COMBINED PROJECT INFORMATION DOCUMENTS / INTEGRATED SAFEGUARDS DATA SHEET (PID/ISDS)
CONCEPT STAGE

Report No.: PIDISDSC15839

Date Prepared/Updated: 28-Sep-2016

I. BASIC INFORMATION

A. Basic Project Data

Country:	India	**Project ID:**	P156869
		Parent Project ID (if any):	
Project Name:	Strengthening Public Financial Management in Rajasthan (P156869)		
Region:	SOUTH ASIA		
Estimated Appraisal Date:	03-Jul-2017	**Estimated Board Date:**	31-Aug-2017
Practice Area (Lead):	Governance	**Lending Instrument:**	Investment Project Financing
Borrower(s):	Government of India		
Implementing Agency:	Government of Rajasthan		
Financing (in USD Million)			
Financing Source			**Amount**
Borrower			9.30
International Bank for Reconstruction and Development			21.70
Total Project Cost			31.00
Environmental Category:	C - Not Required		
Concept Review Decision:	Track I - The review did authorize the preparation to continue		
Is this a Repeater project?	No		
Other Decision (as needed):			

B. Introduction and Context

Country Context

1. India follows a federal system of government at the Union with clear separation of taxation and

spending powers. The Constitution has demarcated the taxation powers of both the levels of government, while the borrowing and foreign exchange entitlements are controlled by the Central Government. The fiscal relationship between the Union and the States is reflected in the devolution of share of Central taxes and additional assistance in the form of grants from the Union to the States. Additional conduits of transfer of Central resources to States are the Central Sector/Centrally Sponsored Scheme (CSS) schemes, managed by line ministries at the Central level, which provide tied grants for specific sectoral interventions with implementation responsibility vesting with the state governments.

2. Fiscal & PFM framework emanates from the Indian Constitution and is largely guided by Central policies and processes: to a large extent, public financial management (PFM) frameworks in the States follow the overall framework established at the Centre (specifically in areas related to budgeting, financial reporting including the chart of accounts and external audit) and consequently PFM reforms in the states dovetail reform initiatives taken at the Union level, though there have been notable instances of States suo moto taking up reforms in PFM, especially in areas relating to use of IT for strengthening financial management information systems, cash management and reforms in the third tier of government i.e. urban & rural local bodies.

3. Impact of recent changes in fiscal devolution on inter se Center-state relationship and PFM in the states: the Central government largely accepted the recommendations of the 14th Finance Commission (FC) and implemented them, in the FY 2015-16 budget. Accordingly the state➢(s share of divisible pool of tax revenues, representing untied resources, has increased from 32% to 42 %. In parallel with the recommendation to increase untied transfers, the 14th FC proposed a structural change to progressively reduce the funding of CSSs or specific purpose grants. With these changes nearly 60% of the public expenditure will take place at the state level as of FY 2015-16. This, in the medium term, is likely to significantly increase the discretionary spending powers of the state governments. The other significant change has been the dismantling of the Planning Commission, which played a critical role in determining the quantum and approval of state plans. As a result of these reforms, development outcomes at the state level are now increasingly tied to state government➢(s priorities and capacities, as states will now have the opportunity to re-cast the design and implementation of programs to better reflect local needs.

4. Realizing the full potential of these reforms will call for greater competence and efficient systems in Public Financial Management by the individual states coupled with measures for enhancing transparency and accountability. The individual states will need to manage a complex set of three PFM objectives involving trade off and sequencing. The first is to improve the quality and sustainability of fiscal deficits, contingent liabilities and fiscal risks. The second is to increase public investment and the third is to focus on outcomes of government expenditure rather than merely outlays. Consequently these are expected to impose significant pressure on and the need strengthen systems of planning, spending and reporting of the use of public funds in the states.

Sectoral and Institutional Context

5. Rajasthan has shown tremendous progress during the last decade. Rajasthan is the sixth most populous state and the seventh largest economy in the country. Despite large desert expanses, its economy grew faster than the all-India average and registered an annualized growth rate of 7.9 percent during 2004/05-2014/15, above the national growth of 7.6 percent. Economic growth was much more effective at reducing poverty in Rajasthan than at the all-India level during 2004/05-2011/12 -- one percent increase in growth was accompanied by 1.75 percent decline in the poverty rate, compared to the all-India responsiveness where similar growth resulted in 1.06

percent in decline in poverty.

6. The State➢(s poverty rate declined by 19.7 percent to 14.7 during 2004/05-2011/12, while the all India poverty rate declined by 15.3 percent to 21.9 percent, resulting in a lower concentration of the poor in Rajasthan. The Government aims to make Rajasthan a powerful, developed and prosperous state by 2020 (Vision 2020), with a targeted economic growth rate of 12 percent.

7. Despite some improvements after the adoption of fiscal responsibility rules in 2005, public finances in Rajasthan remain stressed. State government➢(s fiscal deficit, which stood at an average of 5.5 percent of GSDP in five years preceding 2005/06, gradually declined to an average of 2.4 percent in the seven years after enactment of the Fiscal Responsibility and Budget Management (FRBM) Act, 2005 and largely met with the targets prescribed in the law (with the exception of the years during 2008-09 on account of the global financial crisis). However, in recent years the fiscal deficit has risen to an average of 2.9 percent during 2012/13-2014/15 - reaching 4 percent in 2014/15. Recent deterioration of public finances can be explained by increased expenditures on the power sector which over-shadowed robust growth in own-tax revenues and petroleum royalties. Debt to GSDP ratio, which declined rapidly in the years following the FRBM act from 47 percent in 2005/06 to 25.7 in 2011/12, has lost momentum in recent years and has hovered around approximately 25 percent of GSDP.

8. Support to the power sector, especially to distribution companies, is affecting the state➢(s fiscal accounts. Financial support to the power sector increased (to 2.2 percent of GSDP during 2012/13-2014/15 from 1.3 percent during 2009/10-2011/12) after the rollout of the Financial Restructuring Plan (FRP) in 2012. Under the FRP, the state government took over a part of the outstanding liabilities of loss-making distribution companies (Discoms). Despite the support extended to Discoms during this period (in the form of equity, loans and subsidies), they continue to accumulate losses, and as at the end of 2014/15 have consolidated outstanding liabilities worth approximately US$12 billion. The state government is presently considering another financial bailout for its distribution companies, which could pose several challenges to the state➢(s financial management and achievement of its FRBM targets.

9. There has been a paradigm shift in the PFM environment with the implementation of an online computerized treasury system and other reforms. The Integrated Financial Management System (IFMS) is a web based system for capturing government➢(s financial transactions including budget planning, preparation, allocation and distribution, fund management, treasury operations and accounting. The Rajasthan Transparency in Public Procurement ((RTPP) Act, passed in May 2005, provided the framework for further strengthening procurement regulations. Quality of audit impact has been enhanced through development of IT database of audit reports and compliance that tracks responses on audit observations including. In 2005 a State Financial Accountability Assessment (SFAA) was carried out which helped GoR identify specific opportunities for more effective financial management and control over public resources. In addition a State Economic Report (➢(Closing the Development Gap➢( ) was prepared in 2006 which also fed into the State reform plans. In the most recent engagement, the Bank, supported GoR, through an IDF Grant, the Rajasthan Public Financial Management and Procurement Capacity Building Project which included revision of Budget Manual, modernization and simplification of Financial and Treasury Rules, enhancing Quality of Audit Impact and improving Public Procurement outcomes by developing of the Rajasthan Transparency in Public Procurement Act and Rules.

10. With substantial achievements evident from past efforts, GoR is keen to undertake second generation reforms in public financial management. Although GoR does not have a documented PFM reform strategy, but elements of government➢(s intent for PFM reforms are included in the budget speech and other core documents with an intention to improve the fiscal health of the state. In the next phase, GoR would like to institutionalize PFM tools to modernize expenditure management systems (including public investment and contract management), revenue management systems and crucial IT and other operational systems in these areas, and improve upon its cash and debt management. One of the critical need identified is revenue management and administration where significant work is envisaged to modernize tax administration/systems/ processes, and initiate reforms and be ready for transition to the new regime under Goods and Services Tax. This will pave the way for creating more fiscal space for developmental expenditure.

11. This project has been conceptualized in response to GoRs objective to strengthen the overall PFM architecture. The dimensions of the project will provide a basis for further reforms in PFM and related cross-cutting areas. Activities included in this concept note takes into account (i) the ongoing and planned interventions and (ii) are based on the priorities determined by GoR for broadening and deepening the reform. Successful implementation of the proposed project in Rajasthan is expected to enhance financial accountability and transparency and strengthen institutions through capacity and skills upgrading. It will likely lead to better allocation and utilization of resources (state is presently facing fiscal stress) with transparency in planning for capital expenditures and optimizing the revenue functions. Focus on capacity building will secure future sustainability of the reforms. The beneficiaries of the project includes several departments of GoR primarily the Finance Department, the Commercial Tax Department, internal and external oversight bodies, procuring agencies and officials. The project will also benefit the citizens of Rajasthan through benefits accruing from optimum use of resources, efficient processes and improved service delivery.

Relationship to CAS/CPS/CPF

12. This project supports strengthening PFM at the sub-national level improving public spending and service delivery and hence aligns well with the Country Partnership Strategy (CPS). One of the key areas of work for the World Bank Group listed in the India CPS for 2013-17, is to improve public service delivery (Pillar III), with a cross-cutting focus on improving governance, effectiveness of public spending and achieving results. The Bank through this activity would support the strengthening of PFM systems at the sub-national level which would in turn help improve public spending and service delivery. Therefore the project objectives are fully aligned with the CPS.

C. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)

The project development objective (PDO) is “to improve public expenditure management and revenue administration in the state of Rajasthan.”

Key Results (From PCN)

13. The achievement of the proposed PDO is expected to be measured through the following PDO level results indicators. Detailed results framework for the project will be developed and agreed during project preparation.

-Enhanced predictability in budget execution

-Strengthened cash/debt management
-Strengthened control framework
-Improved efficiency of revenue systems

D. Concept Description

14. The proposed project will be implemented across three components over a five-year period. The estimated project cost is $ 31 million with Bank funding of $ 21.7 million (70%). Brief description of the project components and activities is provided below

16. Component 1: Strengthening Public Financial Management Framework in Rajasthan
a) Capacity building on Rajasthan Transparency in Public Procurement Act and rules
- supporting implementation of Rajasthan Transparency in Public Procurement Act and rules
- capacity building and skill development in procurement
- up gradation of e-Tendering System to Full-Cycle e-Procurement System
- impact assessment of e-Tendering System.

b) Enhancing effectiveness of Internal Audit
- diagnostic or situational analysis (AS IS study) and development of an Internal Audit Strengthening Strategy/Plan
- developing audit manuals
- demonstrating value-addition through risk-based audit pilots and ?proof of concept? for contemporary audits such as management audits
- required capacity building for implementation

c) Strengthening planning, management and monitoring of capital expenditures/projects in Rajasthan
- assessment of the current public investment management (PIM) policies and procedures in GoR; identification of gaps,
- development of a roadmap for strengthening the planning functions for PIM including development of a policy matrix for PIM, and identifying IT applications for automating this function
- capacity building of staff of GoR in modern PIM practices including management of risks

d) Strengthening Fiscal, Cash & Debt Management
- evaluating cash management practices in GoR by benchmarking against good sub natio nal and international practices, including building cash forecasting tools/ analytics
- building/ strengthening institutional capacities for analytics
- carrying out a debt management performance assessment using Debt Management Performance Assessment (DeMPA) tool and developing an action plan for improvement
-strengthening fiscal management of the state
- capacity building of staff

e) Strengthening Decentralized Participative Planning in Rajasthan
- study of select schemes/sector and evaluate decentralized planning process and its impact on the development at the district and sub-district; good practices followed in other states;
- make recommendations to strengthen the decentralized planning process including dovetailing with the state's budgeting cycle; pilot to demonstrate the suggested process.

Public Disclosure Copy

17. Component 2: Strengthening Governance and Accountability through Information Technology initiatives

a) Enhancing accounting and financial reporting through second generation reforms
- establishing an integrated commitment control system
- assessment of training needs consequent to significant changes in the PFM environment
- third party IT and functional review of the state➢(s Integrated Financial Management Information Systems (IFMIS)
- augmenting the works module in IFMIS to a full contract management system and establishing a decision support system (dashboards) linked to the IFMIS
- Training Needs Analysis (TNA): to take stock of all changes made to rules, processes and procedures due to IFMIS, those on-going and planned, and the training imparted in the past; determining the training needs of the treasury officers, DDOs and others using IFMIS through a survey; suggesting training plan including broad contours of the curriculum

b) Strengthening revenue management by modernizing Information Systems; and improving interface with IFMS
- self-assessment diagnostic, supported by consultants, of revenue administration and management of the Commercial Tax Department (CTD) using the IAMTAX tool leading to development of a medium term roadmap
- capacity building of the CTD personnel through Training of Trainer model; Training Needs Analysis and suggesting modular training plan, curriculum, training faculty, training materials, training methodology; support in establishing a permanent training institute
- enhancing IT systems of CTD including Business Process Re-engineering
- developing a revenue forecasting model
- enhancing data analytics capabilities by establishing data warehousing and business intelligence unit
- 3rd party audit of IT systems and processes and e-services of the CTD
- Supporting Rajasthan in GST readiness
- study of performance of performance of non-GST taxes and non-tax revenue

18. Component 3: Project Management
- operating costs on Implementation, coordination, learning and quality activities
- monitoring and evaluation

II. SAFEGUARDS

A. Project location and salient physical characteristics relevant to the safeguard analysis (if known)

The project will be implemented in the state of Rajasthan. The state has two distinct regions western arid and eastern semi arid regions. More than 60 percent of the state is under desert. The state has vast reserves of metallic and non metallic minerals. However the project activities will not have any adverse impact on environment.

Although Rajasthan has areas with high concentration of Schedules Tribes including Tribal Sub Plan areas as per the Schedule V of the constitution of India, the nature of the project activities are technical assistance and cross cutting over the entire state. No activity is likely to affect any of the Tribal populations. Tribals are not direct beneficiaries under the project and the project does not anticipate any construction activities so far.

B. Borrower's Institutional Capacity for Safeguard Policies

The GoR has been working with Bank on other sectoral projects in agriculture and livelihoods, roads, health and water sector and has the experience in implementing safeguards. However, no significant adverse environmental or social impacts are envisaged under the project given the soft investments made by the project in capacity building, strengthening planning and management, governance and accountability, information technology initiatives etc.

C. Environmental and Social Safeguards Specialists on the Team

Sangeeta Kumari (GSU06)

D. POLICIES THAT MIGHT APPLY

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	No	
Natural Habitats OP/BP 4.04	No	
Forests OP/BP 4.36	No	
Pest Management OP 4.09	No	
Physical Cultural Resources OP/BP 4.11	No	
Indigenous Peoples OP/BP 4.10	No	
Involuntary Resettlement OP/BP 4.12	No	No physical construction is proposed. Hence, land take or loss of asset or livelihood is not anticipated under the project.
Safety of Dams OP/BP 4.37	No	
Projects on International Waterways OP/BP 7.50	No	
Projects in Disputed Areas OP/BP 7.60	No	

E. Safeguard Preparation Plan

1. Tentative target date for preparing the PAD Stage ISDS

15-May-2017

2. Time frame for launching and completing the safeguard-related studies that may be needed. The specific studies and their timing should be specified in the PAD-stage ISDS.

No Environmental Assessment is required for this project. Tentative target date for preparing the PAD Stage ISDS: April 15, 2017

III. Contact point

World Bank
Contact: Manoj Jain
Title: Lead Financial Management Spec

Borrower/Client/Recipient
Name: Government of India
Contact: Mr. Lekhan Thakkar
Title: Director (MI)
Email: lekhan.t@nic.in

Implementing Agencies
Name: Government of Rajasthan
Contact: Mr. Naveen Mahajan
Title: Secretary, Finance (Budget)
Email: secretarybudget@rajasthan.gov.in

IV. For more information contact:

The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 473-1000
Web: http://www.worldbank.org/projects

V. Approval

Task Team Leader(s):	Name: Manoj Jain	
Approved By		
Safeguards Advisor:	Name: Maged Mahmoud Hamed (SA)	Date: 28-Sep-2016
Practice Manager/ Manager:	Name: Fily Sissoko (PMGR)	Date: 12-Oct-2016
Country Director:	Name: Hisham A. Abdo Kahin (CD)	Date: 23-Oct-2016

1 Reminder: The Bank's Disclosure Policy requires that safeguard-related documents be disclosed before appraisal (i) at the InfoShop and (ii) in country, at publicly accessible locations and in a form and language that are accessible to potentially affected persons.