



Combined Project Information Documents / Integrated Safeguards Datasheet (PID/ISDS)

Appraisal Stage | Date Prepared/Updated: 03-Dec-2018 | Report No: PIDISDSA25159



BASIC INFORMATION

A. Basic Project Data

Country India	Project ID P166923	Project Name Uttarakhand Public Financial Management Strengthening Project	Parent Project ID (if any)
Region SOUTH ASIA	Estimated Appraisal Date 19-Nov-2018	Estimated Board Date 29-Jan-2019	Practice Area (Lead) Governance
Financing Instrument Investment Project Financing	Borrower(s) Government of India	Implementing Agency Finance Department Government of Uttarakhand	

Proposed Development Objective(s)

The project development objective is to enhance accountability in public finances and increase effectiveness of revenue management systems in Uttarakhand

Components

- Component 1: Strengthening the Public Financial Management Functions
- Component 2: Strengthening Revenue Management Systems
- Component 3: Strengthening PFM in Urban Local Bodies and State owned enterprises
- Component 4: Project Management and M&E
- Front end Fees

PROJECT FINANCING DATA (US\$, Millions)

SUMMARY

Total Project Cost	39.46
Total Financing	39.46
of which IBRD/IDA	31.58
Financing Gap	0.00

DETAILS

World Bank Group Financing



International Bank for Reconstruction and Development (IBRD)	31.58
Non-World Bank Group Financing	
Counterpart Funding	7.88
Borrower	7.88

Environmental Assessment Category

C-Not Required

Decision

The review did authorize the team to appraise and negotiate

Other Decision (as needed)

B. Introduction and Context

Country Context

1. **India continues to be the world’s fastest growing major economy.** The economy has recovered from the disruptions caused by demonetization and introduction of the Goods and Service Tax (GST) in 2017. While growth dipped to 6.7 percent in Financial Year (FY) 2017/18, it has accelerated in the last two quarters to reach 8.2 percent in Q1 of FY2018/19 supported by a revival in industrial activity, strong private consumption, and a rise in exports of goods and services. At the same time, the external situation has become less favorable. The current account balance has deteriorated. A worsening trade deficit has led the current account deficit to widen (on the back of strong import demand, and higher oil prices) from a benign 0.7 percent of Gross Domestic Product (GDP) in FY2016/17 to 1.9 percent in FY2017/18. Meanwhile, external headwinds - monetary policy ‘normalization’ in the United States (US) coupled with recent stress in some Emerging Market Economies- have triggered portfolio outflows from April 2018 onwards, putting additional pressure on the balance of payments. As a result, the nominal exchange rate has depreciated by about 14 percent from January to September 2018, and foreign reserves have declined by over 5 percent since March (though remaining comfortable at about 9 months of imports). Going forward, growth is projected to reach 7.3 percent in FY2018/19 and to firm up thereafter at around 7.5 percent, primarily on account of robust private and public consumption expenditure, a rise in exports of goods and services and a gradual increase in investments. However, the current account deficit is also projected to remain elevated in FY2018/19.

2. **Since the 2000s, India has made remarkable progress in reducing absolute poverty.** Between 2011 and 2015, poverty declined from 21.6 to an estimated 13.4 percent at the international poverty line (2011 Purchasing Power Parity US\$ 1.90 per person per day), continuing the earlier trend of robust reduction in poverty. Aided by robust economic growth, more than 90 million people escaped extreme poverty and improved their living standards during this period. Despite this success, poverty remains widespread in India. In 2015, with the latest estimates, 176 million Indians were living in extreme poverty while 659 million, or half the population, were below the higher poverty line commonly used for lower middle-income countries (2011 Purchasing Power Parity



US\$ 3.20 per person per day). Recent trends in the construction sector and rural wages, a major source of employment for the poorer households, suggest that the pace of poverty eradication may have moderated.

Sectoral and Institutional Context

3. **The Public Financial Management (PFM) framework at Union and State emanates from the Indian Constitution and is guided by Union policies and processes.** India has a federal, three-tier structure of Government comprising the national or Union government; subnational or state governments; and the third tier comprising of the approximately 3,200 Urban Local Bodies (ULB) and 350,000 Rural Local Bodies. The fiscal relationship between the Union and the States is reflected in revenue sharing through devolution of Central taxes and assistance in the form of grants from the Union to the states. While State Governments have their own PFM rules and procedures to exercise accountability over public funds, key areas of PFM at the state level are guided by the Constitution of India and the Union government, particularly in the areas of budgeting, accounting including the chart of accounts, financial reporting, and auditing.

4. **Recent policy level changes at the Union level have sought to increase states' share of and control over resources in the spirit of cooperative federalism.** This presents both an opportunity and challenge for state governments. The opportunity lies in greater freedom to align local development needs and priorities with the resources available. The challenge lies in the strengthening of PFM systems so that they can allocate and deliver resources in line with policy priorities and ensure accountability. States will need to manage a complex set of three PFM objectives involving trade-off and sequencing: first to maintain the sustainability of fiscal deficits within targets prescribed, by managing contingent liabilities and fiscal risks; the second is to increase public investment; and the third is to improve the quality and outcomes of government expenditure.

5. **Uttarakhand is one of India's fastest growing states and has seen rapid poverty reduction since 2005.** Uttarakhand's annual Gross State Domestic Product (GSDP) growth rate averaged nearly 12 percent from 2005 to 2012, and 10.86 percent between FY2011/12 to FY2017/18, the highest growth rate among Indian States. Per capita income for FY2017/18 is estimated at INR 2,14,033 (USD 3,057), nearly 55 percent higher than the national average. Uttarakhand's poverty rate declined from 33 percent in 2005 to 11 percent in 2012, again the strongest performance amongst Indian States. Growth is driven by non-farm sectors particularly tourism and industry. With a population of 10 million (2011), literacy rates are relatively low at 79 percent – 70 percent amongst women – and there is a marked gender imbalance at birth (963/1000).

6. **GoUk has worked over the last decade to strengthen the PFM systems.** The Uttarakhand Economic Assessment Report 2012 carried out by GoUk in coordination with the Bank, outlined the key challenges in PFM and proposed the way forward for PFM reforms. While there was no formal PFM reform action plan, GoUk has pursued reforms across a wide range of PFM functions, often driven by information technology solutions, including: treasury computerization; payroll automation; e-procurement and procurement rules; integration with electronic payments platform (e-Kuber) of the Reserve Bank of India; revision of budget manual; strengthening internal/local bodies audit; moves towards outcome budgeting; and increased use of Direct Benefit Transfer mechanisms for state schemes.

7. **Currently, GoUk is focused on the development of a next generation Integrated Financial Management Information System (IFMIS) and supporting improvements in procedures, accountability, and capacity building.** These include: improvements in planning and budgeting systems to support results oriented public resource allocation and moves towards a medium-term outlook; strengthening of cash and debt management; modernization of the key PFM documents laying out the state's PFM architecture, its rules and procedures;



introduction of a human resource management information system (HRMIS); implementation of bill processing through online approvals rather than physical bill submission; transitioning works accounting to the treasury system; and full electronic submission of state accounts to the Accountant General. Integration of IT modules, enhanced data capabilities and strengthened reporting capabilities are expected to bring in efficiencies in public spending and improve the credibility and predictability in budget execution. Transparency in public procurement will be improved by the implementation of Standard Bidding Documents (SBD), publication of contract awards and integration of the e-Procurement system with IFMIS. GoUK will improve the coverage, quality, and timeliness of fiscal information available to stakeholders. It will also strengthen the institutions responsible for internal audit and audit of local bodies to improve audit timeliness and quality. GoUk will support these reforms through capacity building, particularly in management skills, and has established a PFM training institute, the Center for Training and Research in Financial Administration (CTRFA). GoUK intends to transform CTRFA into a center of excellence for training and continuous building capacity of its staff in all areas of PFM.

8. **GoUk will extend its PFM reforms to strengthen revenue systems management, including assessments and collection, in select core government departments and ULBs to generate long-term benefits and improve service delivery.** Measures to increase state's own-source revenues include review of excise policy such as introducing ad valorem system and aligning policy with neighboring states and introduction of improved e-Governance solution including a "track and trace system" to improve citizen interaction and enforcement. GoUk is already pursuing institutional reforms in commercial taxes in the areas of audit and analytics. Tourism and transport are the two major non-tax revenue earners, but underlying revenue systems are informal, and manual. Improvement of revenue in Transport Department and Garhwal Mandal Vikas Nigam (GMVN), a key SOE, are important to contain fiscal risks and contingent liabilities. GoUk intends to leverage Information Technology (IT) to modernize and make efficient the revenue policies, procedures, and practices in these two sectors. Supplementing the above initiatives would be revenue enhancement studies in other sectors/revenue streams (such as stamps and service charges in ULBs) and assessment of the existing public private partnership (PPP) framework to explore opportunities for enhancing own-source revenues.

9. **GoUk recognizes that it needs to build its institutional and technical capabilities in both local bodies and SOEs and modernize their PFM systems and putting in place better corporate governance structures and monitoring frameworks.** With increased urbanization, devolvement of additional state resources is inevitable and GoUk considers strengthening of urban revenue management a priority area and will support the application of modern systems of GIS mapping, digital property tax registers, and house to house surveys in ULBs. GoUk will work to improve accounting and internal controls and transparency in local bodies', particularly the ULBs, and strengthen oversight through a more effective audit mechanism. GoUk also intends to carry out Corporate Governance assessments in other SOEs to strengthen the governance institutions in SOEs, financial restructuring, and developing strategic business plans to make them sustainable.

C. Proposed Development Objective(s)

Development Objective(s) (From PAD)

10. **The Project Development Objective (PDO) is to enhance accountability in public finances and increase effectiveness of revenue management systems in Uttarakhand.**



Key Results

11. The PDO will be measured by the following five PDO indicators.

- (a) Complete and timely State financial reports made available in public domain (linked to DLI 1)
- (b) Improved coverage of internal audit for high risk auditees (linked to DLI 2)
- (c) Enhanced transparency of key budget and procurement information (linked to DLI 3)
- (d) Improved timeliness of Urban Local Bodies' Annual Financial Statement (linked to DLI 4)
- (e) Increased property tax collections of participating Urban Local Bodies over baseline (linked to DLI 5)

D. Project Description

12. **The project is an Investment Project Financing (IPF) which combines technical assistance (TA) and results-based financing.** Of the US\$31.58 million in IBRD financing, US\$24.00 million, about 76 percent, will be disbursed based on the achievement of Disbursement Linked Indicators (DLI) and the remaining US\$7.58 million (including front end fee), 24 percent, will be in the form of technical assistance. There are seven DLIs out of which five DLIs will be measured at the PDO level and two DLIs (DLI 6- strengthened coverage and timeliness of financial attest audit for local bodies and DLI 7 - Improved cash and debt management practices) will be measured at the level of intermediate results. The project will finance consultancies, analytical studies, training and capacity building, goods including IT equipment, and support roll out of software applications.

13. **Project activities focus on priorities identified by GoUk supporting ongoing reform initiatives and new activities that GoUk wishes to pursue.** Project activities are grouped in three technical components and a fourth component supporting project management.

14. **Component 1: Strengthening the Public Financial Management Function (Total US\$25.52 million, IBRD: US\$20.42 million of which DLIs US\$16.80 million).** This component will support strengthening of PFM institutional framework and systems and improve capacity in the areas of: cash and debt management; public audit; planning, budgeting, and capital expenditure management; public procurement; and support measures to improve transparency of budget and procurement information. The component will finance institutional assessments, capacity building, and analytical work, state-wide roll-out of the IFMIS, the HRMIS and the Online Audit Management System (OAMS) and support CTRFA in its efforts to become a center of excellence for PFM training. The following DLIs support implementation of this component:

DLI#1: "Strengthened controls over payments, accounting, and reporting" through implementation of the IFMIS and HRMIS and adoption of new practices (US\$5.30 million)

DLI#2: "Strengthened coverage and improved timeliness of Internal Audit for high risk auditees and areas" through implementation of OAMS and adoption of new practices (US\$3.00 million)

DLI#3: "Enhanced transparency of key budget and procurement information" through enhanced disclosure of budget information, preparation of SBDs and citizen engagement (US\$2.0 million)

DLI#6: "Strengthened coverage and timeliness of financial attest audit for local bodies (urban and rural)" through development of systems, procedures, and capacity building (US\$3.50 Million)

DLI#7: "Improved cash and debt management practices" through development of systems, procedures, and capacity building (US\$3.00 Million)

15. **Component 2: Strengthening Revenue Management Systems (Total US\$6.79 million, IBRD US\$5.43 million of which DLIs US\$4.00 million).** This component will finance activities that will enhance OSR through a combination of policy measures, improving efficiency of tax administration in key revenue-generating



departments/agencies (excise, tourism, and ULBs) by strengthening institutional capacities and enhancing e-services for taxpayers to facilitate better compliance. Measures to increase state's OSR include review of excise policy and introduction of "track and trace system" and related software; revenue enhancement studies; GIS mapping of towns and online registration of properties in ULBs; and assessment of the existing public private partnership (PPP) framework. The component will finance institutional assessments, capacity building, analytical work, and the development/modernization of information systems for revenue administration. The success of these interventions is expected to have a demonstration effect on other sectoral departments to adopt similar practices. The following DLI support implementation of this component:

DLI#5: "Increase in property tax collections of participating urban local bodies over baseline" through modern systems of GIS mapping, digital property tax registers and house to house surveys.

16. **Component 3: Strengthening PFM in Urban Local Bodies and State-Owned Enterprises (Total US\$5.30 million, IBRD US\$4.24 million of which DLIs US\$3.20 million).** This component supports strengthening PFM and improving accountability in ULBs and selected SOEs by strengthening accounting, financial reporting, and oversight. The component will finance institutional assessments, capacity building, analytical work, and the development/modernization of information systems for FM and reporting. The following DLI support implementation of this component:

DLI#4: "Improved timeliness in preparation and publication of Annual Financial Statements (AFS) of ULBs" through the modernization the accounting and financial reporting systems of ULBs.

17. **Component 4: Project Management and M&E (Total US\$1.77 million, IBRD US\$1.41 million).** This component will support costs on implementation, coordination, monitoring, and evaluation. This will include establishment and operation of the Project Management Unit (PMU) under CTRFA, which will oversee and coordinate activities of the implementing agencies of the project. The PMU will set up an Monitoring & Evaluation (M&E) system for the project, including a project Management Information Systems (MIS) to monitor project indicators. This component will finance project related costs: staffing for the project, consultancies, training and related material, office equipment, and operational costs. The cost of Independent Verification Agency and audits as well as M&E systems will be financed under this component.

Project Beneficiaries

18. **The direct project beneficiaries are the GoUk institutions implementing the project.** These are: the Finance Department (FD) and its constituent departments including the Budget Cell, Audit Cell, the Directorates of Audit, Accounts and Treasuries & Pensions, and CTRFA; the Planning Department; the Urban Development Directorate and the ULBs; the Excise Department; and selected SOEs. All line departments, directorates and field level units will benefit indirectly from capacity building, improvements in IFMIS and access to improved information on budget execution to support decision making. The project will ultimately benefit the citizens and vendors of Uttarakhand through more effective management of public resources, improvements in transparency, more efficient administration of tax and non-tax revenues, and, ultimately, improvements in service delivery.

E. Implementation

Institutional and Implementation Arrangements

19. **A state level High Powered Committee (HPC) under the leadership of Chief Secretary has been constituted and will provide strategic direction for the operation.** The HPC will accord the administrative and



financial sanctions for the project activities and ensure inter-departmental coordination. The HPC will comprise Principal Secretaries of all implementing departments and Directors of key Directorates of FD.

20. **GoUK's Finance Department (FD) will be the nodal department, implementing the project through CTRFA.** CTRFA was setup as a society in 2013 with a vision to support FD on policy matters and to anchor all PFM training for the state. CTRFA has been designated as the Project Management Unit (PMU) because its mandate aligns with the PDO. This will ensure continuity and sustainability after the project closes. The PMU will be responsible for FM, procurement, contract management, and safeguard requirements. A separate project specific budget head will provide the budget for project expenditures (except for salaries and consultancies in Audit Directorate (AuD) which will be budgeted under existing heads).

21. **The PMU has been setup and key officers have been appointed.** The Secretary Finance (an officer from the Indian Administrative Services or IAS) will be the Project Director and Additional Secretary Finance (an IAS officer) will be the Deputy Project Director. A senior official from the state finance services has been designated as the Finance Controller and a senior official from audit services has been appointed as the Project Coordinator. GoUK will engage a full-time Project Manager after project effectiveness to take lead in project management and coordination.

22. **Each of the participating departments will lead the technical part of respective reform interventions including contract management, implementation monitoring and signing off on deliverables of consultants and vendors.** Each participating department has nominated a senior official as nodal officer. These arrangements have been formalized and notified through a government order.

F. Project location and Salient physical characteristics relevant to the safeguard analysis (if known)

The State of Uttarakhand located at the foothills of the Himalayan mountain ranges, is predominantly a hilly state. The high Himalayan ranges and glaciers form most of the northern parts of the state while the lower reaches are densely forested (covering about 60% of the state) with rich natural resources and wildlife habitats. Two of India's major rivers, the Ganga and the Yamuna, originate from Uttarakhand. The state, has two administrative divisions - Garhwal and Kuamon, which consists of 13 districts. It is further divided into 95 blocks, 7,555 Gram panchayats and 15,745 inhabited villages. Out of the 13 districts of the State, 3 are plain districts and the remaining 10 are hill districts. Geographically the state can broadly be divided into three zones, namely (a) Upper hills - Uttarkashi, Chamoli, Rudraprayag, Pithoragarh and Bageshwar districts, (b) Middle hills - Tehri-Garhwal, Garhwal, Almora, and Champawat, the hill regions of Nainital and Chakrata tehsil of Dehradun districts, and (3) Foothills - The remaining area of Dehradun, Haridwar, Udham Singh Nagar and the remaining area of Nainital districts. As per Census of India 2011, Uttarakhand's population has reached approximately 1.01 Crore with an increase of 19.17% from the past decade. More than 70% of them reside in rural areas of the state. The sex ratio of the state stands at 963 compare to the national average of 940 females per 1000 males. The overall literacy rate in Uttarakhand is 78.82% (with male literacy being 87.40% and female literacy being 70.01%) compared to the national average of 74.04% (with male literacy being 82.14% and female literacy being 65.46%)¹¹. Overall Uttarakhand is performing better than many states in the northern Part of India on these indicators.



G. Environmental and Social Safeguards Specialists on the Team

Gopalaswamy Srihari, Social Specialist

Siddharth Padmanabh Merchant, Environmental Specialist

SAFEGUARD POLICIES THAT MIGHT APPLY

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	No	No Physical intervention is expected from the project. No specific goods which have significant impact on the Environment are envisaged to be procured in this project.
Performance Standards for Private Sector Activities OP/BP 4.03	No	The project does not contemplate any intervention into the performance standards for private sector activities.
Natural Habitats OP/BP 4.04	No	The project does not contemplate rehabilitation or new works in areas of natural habitats or that would significantly impact natural habitats.
Forests OP/BP 4.36	No	The project will not finance activities in forests or that could potentially affect forest resources or their management.
Pest Management OP 4.09	No	The project does not involve purchase or use of pesticides or finance any activities that could lead to changes in pesticide use or pest management practices.
Physical Cultural Resources OP/BP 4.11	No	The project does not contemplate rehabilitation or new works that could potentially affect physical cultural resources.
Indigenous Peoples OP/BP 4.10	No	The project activities comprise enhancing controls in budget execution, improving accountability and transparency of public finances, increased effectiveness in revenue administration. These would prove beneficial to the overall state. Tribals are not direct beneficiaries of the project. Hence the policy is not triggered.
Involuntary Resettlement OP/BP 4.12	No	The Project does not finance any civil works that may involve land acquisition or involuntary resettlement.



Safety of Dams OP/BP 4.37	No	The project will neither support the construction or rehabilitation of dams nor will it support other investments which rely on services of existing dams.
Projects on International Waterways OP/BP 7.50	No	The project will not finance activities involving the use or potential pollution of international waterways.
Projects in Disputed Areas OP/BP 7.60	No	The project will not finance activities in disputed areas as defined in the policy.

KEY SAFEGUARD POLICY ISSUES AND THEIR MANAGEMENT

A. Summary of Key Safeguard Issues

1. Describe any safeguard issues and impacts associated with the proposed project. Identify and describe any potential large scale, significant and/or irreversible impacts:

The project activities mainly comprise enhancing controls in budget execution, improving accountability and transparency of public finances, increased effectiveness in revenue administration. As the project does not finance any civil works that would require land acquisition or any involuntary resettlement, there are no potential adverse impacts. Regarding Environmental safeguard issues, since the proposed project does not involve construction of buildings, nor any acquisition of land, neither any labor related civil works, there are no potential adverse impacts emanating from the project. However, the procurement of electronic hardware to boost the efficiency of the Finance Department's processes will require adherence to the e-waste disposal regulations of the Government of Uttarakhand, in the event of the disposing of the procured electronic hardware.

2. Describe any potential indirect and/or long term impacts due to anticipated future activities in the project area:
None

3. Describe any project alternatives (if relevant) considered to help avoid or minimize adverse impacts.
Not Applicable

4. Describe measures taken by the borrower to address safeguard policy issues. Provide an assessment of borrower capacity to plan and implement the measures described.
Not Applicable

5. Identify the key stakeholders and describe the mechanisms for consultation and disclosure on safeguard policies, with an emphasis on potentially affected people.
Not Applicable

B. Disclosure Requirements



C. Compliance Monitoring Indicators at the Corporate Level (to be filled in when the ISDS is finalized by the project decision meeting)

The World Bank Policy on Disclosure of Information

Have relevant safeguard policies documents been sent to the World Bank for disclosure?

NA

Have relevant documents been disclosed in-country in a public place in a form and language that are understandable and accessible to project-affected groups and local NGOs?

NA

All Safeguard Policies

Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies?

NA

Have costs related to safeguard policy measures been included in the project cost?

NA

Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies?

NA

Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents?

NA

CONTACT POINT

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APPROVAL

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