CSEP Press Release

Does India need a Public Financial Management law? Experts discuss at final session of CSEP-World Bank seminar series

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Given that the States are not subordinate to the Union, and both derive their powers from the Constitution of India, can an overarching and consistent Public Financial Management (PFM) be created which is has certain uniform principles applicable consistently across all governments and, at the same time, leave some flexibility for the stakeholders? How can such a legislative framework be developed in consultation with the States and other relevant stakeholders? What are the global best practices?

To discuss these issues, the Centre for Social and Economic Progress (CSEP), in coordination with the World Bank, had organised a three-part seminar series on India's Public Financial Management (PFM) System – Post-COVID-19 needs and opportunities for reform". The final session of the series was held on September 27 on "The need for an overarching PFM Law and other practical steps", which explored the possible next steps to discussing a comprehensive PFM legislation.

The panel featured 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; and Subodh Mathur, Former Additional Controller General of Accounts, Office of Controller General of Accounts, all of whom spoke in a personal capacity. The session was moderated by Mohan Gopalakrishnan, Senior Financial Management Specialist, World Bank. Anoop Singh, Distinguished Fellow, CSEP, delivered summary comments and Hideki Mori, Operations Manager India, World Bank, gave the closing remarks.

Manal Fouad said that, as there are differences in the legal basis for budgeting across countries, there is "no single solution or modern law that can be universally applied." "For a country like India, which is highly decentralized, the most important objective is harmonized practices," she added. She articulated the need for a country-specific PFM law, with political backing and based on consultations and ownership by stakeholders and could range from being comprehensive or address specific aspects of the overall PFM framework.

She cited the example of Brazil's Fiscal Responsibility Law, which was a cornerstone of Brazil's PFM reforms. However, the strict control over subnational governments turned out to be insufficient to restrain their debt operations, which did not adequately reflect the clear repayment capacity of the subnational governments. "A lesson for India is that a balance has to be kept between the control of the centre and more devolved responsibilities," she added.

To this, S. Krishnan added that, "The risk with a very strong PFM law sometimes is thatyou try to play around with it in a way that you achieve it in letter but not in spirit." It is important that the PFM framework prevents the creation of off-budget or contingent liabilities. He further highlighted that there is often unevenness in the way the centre and the states are treated and this lack of parity is a concern. "For instance, Article 292 of the constitution requires the centre to have a borrowing law but no limits on borrowing have ever been statutory approved. Whereas Article 293 which relates to borrowing by states has an automatic cap.

Ashok Meena spoke about the various PFM reforms undertaken by the State of Odisha, highlighting the key reform areas such as reinforcing budget credibility, fiscal risk management, cash management, and commitment control and Integrated Financial Management System (IFMS). He also touched on the Odisha Government's institutional arrangements for PFM, primarily comprising the Strategic Fiscal Planning Unit, the Fiscal Risk and Debt Management Unit, and the Commitment Control and Cash Management Unit. These in-house units are supplemented by academic inputs from the Centre for Excellence in Fiscal policy and Taxation (CEFT) located in the Xavier Institute of Management, Bhubaneshwar, which serves as a knowledge partner.

He observed that while "there is a need for an overarching PFM legal framework at the national level with clear definitions of various PFM components, subnational governments should be given flexibility to formulate their own PFM laws within the overall framework and its definitions." He listed three critical ingredients for successful PFM reforms: "First, leadership in terms of strong political and technical commitment; second, clear coordination and communication of the reforms; and, third, widening the group of reform leaders who manage fears, expectations, and differences of opinion." He concluded by stressing on the importance of being "adaptive, iterative, and inclusive" when developing PFM reforms, going forward.

Subodh Mathur emphasised that broad parameters and structures need to be accepted at all tiers of the government before we can move on to establish PFM laws. "We need to have a general strategy first to bring into the PFM law? We need to develop a common understanding of the central government and the state governments, as well as for the third tier?," he said.

Mathur further added, "It is the Ministry of Finance in the Government of India that has to take up the lead and build a consultative process with state governments and other stakeholders to ensure that there is a proper PFM reform strategy, to draw up the contours, then move towards the PFM law," he said.

Moderating the session, Mohan Gopalakrishnan said that two recommendations from the Fifteenth Finance Commission's Chapter 13 are relevant : First, the need to adopt a comprehensive framework and reform strategy with essential elements of public financial management for consideration and deliberation by all the stakeholders. Second, the need to debate the efficacy of an overarching PFM legal framework, which would bring the Indian fiscal architecture to global best practices.

Closing the session, Hideki Mori, India Manager (Operations), World Bank concluded that while there is a broad consensus on the need for PFM reforms, the question is on *how* to achieve that. "From my perspective, 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" Mori said.

Anoop Singh summarized the way forward that has emerged from the CSEP-World Bank series of seminars, pointing out that crises such as the Covid pandemic typically act as triggers for institutions. “It is right to expect that the world is thinking of reforms, not only because we need reforms, but because the existing rules are being redone, in light of the Covid crisis” he said. “As countries are redoing their fiscal rules, such as the FRBM, it is the perfect time to be looking at the public finance management system that underlies it.”

Anoop Singh, who was part of the 15th Finance Commission, said that the Commission tried to address this and, thereby, improve the equity, transparency and efficiency of public spending, as required by its Terms of Reference. Hence, the draft of a possible legal framework is available on the Commission’s website. Anoop Singh added that, while the commission doesn’t conclude that India needs a law, this is the time for further debate and discussion across the stake holders.

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