

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

September 2021

International evidence has shown that a strong PFM system is critical for operational and allocative efficiency and sustainability of public expenditure. Indian PFM systems, across the centre and the states, have undergone sporadic, disparate, and incremental changes over a number of years.

The COVID-19 pandemic has exposed the vulnerabilities of the PFM system and has forced governments to adopt rapid remedial measures such as reprogramming / reprioritising expenditures, easing procurement processes, expediting execution modalities, and arranging for liquidity with all the attendant risks. The pandemic has, thus, highlighted the need to deepen and strengthen the PFM architecture and, thereby, change the way governments manage public money.

In building the post-COVID-19 recovery, the nature of fiscal governance and the quality and direction of public spending, especially infrastructure investment, will play a key role. Across countries, and especially in India, with resources being tight, governments will need to carefully redirect spending to the productive sectors with higher multiplier effects on rebuilding inclusive growth.

For this, all tiers of government will need better fiscal governance—strong institutions and frameworks to plan, allocate, implement, report, and assess the quality of public spending and public infrastructure. The fiscal challenges brought on by the pandemic have heightened the urgency to strengthen the PFM system in India.

In this context, the Centre for Social and Economic Progress (CESP) in coordination with the World Bank is organising three seminars in September 2021 to examine and explore the need and opportunities for reforms in fiscal governance and the PFM system in India.

Session 1, September 13, 5-6:30 pm IST

Register here: <https://bit.ly/2WV1EKi>

Title: Fiscal Governance

The governments at the centre and the state level immediately require considerable resources for dealing with the pandemic and for stimulating the economy. Given the contraction of the economy, it would be difficult to raise the additional resources from the regular tax and non-tax revenues. The challenge would be to raise the required resources in a sustainable manner and spend them wisely.

Successive Finance Commissions have paid considerable attention to public debt and issues related to fiscal sustainability because this is an important responsibility of any government. The Fifteenth Finance Commission's (FFC) report had a detailed discussion on a fiscal consolidation roadmap, particularly keeping in view the crisis brought on by the pandemic and upgrading fiscal governance.

The FFC has made a number of recommendations on fiscal governance (chapter 13 of the FFC Report 2021-26), especially recommending an overarching legal framework for PFM and proposing elements of such a system which provides complete, consistent, transparent, reliable, and timely reporting of fiscal indicators consistent with best practice international standards. In addition to laying down the elements of PFM for the union and the states, the FFC also recommended institutional reforms to strengthen fiscal governance.

Toward this, the FFC underlined building an inter-governmental forum including the centre, states, and critical stakeholders such as the Comptroller and Auditor General of India (CAG) and the Reserve Bank of India (RBI) to chart out an action plan for implementing these reforms consistently across the centre and the states.

Among the other institutional measures referred to by the FFC is the establishment of an independent fiscal council, at the central and the state level, to undertake ex-ante assessment.

This webinar will discuss these and related recommendations.

Agenda

Opening Remarks:

Rakesh Mohan, President and Distinguished Fellow, CSEP

Moderator:

Anoop Singh, Distinguished Fellow, CSEP

Panelists:

1. *N.K. Singh*, President, Institute of Economic Growth and Chairman, Fifteenth Finance Commission
2. *Sean Dougherty*, Senior Advisor and Head of Secretariat, OECD Network on Fiscal Relations across Levels of Government
3. *Rajiv Mehrishi*, 13th Comptroller and Auditor General of India
4. *Yamini Aiyar*, President and Chief Executive, Centre for Policy Research

Closing Remarks:

Junaid Ahmad, India Country Director, World Bank

Biographies of Speakers

Rakesh Mohan is President and Distinguished Fellow at CSEP. Previously, he was Senior Fellow at the Jackson Institute for Global Affairs, Yale University, Professor at Yale's School of Management, and Distinguished Consulting Professor at Stanford University. Closely associated with the Indian economic reforms process since the late 1980s, he has served in senior roles including as the Deputy Governor of the Reserve Bank of India, Secretary, Economic Affairs, and Chief Economic Adviser of the Ministry of Finance. He has authored books on urban economics, urban development, monetary policy, and economic reforms.

Anoop Singh is a Distinguished Fellow at CSEP and was a Member of the Fifteenth Finance Commission. Previously, at the International Monetary Fund (IMF), his appointments included being Director of the Asia Pacific and Western Hemisphere Departments. He has also been Special Adviser to the Governor of the Reserve Bank of India. He has taught at Georgetown University in Washington DC as an Adjunct Professor and has worked and written extensively on macroeconomic, surveillance, and crisis management issues.

N.K. Singh is President of the Institute of Economic Growth and Chairman of the Fifteenth Finance Commission. He has also served as Chairman of the Fiscal Responsibility and Budget Management Review Committee and as Member of Parliament in the Rajya Sabha. Prior to these engagements, N.K. Singh had a distinguished career as a member of the Indian Administrative Service, which included positions as the Secretary to the Prime Minister, the Revenue Secretary, and the Expenditure Secretary. As part of the Ministry of Finance, he was also involved in the 1991 economic reforms and was the principal interlocutor for negotiations with the World Bank and the International Monetary Fund.

Sean Dougherty is a Senior Advisor and Head of Secretariat, Network on Fiscal Relations across Levels of Government, at the Organisation for Economic Co-operation and Development (OECD). In addition to his engagements at the OECD, he has previously taught at institutions such as the Paris School of Economics as an Adjunct Professor and at the National Institute of Public Finance and Policy, New Delhi as a Visiting Professor. He has a range of publications on topics including fiscal federalism, local public finance, inclusive growth, independent oversight bodies, and inter-governmental fiscal relations in the context of COVID-19.

Rajiv Mehrishi was the 13th Comptroller and Auditor General of India. In an illustrious career in the Indian Administrative Service, he has held several prestigious positions in finance, administration, and public policy. These include tenures as the Home Secretary and Finance Secretary to the Government of India, and as the Chief Secretary and Principal Secretary (Finance) to the Government of Rajasthan. A reformer at heart, he has been instrumental in major changes such as the new road tax law in Rajasthan (which became a template for all states), reform of Rajasthan's labour laws, introduction of the Monetary Policy Committee, the Indian Bankruptcy Code, and the aborted setting up of an independent Public Debt Management Agency.

Yamini Aiyar is the President and Chief Executive of the Centre for Policy Research. Her research interests span the fields of public finance, social policy, state capacity, federalism, governance, and the study of contemporary politics in India. She has published widely on these topics in academic publications and the popular press. Her current policy engagements include Member of the State Advisory Council, Government of Punjab and a Member, Lancet Commission on Reimagining health systems in India.

Junaid Ahmad is the World Bank Country Director for India. His previous assignments at the World Bank include being the Chief of Staff, Office of the President and the Senior Director for the Water Global Practice, a position to which he brought a strong track record of management and leadership in the area of service delivery and international partnerships, combining intellectual and analytical rigour with a strategic operational focus. Prior to this, he was the Director for Sustainable Development in the Middle East and North Africa Region. He has also worked in the areas of urban finance and city management, service delivery in federal systems, and local government reform.

Next in the series

Session 2, September 20, 5-6:30 pm IST

Register here: <https://bit.ly/38JVtvm>

Title: Taking stock of the PFM reforms – the road ahead

The PFM reforms in India have not only been disparate but have also not been uniform across the country. Many of them both at the centre and in the states have been limited to some departments or aspects of the PFM like the Treasury Computerization (FMIS) in the states or the PFMS at the centre. There have been some reforms across the government like the e-Kuber system and the GEM portal. There is now a need to evolve and agree on a comprehensive PFM reform strategy for both the Union and the States recognizing the need for policy, regulatory and institutional reforms.

Among some of the key recommendations made by the FFC are:

- a. **Accountability and transparency:** Compiling and monitoring consistent general government fiscal aggregates on a timely basis.
- b. **Macroeconomic and Fiscal Forecasting:** Union and State Governments should regularly publish, along with the underlying assumptions and methodology, medium-term macroeconomic and fiscal forecasts and link the fiscal targets to the forward macroeconomic projections
- c. **Strategic Budget and Planning** The Union and many of the States present the medium-term policy statements (medium term fiscal policy or MTFP and MTEF) as part of the budget, as prescribed in their respective fiscal responsibility legislations. The Union and some State Governments also produce outcome budget documents. However, underlying budgetary processes to plan for the medium-term and measure budget performance have not been reformed or changed. Hence, there is a misalignment between the annual budget exercise, medium-term planning and outcome budgets. Thus, it is essential to adopt performance-based budgeting practices.
- d. **Performance Orientation of Budgets:** Integrate performance information (defining outcomes and output indicators and targets) for high priority programmes in the budget documentation of the Union and States for decision making and the legislative process. This will strengthen transparency and accountability in budget presentation, approval and execution. Moving towards performance or programme-based budgets will require changes in the present budget and account code classification (chart of accounts). This will help integrate programme spending with intended outcomes and shift the focus of legislature oversight to the outcomes of the programmes.

This webinar will examine what reforms have already been implemented; and, what are the challenges remaining despite such reforms. Using international evidence, the seminar will discuss specific steps to build a public financial management framework in India that would bring clarity to the roles and responsibilities of various functionaries and entities, fill the gaps in accountability, enhance the oversight by the legislature and civil society and strengthen the areas of fiscal responsibility, budget management, and financial management, including accounting and reporting.

Agenda

Opening Remarks:

Hisham Waly, Practice Manager, World Bank

Moderator:

Manoj Jain, Lead Governance Specialist, World Bank

Panelists:

1. ***Pinaki Chakraborty***, Director, National Institute for Public Finance and Policy
2. ***Akhil Arora***, Principal Secretary (Finance), Government of Rajasthan
3. ***Prabodh Saxena***, Additional Chief Secretary (Finance), Government of Himachal Pradesh
4. ***Mridul Saggat***, Executive Director, Reserve Bank of India
5. ***Vidhu Sood***, Principal Director, Comptroller and Auditor General of India

Closing Remarks:

Anoop Singh, Distinguished Fellow, CSEP

Session 3, September 27, 5-6:30 pm IST

Register here: <https://bit.ly/2Yv4wP4>

Title: The need for an overarching PFM Law and other practical steps

Will an overarching PFM framework, with legislative strength, improve accountability and transparency and, thereby, improve governance? How best can such a framework be built?

The need for a PFM legislation arises from two compelling arguments. a) To bridge the gap between the high-level public financial management framework in the Constitution and the detailed guidelines, rules, regulations and manuals and, thereby, codify the principles and processes, while providing them statutory strength; and b) To enable a review and rationalization of the existing rules and regulations, some of which date back to the pre-independence era and to make them internally consistent between the Union and the States.

Given the reality that the States are not subordinate to the Union, but both derive their existence and powers from the Constitution of India, how can an overarching and consistent PFM be created which is uniform across all governments and, at the same time, leave some flexibility for the stakeholders. This legislative framework needs to be developed in consultation with the States and other relevant stakeholders, and the nature of its implementation agreed. What is the best way such consultation can be sought to build such a public financial management framework that would bring this critical pillar of India's fiscal architecture to global best practices?

The webinar will explore the possible next steps to having a comprehensive PFM legislation that would stitch the pieces together as it were.

Agenda

Opening remarks:

Rakesh Mohan, President and Distinguished Fellow, CSEP

Moderator:

Kandarp Patel, Director, National Academy of Audit and Accounts

Panelists:

1. **Manal Fouad**, Chief, Public Financial Management II Division, Fiscal Affairs Department, International Monetary Fund
2. **S. Krishnan**, Additional Chief Secretary (Finance), Government of Tamil Nadu
3. **Ashok Meena**, Principal Secretary (Panchayati Raj & Drinking Water), Government of Odisha
4. **R.M. Johri**, Additional Deputy Comptroller and Auditor General (GASAB), Comptroller and Auditor General of India
5. **Subodh Mathur**, Former Additional Controller General of Accounts, Office of Controller General of Accounts

Closing Remarks:

Hideki Mori, India Manager (Operations), World Bank