aspect that we will be covering is, covering the all the parastatals; that includes all the autonomous bodies, all the societies, all the Panchayati Raj institutions, urban and local bodies. So now, they all will be brought into under the umbrella of the Integrated Financial Management System. Till now, we have this IFMS limited to the government system. Now, we are extending it and covering the entire aspect at the subnational level. So, the biggest advantage of this increasing or enhancing the umbrella system would be, it’s not only the tracking of transactions and activities happening across the board, but the most important part will be, linking the planning aspect to the budgetary aspect, which is a total missing link as of today. If we see on the Panchayati Raj institutions and urban-local bodies institution part, there is a separate planning process which is totally not linked with the project.

Now, we have done an extensive assignment with the support of the World Bank, for decentralized participative planning. So, we have demonstrated that how a district plan should be made, how an ICT based system can be used to create a district plan. So, this is the demonstration we have completed recently, and now, we are going for the next phase of how these planning could be linked to the budget preparation cycle and exercise of this state government. So, that is the next step which we are going to take. Similarly, there are many other aspects related to parastatal bodies where the money from consolidated fund goes to those bodies, autonomous bodies, granting aids, and they are not properly tracked. We are left with the information provided by those concerned agencies only. There is no such system. Now, this integrated system will take care of the entire portfolio. This will not only help us in creating a system where evidence-based policy decisions will be taken.

So, the terminology, Evidence-Based Policy System, we have studied a lot on this and we did work on one very interesting aspect that we took the help of big data analysis concept with the planning department and we went for a holistic exercise, that how the secondary and transactional grade database which we already have, and this database was huge database because we had Bhamashah Scheme and many other scholarship schemes, education sector schemes, health sector schemes, there were plethora of data available, but no in-depth analysis was done. So, what we did, we made an attempt to analyse all the data and then, on the basis of those data, although that was a first-hand exercise, we came up with the different kinds of indexes. One of the interesting indexes was prosperity index. So, that data has enabled us to great extent, and there is a lot of opportunity to work with the data. So, this assignment taught us few lessons on how we can forward with more data analysis in sectoral based policy decisions.

So, that is how we are trying to like to move towards evidence-based policy decision making system. Then, we have also created very recently, it will be in the budget announcement by the Chief Minister, that we’ll be taking up detailed analytical and other excellency systems in the revenue side, which Anoop was discussing – in the beginning we were discussing. So, we are taking an initiative and we
have established on the revenue side, focusing on revenue side, that is Centre of Excellence for Revenue Intelligence and Analysis. So, we are covering all the aspects from revenue side; mining, transport, excise and GST and everything. And we are going for database detailed analytical system. This will not only help us, the detailed analysis, but it will also help us in fraud detection. We have attempted few case studies and there have been very interesting findings. We could have detected a few cases where there was a revenue leakage and that was stopped.

On the similar aspect, when we say that parallelly we have also, the state is a pioneer state in India. When we launched the health insurance scheme, which is popular now, very popular, it’s called Chiranjeevi Swasthya Bima Yojana, and we have covered the entire population of the state. And we are now creating an entire online system for this health insurance scheme. Majority of the work has been completed, and very soon, now the policies and every application and policy processing system are being done on the system, this health insurance system itself and there are hospitals which are providing treatment, they are also being connected to the same system. So, this will be another big step that the state government has taken. As Prabodh Saxena said, he was explaining about a scheme rationalization, it is one of the very fundamental aspects. We have also taken up a scheme visualization study at a very large scale in the state under this project itself. And very surprisingly, you will be surprised to know that we never knew that how many schemes exactly are on paper in the state as on today. And this entire exercise came up with a number of 1,244 schemes. Even we were surprised to see this number. Many of these schemes were written and many of the schemes deserved merging, many of the schemes were not relevant at all. There was only token budget provision in the budget.

So, there were many issues which we brought out after this detailed study. This also included centrally sponsored schemes. There were about more than 300 centrally sponsored schemes that were counted. Many of them are currently not under operation at all, but the schemes in budget are still running. We when we ask the department why these things are not closed, the simple response is, “Let the scheme be having a token budget provision, because you do not know on what day it will be decided to restart the scheme”. So, we are as in the case of Himachal Pradesh, they are taking good steps in this direction, we are also moving forward, how to rationalize this scheme. We have created a kind of, basic guideline also how to create and regulate these kinds of schemes. Taking a further step to this, we took a learning from this system and we designed another aspect. Now, we are going for a holistic public investment management framework in the state; that is one of the biggest steps across the country, in each state will be taken. So, we have divided this public investment management framework into two parts. One part, will address the socio-economic sector, then the large chunk of such schemes is made and executed. And the second part will be largely based on infrastructure and public private partnership and other investment sector which will be largely addressing to the infrastructure and other kinds of development.

So, this public investment management system will be for the first time in India. Hopefully, we will create a system and we will be able to bring out something very interesting before all these things come. At the same time, taking the cue from these things, there was one important aspect which in the beginning of the designing of the project, we conceptualized that there was a lack of tracking system as well as lack of data, information regarding the liabilities, fiscal and other liabilities which are created within the system, and they are carried forward to further years. And after a period of time, in many of the cases, we lose track of those liabilities. And what we do is, we start creating other schemes, other programs, other projects and those liabilities are still continued. So, we created a very innovative system that is, we named it a commitment control system. The system has been made now, it’s a web-based system which caters to four different kinds of commitments.
First commitment is, contractual-based commitments. Second commitment is, employee-related commitments; that include salaries, their areas, their pensions, etc. Third includes the announcements-related commitments like, including the budget announcements and other announcements where the government makes announcement at various point of time. If they convert into a commitment, then they will be tracked on the system. And this has been integrated with the IFMS system. Now, once a commitment is created, it will be completely, travel throughout the spectrum up to the payment of final disposal. So, this is a very innovative kind of a system which we have rolled it out in the state, in 10 major departments and by next year, it will be rolled out in the entire state. We’ll be covering all kinds of capital expenditure and other expenditure through this commitment control system. Then, you may be knowing that Rajasthan is one such a state which has created its own procurement law. Assam has also recently, enacted similar law. So, we enacted the law in the year of 2013. This law was based on best international practices with the help of World Bank itself and the base was UNCTRAL Model and various new and innovative methods of public procurement were introduced, various other international best practices were introduced.

What we realized is that, it was easy comparatively, all other aspects, it was easy to enact the law, but it was very difficult to bring the good procurement practices into real operation, because our manpower, people who are doing procurement, they are involved in at various stages in procurement, they were not having that kind of an advanced level of capacities. So, realizing those aspects under this our government supported project, this is for the first time in the world that we conducted a scientifically designed training-need assessment and we came out that a large chunk of manpower needs a proper training and capacity building initiative. So now, we are going for a massive level of mask training program in the procurement sector beginning this year itself. In addition to that, we have the finance department which is the ownership department for the procurement and such kind of decisions. We have created a cell, which is called State Public Procurement Facilitation Cell in the finance department itself.

So, we are strengthening the capacity of that cell also under the project itself, and we are bringing up new systems, meaning thereby, procurement is one sector where we are bringing lot many reforms, lot many activities, capacity building and appeal management system, training management system, these kinds of new things will be coming up. A very interesting thing which the 15th Finance Commission has specifically outlined in its recommendation is strengthening the system with outcome budget and output budgetary systems. This year itself, under our budget announcement, the state government has decided to institute and establish an authority which will look after the performance and the social audit and evaluation system, performance measurement system for schemes, programs and other projects, which will naturally culminate into an outcome or output budget kind of concept.

So, this is one such another big initiative. We have 43-line departments which are already submitting their performance budget directly to the state legislature. But now, this will be our evaluation and appraisal and detailed analytical based study of the entire performance of the various sectors and then, it may lead to the outcome or output budget. One very important thing in the recommendation of the 15th Finance Commission is about constitution of fiscal councils. The idea is very good; fiscal councils may be established at the union level. At the same time, it is also very important that the concept of cooperative federalism should also be brought in with a broader perspective and much participation of the subnational government in the schemes while standardizing and putting things into system. At the same time, it is not only cooperative federalism, it is a fiscal federalism which is also needed. So, the idea is very good, putting into action is up to the union government. And at the same time, two very important aspects which must be considered; one is, state contextualization as far as the chart of accounts is concerned.
Now, what we have is a chart of accounts prepared at the union level, the states barely have their say of their participation in those type of accounts. And while doing detailed accounting, one or other state governments faces different kinds of challenges. So, this is very important that while chart of accounts is reclassified and redesigned, the state or subnational participation should be there, and there, contextualization is very important. Same is in the case of when we go for GFS, so, currently in India, our accounting system and all other systems are based on GFS 84. So now, the international standards are based on GFS 2014. So, we should be moving towards 2014 in a much professional way, and that is one of the critical reforms in the PFM sector that could happen. Just one last point, which our Finance Commission has also recommended, for macro-economic and fiscal analysis and forecasting. I would like just to share our experience with the association of IMF, Rajasthan has created a very ICT based tool for macro-economic and fiscal analysis and projection. We have also shared the same tool with many of the state governments. Because of COVID, we also could not bring it into real practice.

Now, we are also planning that this should be brought in as a practice, because the tool has been prepared meticulously. I think I have explained many of the things which we are doing and hopefully, will fulfil many of the objectives that we are taking up in Rajasthan. And obviously, it will help many other counterpart subnational governments from our experiences. Thank you, Manoj Jain, and thank you all.

Manoj Jain: Thank you, Ashutosh Ji. From a practitioner perspective, that's actually quite a lot to absorb. I know that you have been actually working across the entire PFM sector; effective planning, budgeting, accounting, financial reporting, including lots of issues in terms of the payment, in terms of the policy control. So, I think it will really good to take a start in terms of the outcome and what has really changed as a result of all these reforms as you go along. So now, let me turn to the Reserve Bank of India, which is the Central Bank for the government. And it’ll be really good to hear from them in terms of the perspective of what this report has been saying. So, we actually have Dr. Mridul Saggar, he is the executive director at the Reserve Bank of India and a member of its monetary policy committee. He oversees the monetary policy department, department of economic policy and research and the statistical methods unit as well. In his career as a central banker over three decades, he has vast experience in various areas of macroeconomics, monetary policy, financial markets, international financial architecture, and global financial regulatory regime as well.

So, Mridul Ji, you've heard the other speakers as well and you know that actually, the pandemic has posed new challenges for the fiscal side, also on the people’s side and also on the interactive monetary policy side as well. So, in this scenario, debt management becomes a very important and a crucial function, and RBI has an integral role over there. Debt management has been expressed as an area of concern also in the FFC report, as well as some of the important parameters, such as the level of debt, the interest costs of the borrowing, the reporting, the disclosure, the long-term debt as a strategy are not clearly spelled out by the individual states. And these do not actually seem to have any significant effect on the cost of borrowing as well. So, as RBI, what do you think could be some of the possible solutions here, which could be attempted at the subnational level?

Mridul Saggar: Thank you, Manoj. So, at the outset, let me thank you, and also Anoop, for inviting me to the seminar, though I thought I’m participating in my personal capacity, and not necessarily I will be bounded by the views of the institution, which may differ on some things. But it's okay. I think, I'm not sure which will differ, and which will not differ, so, let me speak in my personal capacity on this issue. At the outset, let me give an opening statement sort of thing, that I really, really admire, that the CSEP and the World Bank are organizing a webinar on this important topic, because I think this is just the right time to do so. The Commission chaired by Shri N. K. Singh, the 15th Finance Commission, did produce a statutory report which addressed most of the issues. It's actually more than a statutory
report because I think it’s a treatise on Indian public finance, whether one agrees with all its recommendations or not. But they have, I mean, only the blockheaded people will ignore the broad path it has laid down.

You could have some differences, yes, but it has set a really good path. And I’m reminded of what Rahm Emanuel, the adviser to President Obama, later he was mayor of Chicago, during the global financial crisis said that, “Never let a good crisis go waste”. So, I think this is pretty apt at this juncture. The statement of course, one is not sure, who originally said this, because I think even Winston Churchill in 1949, at the Yalta Conference is reported to have said this in the context of the unlikely alliance with Stalin and Roosevelt and himself, where he said, “It’s important to create opportunities in midst of crisis”, and that led to formation of United Nations as those familiar with the history would recall. I think the commission very analogically, similarly, has laid down the broad strategy. Now, in the back of the pandemic crisis, we have the opportunity to implement at least some of the recommendations where consensus exists, they should be done straight away, because we shouldn’t be wasting the crisis.

And in this context, the seminar is important to set the reason behind what is said, and one should explain it to the stakeholders and widely communicate it so that we have the necessary buy-ins to sort of, let this go. Now, you did raise a very important point in the context of the central bank that basically, what should be the debt strategy and why debt management is so important in the present context. Now, you’ve also sort of, asked me like, what levels of depth could be important? I think, let me not get into hard numbers on this, because things do change, I mean, the things change in terms of number games, and we have to see how it evolves. So, we of course, know that basically, we need to have thought of what is very important, is that we meet the debt sustainability criteria at all times. All times means not necessarily each year, but over a period, which is more reasonable to think over the medium term, because any shock point, obviously, the numbers could vary quite a lot. But as we go along, I think fiscal consolidation would become important. And one has to honour the broad thrust of the Fiscal Responsibility and Budget Management Act.

So, while I’m not unduly worried, because at the moment, as you would have seen, we have actually kept the government borrowing costs very low. So, for instance, last year, the weighted average cut off yields in the government auctions were dropped to a 17-year low of 5.79%. And that for states at 6.55%. So, in the current year, they are slightly higher. Obviously, the cut offs are at 6.2% weighted average yield so far, what we have had the auctions. And for state governments, at 6.89%. But these are still very good numbers and are on the lower side from what it has been done. And that is because we have actually infused huge amount of liquidity of over 8% of GDP at over 17 lakh crores. And this has actually been done considering the macroeconomic conditions that prevailed in the pandemic period, and it was important to sort of, support lower cost of borrowing from the private sector, so that they were able to issue a lot of bonds, a lot of commercial papers. And as a result of the scarring, which could have really affected the economy, was much lesser. It had the fiscal benefits also, in terms of the borrowing costs.

So, roughly if the economy is expected to grow at 9½% this year, and the weighted average cost roughly at 6½%, it’s a very good sign because that sort of, shows that we can return to the very sustainable path of fiscal path we can have over the medium term. The important angle to it would be that we need to sort of, bring down the primary deficits as we go forward, because that is what Blanchard rule applies to. And it will be good if we can bring down the primary balances to more reasonable 3% marks in the years ahead or underneath that. So, it’s important to keep the debt on a sustainable path. What could un hinge the problems would be that we should also prepare that at some stage, the global interest rate cycle and the monetary policy cycle can change. And that would make the fiscal jobs
harder, but achievable. So, when I look at the debt ratios for advanced economies, they are currently
this year, going to touch almost 122% of GDP. So, we are much better off. The emerging markets seem
to be on an explosive dept path from roughly 53% in the pre-pandemic period, those numbers could
go up to 73% by 2026. But that's not the case with India. For India, luckily, the dept path could come
down, and we should probably see numbers just above 80% or so, by 2026 if we stick to the broad
path, which the N. K. Singh report has given. So, I would say that is particularly of immense importance.

There are a lot of specific recommendations in the Finance Commission, which I can briefly touch upon
in terms of what the report says, and which has a bearing on, especially on the subnational government
finances. So, I think what is of crucial importance is that we should quickly do consensus on building
how the GSDPs should be calculated for the states, and the three-year average growth rate as
proposed in the Finance Commission report is something that needs to be pushed forward. On some
sort of other recommendations which exist is that, whether we should have a differentiated debt to
GSDP path for the state governments. This would be much harder, in my view. There is obviously a
political economy attached to it, and let's see how consensus goes on this direction.

Now, what is most important from our angle in terms of the debt management for the state
governments is that, while a recommendation has been made for independent debt management
cells, I think this is a very important recommendation, but probably, we need to first think of how this
needs to be considered because I think at this juncture, the states completely lack the capacities to
run independent debt management cells, and we are very intensively working with them in terms of
capacity building, and first priority is that, they should manage their cash flows better, they should be
able to estimate their cash flows and manage cash flows much better. And we are honestly speaking,
finding it hard on this count, and I think there is need to have more experts on dept management at
the state level, and a lot of tests should be given on capacity building at the subnational level, before
we could even consider going that route. There are issues about how SDLs should be handled, and I
think whether you should do credit ratings of the SDLs is one of the recommendations which has been
often on debated. Even if granted, this would be the first principle, probably the first best option. I
think, at the present juncture, it's going to be extremely, extremely hard.

What we are trying to do is to sort of, first consolidate sinking fund which the states have and the
redemption fund what they run, they should be better funded and probably reach up to 5% of their
liabilities. And that will give much more comfort to the investors than segmenting the market through
more open pricing, because it's honestly, Reserve Bank being present in the market, is one thing which
shows a seamless borrowing from the state governments. And the fact remains that we do not have
any relationship between spreads in SDLs over the central government securities and the fiscal
position. We have done hard research on this issue and we don't find that. And option level yields are
mostly explained by size of notified amounts, etc., impact of the bonds and supply spreads was also
not very significant. So, the trading volumes get determined by the weighted average rates, also, the
how much revenue transfers the sector does to the States. And they are ones which are more
negatively associated with the spreads. It's true that this is not the best, because it's RBI which is
present in the market, and that's how this thing really gets done.

So, market has to develop further over the medium-term, reforms have to be done on credit ratings
and other things, and hope a day will come we will have a more openly functioning market. But the
reforms have to be done with the timing in that particular sense. You know we have already revised
the WMA facilities in line with the recommendations made by the committee, and we have also
supported larger borrowings during the pandemic period, which is going on till September this year.
So, all this is sort of keeping the whole thing very, very conveniently nice. Transparency is extremely
important. I think that's where the focus should be because virtually, I think it's a very sad state of
affairs that the contingent liabilities, etc., are so understated in the state budgets. And the state’s budget transparency needs to sort of, improve considerably.

The municipal finance is even worse, so, we have to really go a whole lot on that, especially the urban-local bodies. I mean, if you have done one Abhirup Bhunia from the Fund, had done some work on this, and found that many urban-local bodies score the bottom rating, the D, for reliability of the service data reported by them. So, we need to go further on these aspects, while bringing down the guarantees and outstanding liabilities, which actually were in vicinity of 3% before the pre-pandemic and would have gone up much more; we don’t have the data. We tried collecting it from the states, the state’s budgets don’t tell the data. We haven’t got the information on liabilities. I mean, there are a number of information from the subnational levels that are missing, even the outcome budgets, which is a very good thing, only nine states produced outcome budgets. So, I mean, we still have to do a lot more on that thing. Lastly, I will say the recommendations about rules; fiscal rules, fiscal councils are important, but we have to see how we have to go about it.

I would say, parsimonious and mutually consistent fiscal rules is what we need. And whether they are backed by fiscal council or whether in a simpler form, if they get more political acceptability, that is also fine. What is important is to consider the second-generation fiscal rules which are more flexible, operational enforceable, we should see how cyclically adjusted levels can be worked out. But they would of course, still need fiscal councils but that’s not something which looks easily doable. But short of that also, fiscal rules can address some pre-commitment as necessary, both for credibility the investors may have, etc. So, let me stop at this, because otherwise it will become pretty long and we can have later the discussion. Thank you.

Manoj Jain: Thank you, Mridul Ji. So, I think that’s really very good, because it actually emphasizes the same point that the other speakers have been making in terms of the transparency, in terms of accountability, in terms of bringing the off-budget liabilities onto the book, and to take a look at the outcome side as well, both in terms of the entire fiscal side or the debt management side, but also, in terms of being able to link whatever money which you raise that is also going to be repaid in time. And if you have a sinking fund, which is actually funded at about 85%, that will also help out the director in the process as well. Thank you so much. I think we’re just running a little bit over the time, but we are actually still connected. I think that was a pretty interesting debate. We’ve actually got a few questions, but I think some of those questions have been answered by the panel members already, so, I’ll not repeat them. But I think from an overall perspective, I mean, one of the main takeaways from the FFC report and what we just heard from the eminent speakers today, is that we need to see PFM as not only a tool from a transparency and accountability perspective, but as a means to an end, to help improve the public service delivery in sectors such as health, education, infrastructure, and also, in climate change as well, which will then help it actually connect with the growth and actually poverty reduction agenda in India.

It is this nuancing, it is this perspective and the objective that get all the stakeholders on the table together and help develop a concerted, well-coordinated and sequenced reform strategy in place, because you need to see this not only from the supply side, you need to see this from the demand side as well. And if you look at the demand side, that’s a good way to get all of the stakeholders actually together; this will need to be contextualized to the local ground reality and demonstrate a part of rapid results on concentrating on low hanging fruits first, which can then help establish the traction for this deform across the levels of the governments. So, let me just stop at that and go over to Mr. Anoop Singh, to offer the closing remarks. He doesn’t need an introduction. He is actually, currently a Distinguished Fellow at CSEP, a member of the 15th Finance Commission and the main author of this very chapter in the FFC which is what we are actually discussing in this series. He was already with the
Anoop Singh: Thank you very much. This is too rich a discussion for me to give any closing remarks. Each one has given fundamental points. Let me just make two quick points, and in closing. First, I think the fundamental issue, as many of you have said, is the large gap between, let's say, the financial management framework into constitution, and all the other regulations and manuals and guidelines on the other. What impressed me in the Finance Commission, is that there is great awareness of this in all the states, certainly, NIPFP has explained to us very often, the implications of this, and the RBI has written about it. So, I think this fundamental problem that faces India's public financial management is well recognized. And I do think many or all states are taking incremental steps, more in some cases than others, to deal with this. So, reform is underway. The issue, however it is, right now, my sense is that states are moving because they need to move; this is a crisis, and we need to ensure money is spent efficiently and transparently as Mridul said.

But how do we ensure that this is done in a unified way across the centre and the states? If it's not done in a unified way, it will be very difficult to understand at a macro level, what is the underlying situation. My final point is to go back to what Prabodh Saxena said. This has a very important political context; I fully accept that. This political context, however, let me leave with this thought. If there is a gap between this constitutional framework of financial management and all the regulations, my sense is, and I've heard and learned over all the states I've been to, this creates, frankly, a way in which political decisions can get roped in. If there were to be a unified framework, with transparency, perhaps in the nature of a law, or public financial management, which we will discuss next week, if there was such a unified framework, would it not be more difficult politically, for there to be changes, deviations and non-transparency? So, in order to deal with the political context, don't we as officials have to put together a unifying scheme? And the issue is, you all agree with that, but how can we catalyse that? That is what I'm trying to find out, and I think we should all think about this, come back next week, and maybe consider other interventions, other seminars in the future that will take us forward. From my side, this has been incredibly useful. I've learned a lot in the last few years and now, from each of you. So, thank you so very much. So, Manoj, over to you.

Manoj Jain: Thank you, Anoop Ji, for those valuable comments, which actually sum up today's discussion so very well. So, we actually come to a close of this webinar, I would like to thank all the panellists who provided some excellent suggestions, and examples in terms of how to move forward the agenda. I mean, you can work at a holistic level, you can work at the ground level, but there needs to be a dot as Anoop Ji was saying, in terms of connecting the whole, so that the outcomes are actually larger than individual pieces, which are happening at the subnational level, and they need to all join it together. Just to remind, that we have the third and the final webinar next week. So, please stay tuned, then, do register and attend. This will be on the Overarching PFM Framework in India; whether a PFM law is actually required. If required, how could this be actually moved ahead? How do we get the stakeholders together? Many thanks, and goodbye to you all. Thank you.