Centre for Social and Economic Progress

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

Session 3: The Need for An Overarching PFM Law and Other Practical Steps

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Opening Remarks:

Vikram Singh Mehta – Chairman and Distinguished Fellow, CSEP.

Panellists:

Manal Fouad – Chief, Public Financial Management II Division, Fiscal Affairs Department, International Monetary Fund

S. Krishnan – Additional Chief Secretary (Finance), Government of Tamil Nadu

Ashok Meena – Principal Secretary (Panchayati Raj & Drinking Water), Government of Odisha

Subodh Mathur – Former Additional Controller General of Accounts, Office of Controller General of Accounts

Anoop Singh – Distinguished Fellow, CSEP

Closing Remarks:

Hideki Mori – India Manager (Operations), World Bank

Moderator:

Mohan Gopalakrishnan – Senior Financial Management Specialist, World Bank

For more details on the event:

https://www.youtube.com/watch?v=m2SAn6LVkoU&list=PLwR_MKIDt8M_NB_hCY2_4NnhEKVUkkWox&index=3

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.

PROCEEDINGS

Vikram Singh Mehta: Good morning, good afternoon, good evening. My name is Vikram Singh Mehta. I'm the chairman of the Centre for Social and Economic Progress, and I'm delighted to welcome you all to our third webinar on Public Financial Management Systems. The first seminar really focused on the recommendations of the 15th Finance Commission, and the action plans that the Finance Commission had set out related to fiscal consolidation and fiscal governance, bearing in mind, in particular, the pandemic. The second webinar was an extension of the first; it took into account the reforms, in particular, related to the need for accountability and transparency, the importance of macro-economic and fiscal forecasting, strategic budget and planning. And it discussed the reforms that have already been implemented and the challenges that still remain. So today, we are here with a fantastic panel to discuss how best to bridge the gap between the need for a high level Public Fiscal Management Framework as set out in our constitution, and the multiple guidelines, the rules, the manuals, some of which date back to the British days – How do we bridge that gap? And how do we create and rationalize the existing system? There have been incremental challenges, but as our finance minister mentioned, clearly, during the last budget speech, many challenges still remain.

We are going to be moderated by Mohan Gopalakrishnan, who is with the World Bank, he's a senior Financial Management Specialist with the World Bank. And I will leave it to Mohan to introduce the panel and the various speakers. But before I pass it on to Mohan, may I just first thank the World Bank for working with us in CSEP to create these three webinars. I believe they've been extremely successful so far, and I'm most grateful to World Bank, because later, we will hear from Hideki Mori, who is a manager for operations at the World Bank in Delhi, and he will tell us more about this issue. And before we actually turn to the stakeholders, and the states, the secretaries to the various state governments that are going to help us talk about the development of an overarching framework that covers the multiple stakeholders that are interested in the creation of a 21st Century Fiscal Architecture, let me welcome the IMF's Public Finance Management secretariat. We will hear from Manal, about the lessons that we can derive from their international experience and how best we can provide or give statutory strength to the Public Finance Management system. So, of course at the end, our distinguished scholar, distinguished fellow, Anoop Singh, who's really led these webinars from the outset on behalf of CSEP, and who was a member of the 15th Finance Commission, he too will give us his experience. So, Mohan, may I pass it on to you, please, to take this discussion forward.

Mohan Gopalakrishnan: Thank you, Mr. Mehta for those opening remarks, which essentially sets the context for today's discussion. I think building on from the earlier two webinars, where there was a reasonably broad consensus on the need for reforms in the area of Public Financial Management in India, today, we would shift the focus as you rightly said, in terms of the 'how?' 'What is the way forward?'. And in that context, there were two important recommendations that the Finance Commission made in the chapter 13. One was, as opposed to a fairly disaggregated reform that was happening, the need for a comprehensive reform agenda and in a part, with some definitive timeframe, and the need for deliberation and coming to a common understanding amongst various stakeholders; both the state and the national government. That was one important recommendation. And in that context, there was also a suggestion of whether India needs a legal architecture for Public Financial Management, which would act as a catalyst or be an instrument for a driver for change.

So, these were two important recommendations by the Finance Commission. And in fact, there was a draft model law that's available on the website of the Finance Commission. So, with that broad context in mind, which kind of, gives us a sense of the issues that we would like to debate in today's webinar. We have four very eminent panellists with us, and many of them have rich experience in the area of policymaking and reforms, not just in the domain of Public Financial Management, but broader areas of governance and other areas within the government. So, let me just quickly introduce the four panellists, I'll probably give some more details of the background when they come in to speak. So, we have Manal Fouad, who is the Chief of the PFM Division in the Fiscal Affairs Department of the IMF. We have Mr. S. Krishnan, Additional Chief Secretary (Finance), Government of Tamil Nadu. We have Mr. Ashok Meena, Principal Secretary (Panchayati Raj & Drinking Water) Government of Odisha.

Till very recently, Mr. Meena was the Principal Secretary Finance in Government of Odisha. And finally, we have Mr. Subodh Mathur, who was a Former Additional Controller General of Accounts in the Office of the Comptroller General of Accounts in government of India. So, let me start by inviting Manal from IMF, to kickstart today's discussion. And essentially, to share the global experience on the use of Public Financial Management Law or an Act as a catalyst for reforms. So, before I hand over to Manal, just a brief introduction. Manal is a Public Finance Specialist and has provided fiscal policy and capacity development advice to governments across the globe on macro-fiscal frameworks, fiscal transparency, and infrastructure governance. She's also the co-author of the book, *Well Spent: How Strong Infrastructure Governance Can End Waste in Public Investment*. So, I believe Manal has a short presentation, about 15 minutes, to help us walk through the global experience. So, over to you, Manal.

Manal Fouad: Thank you very much, Mohan. And good morning, good afternoon to everyone. It's a great pleasure to be on this distinguished panel. I'd like to thank the World Bank and CSEP for inviting me. A few years ago, I was in Delhi discussing with the government PFM reforms and strategic budgeting, and I have very fond memories of this visit and I met a few of the panellists at that time. So, I'm sorry I can't be there in person, but we have Zoom, so, that's great. So, as Mohan said, my presentation really aims to discuss a little bit of international experience with PFM laws and set the stage to discuss some more in-depth, some of the reforms that are ongoing in India. And let's just start with a definition. So, what is a PFM law? It's a standing piece of legislation governing the management of public finances, which defines the roles, powers and responsibilities of the executive, the legislative, and other public bodies regarding raising spending and reporting on public money. In countries where there are hierarchies of laws, this would usually be an organic law. But in India, this is not the case, of course.

So, I will start with some remarks on why a PFM law can be an instrument for success for effective PFM systems, and then, I'll briefly cover key features, including some country examples, and then, I'll talk about challenges during the law reform process and end with a few suggestions. [Video paused] … the centre of the budget cycle, and is the backbone of the process. The outcomes of the budget process, depends crucially on whether there are clear rules for formulating the fiscal strategy, preparing the annual budget, executing and reporting on the annual budget and checking its compliance with its intended purposes. And so, this would be the role of the PFM law. Let me just first emphasize from the outset, that there is no single solution, and no model law that can be universally applied. The legal basis for budgeting varies a lot across countries, reflecting differences in budget traditions, and legal traditions.

There are multiple factors that affect and influence and should influence the design of a PFM law, such as the political and cultural situation, which are very much interlinked, and also the government system. So, don't expect me to describe a model law, in fact, I'll be talking more about challenges and difficult experiences. But there are some good practices that we know, and we also know from experience that modern and comprehensive PFM law have helped countries to do their PFM reforms, and align fiscal policy to resource allocation and strengthen the strategic nature of budgeting and transparency and accountability. So, just quickly, in terms of the PFM legal instruments that the country usually has, includes the constitution, and in India, there's a lot on the PFM side in the constitution, and then several budget systems law like Fiscal Responsibility Law, SOE Law, etc. So, on the left-hand side, you see what are the core PFM laws and it would be an Organic Budget Law or a PFM Act. India does not have such laws.

And then in the middle, there are the specific PFM laws like the FRL, Debt Law, Independent Audit Law, of course, the Annual Budget Law, SOE, PPP Law, Accounting Law, these are all, sort of, specific PFM laws. India has some of them; the ones that are marked in green. And then, there are also further related laws like SMG Laws or Procurement Laws, Civil Service, also have a bearing on the PFM system. So, what are the objectives of PFM laws? And I'll go a bit quickly over this slide, because I think everyone on the panel and in the public knows, but it's really that a well-defined and comprehensive, and transparent PFM legal framework, puts together clearly what a country requires to achieve their fiscal policy objectives. So, it brings about fiscal discipline, effective allocation and execution of the budget transparency, and above all, a very important point is to really harmonize practices, and this is very important for a country like India which is highly decentralized. The law should also specify what budgetary steps are important and prescribed in law, what's the budget calendar, who is responsible for each step, clearly identify the roles and identify what information is to be produced. There are many considerations in reforming a PFM legislation, but we can group them in really, two categories, and on this slide, there are a few country examples. But the first consideration is really, to modernize Public Financial Management and implement PFM reforms.

So, many countries have adopted PFM laws to introduce major PFM reforms. So, South Africa, for instance, and other countries have used a PFM law to introduce strategic budgeting and medium term, top-down approaches. Some countries have used the PFM law to introduce accrual accounting, program budgeting, fiscal councils, for instance, and general PFM reforms like we've seen in Austria, for instance, that has introduced a very comprehensive organic budget law introducing medium-term budget frameworks, accrual accounting, performance and gender budgeting. The second consideration is to codify good practices. So, there are countries where there are already good practices, but they are fragmented, and it's really putting together and harmonizing practices to strengthen transparency and accountability. But the PFM law reform is a very complex process and requires a long calendar that can take place over many years. It has to respond to many questions like, “How ambitious should it be? What should be the coverage, the scope, the level of details, how to maintain consistency with the constitution and other laws? How to connect the PFM law with the PFM reform agenda? What are the processes to prepare a new PFM law and very important, is how to ensure buy in and ownership from all stakeholders?” So, many PFM law reforms have experienced implementation challenges, where they were enacted without due attention to these issues and a hurried process.

So, I'll turn now to the key features of modern PFM laws, and just briefly mention five principles. And these are questions that, again, each country will have to decide. But the first is on the comprehensiveness. So, the PFM law should be comprehensive to cover all stages of fiscal policymaking and the budget process, including at least, the macro-economic and fiscal policy, fiscal strategy, budget preparation and approval, accounting and reporting. But ideally, it would also cover budget execution and treasury management. The financial oversight of extra budgetary units, and the management of fiscal risks should also be included, and enforcement and sanctions mechanisms. In terms of the institutional coverage also, so, broad institutional coverage has been the trend in recent years in all the recently approved or adopted PFM laws. And we think that the PFM law should apply to all institutional units of the central government, including extra budgetary units. This would allow a better grasp of fiscal risks, leaving extra budgetary units outside the law can weaken financial control and create some loopholes.

But also, the inter-governmental fiscal relations are a very important element to consider when reforming the PFM law, and this is something, of course, key in India. It should depend on each country’s circumstances, constitutional provisions and the actual situation, but it's very important to be very clear on the inter-governmental fiscal relations in the PFM law. The law should also clarify roles and responsibilities within the main stakeholders in PFM, including Parliament and the Supreme Audit Institution. Of course, it should be consistent with the broader legal framework, and it's very important that the drafting is clear, simple and stable, which means that there are clear definitions and that it's not overloaded with details in order to be able to avoid frequent amendments. So, some of the very technical and procedural provisions should be put outside the law in decrees or regulations to avoid amendments to the law. So, this is just based on a forthcoming paper covering reforms of PFM laws across some countries. As you see, as I mentioned earlier, most of the countries and the PFM laws cover macro-fiscal and budget preparation, as well as accounting and reporting, and then, budget execution, and debt and cash management to a lesser degree. So, let me now just give a couple of the examples that could be relevant to India.

First is Brazil, which is a highly decentralized country that has adopted a comprehensive Fiscal Responsibility Law that is a little bit akin to a PFM law. Brazil actually did its reform in 2000, and the Fiscal Responsibility Law was the cornerstone of Brazil's PFM reforms. This is an example of a law which has very strict federal control over subnational governments. So, it imposed hard budget constraints, a lot of provisions for fiscal transparency and monitoring the role of the state audit institutions and very detailed institution and personal sanctions. Now, the law in Brazil is considered as very well designed and worked quite well in the aftermath of its introduction and help put in place the PFM reform. But actually, it's interesting to look at Brazil, because it does have some caveats. And the fact that it was a very strict control over subnational governments, actually backfired a few years, because the Minister of Finance became too lenient with the debt operations of subnational governments, and allowed subnational governments or states and municipalities to borrow without a clear repayment capacity, and this happened a lot.

So, this actually is something interesting to keep in mind, is also the balance between the control of the centre versus more devolved responsibilities, because in the case of Brazil, as I said, the way it was designed, it has led to actually, I mean, even from the centre, the federal government was not able to implement the strict debt limits, and now, they are looking to changing this system, and increase a little bit, the governance of the credit authorization process. The other issue with the Brazil Fiscal Responsibility Law was that there was a lack of consistent accounting standards and poor data quality. And so, this led to also, some creative accounting, and weaknesses of internal and external controls. And these are also being dealt now with new systems in place that are being put. The second example is Mexico. And Mexico is different because the legal framework is actually fragmented, but it's comprehensive and consistent across the various laws. So, there are two or three laws that that manage Public Financial Management, including with subnational government, and there is the Federal Financial Discipline Law for states and municipalities that addresses subnational deficits and debt limits and expenditure controls.

It imposes strict controls on subnational government debt, provides for a single debt registry to monitor subnational government debts, and introduces a traffic light system of alerts to identify subnational governments at risk of high indebtedness. So, states can be either in green if they have manageable indebtedness, in observation in yellow, and high indebtedness in red, and any subnational government classified as red, is prohibited from borrowing. Again, among the caveats, is that there are no consolidated fiscal reports in spite of the large size of the subnational sector. But so, I just wanted to give these two examples that really show the complexities and challenges that are associated with inter-governmental fiscal relations when it comes especially, to reporting. So, let me now quickly talk about the challenges during law reform process and success factors. I mean, we can talk about, there are many things that need to be in place and that are not in place. So, the lacks. And thinking about it either in negative terms, the lack of or the requirement, the need for, but there has to be a very strong political backing and involvement of policymakers. There has to be a strong ownership and focus by all stakeholders in a consultative process, there should be a change management strategy during the implementation process, very strong technical support from the Ministry of Finance to line ministries and other stakeholders and subnational governments. Communication outreach expectations are very important.

And there also has to be the appropriate decision-making tool. So, at the bottom, you see that in many countries, it took more than two years just to have the drafting process, and then another, up to two years of parliamentary process in certain cases. But there are some success factors that we know work well. The first, is to have a diagnostic review of the country's budget system, fiscal institution and decision-making process, a gap analysis and prepare a roadmap and I think in India, the 15th Finance Commission has done quite a bit of work in terms of the diagnostic and gap analysis. The second, is to ensure internal consistency within the entire legal framework. What laws prevail in term of conflicts, which laws need to be amended, so that everything is consistent? These are quite important. There's also a need to identify and understand stakeholders’ positions, and use results to convince stakeholders and share success stories. There should be a leadership role for the Minister of Finance. The Minister of Finance should drive the preparation of the PFM law. Even in jurisdictions where the legislature or the Ministry of Justice has an important role in the drafting process, Minister of Finance should still lead discussions on substantive PFM issues, because it's the best suited to connect between the law and the PFM reforms and the policy side of the law.

Establishing a technical group is also very useful and interdisciplinary working group, to enhance the quality and the speed of the drafting. That can be chaired again, by a senior Ministry of Finance official and have representatives from various departments, line ministries, practitioners and lawyers in the drafting system. And then of course, it's important to build the capacity and the IT systems to adapt quickly to the new realities. So, these are just briefly some of the main countries that have undertaken major reform processes. There has been a lot of outreaches as part of the process with the creation of a Parliamentary Reform Committee for instance. In Austria, workshops with Line Ministries Interagency Working Group. So, this is something that is really very important to bear in mind. Now, moving to some suggestions for India, of course, India has not yet adopted a modern and comprehensive PFM law that would help align fiscal policy, to resource allocations and strengthen the strategic nature of the budgeting system in India, which I think should be the main sort of, focus of a reform is really to move to strategic budgeting.

So, the PFM law will provide a framework for policy formulation and implementation process, it will transform the budget into a key policy document that lays out government's priority policies, ensure that these are funded, build stronger support within the cabinet, parliament and citizens at large. It would allow to focus fiscal policy on the general government, so, central plus subnational governments in line with the FRBM objective of debt and deficit root at the general government level. So, what's in it for the central government? The law would bring harmonized practices for accounting and reporting, improve the timeliness, quality and usefulness of the information regarding General Government, to inform the national policy debates and the resource allocation decisions. And for the state, it will improve the predictability of the centre’s transfers to the state in the medium-term perspective, and allow for a coordinated policy response, let's say, in case of shortfalls in revenues, or in case of crisis or natural disasters, it would inform policy to the benefit of states and local governments. So overall, the results, is really to achieve better fiscal outcomes, have more stability and accountability.

So, what are some suggestions? As mentioned, there is no model PFM law and India will have to come up with what works best in its political and constitutional environment. But a PFM law that would serve India well, should create a coordination framework between the centre and states, to facilitate inter-governmental fiscal relations. It should be comprehensive, defining PFM for the centre and states including harmonized reporting and accounting for all states. But it's also important not to overload it by details that can be addressed in regulations so that we don't run into amendments every time there is a change in the fiscal situation or the economic situation. It should fit in the existing legal space and strengthen enforcement mechanisms for noncompliance. The good news is that there is a lot of good reforms happening already at some states level, I think, it was already mentioned earlier, and we hear about it more from my co panellists. So, there is a lot to build on for a PFM reform on the basis of what has been done in terms of modernizing PFM frameworks in some of the states. And also, as I mentioned earlier, there is already quite a bit of diagnostics and gap analysis by the 15th Finance Commission, that already sets the stage and explains quite well why this is needed.

So, with this in mind, the process is already in place, and there should be a clear action plan, including time-bound objectives, consultations, and transitional practices. So, just to finish, I don't know how I'm doing on time, but just the key takeaway, again, there is no optimal PFM law. It should reflect constitutional political, economic, fiscal and administrative circumstances. But that said, there is a consensus on the set of issues that should be addressed in the PFM law. There are good practices that apply at the centre and should be applied at the subnational government level or the other way around. A PFM law should strike the right balance between the reform ambition and the capacity for implementation. And above all, reforms need persistent support from key stakeholders across all levels of governments. There are some reference materials in the end, and I guess I'll stop here. Thank you very much.

Mohan Gopalakrishnan: Thank you for that excellent overview of the key drivers for PFM laws across domains, and the options on the scope and comprehensiveness of the law. I think a couple of key takeaways were, it should be principles based, not cluttered with too much detail, has to be very consultative process for it to be successful at the time of implementation, and it has to be country-specific; as you said, there is no model, so, it has to be contextualized in terms of local constitution, the legal architecture and the specific issues in a particular country. Like the examples of Brazil and Mexico, both large federal countries, which are very relevant for examples for India to consider. The model draft law that we have on the Finance Commission's website, I think, tends towards being more comprehensive than being less comprehensive. That's what my reading of the draft is. So, I think the presentation provides a good segue for us to take forward the discussions to the next panellist. So, just a request, if there are participants have any questions, they can keep putting them on the chat box and we'll try and address that later.

So, maybe now, I can move to invite Mr. Krishnan, Additional Chief Secretary (Finance) from the Government of Tamil Nadu. So, before I pose my question to him, just a brief introduction of Mr. Krishnan. He's from the Indian Administrative Service and has over 30 years of experience, and has served in various capacities, both in the Government of India, and in the state of Tamil Nadu. He’s also served as a Senior Advisor in the Office of the Executive Director for India, Sri Lanka, Bangladesh and Bhutan in the IMF. And he's represented government of

India in the G20 Experts Group on International Financial Architecture and Global Financial Safety Nets. He's also been involved in the preparation of the Union budget, as well as the Tamil Nadu State Budget during multiple years. So, I think he comes with a very rich experience both of PFM and other areas to be able to add value to our discussion today. So, Mr. Krishnan, my question and your thought process would be around, the states have been reforming a lot of their PFM systems, largely using technology as a key driver.

But as outlined in the FFC report, some of the fundamental processes or issues have remained either static, such as the chart of accounts, or they've been reforms initiatives which have either not been persisted with all the velocity, like you have the Outcome Budget, you have the Results Framework Document a few years ago, and now, you have the Output-Outcome Framework that is kind of, being perceived right now. So, in this context, it would be great to hear your thoughts, especially from a state perspective, in terms of some of the constraints that you see, and on your ability to kind of, reform beyond what we'll be able to achieve. And in that context, whether a PFM legislation would be a right way to kind of, give both the impetus and the ability to do reforms in a time-bound manner, is something that you can build upon. And another issue is, how does this get into the main policy debate? It being so much of a technical reform, how does one bring it to the centre of a policy debate on the need for PFM reform? So, slightly long-ish question, but I'm sure you can handle it. Thank you.

S. Krishnan: Thank you very much. And thanks to the Centre for Social Economic Progress for having me on the session. It was a real pleasure listening to my co panellist, Manal Fouad, and the range of thoughts, I think, it gives us a lot to think about. One of the issues and I think she raised that in her presentation, is the effectiveness of the laws itself. India, in essence, has had FRBM law since 2003. Even the state of Tamil Nadu has had that law, but it’s been amended a number of times – number of relaxations given, escape clauses used and so on. And the other part of the story is that we tended to get around it in a number of ways, and sometimes, the outcomes, if I may say, or if I may add, have been a little perverse. I would recall, in the old days before we had a PFM law, the finance department standard tactic was to pretend that we were doing very, very badly. I mean, it was a good idea for the finance department to say that you're carrying a much larger deficit, it would dissuade a number of departments from trying to push you too hard on their expenditure priorities, it would give you that space to manoeuvre. And end of the year, what would happen is, since the revenues generally would be slightly understated, you would make sure that your revenue targets were more than adequately achieved; and expenditure would be slightly overstated, you'd ensure that the expenditure was contained, and you would achieve an overall outcome which was fairly decent.

Now, what happens is, the minute you have a PFM law, and you say that, okay, your fiscal deficit needs to be 3%, you shouldn't run a revenue deficit, the big risk you have is that, we dress it up right in the beginning of the year, to make sure that you meet the standards. And during the year, then, you have a number of other reasons, and since we don't have an accrual-based accounting yet, although that has been a reform in the works for many, many years now, what happens is, if you postpone expenditure, and the Finance Commission also identifies this issue, it happens both at the state and the national level, that you have commitments which you postpone into the next year, or you do not provide for adequately. And then, you have an issue if none of that gets reflected in the way that you've executed the PFM law, whether you've achieved the fiscal rule or not, it appears as if you've achieved the fiscal rule, but in reality, you haven't. That is something which will need correction, to make sure that your debt is not only what you owe the banks or what you borrowed to a particular process, but also, who your operational creditors are, people to whom you haven't made payments, people who are still awaiting their receipts from government.

So, this is often an issue that you end up facing and that's one of the risks with a very stiff PFM law. The second part of it also, is definition. Because what we tend to, fortunately now, I think the emphasis is much more on the fiscal deficit, which reflects the overall borrowing limit to the government, and you're looking at the overall debt that you carry, which again, is a reflection of capacity. So, these two fiscal rules, in a sense, are fundamental, and you need to not live beyond your means. But the earlier measurements saying, that you shouldn't, what in India is called a revenue deficit, or a current deficit, where your current expenses exceed the current revenues. One of the issues is, especially at a state level, what gets defined as current revenues, and what gets defined as current expenses. And bulk of your expenditure ends up being in schools or in education, in health care, in policing, in courts. All of those are very intensive in terms of human resources, the number of people you employ, and therefore salaries, and thereby, you carry a fairly large overhang of expenditure on account of that, and that will be reflected on it as a current expense.

On the other hand, if you built buildings that you didn't need, or roads that went nowhere, it will count as a capital expenditure or an investment expenditure, whether in all circumstances, it is justified or not. And therefore, there's always this question as to how you design the room and how you design a particular element here, in order to achieve the overall object. We are doing all of this to enhance welfare, we are doing all of this to reach somewhere in terms of what needs to happen with the economy, what needs to happen with society. So, those socio-economic goals, are they getting met? Becomes a crucial issue. The second element, and there again, I think it's important and what PFM laws have certainly done, is they have put fiscal health at the centrepiece of public debate. And it is very interesting in Tamil Nadu, we've had a recent election, a very large portion of the debate that took place was on achievement of fiscal goals, especially on the level of debt. And somewhere, there is a serious concern that the level of debt is going up and the level of debt is going up because you're living beyond your means and borrowing, you're not raising enough revenues or you're spending too much. So, both of those elements become an important part of the public debate. And therefore, politically, it becomes easier to frame issues.

So, to that extent, certainly a PFM law and actually, highlighting some of the difficulties that a country or even a state could face, if they do not take care of their fiscal management, carefully becomes an important element of debate. And then, the quality of expenditure becomes important; people start discussing issues like quality of expenditure. So, in that sense, it contextualizes the debate a lot more, and people also question, in terms of whether the expenditure is worthwhile or not. And for the first time, after a long time in Tamil Nadu, people are questioning whether government servants are paid too, much whether you need to have some sort of control or some cap on the way salaries are paid out. Through the COVID period, when we paid salaries, people said, “There are many people who aren't working, why are you paying them their salaries through this period or the full salaries through this period?” What hurts the private sector comes up. So, a number of aspects of government expenditure have come into our government’s Public Financial Management, come into very close focus when there is a PFM law and when there are benchmarks against which it is discussed. So, I think there are pluses and minuses.

So, in certain cases, you need to change some of the definitions, fine tune some of those issues to make sure that you are moving in the right direction. And at another level, you utilize the kind of debate that the PFM law generates to make sure what further reforms that you can take up and how you can deal with a variety of the issues that that you are able to come up with in terms of definitions. The other big issue that you run into in a lot of this is, see, the accounting responsibilities and how quickly you're able to account for what you've budgeted, how much you've spent, and how that information gets shared in the public, becomes an important element. And I think many states have moved forward substantially here; it is often not given the kind of importance that that it deserves, both at the state level, and even further at the local level in the sense of the various local self-governments; how their budgets and how their accounts look, and that is becoming increasingly more important. For instance, we've launched and now, fully implemented an Integrated Financial and Human Resource Management System across government, which gives us on a real time basis, where we stand, on a day-by-day basis, where the financial position stands and where the expenditure position stands. We can quickly pick up the data without difficulty and then, base a lot of decision making on a number of those aspects.

Similarly, with local body accounting, where very often many local bodies wouldn't even account for their annual expenditure, the accounts would be in arrears of many years, and audits wouldn't have been carried out or the reports would not be available. I think through a whole set of reforms, the quality of local body accounting has also improved considerably. Tamil Nadu and I'm sure many other states also have laws for local bodies to actually hand in their accounts in time. The successive Finance Commissions have insisted, both the 14th and the 15th Finance Commission, have insisted that one of the entry level conditions is that the accounts of the previous year should be ready before further funds are released. So, all of this is certainly helping in improving the quality of accounting, the visibility, the transparency, and once that happens, it enters the realm of public debate and everyone then is much more conscious of what we are addressing and how we are going about it. I think that's a key aspect which I think we have realized from this entire process. And these are processes which you can then look to see how IFHRM System for instance, gives us then, an opportunity as to how you can use this for better other aspects of PFM including, how do you control expenditure better, and some of this can then fall into this overall framework.

How do you do it? I mean, the Mexican model, and the Brazilian model, which was discussed earlier, gives you that very interesting contrast; a very rigid system with a lot of laws and how it actually gets implemented or doesn't get implemented is one concern. And on another hand, a kind of, a set of rules, regulations, some of it derived directly from the constitution, some of it by specific law, and some of it by regulation also works. I mean, it all needs to be just put within an overarching framework, and in some ways where India stands today, is perhaps where Mexico was, and probably addressing some of the gaps, and some of those identified areas where greater intervention is required, would probably make a huge difference. There is a discipline in terms of a budget having to be presented, there's a discipline in terms of how the budget is executed, all of that is there. And the CNAG's establishment is a very strong establishment. So, there are parts of this which are very strong, but then, other parts of which need to be fed in there. And I think one of the important reforms, is how the budget itself is formulated.

A lack of information and lack of budgetary control often means that the way in which the budget was formulated and executed in many states, is that we try to ensure that we have a system where we try to build a system where from the top, you don't try to control the budget. The budget builds up from the bottom, and then, you try to hold them to very, very specific target, saying, you shouldn't exceed this, you shouldn't exceed this, you shouldn't exceed this. So, there's no sense of ownership. The pressure is always saying, "How do I exceed the envelope? How do I get a little more money?" Instead of trying to see "How do I use the set of resources a little differently?" If our estimation processes improve, if our forecasting improves, and we are able to give people the envelopes, and stick them within that, and budget processes, and follow that, it could make a huge difference. In fact, one of the big changes, I think Odisha has already tried it, and we'll hear more of that from Ashok Meena. But one of the big changes we are attempting in the coming budget in Tamil Nadu in the next six months or so, would be to try and at least, pick some departments where we can actually get them to use their own resources creatively to see, how is it that we can structure this and use it creatively.

There are other aspects of law which are fairly strong in the Indian context, for instance, in Tamil Nadu, we have a very strong procurement law, which has worked well for us, so, that was one of the associated laws of PFM, which was described. So, there are elements of that which fall into place, but I think the bigger picture is yes, of course, there's a need for a PFM law and a well-defined law, and we need to sort of, actually identify the areas where we have weakness and try and see how we strengthen it. And the risk with a very strong PFM law sometimes is, you try to play around with it in a way that you achieve it in letter, but not in spirit. So, I think that is crucial, and so, how do you actually achieve it in spirit as well? How do you not build up too many off budget liabilities, how do you not build up too many contingent liabilities and so on, becomes an important element of the kind of work that we need to do. And I think these are important elements that we have to look at, in any situation. So, this would be some of the immediate thoughts that I have, on how we carry forward with the work, which the 15th Finance Commission has also left us in terms of how you build into the law. But, I mean, it's an important debate, and one thing we must always remember is in the Indian constitutional system, there is always this unevenness between the way the centre gets treated, and the states get treated.

For instance, Article 292 of the Constitution, which requires the centre to have a borrowing law and limits on borrowing. That has never been even statutorily approved. Whereas, Article

293, which is the next article which relates to borrowing by states, we have an automatic cap there because, as long as you owe the Government of India money, you can't borrow from anybody else. So, they have a say on where you borrow or you don't borrow. So, how come we don't have some parity in the way that these things work, and how do you then structure a system which is fair to all concerned, also becomes an important element of this debate. So, I mean, let me stop there, it's a huge subject and I can just go on about various elements of this, but let me stop there and take it from you in terms of if there's a further question or an issue that I need to address.

Mohan Gopalakrishnan: Thank you, Mr. Krishnan. I think some of your comments have kind of, completely added a new dimension to hear from practitioners in terms of how they look at the benefits of a PFM Act and the perverse incentives that you mentioned, was an interesting one. And secondly, I think the other important point was the need to implement it in both in letter and spirit. And either if it's too lax, or too stringent, you have creative ways of going around it. And the third point was of the unevenness between centre and state. So, I think these are three key takeaways for me. But at the same time, given what you mentioned about Odisha, gives us a very nice move to Mr. Meena, in terms of asking him about the reforms that Odisha has quietly pursued. Now, I use the word quietly with very specific intent. They've always flown below the radar and quietly reformed from a state which was in fairly deep fiscal situation to some state, which has been very comfortable and have been quietly doing a lot of reforms both on the fiscal and the PFM side. So, a quick introduction on Mr. Meana, before I pose the question to him. Mr. Meena is also from the Indian Administrative Service, and is currently the Principal Secretary of Panchayati Raj and Drinking Water. Until recently, he served as the Secretary of Finance in the Government of Odisha.

In his career comprising various appointments in the central government and Odisha government, he has successfully delivered results on many challenging projects related to investment and trade promotion, infrastructure financing, and public private partnerships, e-governance, management of public sector undertakings, and World Trade Organization, etc. So, with that background, Mr. Meena, my question to you is, as I mentioned, Odisha has been a very quiet reformer over a decade. And I understand it required, apart from the technical aspects and information systems, it required considerable efforts building consensus, both at the political and administrative level, for even pushing through some very big, which one would assume are basic reforms. So, can you tell us briefly through some of the critical reforms that Odisha has done, which everybody would be interested to know about. But also, talk us through how the consensus building process happened, and what lessons we have for the recommendation of the Finance Commission to have a body which helps discuss and build consensus between the state and the union. So, it's kind of an extrapolation of what you did in Odisha. What lessons are there for us to take it to a level at the Government of India? So, I believe you also have a short presentation, and you will have about 10, 15 minutes. And Kevin, if you can help Mr. Meena with managing the presentation, please. Thank you.

Ashok Meena: Good evening to everyone, and thank you Gopalakrishnan, and thank you, Mr. Krishnan. He actually summed up quite a bit of our position as far as these states are concerned in PFM reforms area. What I'll do is, I'll just run you through a presentation, which actually narrates what we have been doing, what needs to be done in the state of Odisha as far as PFM reforms are concerned. But let me begin by a caveat, that we did understand that PFM actually is a vehicle through which public service delivery needs to be influenced in terms of efficiency, equity, quality, accountability, and ultimately, wellbeing of the citizens as Mr. Krishnan was mentioning. So, in this backdrop, actually, there are three overarching objectives for PFM. One is, Aggregate Fiscal Discipline as to how we, at the aggregate level, how do we control that? Two is, Operational or Technical Efficiency, and third one is, Allocative Efficiency. So, these are the three objectives with which we started. So, I'll take you through our PFM systems in Odisha performance in last 20 years, how we ended up identifying some reform areas and then, what was the progress made in each of these reform areas and what is the way forward as far as state of Odisha is concerned.

So, if I take you back to say, the year 1999, 2000, Odisha was in a very, very dire straits, in fact, that is the year when we were hit by a super cyclone, almost a huge number of people died, our fiscal deficit was 8%, the revenue deficit was almost around 5% and the capital outlay was very minimal; less than 2%. From there, we actually started consolidating, in fact, the finance equity during those times; we ended up working with the IMF, Mr. U. Sarat Chandran, some of you probably would be knowing him. So, he used to be the Finance Secretary, and he had a very, very tough demeanour to consolidate the fiscal position of the state of Odisha. So, in 2005, he actually consolidated the position and we became revenue surplus from 2005 till for last 16 years, now, we are revenue surplus. Even fiscal deficit, in fact, in the enthusiasm in the state of Odisha, did not borrow anything and ended up having a fiscal surplus, which is actually not a very good thing during the years 2007, 2008 and then again, during the year 2011 and 12. And then, we realized that this is a poor state and if we don't build our productive capacities, in terms of capital creation, then probably we are not doing justice. So therefore, around 2014-15, our honourable CM, Mr. Naveen Patnaik, who has been the Chief Minister for last 20 years and that's a stability that is the advantage in the state of Odisha. He decided that we need to borrow sustainably so that we can create capital assets.

And from the year 2015, 16 onwards, in fact, I also joined finance department around that time, we increased our borrowings but kept the fiscal deficit within the norm prescribed of 3.5% and the debt stock which was almost 50% of the GSDP at one point of time, on a glide path, came down to almost 13% in 2013, 14, but has been hovering around 20% now, in the year 2021. So, this was the background in the year 2018, 19. We had a technical cooperation with the IMF, and we invited a mission from IMF in January 2019. And I remember I had just become finance secretary; before that, I was a special secretary in finance. So, this mission came and we identified some reform areas. In fact, we have always been looking towards the better performing and better governed states in the country like Tamil Nadu and Karnataka and other states which have huge state capacity and their budgeting exercises, etc., are very detailed, whereas the capacity in the state of Odisha was not as good and our exercises were also not as comprehensive. So, while identifying the PFM reform areas, we took a very conservative view that let us understand what can be done and what institutional requirements would be there to ensure that we actually are able to implement those reforms.

So, there are four areas which we identified. One is, the reinforcing budget credibility, because what was happening prior to 2016, was the budget gets made based on the wish list of the departments and at the end of the day, finance department based on the envelop, would reduce their requirements and huge amount of disparity was there. So, we decided that we need to have a stand in the Macro Fiscal Forecasting, then in Annual Budgeting, we had to move towards medium-term budgeting in a strategic manner. Then, Fiscal Risk Management was another area we identified; we said that we need to analyse the fiscal risks, fiscal risk reporting has to be there and then, manage the exposure to the fiscal risks and what would be the mitigation measures that we can take. We also identified that we need to have a commitment control and a strong technically sound IFMS system, and then also, going forward, cash management has to be there across the entire government value chain, including all various agencies of the government, SOEs, etc. So, consolidating government cash balances and cash forecasting and institutional arrangements, was a very important thing. So, these are the four areas we identified. So, first thing we decided was that the state capacity itself, unlike say, Tamil Nadu was lacking. So, we needed to establish various functional units, drawing our own staff from various financial service.

Fortunately, what was happening in the state of Odisha was that we started having regular recruitment of the Odisha finance service officers and to tell you the truth, the transparent process through which these finance service officers are recruited regularly from 2014, 15 onwards, they're as good as any civil servant would be anywhere in the country with the addition that most of them have background in the finance. So, we chose good direct recruit finance service officers and made a couple of units; like the Strategic Macro Fiscal Planning Unit, then, Fiscal Risk and Debt Management Unit, and Commitment Control and Cash Management Unit. These institutional mechanism in house was set up, but we also needed lot of constant support in terms of knowledge. So, what we did was, we created a centre for excellence in fiscal policy and taxation in Xavier Institute of Management, which is a premier Management Institute located in Bhubaneswar, and they became the knowledge partner for academic inputs which are required by these three institutional units. And we also set up a Directorate of PPP, so that risk related to the PPP could be analysed there. Apart from that, Constitution of Fiscal Risk Management committee and Cash Coordination Committee, under the chairmanship of Secretary of Finance, ideally speaking, I would have wanted outside support for setting up of these units to get outside information, but I was prevented.

In fact, I was dissuaded that to start with, let us have in-house understanding of these issues, so that committees are led by the Secretary of Finance himself. So ideally speaking, I think, once a situation matures, probably these institutional setups will need further debate as to how they will be housed. So, having established these units, then we went on to implement some of the reform areas. So, for example, as Mr Krishnan was alluding to what generally was happening prior to the budget of 2019, 20, was that the cycle will start almost just one or one and a half months prior to the budget session. Every department would be asked what is your proposals. So, therefore, you can see the red line on the chart, the proposals are always very, very high from all the departments. And then, what was the budget estimate? Budget estimate was based on the internal calculations of the finance department. So therefore, you get a cut on the proposals given by the departments and since there is not much time, so, what gets cut is ultimately decided by the finance department. And therefore, some of the crucial priorities of some departments would get cut, whereas, some departments where money probably could not have been needed, would also get funded. So, that kind of situation was obtaining.

So, we introduced a strategic budgeting concept where we said, okay, now we would give you the advanced ceiling, say, around six months in advance. And this advanced ceiling will be given to all the departments. But now, accepting that process at the political decision-making level was also difficult. So, our system is attuned, wherein budget becomes almost a secret kind of, document where departments are not supposed to be knowing as to how much money they will get next year. So, when we talk about the strategic budget, making exercise where in the standard to ceilings will be given for three years and that would become a rolling plan. That was a kind of, no-go situation to start with. But then, since we have a very stable government, what I ended up bargaining at the decision-making level was that, yes, we'll give the tentative ceilings, those tentative ceilings will be say, around 90% of my budget envelop. So, there would be a 10% odd money would be available at the higher level once the budget proposals are finalized in consultation with the departments, and the decision-making level can actually fine tune those budget proposals; and then, budget estimates are prepared.

So, this 10% to 15% of addition cushion which was given to the decision-making level, allowed me to actually communicate the advanced ceilings for three years to all the departments. And once we hit this advanced ceiling communication, you can see in the year 2020, 21, the proposals themselves from the departments got reduced substantially and my budget estimate was almost at the same level as the proposals which were received from the department. So, this is an indicative thing, and I'm sure actuals would have gone haywire because of the COVID 19 pandemic hitting the entire country, but it is not too different from what was happening in the previous years. So, what we have done till now is, the progress made so far as reinforcing project credibility is concerned, we have now, Top-Down budgeting with advanced communication of budget ceiling, and not only for this year, but in three-year rolling form. We are providing about 90% of the resource envelope available to the departments. This reduces the gap between budget proposal, budget allocation and between budget allocation and actual expenditure. We developed a medium-term fiscal framework to anchor the annual and midterm budget making process.

Fiscal strategy paper has been published for the first time along with the budget 2021, 22. Publication of the status paper on public debt for general awareness of public about the current debt level of the state has been done. What we want to do in future is, we want to revise the MTF factory in latest economic indicators and variables, developed in-house capacity to do the GSDP forecasting and calculation, taking into account, sector specific data. Then, we also want to continue drafting the fiscal strategic paper, this being an annual exercise hence. As far as fiscal risk management is concerned, this was again a very, very difficult reform area. We developed a fiscal risk register, continuous updating of the risk register to account for emergent risk was prepared in-house. Of course, a lot of assistance was given by the technical experts available from the IMF; they did a lot of training. In fact, the number of trainings probably were more than what would have been possible if COVID was not there. In fact, due to virtual training program session, number of training programs increased substantially because the experts were available from across the globe, and those trainings continued even when the staff was sitting at home.

So, based on that training and capability building, we started editing registers now for all our emergencies. PPP risk register has been put in place. Identification, classification and quantification of different risk; this training has been given to the unit which has been set up in-house. We also are now analysing the PSU risk analysis using the IMF and ESU risk analysis tool. Then, we have published the fiscal risk statement for the first time along with the budget 2021, 22. What do we want to do? We want to have a comprehensive risk analysis of all the PSUs and also print a statement on the PSUs as far as their risk is concerned, and how it is going to affect the state in overall position. PPP risk analysis also, is one thing which we want to do going forward. And then, fiscal risk statement also needs to be improved further in quality or terms of quantitative risk analysis. As far as cash management and commitment control is concerned, the technical solution is being developed under the iFMS. We have also started having commitment recording from transactional systems which are operating in different silos, like budget execution, system beta, the work accounting and management information system which takes care of all the capital works, then, human resource management system. So, all these three transactional systems are now recording the controls.

We have put a taskforce in place for overseeing the progress in the area of commitment control, and oversight specific cash management tool is under development, where a lot of technical assistance, we are receiving from the IMF. So, going forward, we would like to deploy this module in live environment or develop the cash management tool further and implement the same. And also, in future, consolidate the government cash balances in a treasury single account at the RBA with facility of daily settlement with the treasury single account. That is the aspiration that I had, hopefully, my team which has been put in place will take it forward. So, to sum up, I would like to say that there is a need for an overarching PFM legal framework. And as Mr. Krishnan said, what is needed is a definitional issue; how do you define various components of the public finance management? That is very, very important. If we don't define them, then, there would be a problem in terms of people hiding various component parts of the debt or parts of the borrowing. So, those definitional things have to become part of the overarching PFM legal framework at the national level, but at the same time, subnational governments should be given complete flexibility to formulate their own PFM law and procedure within the overall framework. So, with the definitions provided by the National Framework, if the states are allowed flexibility to frame their own PFM laws, that would be a great move forward.

In my personal experience, I think there are three critical ingredients which are needed for successful PFM reforms going forward. One is leadership. Leadership, in terms of strong political and technical commitment, clear communication and coordination of the reforms and widening the group of reform leaders who manage fears, expectations and differences of opinion. That is very, very important. When otherwise, if a risk statement is published in media, then it has the potential of being misinterpreted by everyone, particularly the opposition parties, and then, the whole decision-making hierarchy may actually not allow you to move forward. Then, we need to have policy space for developing appropriate reforms through understanding of the context of focus on the functionality of the system and not just default, and teams and organizations which are needed to experiment and take risks in the problem solving and proposed solutions. We also need to be adaptive, iterative and inclusive, in terms of developing the PFM reforms going forward, because we can't be very, very stiff about the whole law, having clear boundaries. But clear boundaries may be there in terms of overarching principles, but too much of detailing at the national level and binding the states, probably may not be an appropriate idea. Thank you very much. I would be available for taking the questions. Thank you.

Mohan Gopalakrishnan: Thank you, Mr. Meena. That was a quick walkthrough of quite the years of reform in Odisha. So, it's a really fascinating story and how stability in political leadership has really helped achieve that. It's a key driver, is the reform lesson that I take away, apart from all the other important elements that you mentioned in terms of for the reforms, and especially for when one looks at the PFM law. Hopefully, it takes shape sooner than later. So, I now move to Subodh Mathur. And a brief introduction of Subodh before I pose a question to him. Subodh Mathur is a Former Additional Comptroller General of Accounts. And as a former member of the Indian Civil Account Service, he's had more than 30 years of experience in public finance, budgeting, public finance law, government accounts, internal audit, and FMIS, and also, managing the National Wealth Fund Management. In his last assignment, he managed the PFM as the Public Financial Management system, the flagship FMI system of government of India, for management of treasury receipts, payments and accounts, as well as the critical element of direct cash transfers, which has been a huge success story. He's also worked as the World Bank and IMF, as senior treasury advisor in Timor Leste, Antigua and Barbados.

So, Subodh, my question, since you've been involved in reforms, both within the government of India and also, advising countries outside of India, it's more of a non-technical question in terms, of what holds back reforms in PFM, despite knowing what is required, so that what is required, is a known issue. We have very good technical human resources, we have the best of IT resources in India, so, what holds back? Is it a supply-side issue where PFM practitioners are not able to articulate the benefits of these reforms and convincing policymakers? Or is it that you're doing enough on the supply-side, but the demand for that is lacking. So, maybe it's a bit of both, but from your experience in India and overseas, you can kind of, shed a bit of light on that particular aspect and can take about 10 minutes, given the time that we have, please. Over to you, Subodh.

Subodh Mathur: Thanks, Mohan, and thanks for CSEP and World Bank for inviting me to this esteemed panel of discussion. To quickly take on to your question, I think there is, as you said, there is an issue both of the supply, as well as of the demand, as well as the perception that the PFM reforms may sort of, make the governments divulge more than they are perhaps currently trying to do. So, that is perhaps one side of it. The other side is, I also believe that the kind of reforms and the impact that these reforms will bring in, I think, there is a need for better appreciation at the policy-making level, both at the centre and the states. And the reforms, I think we need to look at in a very comprehensive way, as something that Mr.

Krishnan mentioned, that on one hand, you can't have very strict fiscal rules, which perhaps, may lead to creative accounting. So, while we may have fiscal rules, but then, we need to have proper accounting standards for this proper chart of accounts; for this proper budgeting. And as Odisha has now shown, that state governments can move into the medium-term frameworks and all that. So, I think it's a question of people trying to understand the benefits that comprehensive reforms in PFM can bring in for better management of the limited fiscal resources that both centre and states have.

So, more, it is for the understanding, as well as possibly, there could be a fear that we are treading into something unknown. So, I think that really needs to be taken care of that the implementation of these reforms is likely to benefit in the long-term and a medium-term, the government of the day. So, I think that is also very much required. To that extent, I think the recommendations of the Finance Commission are very, very timely and relevant for the implementation of the reforms. As far as the PFM law is concerned, I think much has been said in the last presentation and also earlier. I think we need to have a general strategy first, what is it that we need to bring in into the PFM law? What is the common understanding of the central government and the state governments as well as for the third tier also? So, let us have a common understanding that these are the essential things that we need to cover in the PFM law, whether we are talking about medium-term frameworks, whether we are talking about chart of accounts, whether we are talking of accrual accounting, whether we are talking about transparency, and so on, I mean, so, some broad parameters have to be accepted that these are my contours, and this is the PFM reform structure that we all agree to, in a given time-frame. Once that structure is approved, then perhaps, moving in for PFM law would be something that would be doable.

So, to that extent, I think, as Finance Commission has recommended, it is the Ministry of Finance in government of India, which has to take the lead and build up a consultative process with the state governments and the other stakeholders to ensure that, A, there is a proper PFM reform strategy in place to draw the contours, and then move towards the PFM law. And as Mr. Ashok has said from Odisha, and I would support him that while there has to be an overarching PFM law from the central government, the states should be able to have their own PFM laws to fine-tune their specific requirements, and be given the freedom to operate. Nevertheless, while the administratively India is divided into the union and states, but the common thread of finance run through both the centre and the states, as well as the third-tier of the government. So, we need to really have a comprehensive law which will bind, not bind in the sense of enforcement, but bring together the fiscal architecture of centre and states and the third-tier governments all together. I think, these are the key things. In the first session of the seminar, I think, what officials were taught or talked about, of having General Government accounts or even larger public sector accounts, or there's a spill over between one year's budget and the next year's budget, and there will be accounting issues in that. So, I think a comprehensive law would really help in streamlining the fiscal architecture, both of the centre and the state. So, this is what I wanted to share, initially. Over to you, Mohan.

Mohan Gopalakrishnan: Thank you, Subodh. Actually, I'm getting a lot of questions on the chat box, and also, I have an itching to ask a second set of questions, but in the interest of time, we are kind of close to 6:30, so, I'm kind of restraining myself from posing those questions. There are some very interesting questions. So, I'll hand over and request Mr. Anoop Singh to come in, to use the Hindi word – he's been the *Sutradhar* of the idea of this particular three series of webinars, and also as the key author of Chapter 13, of the Finance Commission report. So, maybe I would request Mr. Anoop Singh, to share his views on how to keep this dialogue going. I mean, we've had a very interesting and rich set of discussions over three weeks. What are some of the ideas or thoughts that you might have to kind of, keep this going, and so that we don't drop the ball – we, meaning the Government of India, doesn't drop the ball and how do you keep the interest going? So, over to you, Mr. Anoop Singh.

Anoop Singh: Thank you very much, Mohan, and thanks to all the speakers. I will speak for a very short while given the time. But really, I think each one of the speakers today has made incredibly important points, and it's really been extremely instructive for me. The only point I will say is that the world is in a situation where we are all dealing with the hopefully, the post COVID crisis; what happens after the global crisis, next five years, 10 years? What we've seen in previous crises, is generally institutional change, including in fiscal, monetary central bank institutions. They tend to be triggered by a crisis. And we are in that situation now. So, it is right to expect that the world is thinking of reforms, not only because they need reforms, but because rules are being redone. Now, on the fiscal side, almost every country has a fiscal rule that has been suspended, because it cannot deal with the COVID effects. However, as you're moving into a post COVID period, most governments are beginning to re-introduce fiscal laws, and India is too. We will have to do it. So, the point is, as countries are redoing their own fiscal role, certainly FRBM, it's the perfect time to be looking also, at the Public Financial Management that underlies it. You don't want to set rules, again, which will inspire governments to find ways to avoid or complicate the presentation of data.

So, this is the time now as India, and as other countries are redoing the rules, to look at the institutions underlying it, in particular, where countries don't have a PFM law to sit back and think, "Is this needed?" Now, my last point is this. The 15th Finance Commission tried to address this for these reasons, but also because our own terms of reference instructed us to find ways in which to improve the equity, the efficiency, the transparency of spending, and to improve the efficiency of public spending. So, what the commission then did at the end was asked some experts to try and draft a possible framework, which could be a law that now exists, it's somewhere in the website of the Finance Commission. I believe that group tried to cover all the issues which are tied to PFM reform. Now, the Commission is not saying that such a law is needed. The point is simply, there is such a framework, it could be called the draft law. The issue is, as we discuss it, each element, we will automatically discuss all the issues that we've talked about this afternoon on PFM reform, and it could be that it would be found to achieve the objectives without the law in every particular case.

So, the issue is that, the time is now here for a debate on this. And to see whether we need a law, do we need a law for certain portions of it? So, I think that is where we are, and I think this is where the stakeholders are very important; the CG, the state, the centre, CGA, the RBI. So, I'm hoping that we are now moving into a situation whereby we will be discussing what is needed, but in a law, and what is not needed at all, and so, how could this be done? That's my only comment at this point. Thank you, Mohan.

Mohan Gopalakrishnan: Thank you, Anoop Ji. And since we are over running time, may I request, Hideki Mori to give the closing remarks for this particular session, and actually, for the three series of webinars that we've had. Over to you, Hideki.

Hideki Mori: Thank you, Mohan. On behalf of the World Bank, I'd like to thank CSEP and Dr. Anoop Singh, in particular for organizing the three-part webinar series on *India's PFM System, Post COVID-19 – Needs and Opportunities for Reforms*. I would also like to thank Mr. Vikram Mehta, and four esteemed and distinguished panellists that we just heard for sparing their valuable time to share their views and insight. Coming in the backdrop of the recommendation of the 15th Finance Commission on the Fiscal Architecture for 21st Century India - Fiscal Rules Financial Management Institutions, discussions such as this series, which brought together a range of national and international fiscal and PFM experts, senior government officials, and PFM practitioners and policymakers is extremely, extremely useful and relevant in helping inform and contribute to the range of input and views that policymakers within the government may look for. A common thread that has emerged from the series of webinar is a broad consensus on the need for reforms in the area of Public Financial Management. The question is one of, "How?". How, in terms of building consensus among a range of stakeholders, the sequencing of reforms, recognizing the inter-linkages between various elements of PFM reforms and the institutional mechanism to manage the process of incentivizing reforms.

From my perspectives, sound PFM is a means to an end and globally, has progressed from serving as a control function to being an enabler for service delivery, supporting decision making, and providing critical input to policymakers. Here, I'd also like to draw on an interesting corollary of the series of discussions with the World Bank's India country partnership framework, where we have explicitly recognized the need to focus on one, enhancing state capability and two, focus on the 'how's' of reforms. The specific focus of 'how', on strengthening public sector institutions necessarily involves aligning right incentives, which in turn, requires understanding political economy challenges. The drivers for change, and incentives to welcoming or blocking potential changes in order to effectively engage public sector institutions. In this context, I'd like to encourage PFM practitioners to demystify the technical aspect and benefit of a sound PFM to help make a more persuasive case for reforms to decision and policymakers. To conclude, I'd like to reiterate the Bank's support and commitment to India's reforms in the areas of Public Finance Management, and also, I'd like to reiterate my special thanks to the CSEP and Dr. Anoop and the four distinguished panellists. And also, my personal thanks to Mohan to moderating this session. Thank you very much.

Mohan Gopalakrishnan: Thank you, Hideki. And thank you all panel members for spending their time. With that, we conclude the three-part series, and I'm sure there are very, very important inputs, learnings and feedback that we've got that we can take forward in our dialogue forward. Thank you very much for your time.