Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 03-May-2018 | Report No: PIDC156804

BASIC INFORMATION

A. Basic Program Data

Country	Project ID	Parent Project ID (if any)	Program Name
India	P166578		Chhattisgarh Public Financial Management and Accountability Project
Region	**Estimated Appraisal Date**	**Estimated Board Date**	**Does this operation have an IPF component?**
SOUTH ASIA	03-Oct-2018	27-Nov-2018	No
Financing Instrument	**Borrower(s)**	**Implementing Agency**	**Practice Area (Lead)**
Program-for-Results Financing	Government of India	Finance Department, Government of Chhattisgarh	Governance

Proposed Program Development Objective(s)

Contribute to improved efficiency and accountability in management of public finances and direct benefit transfer mechanisms in the State of Chhattisgarh

COST & FINANCING

SUMMARY (USD Millions)

Government program Cost	36.14
Total Operation Cost	36.14
Total Program Cost	36.14
Total Financing	36.14
Financing Gap	0.00

FINANCING (USD Millions)

Total World Bank Group Financing	25.30
World Bank Lending	25.30
Total Government Contribution	10.84

B. Introduction and Country Context

India is among the world's fastest growing economies and has made remarkable progress in poverty reduction and human development. India experienced rapid and unprecedented growth between 2004 and 2008 with GDP growing at 8.8 percent. Over the past thirty years, per capita incomes quadrupled, poverty retreated, illiteracy rates dropped and health-related statistics improved. India's economic momentum temporarily slowed down with a decline of real GDP growth to 7.1 percent in 2016-17 and to 5.7 percent in the first quarter of 2017-18 due to twin policy events, demonetization and the uncertainty surrounding Goods and Services Tax (GST). However, economic activity has stabilized during the latter part of 2017-18 and growth is expected to resume gradual acceleration to a rate of 7 to 7.5 percent.

Although rich in mineral resources, Chhattisgarh is the poorest State in the country with a poverty rate of 40 percent. Carved out of southern-eastern parts of Madhya Pradesh on November 1, 2000, it is India's 26th State. As the 18th most populous State it is home to 26 million people, based on the 2011 Census, 10 million of who are poor. 16 of Chhattisgarh's 27 districts are afflicted by left wing extremism out of 106 districts across India classified as severely affected by domestic insurgency according to the Ministry of Home Affairs.

Sectoral (or multi-sectoral) and Institutional Context of the Program

The PFM framework at Union and State emanates from the Indian Constitution and is guided by Central policies and processes. India has a federal, three-tier structure of Government comprising: the national or Union level; 29 states; and 604 districts. Local authorities comprise 3,200 Urban Local Bodies and approximately 350,000 Panchayati Raj Institutions. While State Governments have their own Finance Acts that regulate PFM practices, some areas of PFM at the state level are necessarily guided by initiatives taken at the Union level, notably with regard to the chart of accounts, which follows a uniform classification system across the Union and States, and accounting and financial reporting, since responsibility at the state level is vested in the Accountant General and the basis of accounting and financial reporting is guided by the Constitution and Comptroller and Auditor General and the Controller General of Accounts. The Fiscal Responsibility and Budget Management Acts (FRBM) at Union and State level provide a rules-based framework for fiscal consolidation and management. The General Financial Rules (GFR) guide the financial, internal control and procurement framework in GoI.

Recent policy level changes at the Union level have significantly impacted Union-State fiscal relations and the PFM framework for the States. The Planning Commission has been dismantled and its successor, the National Institution for Transforming India (NITI Ayog), has assumed the mantle of policy think tank and no longer plays a critical role in determination of plan size, its sectoral allocations and the appraisal of investment projects for both the Union and State Governments. The distinction between plan and non-plan expenditure was scrapped in April 2014. Economic growth has swelled public budgets allowing more ambitious social and developmental programs. At the same time, spending responsibility has been devolved. The 14th Finance Commission met a long-standing demand of the States for greater devolution and greater flexibility in the use of funds. The States' share of the central divisible pool increased from 32 percent to 42 percent, leading to higher share of untied funds to the States. The Commission recommended a three-fold increase in the volume of grants to local bodies for improving basic services during the period 2015-20. The number of Centrally Sponsored Schemes (CSS) was reduced to 66 – with a further reduction in number to 20 proposed – and allocations to tied-grants cut. Since April 1, 2014 all funds for CSS are routed through the State treasuries instead of transferring the funds directly to the special purpose vehicles from the center. Today almost up to 80 percent of development spending at the union level is in the form of transfers to lower levels of government: most public spending in India occurs at sub-national levels. Introduction of the Goods and Services Tax in 2017 will result in further significant increases in the resources available to States for allocation to their development priorities. As a result of these reforms, States are both better resourced and empowered to allocate those resources in line with State priorities and local needs.

Chhattisgarh registered appreciable growth in budgetary resources over the last decade. The total resources – own revenues, loans, transfers and advances from GoI – grew from INR 9,241 crore in 2005-06 to INR 54,667 crore in the year 2015-16, increasing by eighty percent in the five-year period 2011-2016. The State's revenue receipts (RR) contributing approximately 50 percent of total resources, with the remaining 50 percent coming from Union Government. However, the States actual realization of own tax and non-tax revenues were substantially lower than the projections made under the BE and FRBM disclosures. Revenue from GST in Chhattisgarh (along with state VAT) in FY 17-18 have improved slightly, by about 5 percent compared to the tax collection from state VAT before its introduction in FY 16-17. But it is difficult to say whether this improvement is due to improvement in collection from GST or from the inclusion of cess for GST compensation. The State will be compensated for loss if any, in tax revenue up to FY 21-22.

Chhattisgarh's total expenditure increased by about 85 percent from INR 27,957 crore in 2011-12 to INR 51,811 crore in 2015-16. Mandatory expenditures comprising salary and wages, pension and interest payments account for 40 percent of revenue receipts and about 37 percent of the total expenditure in 2015-16. Aggregate public expenditure of the State has been consistently higher in terms of percentage of GSDP than the other general category States. Development expenditure as a percentage of aggregate expenditure showed a more or less constant trend, ranging between 76 to 78 percent between 2010-11 to 2015-16.

Chhattisgarh is largely compliant with fiscal responsibility targets as laid down in the Chhattisgarh Fiscal Responsibility and Budget Management (FRBM) Act. Based on the recommendations of Twelfth Finance Commission (TFC), the Government of Chhattisgarh (GoCG) enacted its Fiscal Responsibility and Budget Management Act, 2005 (FRBM Act), as amended in September 2011 and thereafter in May 2016. After having generated revenue surplus for ten successive years, the State ended up with a revenue deficit in FY 13-14 & FY 14-15, but again shifted to a position of revenue surplus during FY15-16. The fiscal deficit at 2.1 percent of GSDP in FY 15-16 was well within the limit of 3.50 per cent as estimated under FRBM Act. The total outstanding liabilities in FY15-16, as a per cent of GSDP at 15.04 per cent exceeded FRBM targets. This trend continues in FY16-17.

With more untied funds available, the State's priority now is to improve the efficiency and effectiveness of expenditure and improve the quality of expenditure by stepping up investments in growth-enabling infrastructure and the social sectors. This calls for strengthening the systems of planning, revenue administration, expenditure management and reporting on the use of public funds for informed decision-making coupled with enhanced accountability and transparency.

In order to achieve these goals, Chhattisgarh's PFM systems needs to be strengthened through reforms in various areas of the PFM cycle. Budget credibility needs to be improved reducing the need for in-year adjustments in expenditure and revenue projections. Budgetary processes need to internalize medium term fiscal planning and focus on performance management. Budgets need to be structured around policy objectives, outputs and outcomes rather than outlays. The element of commitment control needs to be introduced in management of budgets. Improvements are also called for in recording of cash balances, debt and guarantees. Expenditure spikes during the last quarter of the financial year, surrender of unspent amounts, 'savings', from various grants to the Finance Ministry and 'excess expenditures not regularized' need to be addressed. The Integrated Financial Management Information System (IFMIS) need to interface with multiple stand-alone systems like E-kosh, E-procurement, E-works to lend support to timely and prudent decision-making. And last but not the least a unified social registry platform needs to be established to improve the performance of social programs.

Recognizing these challenges, the GoCG has identified PFM strengthening and modernization as a reform priority using IT as the key driver. The State Government has already taken initiative in this area by rolling out an online core treasury system (E-Kosh), electronic interfaces of the core Treasury system with HRMIS or e-Karmchari, GoI's Public Financial Management System (PFMS) for Central Schemes and & Reserve Bank of India (RBI) and Goods and Services Tax Network (GSTN) for GST integration, and implementation of the e-procurement system. The Bank in the past has also been engaged with the state through a Non-Lending Technical Assistance (P131056) from FY2013-2015 in strengthening the capacity of the Commercial Tax Department and the Internal Audit Cell housed in the Finance Department. GoCG wants to further extend its PFM reform initiatives and has sought support from the World Bank in strengthening expenditure management including direct benefit transfers, tax administration systems and building capacity of its human resources and institutions handling management of public finances.

Relationship to CAS/CPF

The proposed operation is consistent with the World Bank's Performance and Learning Report (Report No. 99283-IN), discussed by the Executive Directors on October 20, 2015. The operation is also aligned with findings of India's Systematic Country Diagnostic (SCD 2017 under preparation) which identifies improvement in public sector effectiveness as one of the three biggest challenges the country faces to sustain its growth and join the ranks of the global middle class. The key elements identified in the SCD as vital for transforming the public sector include improving accountability, efficiency, and effectiveness to reduce waste and boost the returns on public spending by tightening the chain from inputs to outputs. Because most services are delivered by lower-tier governments, the compact between the layers of government will influence what services are delivered to citizens and how front-line service delivery agencies perform. The SCD recognizes that recent policy level changes at the Union level resulting in increase of untied transfers to States and increased devolution of funds to the local bodies, will need to be accompanied with strengthening of public financial management systems of the State and the lower tiers of the Government.

C. Program Development Objective(s) (PDO) and PDO Level Results Indicators

Program Development Objective(s)

Contribute to improved efficiency and accountability in management of public finances and direct benefit transfer mechanisms in the State of Chhattisgarh

PDO Level Results Indicators

- Reduction in variances between originally approved budgets to expenditure
- Public access to key budget execution reports and procurement contracts awarded
- Improved management of public investment projects and reduction in cost overruns, time overruns, enhanced information on project performance in public domain
- Improved effectiveness in performance of the tax administration system
- Increased number of DBT payments

D. Program Description

This operation will support the ongoing PFM reform agenda of GoCG. GoCG has already initiated several reforms to improve management of public finance and strengthen the DBT system. e-Governance reforms are being rolled-out to streamline treasury functions and improve expenditure controls at State level and at the level of local bodies. The State has largely addressed the compliance aspects of the FRBM Act. CoCG now intends to focus on the next generation reforms including automation and integration of processes with the objective of achieving "paperless" and "cashless" systems. The operation will help address the staffing constraints which limit CoCG's ability to undertake the complete design and roll-out of all the key components of the reform strategy. In order to support reforms where institutional capacity is limited and special skills are required, the project will include a technical assistance component that will allow CoCG to acquire consulting services. The proposed program is structured around three components and results areas, reforms to: PFM; revenue administration; and direct benefit transfers**.**

Initial Formulation of the Key Results Areas

Results Area 1	Results Area 2	Results Area 3
Improving efficiency and capacity of the Finance Department in an enhanced control environment	Unlocking revenue potential through modernization of the Commercial Tax Department	Design and development of a social registry platform and strengthening of direct benefit transfer mechanisms
• Strengthening FMIS and supporting IT investments in the core FMIS; integrating FMIS with e-procurement and Contract Management Systems and establishing Commitment Control System (CCS); integrating pension liabilities into overall FMIS. • Modernizing PFM Rules and Codes and adoption of new PFM practices, including strengthening process for medium term fiscal projections, planning and management of capital investments, and cash and debt management. • PFM training and capacity building of Finance Department, Internal Audit and Local Fund Audit departments. • Conduct of PEFA assessment and develop a baseline for measuring performance; • Improving PFM in Local Self-Governments [PRIs & ULBs]	• Strengthening Commercial Tax Administration. ○ Developing Business Analytics Capabilities ○ Tax Payer Facilitation ○ Tax Audit and Tax Recovery ○ Rebalancing Functional Organization ○ Training and Capacity building ○ Upgrading IT infrastructure • Improving Resource Mobilization. ○ Strengthening assessment wing in Stamps and Registration Dept. ○ Improving the system of setting guideline values for levy of Stamp duty and Property tax ○ Strengthening audit and legal functions in the Stamps and Registration Dept.	• Finalization of methodology and design for central repository/social registry. • Preparation of government guidelines to update (Socio-economic census, 2011)/survey of proposed centralized registry. • Creating points for presence for updating data in the centralized registry. • Development of Data Exchange Framework and Platform. • Integration of schemes with Data Exchange Framework and Platform. • Development/Enhancement of Policy Planning Tool. • Digitization of state schemes leveraging the adopted Technology stack. • Enhancement & Integration of Direct Benefits Transfer (DBT) portal.

E. Initial Environmental and Social Screening

An Environmental and Social Systems Assessment (ESSA) will be carried out to assess the possible environmental and social benefits, risks and opportunities of the Program. The assessment will cover adequacy and implementation of environment and social laws (e.g. Rights to Information Act 2005, Panchayat Act (Extension to Scheduled Areas) 1996, relevant labor laws and worker safety laws etc.) and policies, systems and practices (such as for Tribal Sub Plans, Integrated Tribal Development Plan, and SC sub plans, inter departmental land transfer mechanism etc.) to identify gaps and opportunities to enhance benefits and address associated risks. It will include stakeholder analyses and consultation. In addition, assessment of institutional capacity to develop comprehensive capacity building program will be focused upon to generate the desired environmental and social effects.

The nature of the project is to provide technical assistance including to improve PFM in Local Self-Governments (i.e. PRIs & ULBs) and to support design and development of a social registry platform and strengthening the direct benefit transfer mechanisms. The proposed activities provide an opportunity to enhance social benefits by addressing key social risks. The key social risks identified with preliminary review includes (i) weak implementation of laws and policies to ensure social inclusion, access to services particularly by the people living in remote tribal areas; (ii) differential access to physical and IT infrastructure across different parts of the state, leading to poor participation in development programs from remote and difficult to reach areas; (iii) lack of transparency and accountability mechanism in resource allocation and utilization at PRIs and ULBs; and (iv) lack of effective systems for grievances and citizen feedback. From an environmental point of view, Program activities may not lead to significant and/or irreversible impacts. The project does not intend to acquire or purchase land for construction of State Institute of Financial Management in Raipur GoCG has already identified government land for the same, however, it may require inter departmental transfer of land title.

Based on the findings of the ESSA, measures to strengthen institutional capacity and procedures, as well as any measures to generate the desired environmental and social effects, if required, will be agreed and included in the Program Action Plan. The Program will build on the experience of other Bank projects and use other good practices to mainstream environmentally and socially sustainable practices. Consultations will be organized inviting key stakeholders to seek feedback on the assessment and its recommendations. The revised ESSA, incorporating stakeholder comments, will be disclosed on the Department of Finance GoCG website and the World Bank InfoShop prior to appraisal.

The three draft result areas are all overall beneficial and have no negative environmental externalities. Improved efficiency and capacity of the Finance Department and the modernization of the Commercial Tax Department have no specific ecological footprint. Additionally, strengthening of the state's ability to provide proactive public services through design and development of a social registry platform and strengthening of direct benefit transfer mechanisms could potentially be beneficial to the overall systems and institutions for environmental management in the state, which is rich in natural resources but have a large number of forest-dependent people who would be expected to benefit from direct transfer schemes (and consequently may reduce their extraction of the forests). With respect to program expenditures related to IT equipment (that will support data exchange platform and similar other systems) will necessitate preparation of a plan to manage and finally dispose the electronic wastes as per the national regulation on electronic wastes; such a plan will be prepared as part of the project, even if the hardware and other IT equipment experience obsolescence after the project duration. There is no program expenditure expected for buildings and any other construction activity. Overall, the environmental risk is, therefore, low.

F. Borrowers Institutional Capacity for Safeguard Policies

The GoCG has some experience of World Bank safeguard policies through its work under the Chhattisgarh District Rural Poverty Project and other multi-state and national programs in the areas of rural development, water resources, ecosystem services, health and social services. The Bank will provide support to strengthen safeguard capacities of the department of GoCG associated with Social Registry process during preparation.

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