

Press Release

CSEP-World Bank Series on India's Public Financial Management System,

First Session: Fiscal Governance, September 13, 2021

International evidence has shown that a strong system of Public Financial Management (PFM) is critical for the efficiency and sustainability of public expenditure. The COVID-19 pandemic has further exposed the vulnerabilities of the PFM system and has forced governments across the world to deepen the PFM architecture and improve the way governments manage public money. For this, all tiers of government in India too will need better fiscal governance—strong institutions and frameworks to plan, allocate, implement, report, and assess the quality of public spending and public infrastructure.

In the context of these fiscal challenges, the Centre for Social and Economic Progress (CSEP), in coordination with the World Bank, India organized the first of its three-part seminar series on 'India's Public Financial Management (PFM) System – Post-COVID-19 need and opportunities for reform' on September 13, 2021.

In the first session focusing on Fiscal Governance, **N.K. Singh**, President of the Institute of Economic Growth and Chairman of the 15th Finance Commission discussed the implications for the debt consolidation path. While the 15th Finance Commission's recommendations on the fiscal trajectory for the period through 2025-26 have been generally accepted by the centre, as far as recommendations on the central government itself were concerned, they preferred a more gradual path given the pandemic situation. "It accepted a more stringent path for states, but one can understand that with the pandemic, they wanted greater flexibility than we (the Commission) had projected," he said, considering that the Commission had already given them an extra 1 percent room for borrowing and an additional 0.5 percent based on power sector reforms.

N.K. Singh was in conversation with **Sean Dougherty**, Senior Advisor and Head of Secretariat, OECD Network on Fiscal Relations across Levels of Government, **Rajiv Mehrishi**, 13th Comptroller and Auditor General of India, and **Yamini Aiyar**, President and Chief Executive, Centre for Policy Research. The session was moderated by **Anoop Singh**, Distinguished Fellow, CSEP.

Opening the session, **Vikram Singh Mehta**, Chairman and Distinguished Fellow, CSEP, highlighted the 15th Finance Commission's recommendations to bring India's fiscal architecture to the 21st century level. He observed that "In building the post-COVID-19 recovery, the nature of fiscal governance across all tiers of government and the quality and direction of public spending will play a key role".

N.K. Singh provided a comprehensive overview of the various structural issues in India's PFM framework, elaborating on the PFM reforms recommended by the 15th Finance Commission. In context of the Covid-19 pandemic, he said that while many economists have advocated a greater fiscal stimulus, it is important to remember that, "If you look at the total fiscal stimulus of the government, it is upwards of 12 to 13 percent...(but) we need to be mindful that the general debt profile should not be worrisome. Therefore, the issue of the timing of the next step in fiscal policy is somewhat debatable."

N.K. Singh further observed that, while state governments have enacted their own fiscal responsibility laws, they have not fully synchronized them with the far-reaching amendments of 2018 that were made to the central fiscal responsibility law. "So incentivizing them by using Article 293 of the Constitution to encourage them to amend their FRBM legislation, in tandem with the centre, would be one important medium term objective which will give a better picture of general government."

Sean Dougherty spoke about the international experience of fiscal governance, especially on the operation of fiscal rules for subnational governments. Citing OECD research, he observed, "There's been a move towards the broadening of the number of fiscal rules that countries follow at the subnational level". At the same time, he also noted that "In the context of the COVID crisis, fiscal rules were lifted in many countries, and will now need to be reset."

CSEP Research Foundation

Regd. Off: Second floor, 6, Dr Jose P Rizal Marg
Chanakyapuri, New Delhi 110 021 India
T: +91 11 2415 7600 E: info@csep.org W: www.csep.org

Rajiv Mehrishi highlighted the Comptroller and Auditor General of India's efforts to strengthen the accounting system and ensure traceability and transparency. He stressed the need to improve accountability/traceability in the PFM system to ensure that money allotted is spent in a qualitative and timely manner. "The number of misplaced files in government has become a problem" he said. "We need to develop an IT system which is traceable and trackable to improve the situation"

Mehrishi said that for greater transparency and accountability, the office of CAG has been proposing end-to-end data capture from budgeting to invoicing and spending; defining data elements; and setting data standards for all entities getting allocations from central or state governments, including ministries, PSUs, NGO etc--in an open architecture system which will improve transparency and accountability.

Endorsing the need for accountability, Yamini Aiyar emphasized that, "The bigger problem has everything to do with both our political economy, and also the culture and structure in which we think about public finance management and accountability. Aiyar said the challenge was that we confuse accounting with accountability, and then reduce outcomes into budgetary line items.

She said that, since the 10th Finance Commission, every Finance Commission, every five years, has the same "lament": it is crucial to have good accounting practices from the Panchayats-upwards. She observed that when we talk about public finance management systems, we also need to talk about state capacity for PFM, and this includes human resources from the grassroots-up. "One way to think about this is whether or not state governments have been able to adequately capacitate local governments, not only in terms of technology, but also human resources."

Moderating the session, Anoop Singh observed that while "There is a common understanding over the years of what India needs to do to lift its fiscal governance and architecture", but the question remains, "how can stakeholder consensus be built as outlined and recommended by the 15th Finance Commission." The 15th Finance Commission has made recommendations in the regard involving all the stakeholders and giving greater statutory strength to the public financial management framework,

Closing the session, Junaid Ahmed, the World Bank's India Country Director, concluded that, "The 15th Finance Commission's report on financial management and the comments of our colleagues clearly indicate that there is a need to fundamentally shift to expenditure side reform which is the need of the hour but it cannot be addressed on a scheme-based mode but rather on a systemic basis.. The pandemic has taught us all a lesson that a much more holistic and coordinated reform needs to be agreed to by stakeholders to move this important agenda forward.

The next session in this seminar series is scheduled for September 20 and will be on 'Taking stock of the PFM reforms – the road ahead, and it will be followed by the series' final seminar, scheduled for September 27, 2021 on 'The need for an overarching PFM Law and other practical steps'.

For media enquiries, please contact:

Zehra Kazmi

Email: zkazmi@csep.org