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REPORT NO.:109448-IN

PROGRAM APPRAISAL DOCUMENT  
ON A  
PROPOSED LOAN  
IN THE AMOUNT OF US\$36 MILLION

TO THE

REPUBLIC OF INDIA

FOR A

HIMACHAL PRADESH PUBLIC FINANCIAL MANAGEMENT  
CAPACITY BUILDING PROGRAM

APRIL 24, 2017

Governance Global Practice  
South Asia Region

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## CURRENCY EQUIVALENTS

(Exchange Rate Effective March 31, 2017)

Currency Unit = Indian Rupees (INR)  
INR 64.93 = US\$1

## FISCAL YEAR

April 1 – March 31

## ABBREVIATIONS AND ACRONYMS

ACG	Anti-Corruption Guidelines
AG	Accountant General
BI	Business Intelligence
CAG	Controller and Auditor General
CMS	Contract Management System
CPS	Country Partnership Strategy
CSS	Centrally Sponsored Scheme
CST	Central Sales Tax
DDO	Drawing and Disbursing Officer
DIT	Department of Information Technology
DLI	Disbursement Linked Indicator
DoTA	Directorate of Treasuries and Accounts
EIU	Economic Intelligence Unit
ESMP	Environmental and Social Management Plan
ESSA	Environmental and Social Systems Assessment
ETD	Excise and Taxation Department
F&C	Fraud and Corruption
FCA	Forest Conservation Act
FD	Finance Department
FM	Financial Management
FRBM	Fiscal Responsibility and Budget Management
FRS	Functional Requirement Specification
FSA	Fiduciary Systems Assessment
GDP	Gross Domestic Product
GoHP	Government of Himachal Pradesh
GoI	Government of India
GSDP	Gross State Domestic Product
GST	Goods and Services Tax
GSTN	Goods and Services Tax Network
HIMSWAN	Himachal State Wide Area Network
HP	Himachal Pradesh
HPBL	Himachal Pradesh Beverages Limited
HPFR	Himachal Pradesh Financial Rules
HPSEB	Himachal Pradesh State Electricity Board
HPSEDC	Himachal Pradesh State Electronics Development Corporation

IFMIS	Integrated Financial Management Information System
IPH	Irrigation and Public Health
IR	Intermediate Results
IT	Information Technology
IVA	Independent Verification Agent
LoC	Letter of Credit
M&E	Monitoring and Evaluation
MIS	Management Information System
MTR	Midterm Review
NIC	National Informatics Centre
NLTA	Non-Lending Technical Assistance
NPS	National Pension Scheme
OAT	Operational Acceptance Testing
PforR	Program-for-Results
PAP	Program Action Plan
PDO	Program Development Objective
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PFMS	Public Financial Management System
PRD	PFM Reforms Division
PSC	Program Steering Committee
PWD	Public Works Department
RBI	Reserve Bank of India
RF	Results Framework
RTI	Right To Information
SC	Scheduled Caste
SI	Systems Integrator
SRS	System Requirement Specifications
ST	Scheduled Tribe
SV&ACB	State Vigilance and Anti-Corruption Board
TO	Treasury Official
TSP	Tribal Sub Plan
UAT	User Acceptance Testing
VAT	Value Added Tax

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# INDIA

## Himachal Pradesh Public Financial Management Capacity Building Program

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<b>PAD DATA SHEET</b>			
<b>India</b>			
<i>Himachal Pradesh Public Financial Management Capacity Building Program</i>			
<b>PROGRAM APPRAISAL DOCUMENT</b>			
<i>South Asia Region Governance Global Practice</i>			
Report No.:109448-IN			
<b>Basic Information</b>			
Date:		Sectors:	Governance
Country Director:	Junaid Kamal Ahmad	Themes:	Public Financial Management
Practice Manager:	Fily Sissoko		
Global Practice Vice President:	Jan Walliser		
Program ID:	P156687		
Team Leader(s):	Tanuj Mathur		
Program Implementation Period:	Start Date:	01-Jun-2017	End Date: 30-Sep-2022
Expected Financing Effectiveness Date: 01-Jul-2017			
Expected Financing Closing Date: 30-Sep-2022			
<b>Program Financing Data</b>			
<input checked="" type="checkbox"/>	Loan	<input type="checkbox"/>	Grant
<input type="checkbox"/>	Credit		
[ ] Other			
<b>For Loans/Credits/Others (US\$, millions):</b>			
Total Program Cost:	45:00	Total Bank Financing:	36:00
Total Cofinancing:	0:00	Financing Gap:	0:00

<b>Financing Source</b>	<b>Amount</b>
BORROWER/RECIPIENT	9.00
IBRD/IDA	36.00
<b>Total</b>	<b>45.00</b>

Borrower: Republic of India, Department of Economic Affairs, Ministry of Finance, North Block.

Responsible Agency: Ministry of Finance, Government of Himachal Pradesh

Contact: Dr. Shrikant Baldi	Title:	Additional Chief Secretary, Finance
Telephone No.: 0177-2620043	Email:	shrikantbaldi@yahoo.co.uk

**Expected Disbursements (in US\$, millions)**

Fiscal Year	2018	2019	2020	2021	2022			
Annual	7.5	8.0	10.5	7.0	3.0			
Cumulative	7.5	15.5	26.0	33.0	36.0			

**Program Development Objective(s)**

The Program Development Objective (PDO) is to improve the efficiency of Public Expenditure Management and Tax Administration in Himachal Pradesh.

**Compliance**

**Policy**

Does the Program depart from the CAS in content or in other significant respects?	Yes	[ ]	No	[ X ]
Does the Program require any waivers of Bank policies applicable to Program-for-Results operations?	Yes	[ ]	No	[ X ]
Have these been approved by Bank management?	Yes	[ ]	No	[ X ]
Is approval for any policy waiver sought from the Board?	Yes	[ ]	No	[ X ]

**Overall Risk Rating: MODERATE**

<b>Legal Covenants</b>			
<b>Name</b>	<b>Recurrent</b>	<b>Due Date</b>	<b>Frequency</b>
Implementation of the Program	X	N/A	Throughout implementation
<b>Description of Covenant</b> The Borrower shall cause Himachal Pradesh to ensure that the Program is carried out in accordance with financial management, procurement and environmental and social management systems mutually acceptable to the Bank, including those set out in the ESSA, the Program Manual and the Program Action Plan (“Program Fiduciary, Environmental and Social Systems”).			
<b>Name</b>	<b>Recurrent</b>	<b>Due Date</b>	<b>Frequency</b>
Program Steering Committee	X	N/A	Throughout implementation
<b>Description of Covenant</b> The Borrower shall cause Himachal Pradesh to maintain at all times during implementation, a Program Steering Committee to provide strategic leadership and inter-departmental coordination.			
<b>Name</b>	<b>Recurrent</b>	<b>Due Date</b>	<b>Frequency</b>
Mid-Term Review	X	Not later than December 31, 2019	once
<b>Description of Covenant</b> Himachal Pradesh to: (i) join the Bank in the carrying out of a Mid-Term Review to assess the overall progress in implementation of the Program; (ii) prepare and furnish to the Bank, at least three (3) months prior to such review, a report, in scope and detail acceptable to the Bank, needed to undertake the review; and (iii) review, jointly with the Bank, the report referred above and thereafter take all measures required to ensure the efficient completion of the Program and the achievement of the objectives thereof, based on the conclusions and recommendations of said report and the Bank’s views on the matter.			
<b>Name</b>	<b>Recurrent</b>	<b>Due Date</b>	<b>Frequency</b>
DLIs Verification	X	N/A	Throughout implementation
<b>Description of Covenant</b> Himachal Pradesh to (i) not later than 03 months after Effectiveness Date, appoint an independent verification agency (IVA) under terms and reference satisfactory to the Bank, to carry out the verification of compliance of DLIs, (ii) carry out a verification process guided by a Verification Protocol agreed with the Bank, and (iii) furnish to the Bank the corresponding verification reports in form and substance acceptable to the Bank, not later than 30 days after the end of each of the periods under review, in order to submit evidence satisfactory to the Bank of the achievement of said DLIs for disbursement.			
<b>Name</b>	<b>Recurrent</b>	<b>Due Date</b>	<b>Frequency</b>
Advance	X	N/A	Throughout implementation
<b>Description of Covenant</b> The Borrower may withdraw: (i) an amount not to exceed US\$ 7,200,000 as an advance; provided, however, that if the DLIs in the opinion of the Bank, are not achieved (or only partially achieved) by the Closing Date, the Borrower shall refund such advance to the Bank promptly upon notice thereof by the Bank. Except as otherwise agreed with the			



Borrower, the Bank shall cancel the amount so refunded. Any further withdrawals requested as an advance under any Category shall be permitted only on such terms and conditions as the Bank shall specify by notice to the Borrower.

<b>Name</b>	<b>Recurrent</b>	<b>Due Date</b>	<b>Frequency</b>
Reversal of DLIs	X	N/A	Throughout implementation

**Description of Covenant**

In the event that: (i) a reversal of a previous DLI has occurred in a manner that would, in the opinion of the Bank, adversely affect the achievement of the objectives of the Program; and (ii) said previous DLI has already been vetted by the IVA(s) using the Verification Protocol agreed with the Bank, and for which the corresponding disbursements have been already made by the Bank; the Borrower shall refund the disbursements already made by the Bank for said previous DLIs.



**Team Composition**

**Bank Staff**

<b>Name</b>	<b>Title</b>	<b>Specialization</b>	<b>Unit</b>
Tanuj Mathur	Senior Financial Management Specialist	Public Financial Management and Team Leader (ADM Responsible)	GGO24
Heenaben Yatin Doshi	Procurement Specialist	Procurement (ADM Responsible)	GGO06
Dilip Kumar Prusty Chinari	Financial Management Specialist	Financial Management	GGO24
Rocio Mariela M. Valera	Senior Counsel	Counsel	LEGES
Mohan Nagarajan	Senior Economist	Economist	GGO18
Sita Ramakrishna Addepalli	Senior Environmental Specialist	Environmental Specialist	GEN06
Puneet Kapoor	Sr. Financial Management Specialist	Public Financial Management	GG024
Sangeeta Kumari	Senior Social Development Specialist	Safeguards	GSU06
Sonia Bhambri	Program Assistant	Operations	SACIN
Tanya Gupta	Financial Management Specialist	Financial Management	GGO24
Winston Percy Onipede Cole	Senior Financial Management Specialist	Public Financial Management	GGO24

**Non-Bank Staff**

<b>Name</b>	<b>Title</b>	<b>City</b>
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Anand Pardhy	Consultant - IT	New Delhi
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Ran Bir Singh	Consultant - Taxation	Indore
Kaushik Sarkar	Economist	New Delhi
Vanitha Kommu	Consultant - Safeguards	Hyderabad
Ranjan Verma	Consultant - Safeguards	New Delhi

## I. STRATEGIC CONTEXT

### A. Country Context

1. **After an impressive period of economic progress,<sup>1</sup> India's economy recorded a modest slowdown in gross domestic product (GDP) growth rate to an average of 6.5 percent during FY2013–15.** Over the last decade, India has made remarkable progress in reducing poverty and achieving the first Millennium Development Goal to halve poverty by 2015. Between 2005 and 2012, nearly 138 million people were lifted out of poverty. These successes in human development, however, have not benefited all sections of the Indian population equitably. Many of India's marginalized citizens are yet to benefit from economic growth and some groups have continued to lag behind in their access to a range of opportunities, despite focused government attention to promote inclusion and governance.

2. **India follows a federal system of government.** Public expenditures in India may be made at the national (union) level, or through 29 states, or 687 districts. Local expenditures for municipalities are administered through over 3,200 urban local bodies; rural communities are organized through a three-tier system of approximately 350,000 panchayat raj institutions.

3. **Up to 80 percent of spending at the union level is in the form of transfers to lower levels of government; accordingly, most public spending in India occurs at subnational levels.** As enshrined in the Constitution, the leadership of the executive is drawn from and is accountable to the legislative body. The Constitution has demarcated taxation powers at various levels of the 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 sharing/devolution of central taxes and additional assistance in the form of grants from the union to the states. Additional avenues of transfer of central resources to the states are the Central Sector/Centrally Sponsored Schemes (CSSs) in the form of tied grants with implementation responsibility resting with the state governments, within specified Program guidelines.

4. **Public financial management (PFM) framework emanates from the Indian Constitution and is guided by central policies and processes.** To a large extent, PFM framework in the states is guided by the policies as laid down at the central level. Consequently, in some areas of PFM, the reforms at the state level are necessarily guided by and intrinsically linked to initiatives taken at the union level. These include budgetary reforms—transition to program budget with a Medium-Term Expenditure Framework/Medium-Term Budget Framework; reforms in the chart of accounts, which follow a uniform classification system across the union and the states; responsibilities for accounting and financial reporting at the state level vested in the Accountant General (AG), and the basis of accounting and financial reporting is guided by the Constitution and Controller and Auditor General (CAG)/Controller General of Accounts.

5. **Within this framework, however, there have been notable instances of the states taking up public finance initiatives and reforms** especially in the use of information technology (IT) to strengthen core treasury information (budget execution) systems; development of budget preparation modules, human resources management information systems and linking it to core

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<sup>1</sup> India recorded an average GDP growth of 7.3 percent during the Eleventh Plan Period (2007–12).

treasury systems, cash management, e-collection/e-payments; pension payments processes and systems; and electronic interfaces with commercial banks/Reserve Bank of India (RBI). In the area of revenue mobilization and management (including value added tax [VAT] and excise), the states are moving toward consolidation of rates and bringing about improvement through e-Governance (for example, Karnataka, Maharashtra). In the area of procurement, some states (including Karnataka, Rajasthan, and Tamil Nadu) strengthened the procurement framework by passing Procurement Act and framing rules therein. In fact, the systems in some of the states are considered to be more advanced than at the union level.

6. **Recent policy-level changes (implemented as well as proposed) affect center-state relationship and evolving PFM framework in the states.** These include:

- **Dismantling of the traditional role of the Planning Commission, which had a critical role in determining plan size and its sectoral allocations for both the union and state governments.** In addition, the distinction between plan and nonplan expenditure is being removed, which had vitiated the planning and budgeting process and may promote a more holistic and integrated planning for all public expenditures.
- **Increased fiscal devolution to the states (from 32 percent to 42 percent) from the central divisible pool based on recommendations of the 14th Finance Commission.** This will lead to higher share of untied funds to the states, at least in the medium term, which necessitates better economic planning and budget management for the development programs.
- **Significant reduction in tied transfers.** The Government of India (GoI) has drastically reduced both the number and allocation for CSSs based on the recommendations of the 14th Finance Commission. As a result, there has been a significant reduction in the amount of tied transfers to the states while untied transfers have gone up (through increased fiscal devolution).
- **Routing of funds under vertical programs.** From April 1, 2014, all funds for CSSs, vertical programs of the GoI, are required to be routed through the state treasuries as against the earlier modality of transferring the funds directly to the special purpose vehicles in the states.
- **Implication of Goods and Services Tax (GST).** The process for the introduction of GST by 2017 has been initiated, though the exact date of the rollout is still not clear. GST will subsume around 18 different central and state taxes and will provide seamless flow of input tax credit in business-to-business transactions. GST will also simplify procedures and make the tax system more transparent. A majority of the Indian states including Himachal Pradesh (HP) has ratified the GST bill after its passage in both houses of the Parliament. The introduction of GST is expected to be a game changer in indirect taxes at the center and the states and is expected to contribute to GDP growth and substantial buoyancy in revenues, which will enhance the untied resources flowing to the states.

7. **Impact of recent changes in fiscal devolution on inter se center-state relationship and PFM in the states.** The impact of the above changes is likely to contribute to higher shares of untied resources flowing to the states, and with these changes, nearly 60 percent<sup>2</sup> of the public expenditure is taking place at the state level starting FY2015–16. This, in the medium term, is likely to significantly increase the discretionary spending powers of the state governments. As a result of these reforms, the development outcomes at the state level are now increasingly tied to the state governments’ priorities and capacities, as the states will now have the opportunity to recast the design and implementation of programs that better reflect local needs.

8. **Aspirations of the states to deepen PFM reforms and move to the next level.** Some states have already undergone several rounds of PFM reforms and are now gearing themselves to move to the next level with advanced-level initiatives such as programmatic budgeting, commitment controls, multiyear framework, and cash/debt management.

9. **To realize the full potential of these recent PFM reforms, the states will need to strengthen their own PFM systems to manage citizen’s expectations and ensure transparency and accountability.** 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<sup>3</sup> 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. All of these measures are expected to put significant pressure on the need to strengthen systems of planning, spending, and reporting of the use of public funds in the states. For cooperative federalism to be effective, robust PFM systems would have to be designed at the subnational level to enhance efficiency and fiscal performance.

## **B. Sectoral (or Multisectoral) and Institutional Context**

10. **HP is a Special Category state in recognition of its constraints.** It is a relatively small state, with a hilly terrain, a supply of perennial rivers, and significant forest cover. On the one hand, the salubrious climate, abundant water resources, and natural touristic ambience can contribute to the expansion of important sectors such as horticulture, tourism, and hydropower; on the other hand, HP faces specific development challenges arising from its high elevation, topography, resource dependence, and ecological vulnerability, as well as from a changing and more competitive external environment. The GoI has given HP the status of a ‘Special Category’ state, under which the state is the recipient of special central grants and incentives that have been instrumental to its development.<sup>4</sup> The major constraint faced by the state in reaching its development vision is insufficient fiscal space to finance its priorities. It is, therefore, dependent on the GoI’s assistance, with about 45 percent of its revenue by way of grant in aid from the GoI (particularly revenue deficit grants.)

11. **The state faces fiscal stress and has witnessed revenue deficits and substantial increase in public expenditure over the last few years.** The key reasons for fiscal stress include a slowdown in the growth of tax revenues, implementation of the 6th Pay Commission’s

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<sup>2</sup> Ministry of Finance (Indian Public Finance Statistics 2015 and Budget Documents).

<sup>3</sup> Fiscal deficit is considered to be of better quality when the revenue deficit component of the fiscal deficit is smaller.

<sup>4</sup> Includes financial assistance from the GoI in the ratio of 90 percent grant and 10 percent loan.

recommendations (which has resulted in substantial increase in salary payments), volatile nontax revenues, and fiscal support to the public sector undertakings. The recent three years (2012–13 to 2014–15) have witnessed higher fiscal deficits because of growing revenue deficits; fiscal deficit would have been worse without stringent expenditure control measures that have been in place over a number of years. Committed expenditure on salaries, pensions, interest, and subsidies account for about 65–70 percent of total expenditure of the state.

12. **The fiscal situation needs continuous monitoring and improvement is dependent on certain future events.** The strategy of the Government of Himachal Pradesh (GoHP) for increasing its own revenue relies largely on increasing its nontax sources, particularly, royalty from private hydropower projects. However, revenue from the power sector has shown a significant decline in the last couple of years, demonstrating the risk embedded in this revenue source. Post the recommendations of the 14th Finance Commission, the GoHP estimates that it stands to lose grants of more than INR 30 billion in 2015–16 because of reduction in Normal Central Assistance, Special Central Assistance, and Special Plan Assistance. However, this will be significantly offset by Revenue Deficit Grants and increased fiscal devolution as discussed above.

13. **The state has slipped in its compliance of the Fiscal Responsibility and Budget Management (FRBM) legislation.** During the period 2011–12 to 2015–16, the state reported a revenue deficit in four out of five years (except in 2011–12), thereby not meeting the target of earning a revenue surplus. Fiscal deficit target of 3 percent of gross state domestic product (GSDP) has not been met during those years (four out of five years) and is well over 4 percent (except for 2015–16). Total outstanding debt to GSDP, however, is below the threshold.

**Table 1. HP: Fiscal Deficit as Percent of GSDP**

2015–16	2014–15	2013–14	2012–13	2011–12
3.40	4.39	4.86	4.13	2.60

14. **HP has experienced conditions of fiscal stress, one of the reasons for which has been a slowdown in growth of its own tax revenues.** Though FRBM targets have not been met, an opportunity is coming up with the higher devolution of central funds; however, effective management of this is going to be critical. At the same time, HP will have to focus on increasing own-source revenues if it is to be able to provide the level of public services it aspires to provide to its citizens.

15. **The GoHP has committed to improve the overall governance environment of the state and has a history of initiating PFM reforms.** In the past, several reform initiatives have been undertaken as described in the subsequent sections. These include a continuous and long engagement with the World Bank.

- HP is one of the few states in India that has completed a Public Expenditure and Financial Accountability (PEFA) Assessment (World Bank Report No. 48635-IN of 2009). The assessment was a collaborative work with full participation of the state and its recommendations were given attention at the highest level. The report identified performance issues in several areas including tax administration and

management, internal audit, procurement, oversight of fiscal risk from other public sector entities, and multiyear perspective in fiscal planning and budgeting. Several of these issues have already been addressed or are part of the proposed Program.

- The state was engaged with the World Bank through a Non-lending Technical Assistance (NLTA) that closed recently (P148190; January 2014–December 2015). This NLTA supported: (a) the state treasuries for an operational review and IT systems audit to review rules and guidelines and make them more effective and to fill in any control gaps that may have risen; (b) HP State Electricity Board (HPSEB) (energy utility) for enhancing corporate governance, preparation of an opening balance sheet, and developing a road map for accounts reorganization to address the significant weaknesses in governance and accounting procedure; and (c) a needs assessment for implementation of a Contract Management System (CMS) in key works departments.

### C. Relationship to the CAS/CPF and Rationale for Use of Instrument

16. **This Program supports strengthening of PFM in a Special Category state and thus improving governance—and hence aligns well with the Country Partnership Strategy (CPS) for India (2013–2017).** One of the engagement areas of work for the World Bank Group listed in the India CPS for 2013–17 (Report no. 76176) is ‘Inclusion’ with a long-term objective of improved access to services to excluded segment of population. Towards this end, governance is a cross-cutting theme running across the entire CPS; this is detailed as scaling up support in e-Governance, public procurement, financial management (FM), and supporting social accountability mechanisms. The World Bank through this activity will support the strengthening of PFM systems at the subnational level, which will in turn, help improve governance in this Special Category state. Therefore, the Program objectives are fully aligned with the CPS. Improvement in PFM systems will also positively impact the development projects<sup>5</sup> in the state.

17. **The Program objectives are closely aligned with the key development goals of the GoHP and respond to its objective of strengthening its PFM architecture.** The dimensions of the Program provide a basis for further reforms in PFM in HP. The activities agreed with the GoHP will involve (a) ongoing and planned PFM interventions as reflected in the GoHP’s Program; and (b) priorities determined by the GoHP for broadening and deepening the envisaged reforms. Successful implementation of the proposed Program in HP is expected to enhance financial accountability and transparency and strengthen institutions through capacity and skills upgrading. It would lead to better allocation and utilization of resources, improvement in capabilities for planning of capital expenditures, and optimization of the revenue functions. Focus on capacity building will secure future sustainability of the reforms.

18. **Value added from the World Bank’s support.** The World Bank’s support adds value to the PFM reforms in HP mainly through knowledge gained from previous experiences in the state and various central and subnational engagements in India and other countries on PFM reforms. The main value addition of the GoHP and the World Bank partnership revolves around the following points: (a) the Program builds on the outcomes of the earlier engagements through the

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<sup>5</sup> HP has an active portfolio of World Bank projects; presently three projects (horticulture, state highways, and watershed development) with a commitment of US\$574 million, are under implementation. Past engagements have included a Fiscal Development Policy Lending and a Green Growth Development Policy Operation.

PEFA and the NLTA assessments which provide a basis for scaling up the efforts undertaken so far; (b) the state sees the World Bank as a strategic partner and adviser in scaling up its PFM reform initiatives; (c) the Program-for-Results (PforR) being part of the first set of the World Bank PFM reform operations at the subnational level is expected to have a demonstration effect on other Indian states facing similar challenges; and (d) the design of this operation demonstrates the World Bank's ability to respond to the 'Finance Plus' criteria of the GoI.

19. **Rationale for PforR.** PforR is considered as the right instrument for the following reasons: (a) both the GoI and GoHP are interested in focusing on results; (b) the GoHP has designed a PFM Reform Program and is currently implementing various activities according to its PFM reform road map; (c) the GoHP has shown its leadership in reforms and plans to lead from the front; (d) the GoHP departments and institutions have the capacity and no new institutions need to be created; and (e) the use of state/country systems will ensure sustainability of the improvements to be made over the medium term.

## II. PROGRAM DESCRIPTION

### A. Government Program

20. **Over the last few years, the GoHP has initiated a series of PFM reforms optimizing its limited resources to improve efficiency and achieve value for money.** The state budget for FY2016–17 was INR 326 billion or approximately US\$4.86 billion; it is the GoHP's intent to address and optimize all aspects of this budget. A PEFA assessment conducted by the World Bank in 2009 highlighted some key weaknesses in budget management and revenue administration. Since the PEFA assessment, several initiatives have been taken by the state which has led to PFM reform and modernization. These include the following:

- **Modernization of the state treasuries.** The GoHP has implemented an Integrated Financial Management Information System (IFMIS; also known locally as the Online Treasury Information System) that is the backbone of all financial transactions in the state. This is being constantly improved and expanded to cover additional functions; for example, to replace manual procedures with online submission of bills by Drawing and Disbursing Officers (DDOs).
- **Revision of core PFM documents.** The state has revised the Financial Rules (in 2009 subsequent to the PEFA assessment). Revision of the treasury rules is being taken up.
- **Pilot of CMS.** The Irrigation and Public Health (IPH) Department has piloted the 'Works Management Information System (MIS)'—an in-house developed CMS for the last few years. This was done along with the usage of manual systems so far.
- **Introduction of e-Procurement.** The state has rolled out e-Procurement software to 20 entities (5 departments and 15 parastatals) and has resulted in annual processing of transaction worth INR 24.41 billion through this system.



- **Increase in e-payments.** The GoHP has made efforts to move toward e-payments for all transactions (suppliers, employees, and pensioners), resulting in a drastic reduction of cash payments.
- **Enhance corporate governance in the HPSEB.** Under a World Bank–funded NLTA, measures were taken to address the significant weaknesses in governance and accounting procedures in the HPSEB (the state energy utility), including preparation of an opening balance sheet and developing a road map for accounts reorganization.

21. **To improve efficiency of public spending and maximize revenue potential, the state plans to modernize its revenue administration and expenditure management systems and build capacity of the respective departments to manage and roll out the envisaged reforms.** Strategic PFM reform interventions such as improvement in credibility of the budget, strengthening of core treasury systems, improvement of contract management processes, scaling up of the IT infrastructure to provide online services to the citizens, and more efficient tax assessment procedures would provide the necessary institutional architecture to effectively monitor and manage developmental expenditure in the state while bringing higher benefits for the citizens. The improved PFM systems and processes will also help the state ensure fiscal prudence and improve its macro-fiscal programming over the medium term.

22. **HP has already ratified the GST bill and is looking forward to initiate the implementation of the new tax structure once the Parliament approves the GST law.** To have advance preparedness in implementation of GST, the GoHP recognizes the need to constitute a GST Consultative Committee and also establish a well-defined and functioning IT system as this will be at the core of successful implementation of GST. The GoHP has opted for Implementation Model 2 of the Goods and Services Tax Network (GSTN) and is planning to initiate the following activities to roll out GST implementation:

- Study to assess the impact of GST on the current tax administration processes in the Excise and Taxation Department (ETD), including IT systems, reporting systems, compliance procedures, audit requirements, and making these coherent with the GSTN.
- Capacity building of the staff of the ETD and other departments on the technical aspects of GST, procurement of hardware, facilitative workshops for industries and businesses, and so on.

23. In the backdrop of these developments, the government’s PFM Reform Program is defined through the following three pillars:

- (a) **Improving efficiency of the Finance Department (FD) in an enhanced control environment.** Under this pillar, the state will focus on improving efficiency of budget execution and modernize its entire payments systems (treasuries) with the objective of reducing the turnaround time in delivering services to other state departments. The activities under this pillar will include advisory on budget preparation, fund/debt management, revision of treasury rules and other guidelines, establishing IT-enabled budget preparation systems, establishing IT-enabled commitment control systems,

strengthening IT security, improving disclosure of information, and establishing an automated interface between the treasuries and some 4,700 departmental<sup>6</sup> officials. These will address the issues of compliance and control as well as focus on automation of processes to achieve optimum ‘paperless’ and ‘cashless’ payment systems. The basic systems are already in place and running satisfactorily; the state now wants to move toward the second generation of PFM reforms.

- (b) **Increasing efficiency and performance through better contract management.** The GoHP intends to integrate public procurement and contract management into a well-defined PFM system. The government’s PFM reform strategy proposes an approach that will focus on integrating procurement with planning, budgeting, accounting, and auditing. The reforms under this pillar would focus on increasing the coverage of the e-Procurement system to all the state departments and the design and rollout of a CMS to improve program monitoring and expenditure efficiency.
- (c) **Unlocking revenue potential through modernization of the ETD.** HP has experienced prolonged periods of fiscal stress due to a slowdown in growth of own tax revenues. To augment its revenue collection capacity and reduce leakages, the government intends to strengthen excise through rollout of new IT platforms and Commercial Tax administration (VAT/GST etc.) through strategic organizational reforms and capacity building for backend functions. The reform initiatives under this pillar would involve design and implementation of an e-Governance system for the excise function to augment the tax assessment capacity of the department, organizational, and human resource management reforms to ensure acceptance and sustainability of the proposed reforms, and targeted technical assistance and capacity building for the department (for example, strengthen audit function, establish an Economic Intelligence Unit [EIU]) to strengthen VAT administration and prepare for the rollout of the new GST regime. *Activities/ disbursement-linked indicators (DLIs) under this program are not expected to overlap with the GoI initiatives on GST (law, systems, and training) but expected to support the same by ensuring readiness of the HP ETD to implement the law in form of institutional support (manpower), and strengthening of core functions not covered by the GoI or its agencies.*

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<sup>6</sup> These are designated as DDOs and are responsible for all fiduciary functions (including maintenance of accounts and effecting payments) in a particular office location.

**Figure 1. Program Pillars**



24. The Government’s PFM Reform Program has been approved by the cabinet and (in context of the proposed financial support from the World Bank) has been endorsed by the Chief Minister in the budget speech for the year 2016–17, indicating the Government’s intent and ownership of the program.

**B. Program Development Objective/s (PDO) and key results**

25. **The PDO is to improve the efficiency of Public Expenditure Management and Tax Administration in Himachal Pradesh.** The Program is expected to contribute to enhancing efficiency of key departments, improving budget credibility, strengthening systems and procedures to improve fiscal discipline, improving revenue administration to increase fiscal space, and targeted organizational reforms including human resource reforms. The Program focuses on the priority areas identified by the GoHP, which were articulated in various stakeholder workshops during Program preparation.

**Program Beneficiaries**

26. **The key beneficiaries of the Program will include** the FD, Directorate of Treasuries and Accounts (DoTA), ETD, IPH, Department of Information Technology (DIT), and departments undertaking procurement. The Program will affect all the state departments in so far as it seeks to streamline the system of bill submission by DDOs to treasuries. The Program will also benefit the citizens of HP through the optimum use of resources, efficient processes, and increased transparency.

**PDO-Level Results Indicators**

27. The PDO-level results indicators will be:
- Reduce variance between originally approved budget to expenditure
  - Increased value of transactions processed through the e-Procurement system

- Backlog of pending VAT/ CST assessments reduced

28. The results chain for the Program is presented in table 2.

**Table 2. Results Chain**

<b>Result Area</b>	<b>Activities</b>	<b>Intermediate Outcomes</b>	<b>Outcomes</b>
Improving efficiency of the FD in an enhanced control environment <b>(Result Area 1)</b>	<ul style="list-style-type: none"> <li>• Engaging team of software professionals for strengthening IFMIS and Treasury systems</li> <li>• Capacity Building to treasury officials (TOs), DDOs, and other stakeholders</li> <li>• Analytical studies on budget preparation; fund/debt, expenditure and revenue management</li> <li>• Documentation and enabling framework (manuals/ rules) updated</li> <li>• Software, hardware and rollout costs for: (a) IFMIS strengthening; (b) enhanced disclosures of procurement, budget and budget execution</li> <li>• Treasury infrastructure including facilitation centers</li> <li>• Strengthening connectivity through Himachal State Wide Area Network (HIMSWAN)</li> </ul>	<ul style="list-style-type: none"> <li>• Electronic interface of IFMIS implemented in all departments (DLI 1) resulting in discontinuation of manual processes through: (a) automated bill submission on IFMIS by DDOs; and (b) online monthly account submission from treasuries to AG</li> <li>• Budget preparation process automated, including citizens' participation</li> <li>• Fund, debt, and commitment control tools developed and operationalized</li> <li>• Revised treasury rules and manuals notified</li> <li>• Better disclosure of key fiscal and procurement information on a real-time basis</li> <li>• Improved connectivity for user departments</li> </ul>	<ul style="list-style-type: none"> <li>• Reduced budget variance between originally approved budget to expenditure (DLI 2)</li> <li>• Efficient interface between the FD and all departments and external stakeholders</li> <li>• Expanded coverage of automated PFM systems</li> <li>• Internal controls of the FD strengthened (DLI 2) through improved documentation and automated processes</li> <li>• Increased transparency and citizen's engagement (DLI 3)</li> </ul>
Increasing efficiency and performance through better contract management <b>(Results Area 2)</b>	<ul style="list-style-type: none"> <li>• Increasing coverage of e-Procurement rollout including comprehensive usage of all modules of the software</li> <li>• Roll out of CMS (software modification, hardware, training) across all divisions of IPH (DLI 5)</li> </ul>	<ul style="list-style-type: none"> <li>• Increased value of transactions processed (moving from partial to full usage of software) through the e-Procurement system (DLI 4)</li> <li>• Replacement of manual processes with comprehensive automated systems</li> </ul>	<ul style="list-style-type: none"> <li>• Enhanced accountability, transparency and better value for money in public procurement</li> <li>• Strengthened contract management including timely and effective monitoring of works</li> </ul>

Result Area	Activities	Intermediate Outcomes	Outcomes
Unlocking revenue potential through modernization of the Excise and Taxation Department <b>(Results Area 3)</b>	<ul style="list-style-type: none"> <li>• Institutional assessment and organizational restructuring; including skill augmentation, development of missing specializations, and using a risk-based approach</li> <li>• Hiring of personnel for addressing backlog of VAT and CST assessments</li> <li>• Capacity building of field level functionaries of the ETD</li> <li>• Development and rollout of an e-Governance system (software development, hardware, and training) in the excise function</li> </ul>	<ul style="list-style-type: none"> <li>• Establishment of (a) EIU, (b) formal service tax specialization, and (c) strengthened audit systems</li> <li>• e-Governance application for Excise function implemented (DLI 8)</li> </ul>	<ul style="list-style-type: none"> <li>• Assessment backlog (VAT/CST) reduced by 100% (DLI 6)</li> <li>• Institutional performance of the ETD improved (DLI 7) resulting in increased efficiency in operations and better tax administration</li> <li>• Full automation of core business processes for excise</li> </ul>

### C. PforR Program Scope

29. **The GoHP appreciates that governance advancements, and more particularly PFM improvements, can lead to predictability and efficiency of tax administration and budget execution.** The state’s budget for FY2016–17 was US\$4.86 billion; the program interventions will affect and improve several aspects of this budget. Responding to challenges of limited fiscal space for developmental expenditure necessitates a forward-looking PFM strategy; the World Bank’s support to the Government’s Reform Program articulated in this PforR operation is based on the following aspects:

- **The GoHP has already initiated several reform activities to improve budget and expenditure management.** As discussed earlier, a number of e-Governance reforms have been rolled out to streamline treasury transactions and improve the control environment. The state has largely addressed the compliance and controls aspects of FM and now intends to focus on further automation of processes with the objective of achieving optimum ‘paperless’ and ‘cashless’ PFM environment.
- **This PforR operation aims to support the next generation of PFM reforms envisaged by the GoHP.** The current fiscal situation limits the Government’s ability to undertake the complete design and rollout of all the key activities of the reform

strategy. The GoHP also feels constrained in its ability to step up, given the staffing constraints and limited financial resources. This presents a unique opportunity for the World Bank to support the GoHP with this operation, considering the reform orientation and government ownership.

- **The reform strategy supported by the Program covers nearly the entire spectrum of the PFM cycle.** In addition to improved efficiency of budget execution and treasury management, the GoHP wishes to undertake large-scale institutional reforms to modernize revenue administration and expenditure management (including contract management and e-Procurement) across key departments. Improving the organizational efficiency of revenue-generating departments such as the ETD by establishing robust IT platforms and strengthening the internal business processes is imperative for overall PFM reforms. However, in context of the priorities established by the GoHP (focusing on most critical actions), and to ensure sustainability, the state plans to implement the reform program in a phased manner.

30. **The World Bank is partnering the PFM Reform Program<sup>7</sup> of the GoHP and the Program size is US\$45 million.** The Program supports initiatives in the FD, DoTA, ETD, DIT, and IPH. The program size is US\$45 million and the World Bank will finance this to the extent of US\$36 million, that is, with 80 percent share. It will be implemented over the next five years starting April 2017 and ending September 2022. A specific budget line is used by all the departments to independently incur expenditure on program activities; this single budget line ensures automatic consolidation of expenditure information. The underlying activities<sup>8</sup> will be consultancies, IT hardware, connectivity, software development, training and other capacity-building activities, monitoring and evaluation (M&E), civil works, staff salaries, operational expenditure, and so on. The implementing departments will be responsible for procurement actions, pay using state systems, and be subject to audit. Details of the Program Expenditure Framework are provided in the Technical Assessment (annex 4).

31. All the components will contribute in significantly improving the PFM environment in the state and result in improved revenue realization and expenditure management. Specific activities under the support areas include the following:

- Strengthening treasury functioning and implementing next generation treasury/IFMIS reforms which among other activities includes building missing functionality in IFMIS, capacity building of TOs and DDOs, improving treasury infrastructure, and establishing facilitation centers across the state;

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<sup>7</sup> The big ‘P’ and the small ‘p’ are identical.

<sup>8</sup> The following will be excluded from the Program (though such large value procurement is not expected): activities that involve the procurement of (a) works, estimated to cost US\$50 million equivalent or more per contract; (b) goods, estimated to cost US\$30 million equivalent or more per contract; (c) non-consulting services and IT systems, estimated to cost US\$20 million equivalent or more per contract; or (d) consultants’ services, estimated to cost US\$15 million equivalent or more per contract.

- Strengthening budget credibility by addressing the issue of significant variation (44 percent) between budget and actual expenditure of six large departments, and implementing fund management and debt management systems;
- Establishing/strengthening the enabling IT infrastructure systems and their maintenance for rollout of e-Governance reforms statewide;
- Improving disclosure of information and better citizen engagement;
- Rollout of e-Procurement system across all state departments;
- Rollout of a CMS in the IPH Department;
- Institutional reforms including training in the ETD for better revenue management and clearing of backlog assessments; creating a service tax specialization and strengthening the audit function;
- Strengthening the EIU and analytical capabilities of the ETD; and
- Implementing e-Governance in the excise function of the ETD, including a software for the Himachal Pradesh Beverages Limited (HPBL).

32. Table 3 shows the Program financing pattern:

**Table 3. Program Financing (US\$, millions)**

Source	Amount	% of Total
Government	9.00	20
IBRD PforR	36.00	80
<b>Total Program Financing</b>	<b>45.00</b>	<b>100</b>

#### **D. Disbursement Linked Indicators and Verification Protocols**

33. The Results Framework (RF, annex 2) and the DLIs (annex 3) have been worked out in consultation with the GoHP such that the DLIs indicate progress toward achievement of the PDO. DLIs were selected based on the following factors: (a) whether the DLI signals a critical action in the achievement of the PDO; (b) need for a financial incentive to achieve the linked result; (c) practical aspects of verifying achievement; and (d) the GoHP's capacity to achieve the results in the Program implementation period.

34. Disbursement of funds will be linked to distinct DLIs. These are as follows:

- **DLI 1: Electronic interface of IFMIS implemented in all departments (US\$8million).** Measured by the percentage of the 4,700 DDOs to whom the electronic interface of IFMIS is extended and training is imparted, specific coverage of DDOs of the Letter of Credit (LoC) departments, and online submission of monthly accounts by treasuries to the AG.

- **DLI 2: Internal controls of FD strengthened (US\$5 million).** Measured by adoption and operationalization of revised treasury rules and manuals for DDOs and treasury staff; automated budget preparation covering 100 percent of the state plan/scheme budget; implementation of Commitment Control and Debt Management Modules of IFMIS; operationalization of the interface with RBI's e-Kuber; implementation of a biometric authentication system for all IFMIS users and reduction in budget variance of six large departments.
- **DLI 3: Increased transparency and citizen engagement (US\$3 million).** Measured by better disclosure, public consultation, and acceptance of off-line feedback from citizens in the budget process; real-time disclosure on the GoHP website of contract awards and procurement opportunities following e-Procurement and progress of large works of IPH; and citizens' access to key fiscal information (in a user-friendly manner).
- **DLI 4: Increased value of transactions processed through the e-Procurement system (US\$5 million).** Measured by 90 percent increase in value of procurement done through the e-Procurement application, increased usage among the state departments, and comprehensive usage of all modules of the software.
- **DLI 5: CMS in IPH Department implemented (US\$3.91 million).** Measured by rollout of all 14 modules of CMS in all divisions of the IPH Department; discontinuation of the manual system of contract management and accounting; and submission of monthly accounts to the AG through the CMS.
- **DLI 6: Backlog of pending VAT/ CST assessments reduced (US\$4 million).** Measured by reduction in backlog assessments for 2015–16 (294,000 assessments) by 100 percent and completion of (90% of) in-year assessments within one year by the end of the Program period.
- **DLI 7: Institutional performance of the ETD improved (US\$3 million).** Measured by a strengthened audit system and optimal manpower deployment and creation of formal service tax specialization and EIU functionality in the ETD.
- **DLI 8: e-Governance application for excise function implemented (US\$4million).** Measured by rollout of an application covering excise core function across all offices of the ETD and discontinuation of the manual processes; rollout of a software solution in the HPBL; provision of the necessary training/support/ hardware and linkages between the two systems.

35. **Verification protocol.** Achievement of DLIs will be reported using the GoHP reporting systems. The DLI achievement will be verified by an Independent Verification Agent (IVA)—to be hired by the GoHP. Within three months of the end of each year, the FD will present evidence of achievement of the DLI to the IVA. The data source for DLI achievement verification and the procedure for verification are given in annex 3. The IVA will rely upon desk review of documentation provided by the GoHP, field visits where required, and interviews to assimilate the data and verify achievement. The IVA will validate the baseline data in the first year of



implementation. Upon completion of the annual verification exercise, the IVA will submit a verification report. The verification report will accompany disbursement requests by the GoHP to the World Bank. The verification report will be used as the basis for determining the amount to be disbursed.

#### **E. Capacity Building and Institutional Strengthening**

36. **Most of the program interventions relate to capacity building of key institutions relating to PFM in the state—these include the FD, ETD, and IPH Department.** The program supports a wide range of activities including software development, IT risk mitigation, augmenting staff skills with a range of trainings (for treasury officers, DDOs, and training on GST readiness), and interventions to address change management issues. Further, other specialized trainings will also be part of the Program; for example project management, debt management, and contract management, among others. Training aspects will target gender sensitization and some of the functional training will target female employees only. Some other capacity-building initiatives include revision of treasury rules, development of user manuals covering both the IT and operational aspects of the treasury systems, IPH, and the ETD software. Finally, skills that may not be readily available within the state government have been acquired from outside; for example, procurement specialization and IT security function.

### **III. PROGRAM IMPLEMENTATION**

#### **A. Institutional and Implementation Arrangements**

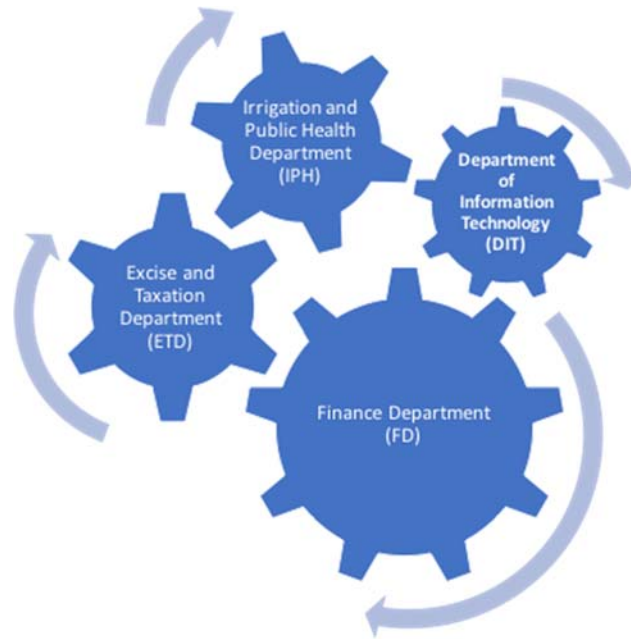
37. **The Program is fully integrated in the GoHP administration and implementation is designed to promote the use of existing GoHP structures.** The Program may need to acquire outside expertise, including technical assistance and consulting services for activities that require deep technical knowledge and breadth of experience. The Program will put particular efforts into intergovernmental coordination and information sharing. The PforR operation will be implemented over a period of five years, with a midterm review (MTR) envisaged after two and half years. A Program Manual, developed by the GoHP will provide the necessary guidance for implementation.

38. **The FD is responsible for overall management of the Program.** The Directorate of Treasury ensures coordination between different stakeholders and directly facilitates implementation of Program activities. A Program Steering Committee (PSC) under the leadership of the Additional Chief Secretary (ACS), Finance and Secretaries of participating departments exists, to provide strategic leadership and interdepartmental coordination for Program implementation. A PFM Reforms Division (PRD) provides the necessary administrative support and operates under the ACS, Finance, as the Program Director; Director of Treasuries as the Additional Program Director; and the Additional Director of Treasuries as the Program Nodal Officer. Further, the PRD provides the necessary support for budgets, procurement, approvals, and coordination.

39. **Each of the participating departments is responsible for their respective Program pillars and associated activities.** These include procurement of the consultancies and goods, monitoring implementation of activities, and achievements of DLIs and other Program results.

Payments to consultants/suppliers are made according to budgetary allocations from the GoHP treasuries.

**Figure 2. Institutional Structure for Implementation**



## **B. Results Monitoring and Evaluation**

40. **The HP PFM Capacity Building PforR will use the existing M&E systems within the FD to monitor Program results.** Progress toward the PDO will be monitored through semiannual and yearly reports on the PDO-level and intermediate-level results indicators. An RF with Program-specific indicators and actionable monitoring arrangements has been developed jointly with the GoHP participating departments and is presented in annex 2. The RF provides the baselines, targets, frequency of data collection, data source and methodology, and responsible institutions for data collection for all indicators. Since most of the results envisaged under the Program conforms to institutional reform measures, a Government-led M&E mechanism is considered to be more efficient given the institutional memory of the stakeholder departments and the internal reporting structure within the identified departments.

41. **The introduction of e-Governance systems in the participating departments will provide the database to extract data for some of the indicators in the RF.** The establishment of robust MIS is important to this PforR operation and data such as payment transactions, taxpayer information, and amount of e-Procurement will be produced more efficiently by the new platforms, once they are deployed.

42. **A reporting system has been established within the PRD to track progress against DLI benchmarks and collect information from all stakeholder departments.** The PRD will prepare biannual progress reports on the basis of information obtained from participating departments. Additionally, an experienced procurement consultant has been recruited to augment the PRD's contract management capacity. Considering the institutional capacity, the M&E of the Program and reporting for results will be undertaken by the PRD. A verification agent will be

contracted by the FD soon after effectiveness of the Program to validate the DLI achievements and collect relevant documentation that are mentioned in the DLI verification protocol table. The periodic progress reports will highlight Program achievements and implementation constraints and propose measures to improve Program performance. The progress reports will be endorsed by the PSC before submission to the World Bank.

### C. Disbursement Arrangements

43. **The Program will use DLIs for Program management and disbursement.** Annex 3 shows the agreed list of DLIs and the proposed annual financial allocations across DLIs. Estimated amounts for each DLI are dependent on assumptions made for projected performance; however, disbursement will be dependent on actual performance achieved. Where actions are not achieved in any particular year, the allocated amount will be carried over to the subsequent year. Conversely, if targets are reached before deadlines, disbursement may be made earlier after clearance from the World Bank. Achievement of DLIs will be verified according to the agreed verification protocol by an IVA. On certification, the FD will communicate the achievement of the DLIs to the World Bank and based on the World Bank's approval letter, disbursement requests will be submitted to the World Bank office, by the Controller of Aid, Accounts, and Audit, using the World Bank's e-Business platform. To provide the participating departments with sufficient liquidity to implement activities under the Program, the Government has requested 20 percent of the loan proceeds be paid as an advance. The World Bank will provide an advance of up to US\$7.2 million, as detailed in the Bank Disbursement Table, in annex 3. The advance will be adjusted against disbursements due when DLIs are achieved or in the later years of the Program. The drawdown of the advance, including quantum will be based on GoHP's needs and cash flow mismatches if any.

## IV. ASSESSMENT SUMMARY

### A. Technical (including program economic evaluation)

44. **Strategic relevance: Realizing the important role of PFM systems in strengthening fiscal position, the GoHP is committed to improving governance and accountability.** The paradigm shift of enhanced devolution and autonomy complemented by the rollout of the GST place higher responsibility on the states' PFM systems (planning, budgeting, and accounting) to ensure effective management of public funds. Over the past few years, the GoHP has taken initiatives to modernize the PFM systems in the state while addressing the concerns raised in the last PEFA assessment (2009). The GoHP is now undertaking further reforms in PFM, using IT as a key driver. The state plans to modernize expenditure management systems, revenue management, and other operational systems. Further, it is focusing on enhancement of revenue by undertaking better revenue administration and modernization of the operational systems across the state.

45. **Technical soundness: The approach to the operation's design is strong and based on the needs and priorities identified consultatively with stakeholders across the GoHP.** The proposed operation is building on the outcomes of the reforms undertaken in the recent past to take them to the next level. Lessons have been drawn from the Bank's experience on IFMIS implementation worldwide. The emphasis on IT solutions in each of the reform areas proposed under the operation is based on the GoHP's focus to improve efficiency through further process

automation with the objective of achieving an optimum ‘paperless’ and ‘cashless’ PFM environment.

46. **The proposed operation covers the following three results areas, spanning across the PFM spectrum - expenditure management, contract management, and revenue.**

- **Results Area 1: Improving efficiency of the FD in an enhanced control environment** to contribute toward improving budget credibility, effective financial controls, and enhanced governance.
- **Results Area 2: Increasing efficiency and performance through better contract management** by strengthening contract management in the IPH Department and supporting rollout of the e-Procurement solution across the state.
- **Results Area 3: Unlocking revenue potential through modernization of the ETD** by strengthening the institutional capacity, performance, and organizational efficiency of the ETD that will lead to improved revenue administration in this key department.

47. **Program Expenditure Framework.** Program expenditure is directed toward implementing key activities for achieving the desired results. Total program expenditure is US\$45 million and is backed by an expenditure plan spread over the Program period. The expenditure proposed for individual activities is commensurate with their scale and complexity and facilitates efficient execution. The Program Expenditure Framework strikes a balance between reform actions such as capacity building, recurring expenditure, and asset creation. Expenditure will be incurred by four state departments. Expenditure will be incurred and managed within the state budget and payment systems which are functioning efficiently and are subject to audit. The Program has been accorded approval by the state cabinet and expenditure for the first year is included in the state budget for FY2016–17 under a separate budget line. Risks to the Program Expenditure Framework arising out of budget constraints are low because the expenditure constitutes a small portion of the state budget and is well aligned with government priorities. The funding predictability is therefore high.

48. **Program RF and M&E: An RF with specific indicators and actionable monitoring arrangements has been developed jointly with the GoHP to support progress and monitoring of results** (annex 2). The PRD will use its existing M&E system with inputs from the various participating departments. The M&E for the operation will report on qualitative issues being identified by the ongoing consultancy studies. Semiannual implementation reports and annual reports will be generated for submission to the PSC and the World Bank.

49. **Program economic evaluation: Quantification of benefits of a PFM Capacity Building Program is not a straightforward exercise.** The proximate objective of the operation is to strengthen public expenditure management and revenue administration, sustainably enhancing the delivery of critical public services to citizens and businesses through focused interventions in strengthening IT architecture and automation of processes along with capacity building. The benefits that are likely to accrue include: (a) process efficiency gains from automation and elimination of many manual processes in budget execution and in fund management; (b) efficiency from enhanced e-collection and e-payments; (c) revenue augmentation in the ETD as a result of

organizational restructuring, enhancing IT systems (for the excise function), better data analysis, streamlined back-end processes, and electronic interfaces for taxpayers; (d) lower procurement costs due to use of e-Procurement application; and (e) benefits of enhanced transparency and disclosure of public financial information. The effective return on investments will be in the form of better-performing public institutions and more efficient and effective use of financial and human resources.

## **B. Fiduciary**

50. The Program aims to improve public expenditure management and tax administration in the state. The World Bank team undertook a fiduciary systems assessment (FSA) of the Program; keeping the Program Expenditure Framework as the base. The FSA covered FM, procurement, and fraud and corruption (F&C) risks associated with the Program.

51. The Program FM arrangements rely on the use of ‘country systems’. The GoHP has well-established policies and practices pertaining to budgeting, accounting, and funds management. Moreover, the FD is the chief implementing agency for the Program. The PRD is under the ACS of the FD and the Program Nodal Officer is the Additional Director of Treasuries. Considering that the Program expenditure constitutes a small proportion of the total funds managed by the FD and the fact that treasury management, accounting, and budgeting are an integral part of the department functions, the FSA does not reveal any significant FM risks.

52. Procurement taken up under the Program will consist of IT equipment (goods), consultancies, and small civil works. Normally, IT procurement is complex and there are possibilities of delay. Six departments/entities<sup>9</sup> shall carry out procurement under the program. In the absence of specific procurement law, the state is following financial rules for procurement.

53. Standard bidding documents need to be prepared in line with various procurement methods. A significant portion of procurement under the Program will be through e-Procurement. Presently, the audit mandate does not include review of the procurement process; moving to e-Procurement and expanding the scope of audit to cover procurement will mitigate procurement risks significantly.

54. The World Bank’s Anti-Corruption Guidelines (ACGs) will apply to the Program. Other governance and accountability mechanisms include the Central Vigilance Commission guidelines; the Right to Information (RTI) Act, 2005; CAG audit; and e-Samadhan, the grievance handling system of the GoHP. The State Vigilance and Anti-Corruption Bureau (SV&ACB), the nodal agency for anticorruption in HP, has been operating since 1965. HP has a record of timely submission of CAG audit reports to the legislature. The above mechanisms provide assurance that there are no significant F&C risks associated with the Program.

55. Certain Program wide, cross-cutting risks emanate from the fact that some of the Program implementing departments do not have adequate experience in managing consultancy contracts and IT procurement. Program activities are directed at improving internal systems, which shall mitigate these risks. Training and capacity-building efforts will also reduce such risks. Overall,

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<sup>9</sup> Implementing departments include the FD, ETD, IPH and DIT; and two procuring agencies that is the Public Works Department (PWD) and Himachal Pradesh State Electronics Development Corporation (HPSEDC).

performance of the program fiduciary systems are considered to be adequate and will provide reasonable assurance that financing proceeds will be used for Program implementation with due considerations to economy and efficiency; in this backdrop, fiduciary risk is rated as Moderate.

### C. Environmental and Social Effects

56. One of the interventions of the Program includes small-scale infrastructure works (construction/upgrade of treasuries and sub-treasuries). These infrastructure works are not expected to cause any adverse impacts that are sensitive, diverse, and unprecedented on the environment or the people. However, there is scope for generating sustainable social and environmental benefits from the proposed interventions.

57. In accordance with the World Bank policy and directive on PforR financing (July 2015), the World Bank team has conducted an Environmental and Social Systems Assessment (ESSA) of the operations to be financed under the Program. The assessment of the Program systems is done to understand the degree to which the current Program systems align with the core environmental and social principles—promote environmental and social sustainability; avoid, minimize, or mitigate adverse impacts on natural habitats and physical cultural resources; protect public and worker safety; manage land acquisition; consider issues related to indigenous peoples and vulnerable groups; and avoid social conflict. Further, it identified required actions for enhancing/strengthening the Program systems and mitigating potential environmental and social risks. Overall, it can be concluded that the Program systems are aligned with the core principles of the World Bank’s PforR instrument; however, there is considerable scope for strengthening and value addition.

58. The ESSA drew information on the existing systems through extensive desk reviews, secondary information, field consultations, and consultations with the relevant government line departments. A consultation workshop was organized involving representations from key stakeholders (partnering department and other government departments), including representatives from Forest Department, PWD, State Council of Science Technology and Environment, Directorate of Energy, Revenue Department, Disaster Management, and so on. The draft report of the ESSA was disclosed in the consultation workshop held on November 22, 2016 and the suggestions are integrated. Subsequently, the report was disclosed on the World Bank’s InfoShop on February 7, 2017.

59. **Assessment of environmental systems.** The assessment of environmental systems indicates that: (a) the capacities of the key institutions and coordination between the institutions on environmental aspects are good, except for the need for few changes in procedures (for example, architect from the PWD should be part of land inspection team); (b) clear and stringent procedures exist for selection of land, inspections, transfer, or diversion of forest land;<sup>10</sup> (c) existing legal and regulatory framework and policies are adequate to govern the environmental sustainability of Program activities; and (d) guidelines and codes of practice exist for environment-friendly and disaster-proof constructions. However, there is a need for improvement in awareness, monitoring, and convergence with other departments and institutions. The recommendations for

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<sup>10</sup> As per the 1952 Forest notification (Notification No. FT 29-241-49 dated February 25 1952), entire wasteland in the state of HP is considered as forest land and the Forest Conservation Act (FCA), 1980, applies to the entire wasteland in HP.

the Program Action Plan (PAP) apart from strict adherence to the existing ‘legal and regulatory framework’ are as follows:

- Screening for exclusion of high-risk activities
- Preparation of site-specific Environmental and Social Management Plans (ESMPs)
- Green Building Certification for the buildings constructed

60. **Assessment of social systems.** With regard to social systems, the Program activities are expected to have overall positive benefits owing to enhanced efficiency and effectiveness of PFM systems. New construction of treasury and sub-treasury offices and refurbishment, renovation, and upgrade of existing treasury offices will be done on government land in possession of the nodal department. Also, the Program would not fund construction on any land for which clear title is not available with the nodal department, or where it affects livelihood and living of residents, or where any resettlement of squatters is required. The state makes special effort by preparing and implementing Tribal Sub Plan (TSP) and Scheduled Caste Sub Plan adhering to revised national guidelines to ensure proportionate flow of plan resources for the development of the scheduled castes (SCs) and scheduled tribes (STs). The key recommendations are to: (a) undertake screening of the land identified for construction of treasury/ sub-treasury buildings to rule out any social impact; (b) ensure basic amenities for the construction workers near the sites during construction along with mechanism for their grievance redressal and code of conduct training; and (c) consider public safety especially women and needs of differently abled people in building design and constructions.

61. **Grievance Redressal.** Communities and individuals who believe that they are adversely affected as a result of a Bank supported PforR operation, as defined by the applicable policy and procedures, may submit complaints to the existing Program grievance redress mechanism or the WB’s Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Affected communities and individuals may submit their complaint to the WB’s independent Inspection Panel which determines whether harm occurred, or could occur, as a result of non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank’s attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank’s corporate Grievance Redress Service (GRS), please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the World Bank Inspection Panel, please visit [www.inspectionpanel.org](http://www.inspectionpanel.org). In addition, the e-Samadhan portal<sup>11</sup> developed by the National Informatics Centre (NIC), HP shall be followed.

#### **D. Risk Assessment**

62. **The overall risk has been assessed to be Moderate.** The World Bank support is extended to an ongoing reform program and the institutional arrangements for Program implementation are being augmented. Scaling up of the program will be a significant change for government functionaries and other stakeholders. Major implementation of IT systems, training, and other

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<sup>11</sup> <http://admis.hp.nic.in/esamadhan/welcome.aspx>.

program procurements will require officials to come out of their comfort zones; their aspirations and concerns need to be managed. There are other risks as well. Each risk category is discussed below:

- (a) **Political and Governance and Stakeholders (rated Low):** PFM reforms need champions and in case of change in key interlocutors, (bureaucratic reshuffle/transfers), the reform progress may be affected. Further tangible benefits of PFM reforms are sometimes difficult to quantify and benefits accrue in the medium to long term. These risks have been (and will continue to be) mitigated through regular consultation with a wide range of stakeholders across the GoHP.
- (b) **Macroeconomic (rated Moderate):** HP's debt to GSDP ratio, though higher than the national average, meets the state's FRBM targets. Availability of funds for the program implementation is expected to be adequate and timely, and the fiscal situation is not expected to negatively affect the reform process.
- (c) **Sector Strategies and Policies and Technical Design of the Program (rated Moderate):** Program interventions are based on technical assessment and are consistent with the GoHP's own priorities. The state has already undertaken reform actions in the past and expects to scale up the same through this operation.
- (d) **Institutional Capacity for Implementation and Sustainability (rated Moderate):** The FD and treasuries have adequate capacity to manage the program and have augmented strength of the PFM reform division by appointing additional staff/consultants. However, DLIs need action by three other departments and this will require constant attention and coordination to ensure timely action by all.
- (e) **Fiduciary (rated Moderate):** The key agency implementing the program is the FD and therefore adequate FM oversight is expected; however, procurement is still new to some departments and this will require capacity building and technical support; a full-time procurement consultant is supporting the PRD.
- (f) **Environment and Social (rated Moderate):** These risks exist in relation to the civil works component and have been mitigated through consultation and preparation of necessary checklists/guidelines.

## **E. Program Action Plan**

63. The Technical, Fiduciary, and Environmental and Social Assessments have identified certain action points that will mitigate the identified risks to achievement of the PDO. These action points will have to be undertaken at various points during Program implementation by different departments. The detailed PAP is presented in annex 8.

## **F. Program Implementation Support**

64. **The World Bank will continuously monitor implementation progress during Program implementation.** The World Bank task team will conduct semiannual Implementation Support Missions with sector experts. Confirmation of DLI achievement along with supporting



documentation will be submitted by the GoHP to the World Bank and the verification agent according to the DLI disbursement schedule. Implementation progress will be reported to the World Bank management through periodic Implementation Status and Results Reports and other World Bank office memorandums. An MTR will be conducted two and half years into Program implementation to evaluate overall Program achievements and to discuss Program modifications, if necessary. An Implementation Completion and Results Report will be prepared at the end of Program implementation. The detailed Implementation Support Plan is given in annex 9.

## Annex 1: Detailed Program Description

### INDIA: HIMACHAL PRADESH PUBLIC FINANCIAL MANAGEMENT CAPACITY BUILDING PROGRAM

1. The PDO is ‘to improve the efficiency of Public Expenditure Management and Tax Administration in Himachal Pradesh’.
2. Following is a brief description of the Program components.

#### Results Area 1: Improving efficiency of the FD in an enhanced control environment

3. The objective of this component is to contribute toward strengthening budget credibility; effective PFM operations; and enhancing governance, financial controls, and accountability by strengthening treasury systems and establishing or upgrading enabling IT systems.

#### *Subcomponent 1.1: Strengthening treasury functioning and implementing second generation IFMIS reforms*

4. The subcomponent will support the following activities:
  - **Strengthening treasury infrastructure**, including replacement of obsolete hardware (including at the facilitation centers to support DDOs that have significant volumes), construction/upgrading of own buildings for about 20 sub-treasuries (which are presently housed in rented accommodation) to improve the efficiency of services to other departments and house the facilitation centers, and establishing redundant connectivity infrastructure for the treasuries. The IT equipment will be procured through the HPSEDC and the civil works will be facilitated by the PWD. A framework approach will be used to identify the treasuries/sub-treasuries that will be included for construction. The criteria for selection will include availability of land, government-owned and rented buildings, number of transactions, volume of business, and staffing structure in various treasuries. No land acquisition is envisaged.
  - **Capacity building** of all TOs, DDOs and their staff, officials from the Office of the State AG, banks, and other stakeholders in the new treasury applications. The proposal is to conduct a Training Needs Analysis, conduct a training of trainers program, and then roll out the training across the state. Domestic and international (wherever relevant) study tours will be undertaken and staff will be encouraged to participate in workshops for exchange of ideas and to learn from good practices of other states.
  - **Setting up facilitation centers** to be used by DDOs for online bill generation and submission to the treasury. These facilitation centers will be used primarily by DDOs who face connectivity and hardware problems. It is proposed to establish 44 facilitation centers, with at least three computers and connectivity, close to treasuries at remote locations.

- **Services of a team of software professionals** (specialists for IT cell) for five years are proposed to be retained for strengthening of various software functionalities in the HP treasuries system such as the budget preparation module and other changes to improve public disclosure, strengthen internal controls, and provide in-house hand-holding support, and attending to software issues. This will be integrated with the GoI's Public Financial Management System (PFMS) to the extent applicable.
- **Preparation of user manual/s for all treasury applications and training material.** These will be smart manuals both in hard form and digitized with self-assessment features. An Operations Manual for DDOs and an Operations Manual for TOs are envisaged.
- **Development of an IT Security Policy** that will cover a review of the IT policies, procedures, and processes with a view to identifying IT security risks and mitigation measures and developing an IT Security Policy and risk management framework for the DoTA. This will also include development of curriculum and conducting workshops for the DoTA officials on implementing the IT Security Policy.
- **Shifting of works transactions to the treasury mode.** The Program will support the GoHP's plans to shift transactions of departments handling public works completely to the treasury mode (from the present LoC system outside the treasury) to bring in transparency, accuracy in budget classification, and budget control; direct electronic transfers to contractors, suppliers, and vendors; minimization of delay in clearance of remittances; pairing of vouchers/checks from two different places; and avoiding cumbersome process of reconciliation.

*Subcomponent 1.2: Strengthening PFM Reforms Architecture*

5. **Developing a policy note on revenue and expenditure management.** The Program will support developing a policy note, including study of national and international best practices in this area, and developing a road map. On the revenue side, it will cover aspects such as revenue augmentation measures, including thorough review of taxation laws and administration for better tax compliance and assessing efficacy of the state's revenue sources. On the expenditure side, it will analyze reasons for low budget credibility and large variances in key departments, year on year and review key functions in the budget cycle from planning to execution, covering aspects such as better decision making, avoiding concentration of expenditure, and thus improving the quality of expenditure as well.

6. **Strengthening fund management.** The Program will support consultancy services associated with the following: (a) study on fund management practices in the state and other jurisdictions, the amount of funds available with entities outside the treasury, and options on better fund management including a tool for fund flow forecasting and a system of collation and collection of dispersed cash balances, suggesting a strengthened institutional framework for fund management and providing a decision support system; this shall refer to data using the PFMS regarding funds outside the treasuries; (b) development of a fund planning (or ways and means) module in IFMIS (Functional Requirement Specification [FRS]); and (c) development of software based on the FRS to automate the presently manual function.

7. **Strengthening debt management.** The Program will support: (a) a Debt Sustainability Analysis using an internationally recognized tool; (b) conduct a Debt Management Performance Assessment using the Debt Management Performance Assessment Tool of the International Monetary Fund; (c) develop a road map for a study of the present debt management systems in the GoHP, including assessment of the system of debt requirements and timing, and linkages with bank balances, optimization of costs, identification of gaps, and comparison with other national and international practices; (d) developing a system/software for management of debt.

*Subcomponent 1.3: Establishing/strengthening enabling IT systems and support*

8. The subcomponent will support the following activity to establish and strengthen enabling IT systems and support that will directly benefit PFM architecture in the state.

- **HIMSWAN.** Cost of hardware and software, licenses, and operation and maintenance (including HIMSWAN operator and third-party administrator), and of HIMSWAN to provide connectivity additionally to over 1,000 government offices and citizens on a 24x7 basis.

**Results Area 2: Increasing efficiency and performance through better contract management**

9. The objective of this component is to strengthen contract management in one of the major works departments, namely the IPH Department. Further, the component will support the rollout of the e-Procurement solution across the state.

*Subcomponent 2.1: Establishing an integrated CMS*

10. This subcomponent will support the implementation of a CMS that will cover the entire spectrum from tendering, works execution, and works accounting, which will help timely completion of works and proper monitoring in the IPH Department. This involves enhancement of the CMS software (developed by the NIC) rollout across all divisions and head office of the IPH Department, procurement of hardware and connectivity required for implementation, and capacity building of the intended users. The solution will be integrated with the e-Procurement system. This is ultimately expected to lead to discontinuation of manual submission of accounts to the AG.

*Subcomponent 2.2: Rollout of e-Procurement in all government departments*

11. The subcomponent will support the GoHP in enhancing the e-Procurement application and rolling it out in over 2,000 offices, including training. The rollout will aim to cover all important state departments over the Program period. This involves setting up and operating a help desk for continuous monitoring and support, decentralized training for departmental officials, and procurement of essential hardware such as digital signatures required for operating the software.

**Results Area 3: Unlocking revenue potential through modernization of the ETD**

12. The objective of this component is to support activities that will increase efficiency in operations within the ETD, including upgrading skills and competency levels for improved staff capacity and enhanced systems, both with the objective of augmentation and increasing revenue.

### *Subcomponent 3.1: Diagnostic of the institutional framework and revenue administration*

13. This subcomponent will support consultancy services for assessment of the existing institutional and managerial setup in the ETD and the efficacy of reorganization of the department for functional specialization (Advance Ruling, Large Taxpayer Unit, Audit, Statistics, Economic Intelligence Unit, and Tax Research Unit etc) or geographical segregation for effective GST administration and will suggest a road map for an enhanced institutional framework for revenue administration (assessments, audit, recovery and refunds). This is expected to cover VAT/GST and excise functions. The component will support organization-wide detailed mapping and risk assessment of the existing competency levels and the gaps in the actual requirements and future plans of the department, including the upcoming requirement to build capacity in service taxation. A Training Needs Analysis will be conducted. The Program will support developing a medium-term action plan and a formal training plan, including courseware, and conducting capacity-building pilots. The Program will also support a communication strategy to facilitate the introduction of GST for field-level departmental staff, trade bodies, tax counsellors, and other stakeholders.

### *Subcomponent 3.2: Strengthening analytical skills and business intelligence (BI) capabilities*

14. With a view toward establishing a tax analytic unit, the Program will support improvements in the existing MIS and systems within the department to identify the nature of available information, data flow, data formats, cross-verification of available data, and modernization necessary for effectively meeting the research/analytic requirement of the ETD. A survey of best practices, identifying standard MIS reports and special reports, their periodicity, and so on, and a plan of action to strengthen the policy and research function within the department are also envisaged. The areas of focus will include protocols for automatic sharing of information across tax office jurisdictions to capture an integrated view of a taxpayer and establishment of an EIU to strengthen tax analytics capabilities within the ETD.

### *Subcomponent 3.3: e-Governance in the excise function*

15. The overall objective is to design a comprehensive e-Governance solution for excise administration covering all the core regulatory activities and tax administration. It is expected that once the system is rolled out, all excise administration functions will be governed through the new system and manual processes will be discontinued. The scope of activities under this initiative will cover the operations, processes, business requirements, and future integration requirements between the ETD and HPBL. Specific activities will include the As-Is Assessment of processes, process reengineering, and integration with the newly created HPBL, which is expected to be the monopoly wholesaler of alcohol products catering to the retail market in HP. Replacement of obsolete IT hardware in ETD offices is also covered under this component.

### *Subcomponent 3.4: Independent third-party IT audit*

16. This subcomponent is designed to ensure the robustness and operability of the hardware and software system improvements that will be rolled out in the ETD through the other subcomponents. The Program will support the GoHP to conduct performance and security audits and operational reviews through an independent agent, to identify and mitigate risks.

*Subcomponent 3.5: Hiring of personnel for addressing backlog of VAT and CST assessments*

17. This will involve hiring of experienced personnel to support the departmental officers in clearing about 294,000 pending assessments over the Program period. Further, domestic study tours will be undertaken and staff will be encouraged to participate in workshops for exchange of ideas and to learn from good practices of other states.

**Program Management**

18. Provision of support for, among others, (a) operational costs incurred in connection with carrying out of the Program, including salaries of staff; (b) outstation travel, local travel, office space, and per diem; (c) financial audit, internal audit, procurement post review, and IVA; and (d) consultancy for management and M&E.

## Annex 2: Results Framework Matrix

**Project Development Objective.** Improve the efficiency of Public Expenditure Management and Tax Administration in Himachal Pradesh

Results Areas Supported by PforR	PDO/Outcome Indicators (key indicators to measure the achievement of each aspect of the PDO statement)	Intermediate Results (IR) Indicators (critical processes, outputs, or intermediate outcome indicators needed to achieve each aspect of the PDO)	DLI #	Unit of Measure	Baseline (2015–16)	End Target (2021–22)
<b>Results Area 1:</b> Improving efficiency of the FD in an enhanced control environment	PDO Indicator 1: Reduce variance between originally approved budget to expenditure		2	Percentage change	Variance between originally approved budget to expenditure outturns of six large departments <sup>12</sup> was 44% (FY2015–16)	Variance between originally approved budget to expenditure outturns of six large departments reduced to 15%
		IR Indicator 1.1: Electronic interface of IFMIS implemented in all departments	1	Rollout to % of DDOs	Manual submission of bills from departments (through 4,700 DDOs) to treasuries and manual submission to the AG	Rollout to all DDOs including DDOs of all three LoC departments and online submission of monthly accounts by treasuries to the AG
		IR Indicator 1.2: Internal controls of the FD strengthened	2		Weak internal controls; specific FM functions still manual	Revised treasury rules; manuals adopted and made operational and specific manual processes automated
		IR Indicator 1.3: Strengthening PFM in the state by provision	n.a.	Man-days of training	Training neither strategic nor according to a plan	Development of training needs assessment, training plan, and provision of adequate

<sup>12</sup> Finance, Public Works, Primary Education, IPH, (higher) Education, Health Services

Results Areas Supported by PforR	PDO/Outcome Indicators (key indicators to measure the achievement of each aspect of the PDO statement)	Intermediate Results (IR) Indicators (critical processes, outputs, or intermediate outcome indicators needed to achieve each aspect of the PDO)	DLI #	Unit of Measure	Baseline (2015–16)	End Target (2021–22)
		of comprehensive and wide-ranging training				resources to deliver required training to all stakeholders
		IR Indicator 1.4: Strengthening components of the PFM cycle through analytical studies of the core FD functions	n.a.	Number of analytical studies conducted	No recent studies (last review during PEFA 2009) conducted to refine the core functions	Recommendations made to the GoHP on fund, debt, revenue, and expenditure management
		IR Indicator 1.5: Increased transparency and citizen engagement	3	Disclosure of budget/execution reports and citizen participation	Nascent citizen engagement on budget; no disclosure of contract information; fiscal information only through standard reports	Scaling up citizen engagement on the budget process; disclosure of (a) contract award and procurement opportunities through e-Procurement and (b) progress on large contract through the new IPH system
<b>Results Area 2:</b> Increasing efficiency and performance through better contract management	PDO Indicator 2: Increased value of transactions processed through the e-Procurement system		4	Percentage increase in value of e-Procurement	Software implemented in 5 departments and 15 parastatals with sporadic usage (of the six modules) and value of transactions processed at INR 24.41 billion	Increase in value of transactions processed through the e-Procurement system by 90% over baseline
		IR Indicator 2.1: CMS in IPH Department implemented	5	Rollout of software in % of divisions	Used in 17 divisions but usage irregular	Complete rollout of all 14 modules of CMS



Results Areas Supported by PforR	PDO/Outcome Indicators (key indicators to measure the achievement of each aspect of the PDO statement)	Intermediate Results (IR) Indicators (critical processes, outputs, or intermediate outcome indicators needed to achieve each aspect of the PDO)	DLI #	Unit of Measure	Baseline (2015–16)	End Target (2021–22)
						across 100% divisions and head office
<b>Results Area 3:</b> Unlocking revenue potential through modernization of the ETD	PDO Indicator 3: Backlog of pending VAT/ CST assessments reduced		6	Percentage of pending VAT/CST assessments	Pending tax assessments (VAT and CST) is 294,000 (2011/12–2015/16)	Backlog reduced by 100% over baseline and (90% of) in-year assessments completed within 1 year of return filing
		IR Indicator 3.1: Institutional strengthening and modernization of the ETD	n.a.	Implementation of accepted recommendations	Weak institutional and organization structure and obsolete e-applications	All accepted short- and medium-term recommendations implemented including optimizing the assessing function
		IR Indicator 3.2: Institutional performance of the ETD improved	7	Creation/enhancement of specialized functions	No specialized units; recovery process is weak	Audit function, service tax specialization, and EIU functioning as an integral part of the ETD
		IR Indicator 3.3: Enhanced capacity of officials implementing GST by providing training not covered by the sovereign function	n.a.	Number of staff/dealers trained	GST rollout training to be imparted and systematic training instituted for the department	Field-level staff of the ETD trained in functional aspects of GST. Additionally, training and communication provided to dealers.
		IR Indicator 3.4: e-Governance application for excise function implemented	8	Rollout of system across the state	No e-Governance application for excise function	Excise e-Governance system rolled out in 100% of the offices, including issuance of at least 90% transport permits through the system

### Indicator Description

Indicator Name (#)	Description (Clear Definition and so on)	Frequency	Data Source	Methodology for Data Collection	Responsibility for Data Collection	DLIs	
						Responsibility for Data Verification	Scalability of Disbursement (Yes/No)
PDO Indicator 1	Reduce variance between originally approved budget to expenditure	Annual	In-year budget reports	Reports at the end of the fiscal year will be analyzed to compare budget versus actual for the key departments	FD	IVA	No
IR Indicator 1.1	Electronic interface of IFMIS implemented in all departments	Annual	Self-certification by the Director of Treasuries confirming rollout to DDOs completed and bill submission process automated, Government Order and system usage reports	Reports generated from IFMIS	FD	IVA	No
IR Indicator 1.2	Internal controls of the FD strengthened	Annual	Approved and notified documents and progress reports prepared by the FD	Approved manuals, notified treasury rules, reports indicating system usage and data generated from IFMIS	FD	IVA	No
IR Indicator 1.3	Strengthening PFM in the state by provision of comprehensive and wide-ranging training	Annual	Training needs assessment, training plan, and provision of resources	Documents and sample information regarding actual training delivered	FD	n.a.	n.a.
IR Indicator 1.4	Strengthening components of the PFM cycle through analytical studies of	Annual	Reports and recommendations	Progress on consultancies to perform analytical studies reported by the FD	FD	n.a.	n.a.

Indicator Name (#)	Description (Clear Definition and so on)	Frequency	Data Source	Methodology for Data Collection	Responsibility for Data Collection	DLIs	
						Responsibility for Data Verification	Scalability of Disbursement (Yes/No)
	the core FD functions						
IR Indicator 1.5	IR Indicator 1.5: Increased transparency and citizen engagement	Annual	Progress reports prepared by the FD	Progress on citizen participation and usage of interactive interface reported by the FD	FD	IVA	No
PDO Indicator 2	Increased value of transactions processed through the e-Procurement system	Biannual	e-Procurement system usage reports	System usage reports to be generated from the system in addition to the value of e-Procurement	DIT	IVA	No
IR Indicator 2.1	CMS in IPH Department implemented	Annual	Usage reports and monthly accounts	Reports indicating system usage and monthly accounts to be generated from the CMS	IPH Department	IVA	No
PDO Indicator 3	Backlog of pending VAT/ CST assessments reduced	Annual	Databases of the ETD with details of pendency of each year	Reports and assessment orders as provided by the ETD	ETD	IVA	No
IR Indicator 3.1	Institutional strengthening and modernization of the ETD	Annual	Progress of consultancy study	Agreed deliverables submitted by the consultant to be reviewed by the ETD	ETD	n.a.	n.a.
IR Indicator 3.2	Institutional performance of the ETD improved	Annual	Self-certification from the Commissioner of the ETD regarding creation of units along with the official notification issued by the GoHP	Review of Government Orders, operation of the enhanced units/functionalities	ETD	IVA	No

Indicator Name (#)	Description (Clear Definition and so on)	Frequency	Data Source	Methodology for Data Collection	Responsibility for Data Collection	DLIs	
						Responsibility for Data Verification	Scalability of Disbursement (Yes/No)
IR Indicator 3.3	Enhanced capacity of officials implementing GST by providing training not covered by the sovereign function	Annual	Number of staff/dealers trained	List of staff/dealers trained to be prepared by the ETD	ETD	n.a.	n.a.
IR Indicator 3.4	e-Governance application for excise function implemented	Annual	e-Governance application implemented by ETD	Excise e-Governance system fully rolled out at all offices. Data on system usage, notifications on discontinuation of manual systems, and integration with HPBL.	ETD	IVA	No

### Annex 3: Disbursement Linked Indicator, Disbursement Arrangements, and Verification Protocols

#### DLI Matrix

	Total Financing Allocated to DLI	As % of Total Financing Amount	DLI Baseline	Indicative timeline for DLI achievement				
				FY2017/18 or Year 1	FY2018/19 or Year 2	FY2019/20 or Year 3	FY2020/21 or Year 4	FY2021/22 or Year 5
<b>DLI 1:</b> Electronic interface of IFMIS implemented in all departments			Manual submission of bills from departments (through 4,700 DDOs) to treasuries and manual submission to the AG	Rollout to 30% DDOs	Rollout to 65% DDOs including all DDOs of any two LoC departments	Rollout to 100% DDOs including all DDOs of all three LoC departments	Online submission of monthly accounts by treasuries to the AG	
<ul style="list-style-type: none"> <li>Roll-out to DDOs is defined as: (a) extending of electronic interface for payment processing to each DDO; and (b) at least two staff of each DDO given 1-day training on the IFMIS. There shall be a Government Order covering the electronic submission by DDOs with a cut-off date.</li> <li>Specific locations (as notified through a Government Order) are affected by climatic conditions or poor connectivity; coverage would be 100% after excluding these locations.</li> <li>Online submission of monthly accounts to the AG shall start for the offices where electronic interface for IFMIS has been rolled out.</li> <li>Flexibility in reallocation of budgets may be retained for LoC departments</li> </ul>								
DLI 1:	US\$8.0 million	22.2%		US\$2.0 million	US\$2.0 million	US\$2.0 million	US\$2.0 million	
<b>DLI 2:</b> Internal controls of the FD strengthened			Weak internal controls; specific FM functions still manual; variance between originally approved budget to expenditure outturns of six large departments was 44% (FY2015–16)	Revised treasury rules, manuals (for DDOs, treasuries staff) adopted and made operational	Budget preparation process automated and rolled out to cover 100% of the plan/scheme budget	Commitment Control and Debt Management Modules implemented	Interface with RBI's e-Kuber operational and biometric authentication system for all IFMIS users implemented	Variance between originally approved budget to expenditure outturns of six large departments reduced to 15%
<ul style="list-style-type: none"> <li>A Government Order will be issued to make the following mandatory; revised Treasury Rules; Commitment Control System; Debt Management System; and Budget Management System. There shall be full, real time interface between IFMIS; Public Financial Management System; Debt Management System; and Budget Management System.</li> <li>An operational interface with RBI's e-Kuber includes full electronic exchange of data and a reconciliation functionality</li> </ul>								

	Total Financing Allocated to DLI	As % of Total Financing Amount	DLI Baseline	Indicative timeline for DLI achievement				
				FY2017/18 or Year 1	FY2018/19 or Year 2	FY2019/20 or Year 3	FY2020/21 or Year 4	FY2021/22 or Year 5
DLI 2:	US\$5.0 million	13.9%		US\$1.0 million	US\$1.0 million	US\$1.0 million	US\$1.0 million	US\$1.0 million
<b>DLI 3:</b> Increased transparency and citizen engagement			Annual budget disclosure at scheme level; nascent citizen engagement on budget; no disclosure of contract information; fiscal information only through standard reports		Better disclosure including public consultations; and accepting off-line feedback on the budget	Real-time disclosure on the GoHP website of contracts awarded/ procurement opportunities through e-Procurement and progress on large IPH contracts	BI tools (on treasury systems) rolled out for citizens to access key fiscal information	
<ul style="list-style-type: none"> <li>• Better disclosure means inter-year budget and expenditure reports/analysis (semi-annually on FD website); stakeholders' consultations through workshops (at least three each year); accepting off-line feedback on the budget and capacity building for citizens' budget literacy</li> <li>• Large IPH contract means a contract involving procurement of works, goods, and/or services costing above INR 1 million</li> </ul>								
DLI 3:	US\$3.0 million	8.3%			US\$1.0 million	US\$1.0 million	US\$1.0 million	
<b>DLI 4:</b> Increased value of transactions processed through the e-Procurement system			Software implemented with sporadic usage (of the six modules) and value of transactions processed at INR 24.41 billion	Increase of 30% over baseline		Increase of 60% over baseline		Increase of 90% over baseline, including at least 20 departments
<ul style="list-style-type: none"> <li>• Processing through e-Procurement system includes usage of all modules of the e-Procurement software, namely tender creation, tender publication, bid submission, tender opening, negotiations, and award of contract.</li> <li>• A Government Order (GO) shall be issued in Year 1 that all procurement above INR 2 million shall use the e-Procurement system; this shall be revised to INR 1 million in Year 3 and INR 0.5 million in Year 5</li> </ul>								
DLI 4:	US\$5.0 million	13.9%		US\$1.5 million		US\$1.5 million		US\$2.0 million

	Total Financing Allocated to DLI	As % of Total Financing Amount	DLI Baseline	Indicative timeline for DLI achievement				
				FY2017/18 or Year 1	FY2018/19 or Year 2	FY2019/20 or Year 3	FY2020/21 or Year 4	FY2021/22 or Year 5
<b>DLI 5:</b> CMS in IPH Department implemented			Used in 17 divisions but usage irregular	CMS customized to all needs of IPH and implemented in 25% divisions	Implemented in 60% divisions	Implemented in 100% divisions		
<ul style="list-style-type: none"> <li>Implemented means: (a) full usage of all 14 modules of CMS at head office and in the field; (b) all transactions at divisions and sub-divisions; (c) discontinuation of manual transactions/ record keeping; and (d) submission of monthly accounts to the AG</li> <li>A Government Order shall be issued in Year 1, stating that all works contracts in Himachal Pradesh above INR 1 million in value shall be managed using a Contract Management Software.</li> <li>Specific locations (as notified through a Government Order) are affected by climatic conditions or poor connectivity; coverage would be 100% after excluding these locations.</li> </ul>								
DLI 5:	US\$3.91 million	10.8%		US\$1.0 million	US\$1.0 million	US\$1.91 million		
<b>DLI 6:</b> Backlog of pending VAT/ CST assessments reduced			Pending tax assessments (VAT and CST) are 294,000 (2011/12–2015/16)	Backlog reduced by 20% over baseline and 75% of in-year assessments completed within 1 year of return filing	Backlog reduced by 50% over baseline and 80% of in-year assessments completed within 1 year of return filing	Backlog reduced by 70% over baseline and 85% of in-year assessments completed within 1 year of return filing	Backlog reduced by 100% over baseline and 90% of in-year assessments completed within 1 year of return filing	
<ul style="list-style-type: none"> <li>Backlog shall include cases of 2015-16 till date of GST implementation and shall exclude assessments when the matter is sub-judice.</li> <li>Sample for in-year assessments shall follow a risk based approach with the specified percentage (75%/ 80%/ 85%/ 90%) of VAT/CST assessments selected completed within 1 year of return filing. The balance shall be completed within 2 years of return filing. This shall be issued in form of a Government Order.</li> </ul>								
DLI 6:	US\$4.0 million	11.1%		US\$1.0 million	US\$1.0 million	US\$1.0 million	US\$1.0 million	

	Total Financing Allocated to DLI	As % of Total Financing Amount	DLI Baseline	Indicative timeline for DLI achievement				
				FY2017/18 or Year 1	FY2018/19 or Year 2	FY2019/20 or Year 3	FY2020/21 or Year 4	FY2021/22 or Year 5
<b>DLI 7:</b> Institutional performance of the ETD improved			No specialized units; recovery process is weak		EIU functionally integrated within the ETD	Formal service tax specialization created in the ETD	Audit system strengthened	
<ul style="list-style-type: none"> <li>Integration of EIU functionality shall be evidenced by: (i) EIU created with positions such as Excise and Taxation Officers, Statistician, Data Analyst etc. reporting to the Commissioner or Additional Commissioner; (ii) Training and handholding provided to select officers; and (iv) Production of analytic reports on tax revenue risk</li> <li>Service Tax specialization shall be evidenced by: (i) a Senior Officer responsible for administering Service tax be assigned; (ii) an Adviser to handhold the department in Service Tax assessments be appointed for two years; and (iii) Select staff be trained in Service taxation</li> <li>Strengthened audit system shall be evidenced by: (i) Specialized function; (ii) Staff Complement; (iii) Audit Manual; (iv) Audit Strategy and Plan; and (v) Reports on the outcome from previous year's audit plan</li> </ul>								
DLI 7:	US\$3.0 million	8.3%			US\$1.0 million	US\$1.0 million	US\$1.0 million	
<b>DLI 8:</b> e-Governance application for excise function implemented			No e-Governance application for excise function and software under preparation for HPBL	FRS and System Requirement Specifications (SRS) developed for core excise function; full rollout of the HPBL software	Systems Integrator (SI) appointed; solution design (user acceptance testing [UAT]) approved and rolled out in 25% offices	Excise e-Governance system rolled out in 80% of the offices	Excise e-Governance system rolled out in 100% of the offices	
<ul style="list-style-type: none"> <li>e-Governance application for Excise function will include full linkages with the HPBL software</li> <li>Rollout includes issuance of at least 90% transport permits through the e-Governance system and discontinuation of manual processes. Rollout should include all modules of the Excise e-Governance software to all district offices and check-posts and have clear service standards in terms of 'time'. Software to include transport permits, excise licenses, registration of labels, permits for hospitals, scanning of QR codes. Further all collections should be electronic and on-line.</li> <li>Specific locations (as notified through a Government Order) are affected by climatic conditions or poor connectivity; coverage would be 100% after excluding these locations</li> </ul>								
DLI 8:	US\$4.0 million	11.1%			US\$1.0 million	US\$1.0 million	US\$1.0 million	US\$1.0 million



	Total Financing Allocated to DLI	As % of Total Financing Amount	DLI Baseline	Indicative timeline for DLI achievement				
				FY2017/18 or Year 1	FY2018/19 or Year 2	FY2019/20 or Year 3	FY2020/21 or Year 4	FY2021/22 or Year 5
<b>Total Financing Allocated:</b>	US\$35.91 million	100%		US\$7.5 million	US\$8.0 million	US\$10.41 million	US\$7.0 million	US\$3.0 million

*Note:* DLI results are not time-bound; the fiscal years in which they are expected to be achieved as per this schedule are for indicative purposes. These DLI results can accordingly be met up and until the closing date.

## **Additional Considerations for DLI-based disbursement**

### **DLI 1: Electronic interface of IFMIS implemented in all departments**

- The LoC departments are PWD, IPH, and Forest
- ‘Rollout’ covers all bills of the user departments and usage must be for at least 3 months before the certification date.

### **DLI 2: Internal Controls of the FD strengthened**

- Revised treasury rules will include: (a) treasury rules and detailed treasury procedure; and (b) sections covering general system of control, roles and responsibilities, accounting for different type of receipts, custody of money, different types of withdrawal and approvals, accounting procedure and reporting to the AG, intergovernmental transactions, banking arrangements, and all forms/ reporting requirements.
- The manuals should cover all modules of the IFMIS.
- Implementation of commitment control system to cover: (a) go-live at all departments; and (b) all commitments/ payments above a pre-specified threshold entered in the system, and reporting on state’s contractual obligations.
- Implementation of debt management module to cover: (a) all debt of the state for at least 6 months before certification; (b) discontinuation of manual transactions/record keeping; (c) functionality of flows, balances, interest costs, analysis of data, and reporting on the state’s debt position.
- Implementation of budget management module to cover budget proposal, preparation, allocation, reallocation and to have head-wise detailed information for each DDO and aggregated for each head and department.

### **DLI 3: Increased transparency and citizen engagement**

- Inter-year means ability to compare with the previous year.
- Procurement opportunities should be shared for all contracts above INR 1 million and be updated on a quarterly basis.
- Information should be available in a citizen-friendly manner for each (budget and actual) scheme/ department/ DDO.
- BI tools refer to a real-time query functionality on the IFMIS portal.

### **DLI 5: Contract Management System (CMS) in IPH Department implemented**

- Usage of CMS must be for at least three months before the certification date.

**DLI Verification Protocol Table**

#	DLI	Definition/ Description of Achievement	Scalability of Disbursements (Yes/No)	Protocol to Evaluate Achievement of the DLI and Data/Result Verification		
				Data source/agency	Verification Entity	Procedure
1	Electronic interface of IFMIS implemented in all departments	<p><b>Year 1:</b> Rollout of IFMIS to 30% DDOs</p> <p>Rollout to DDOs is defined as (a) extending of electronic interface for payment processing to each DDO and (b) at least two staff of each DDO given one-day training on IFMIS</p>	No	Self-certification by the Director of treasuries confirming rollout to 30% of DDOs completed and bill submission process automated. Additionally, system usage reports and access to the module to be provided to the IVA. Details of the training plan, delivery, audience (number), and feedback to be shared with the IVA	IVA	The verification will involve review of the module and the usage reports provided by the FD. The IVA will review a statistically selected random sample to confirm automation of the bill submission process and related internal controls. The IVA will confirm training delivery on a sample basis and overall verify the number of manpower trained.
		<p><b>Year 2:</b> Rollout to 65% DDOs including all DDOs of any two LoC departments</p> <p>The LoC departments are Public Works, IPH, and Forest</p>	No	Self-certification by the Director of treasuries confirming rollout to 65% of DDOs completed and bill submission process automated; this should include any two of the three LoC departments. Additionally, system usage reports and access to the module to be provided to the IVA. Details of the training plan, delivery, audience (number), and feedback to be shared with the IVA.	IVA	The verification will involve review of the module and the usage reports provided by the FD. The IVA will review a statistically selected random sample to confirm automation of the bill submission process and related internal controls. The IVA will confirm training delivery on a sample basis and overall verify the number of manpower trained.
		<p><b>Year 3:</b> Rollout to 100% DDOs including all DDOs of LoC departments</p>	No	Self-certification by the Director of treasuries confirming rollout to 100% of DDOs completed and bill submission process automated; Government Order covering electronic submission by DDOs; this should include the LoC departments. Additionally, system usage reports and access to the module	IVA	The verification will involve review of the module and the usage reports provided by the FD. The IVA will review a statistically selected random sample to confirm automation of the bill submission process and related internal controls. The IVA will confirm training delivery on a sample basis and

#	DLI	Definition/ Description of Achievement	Scalability of Disbursements (Yes/No)	Protocol to Evaluate Achievement of the DLI and Data/Result Verification		
				Data source/agency	Verification Entity	Procedure
				to be provided to the IVA. Details of the training plan, delivery, audience (number), and feedback to be shared with the IVA.		overall verify the number of manpower trained
		<b>Year 4:</b> Online submission of monthly accounts by treasuries to the AG	No	Self-certification by the Director of treasuries and confirmation from the AG office stating automation of the process and an Operational Acceptance Testing (OAT) certification. Additionally, copy of the system-generated monthly accounts for the recent 3 months to be provided by the FD and details of the discrepancies/errors found by the AG.	IVA	The verification will involve review of the module and correctness and completeness of the monthly accounts generated.
2	Internal controls of the FD strengthened	<b>Year 1:</b> Revised treasury rules and manuals (for DDOs, treasuries staff) adopted and made operational	No	Notified treasury rules, manual for DDOs, and manual for TOs to be provided by the FD	IVA	The verification will involve review of the source documents (rules, manuals) provided by the FD in addition to the notification orders and/or approvals.
		<b>Year 2:</b> Budget preparation process automated and rolled out to cover 100% of the plan/ scheme budget  Departments upload budget estimates directly on system and consolidation is through the system.	No	Self-certification by the Finance Secretary confirming module developed and operational. Additionally, OAT certification (confirmed by the FD) and necessary circulars indicating usage and access to the module to be provided by the FD.	IVA	The verification will involve confirmation of the process change and software development (through OAT certification) along with review of the module and the usage reports provided by the FD.
		<b>Year 3:</b> Commitment Control and Debt	No	Self-certification by the Finance Secretary confirming	IVA	The verification will involve confirmation of the process

#	DLI	Definition/ Description of Achievement	Scalability of Disbursements (Yes/No)	Protocol to Evaluate Achievement of the DLI and Data/Result Verification		
				Data source/agency	Verification Entity	Procedure
		Management Modules implemented  Including regular reports on the state's contractual obligations and debt position		interface/module developed and operational. Additionally, OAT certification (confirmed by the FD), system usage reports, and access to the module to be provided by the FD.		change (circular issued by the FD) and software development (through OAT certification) along with review of the module/reports generated.
		<b>Year 4:</b> Interface with the RBI's e-Kuber operational and biometric authentication system for all IFMIS users implemented  Including fully electronic exchange of data and a reconciliation functionality	No	Self-certification by the Finance Secretary confirming interface developed and operational and biometric system implemented. Related FD circulars to be provided. Additionally, OAT certification (confirmed by the FD) and access to the module and user logs to be provided by the FD	IVA	The verification will involve confirmation of the process change and software development (through OAT certification) along with review of the module/user logs/reports generated.
		<b>Year 5:</b> Variance between originally approved budget to expenditure outturns of six large departments reduced to 15%	No	In-year budget reports	IVA	The verification will involve analysis of the variances between originally approved budget and actuals.
3	Increased transparency and citizen engagement	<b>Year 2:</b> Scaling up citizen engagement on the budget process  Through better disclosure (inter-year budget/detailed expenditure reports/analysis), stakeholders' consultations (established process followed at least once a	No	Self-certification by the Finance Secretary confirming (a) citizen-friendly reports, (b) formalized system of public consultation, (c) proceedings of consultations held, and (d) report on off-line feedback	IVA	The verification will review report formats and compare with national-level good practices, level of public consultation, and analyze the off-line and online feedback received.

#	DLI	Definition/ Description of Achievement	Scalability of Disbursements (Yes/No)	Protocol to Evaluate Achievement of the DLI and Data/Result Verification		
				Data source/agency	Verification Entity	Procedure
		year), and accepting off-line feedback (this is documented and summarized)				
		<b>Year 3:</b> Real-time disclosure on the GoHP website of contracts awarded/ procurement opportunities through e-Procurement software and progress on large IPH contracts	No	Self-certification by the Finance Secretary confirming availability of reports on the GoHP website	IVA	The verification will review accuracy and timeliness of reports and check details in a sample.
		<b>Year 4:</b> BI tools (on treasury systems) rolled out for citizens to access key fiscal information	No	Self-certification by the Additional Director of Treasuries confirming availability of 'query tools' on the GoHP website providing at least 20 different options	IVA	The verification will review ease of use and options for generation of detailed as well as summary reports.
4	Increased value of transactions processed through the e-Procurement system  Implementation includes usage of all modules of the e-Procurement software, namely tender creation, tender publication, bid submission, tender opening, negotiations, and award of contract	<b>Year 1:</b> Increase of 30% over baseline	No	Data on value of e-Procurement for the year and system usage reports from e-Procurement system to be provided by the DIT, relevant Government Orders	IVA	The verification will involve review of the source documents (Government Orders, data and reports) provided by the DIT. Additionally, the IVA will conduct a review of transactions using statistically selected random sample to confirm usage of the system.
		<b>Year 3:</b> Increase of 60% over baseline	No	Data on value of e-Procurement for the year and system usage reports from e-Procurement system to be provided by the DIT, relevant Government Orders	IVA	The verification will involve review of the source documents (Government Orders, data and reports) provided by the DIT. Additionally, the IVA will conduct a review of transactions using statistically selected random sample to confirm usage of the system.

#	DLI	Definition/ Description of Achievement	Scalability of Disbursements (Yes/No)	Protocol to Evaluate Achievement of the DLI and Data/Result Verification		
				Data source/agency	Verification Entity	Procedure
		<b>Year 5:</b> Increase of 90% over baseline including at least 20 departments	No	Data on value of e-Procurement for the year and system usage reports from e-Procurement system to be provided by the DIT, relevant Government Orders	IVA	The verification will involve review of the source documents (Government Orders, data and reports) provided by the DIT. Additionally, the IVA will conduct a review of transactions using a statistically selected random sample to confirm usage of the system. The IVA will verify that usage has been extended to 20 departments
5	<p>CMS in IPH Department implemented</p> <p>Implementation means: (a) full usage of all 14 modules at the head office and in the field; (b) all transactions at divisions and subdivisions made at division office; (c) discontinuation of manual transactions/record keeping; and (d) submission of monthly accounts to the AG.</p>	<b>Year 1:</b> CMS customized to all needs of IPH and implemented in 25% divisions	No	Self-certification by the Engineer-in-Chief regarding usage reports from the CMS and Government Orders regarding discontinuation of manual records. Additional report on changes made in the software.	IVA	The verification will involve review of the source documents provided by IPH and copy of the latest monthly accounts generated from the CMS for submission to the AG and the AG's acceptance.
		<b>Year 2:</b> Implemented in 60% division	No	Self-certification by the Engineer-in-Chief regarding usage reports from the CMS and Government Orders regarding discontinuation of manual records	IVA	The verification will involve review of the source documents provided by IPH and copy of the latest monthly accounts generated from the CMS for submission to the AG and the AG's acceptance.
		<b>Year 3:</b> Implemented in 100% divisions	No	Self-certification by the Engineer-in-Chief regarding usage reports from the CMS and Government Orders regarding discontinuation of manual records	IVA	The verification will involve review of the source documents provided by IPH and copy of the latest monthly accounts generated from the CMS for submission to the AG and the AG's acceptance.

#	DLI	Definition/ Description of Achievement	Scalability of Disbursements (Yes/No)	Protocol to Evaluate Achievement of the DLI and Data/Result Verification		
				Data source/agency	Verification Entity	Procedure
6	Backlog of pending VAT/ CST assessments reduced	<b>Year 1:</b> Backlog reduced by 20% over baseline and (75% of) in-year assessments completed within 1 year of return filing	No	Data on pending assessments addressed during the year to be provided by the ETD—separately for backlog and in-year	IVA	The verification will involve statistically selected random sample review of the source documents (data, pendency list, assessment orders) provided by the ETD.
		<b>Year 2:</b> Backlog reduced by 50% over baseline and (80% of) in-year assessments completed within 1 year of return filing	No	Data on pending assessments addressed during the year to be provided by the ETD—separately for backlog and in-year	IVA	The verification will involve statistically selected random sample review of the source documents (data, pendency list, assessment orders) provided by the ETD.
		<b>Year 3:</b> Backlog reduced by 70% over baseline and (85% of) in-year assessments completed within 1 year of return filing	No	Data on pending assessments addressed during the year to be provided by the ETD—separately for backlog and in-year	IVA	The verification will involve statistically selected random sample review of the source documents (data, pendency list, assessment orders) provided by the ETD.
		<b>Year 4:</b> Backlog reduced by 100% over baseline and (90% of) in-year assessments completed within 1 year of return filing	No	Data on pending assessments addressed during the year to be provided by the ETD—separately for backlog and in-year	IVA	The verification will involve statistically selected random sample review of the source documents (data, pendency list, assessment orders) provided by the ETD.
7	Institutional performance of the ETD improved	<b>Year 2:</b> EIU functionally integrated within the ETD	No	Self-certification from the Commissioner of the ETD regarding creation of the EIU specialization and provision of necessary staff along with the official notification issued by the GoHP	IVA	The verification will involve review of the source documents (self-certification and official notification) provided by the ETD.
		<b>Year 3:</b> Formal service tax specialization created in the ETD	No	Self-certification from the Commissioner of the ETD regarding creation of a service tax specialization and provision of necessary staff along with the	IVA	The verification will involve review of the source documents (self-certification and official notification) provided by the ETD.



#	DLI	Definition/ Description of Achievement	Scalability of Disbursements (Yes/No)	Protocol to Evaluate Achievement of the DLI and Data/Result Verification		
				Data source/agency	Verification Entity	Procedure
				official notification issued by the GoHP		
		<p><b>Year 4:</b> Audit system strengthened through Government Orders and necessary manpower</p> <p>Strengthened audit system as evidenced by:            (i) Specialized function;            (ii) Staff Complement;            (iii) Audit Manual; (iv) Audit Strategy and Plan;            (v) Reports on the outcome from previous year's audit plan</p>	No	Self-certification from the Commissioner of the ETD regarding strengthening of the audit systems and provision of necessary staff along with the official notification issued by the GoHP	IVA	The verification will involve review of the source documents (self-certification and official notification) provided by the ETD.
8	<p>e-Governance application for excise function implemented</p> <p>E-Governance application for Excise function will include full linkages with the HPBL software and Rollout includes issuance of at least 90% transport permits through the system and discontinuation of manual processes</p>	<p><b>Year 1:</b> FRS and SRS developed for core excise function; full rollout of the HPBL software</p>	No	<p>FRS and SRS documents forwarded by Excise with their acceptance and certification</p> <p>System usage report of HPBL prepared by Excise</p>	IVA	<p>The verification will involve review of the source documents provided by Excise.</p> <p>The verification will involve review of the system rollout and usage reports (including a reasonable sample of transactions) provided by Excise.</p>
		<p><b>Year 2:</b> SI appointed, solution design (UAT) approved and rolled out in 25% offices</p>	No	<p>Solution design forwarded by Excise with its acceptance and certification along with a copy of the SI contract. A report on rollout to 25% offices and discontinuation of manual system to be provided by Excise. Further, UAT certificate to be provided by the ETD</p>	IVA	The verification will involve review of the SI's work order and other source documents provided by the ETD along with a review of sample transport permits to confirm discontinuation manual systems.
		<p><b>Year 3:</b> Excise e-Governance system</p>	No	A report on rollout to 80% offices and discontinuation of	IVA	The verification will involve review of the source documents

#	DLI	Definition/ Description of Achievement	Scalability of Disbursements (Yes/No)	Protocol to Evaluate Achievement of the DLI and Data/Result Verification		
				Data source/agency	Verification Entity	Procedure
		rolled out in 80% of the offices		manual system to be provided by Excise. Further, UAT certificate to be provided by the ETD.		provided by the ETD along with a review of sample transport permits to confirm discontinuation manual systems.
		<b>Year 4:</b> Excise e-Governance system rolled out in 100% of the offices	No	A report on rollout to 100% offices and discontinuation of manual system to be provided by Excise. Further, UAT certificate to be provided by the ETD.	IVA	The verification will involve review of the source documents provided by the ETD along with a review of sample transport permits to confirm discontinuation manual systems.

**World Bank Disbursement Table**

#	DLI	Bank Financing Allocated to the DLI	Of which Financing Available for Advances	Deadline for DLI Achievement	Minimum DLI Value to Be Achieved to Trigger Disbursements of World Bank Financing	Maximum DLI Value(s) Expected to Be Achieved for World Bank Disbursements Purposes	Determination of Financing Amount to Be Disbursed against Achieved and Verified DLI Value(s)
1	Electronic interface of IFMIS implemented in all departments	US\$8 million	US\$3 million	Results will be verified annually and reported starting from March 31, 2018, up to March 31, 2021.	Disbursements will be triggered on achievement of all actions in any period (duly verified).	Documentation complete and critical functionalities/interfaces within the FMIS including all LoC departments	All/ Nothing
2	Internal controls of the FD strengthened	US\$5 million	Nil	Results will be verified annually and reported starting from March 31, 2018, up to March 31, 2022.	Disbursements will be triggered on achievement of all actions in any period (duly verified).	Approved manuals, notified treasury rules, reports indicating system usage and data generated from IFMIS	All/ Nothing
3	Increased transparency and citizen engagement	US\$3 million	Nil	Results will be verified annually and reported on March 31, 2019, up to March 31, 2021.	Disbursements will be triggered on achievement of all actions in any period (duly verified).	Progress on citizen participation and usage of interactive interface reported by the FD	All/ Nothing
4	Increased value of transactions processed through the e-Procurement system	US\$5 million	Nil	Results will be verified annually and reported starting from March 31, 2018, up to March 31, 2022.	Disbursements will be triggered on achievement of all actions in any period (duly verified).	Data on value of e-Procurement for the year and system usage reports from e-Procurement system	All/ Nothing
5	CMS in IPH Department implemented	US\$3.91 million	US\$2 million	Results will be verified annually and reported starting from March 31, 2018, up to March 31, 2020.	Disbursements will be triggered on achievement of all actions in any period (duly verified).	Complete rollout of all 14 modules of CMS across 100% divisions and head office	All/ Nothing

#	DLI	Bank Financing Allocated to the DLI	Of which Financing Available for Advances	Deadline for DLI Achievement	Minimum DLI Value to Be Achieved to Trigger Disbursements of World Bank Financing	Maximum DLI Value(s) Expected to Be Achieved for World Bank Disbursements Purposes	Determination of Financing Amount to Be Disbursed against Achieved and Verified DLI Value(s)
6	Backlog of pending VAT/ CST assessments reduced	US\$4 million	Nil	Results will be verified annually and reported starting from March 31, 2018, up to March 31, 2021.	Disbursements will be triggered on achievement of all actions in any period (duly verified).	Pending assessments reduced by 100% over baseline of 294,000 (pertaining to the years 2011/12–2015/16)	All/ Nothing
7	Institutional performance of the ETD improved	US\$3 million	Nil	Results will be verified annually and reported starting from March 31, 2019, up to March 31, 2021.	Disbursements will be triggered on achievement of all actions in any period (duly verified).	Government Orders, operation of the enhanced units/functionalities	All/ Nothing
8	e-Governance application for excise function implemented	US\$4 million	US\$2.2 million	Results will be verified annually and reported starting from March 31, 2018, up to March 31, 2021.	Disbursements will be triggered on achievement of all actions in any period (duly verified).	Fully functioning e-Governance web application and workflow covering all offices	All/ Nothing

## Annex 4: Technical Assessment

### Description and assessment of Program Strategic Relevance and Technical Soundness

#### *Strategic Relevance*

- 1. The PFM framework emanates from the Indian Constitution and is guided by central policies and processes.** To a large extent, the PFM framework in the states is guided by the PFM framework as laid down at the central level. Consequently, in some areas of PFM, the reforms at the state level are guided by and intrinsically linked to initiatives taken at the union level. However, within this framework there have been notable instances of states taking up public finance initiatives and reforms, especially in the use of IT to strengthen core treasury information (budget execution) systems, development of budget preparation modules, revenue mobilization and management (including VAT and excise), and rollout of e-Procurement. In fact, the systems in some of the states are considered to be more advanced than at the union level. The states have demonstrated peer-to-peer learning in the past and have initiated reforms without awaiting instructions from the GoI—for instance, a majority of the states have progressive IFMIS while a comparable system at the GoI level does not exist.
- 2. Recent policy-level changes affect center-state relationship and evolving PFM framework in the states.** Based on the recommendations of the 14th Finance Commission, higher shares of untied resources will flow to the states on account of increased fiscal devolution from 32 percent to 42 percent of the central divisible pool. Rollout of the GST is expected to contribute to a growth in GDP and buoyancy in revenues, which will enhance the untied resources flowing to the states. Additionally, the number of and allocation under CSSs have been drastically cut, reducing the tied transfers to the states. The traditional role of the Planning Commission as well as the distinction between plan and non-plan expenditure have been done away with. As a result of these reforms, it is expected that nearly 60 percent<sup>13</sup> of the public expenditure will take place at the state level starting FY2015–16, significantly increasing the discretionary spending powers of the latter in the medium term. These changes allow the state government to align its priorities, interventions, and capacities to achieve the expected development outcomes that are more responsive to the local needs.
- 3. Aspirations of states to deepen PFM reforms and move to the next level.** The paradigm shift of enhanced devolution and autonomy place higher responsibility on the states' PFM systems (planning, budgeting, and accounting) to ensure effective management of public funds. For effective cooperative federalism, robust PFM systems are needed at the state level which enhances efficiency and performance. Some states have already undergone several rounds of PFM reforms and are now gearing themselves to move to the next level with advanced-level initiatives such as programmatic budgeting, commitment controls, multiyear framework, and cash/debt management.
- 4. HP is a Special Category state in recognition of its constraints.** HP faces specific development challenges arising from its high elevation, topography, resource dependence, and ecological vulnerability. HP has been accorded the status of a 'Special Category' state (one of 11 such states in India, which are essentially hilly in terrain and face unique development challenges),

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<sup>13</sup> Ministry of Finance (Indian Public Finance Statistics 2015 and Budget Documents).

under which it receives special central grants and incentives that have been instrumental to its development.<sup>14</sup> The major constraint faced by the state in reaching its development vision is insufficient fiscal space to finance its priorities. The GoHP's strategy for increasing own revenue relies largely on increasing its nontax sources, particularly royalty from private hydro projects. It is dependent on GoI assistance; about 45 percent of its revenue is by way of grant in aid from the GoI (particularly revenue deficit grants).

**5. The state faces fiscal stress, witnessing revenue deficits and substantial increase in public expenditure.** The key reasons for fiscal stress include slowdown in growth of tax revenues, implementation of the 6th Pay Commission's recommendations resulting in substantial increase in salaries, volatile nontax revenues, and support to public sector undertakings. Also, the dispersed population across the state makes service delivery to citizens costlier. The committed expenditure on salaries, pensions, interest, and subsidies account for about 65–70 percent of total expenditure of the state, leaving limited fiscal space for developmental purposes. All the recent three years (2012–13 to 2014–15) witnessed revenue deficits (and hence fiscal deficit).

**Table 4.1. Overall Fiscal Performance (in INR, billion)**

<b>Particulars/Financial Year →</b>	<b>2011–12<sup>#</sup></b>	<b>2012–13<sup>#</sup></b>	<b>2013–14<sup>#</sup></b>	<b>2014–15<sup>#</sup></b>	<b>2015–16 (P)</b>
GSDP at current prices (INR, billion)	630.84	720.76	825.85	955.87	—
Revenue Surplus/Deficit (INR, billion)	6.45	(5.76)	(16.41)	(19.44)	(+)17.35*
Fiscal Deficit (INR, billion)	(16.33)	(29.79)	(40.11)	(42)	(–)15.65 *
Fiscal Deficit as % of GSDP	2.59	4.13	4.86	4.39	3.4 (based on Revised Estimates)**
Own Tax and Nontax Revenue (INR, billion)	60.23	60.03	69.05	80.21	—

Note: # Source: Finance accounts for the years 2011–12 to 2014–15.

\* Source: Provisional accounts for 2015–16.

\*\* Source: Budget speech for 2016–17.

6. The budget speech for the year 2016–17 targets reduction in fiscal deficit—estimating it at 3.40 percent (2015–16) and 3.17 percent (2016–17). Fiscal deficit would have been worse without stringent expenditure control measures that have been in place over a number of years.

**7. Credibility of the state budget has been an area of concern for HP.** The PEFA assessment of 2009 had scored HP a 'C' on the indicator *PI-1-Aggregate expenditure outturn compared to original approved budget*. This issue has persisted and the last few years too have seen significant variances between actual expenditure and original budget; the actual being much lower than the budget. Large variances in budget achievement point to underlying issues in budget estimation. The variation is as high as 44 percent (budget INR 213.74 billion and actual INR 117.78 billion) for the six large (Finance, Public Works, Primary Education, IPH, (higher)

<sup>14</sup> Includes financial assistance from GoI in the ratio of 90% grant and 10% loan

Education, and Health Services) departments for FY2015–16. This weakens credibility of the budget and suggests past performance was not considered while estimating next years' outlays.

8. **Realizing the important role of PFM systems in strengthening fiscal position, the GoHP is committed to improving governance and accountability.** The last diagnostic on HP's PFM systems was conducted in 2009 (HP PEFA). The PEFA report noted that 'performance issues exist in all aspects of the PFM system in HP' and identified potential areas for improvement. It drew immediate attention toward the need to strengthen the overall PFM architecture and control environment on the state treasuries. Over the past few years, the GoHP has taken initiatives to modernize the PFM systems in the state while addressing the concerns raised in the assessment; for instance (a) the GoHP has in place an IFMIS which is envisaged to be the backbone of all financial systems in the state; (b) further strengthening of systems and processes have been carried out such as expanding the scope of and integrating all applications with IFMIS; (c) the GoHP has also revised its core PFM documents—the Financial Rules and Budget Manual—and the revision of treasury rules is nearly complete; (d) e-Procurement has been implemented in 13 departments; and (e) the state is moving toward e-payments for all transactions. Through this reform journey, the World Bank has partnered with the GoHP and supported its initiatives. An NLTA project closed recently where the World Bank worked with and supported (a) operational review and IT systems audit of the state treasuries and update of the treasury rules; (b) enhancement of corporate governance, preparation of an opening balance sheet, and development of a road map for accounts reorganization in HPSEB (energy utility); and (c) a needs assessment for implementation of a CMS in key works departments.

9. **The GoHP is undertaking further reforms in PFM, optimizing their limited resources to improve efficiency and achieve value for money (using IT as a key driver).** The state plans to modernize expenditure management systems, revenue management, and other operational systems. Further, it is keen to enhance revenue by undertaking better revenue administration and modernization of the operational systems across the state including key departments like revenue (nontax), excise, and VAT. This way it expects that it will be able to create more fiscal space. More importantly, it would like to focus on improving the efficiency of expenditure by continuing to focus on delivery systems and better tools for implementation. The state is working to address the compliance and controls aspects with a focus to further automate processes to achieve optimum 'paperless' and 'cashless' PFM environment. The GoHP is keen that focus of key departments like the state treasuries should substantially improve the government-to-business; government-to-citizen; and government-to-government interface.

### ***Technical Soundness***

10. **The approach to the operation's design is strong and is based on the needs and priorities identified by the GoHP.** The operation supports the ongoing PFM Reform Program of the GoHP. It builds upon the advancements made by the GoHP in the last seven years with the objective of strengthening these further. Other areas for reform have been identified consultatively with the GoHP following a comprehensive assessment of the state's current PFM environment. These have been further reinforced through a series of stakeholder workshops during preparation that informed the operation design (for example, treasuries, contract management, IT).

11. **A major focus area that fed in the design is capacity building of government personnel.** Improved PFM processes require enhanced capacity of finance staff. Building capacity of government staff in IFMIS, e-Procurement, and GST is accorded top priority so that the systems are used effectively and efficiently. One-time training will not suffice and the GoHP will be formulating a regular curriculum and refresher training, plan to enhance the capability of its training institutes to impart regular training in these areas, and produce user manuals. Focused training interventions supported by Training Needs Analysis are to be part of the operation. Additionally, the methodology of Train the Trainers will be explored, as it is found to be sustainable.

12. **The emphasis on IT solutions in each of the reform areas proposed under the operation is based on the GoHP's focus to strengthen delivery systems through further process automation with the objective of achieving an optimum 'paperless' and 'cashless' PFM environment.** It also includes extensive rollout of existing IT applications such as e-Procurement and upgrading of applications such as the CMS. An efficient and effective IT infrastructure is required in view of the GoHP's ongoing plans for upgrading IFMIS and continuation of e-Governance services and, hence, the operation includes strengthening enabling IT systems and support which will directly benefit PFM architecture in the state (for example, connectivity).

13. **The proposed operation is building on the outcomes of the reforms undertaken in the recent past to take them to the next level.** It will focus on three results areas spanning across the PFM spectrum—expenditure management, contract management, and revenue. Being a small state, HP has limited human capital and capacity to undertake multiple reforms simultaneously. The operation reflects the priorities of the state government, with a plan that certain important reforms will be taken up at a later stage. While finalizing the results area and prospective interventions, the findings of the previous PEFA assessment along with the developments over the last seven years were considered. Following is a summary of the three results areas under the operation:

*Results Area 1: Improved efficiency of the FD in an enhanced control environment*

14. The objective is to contribute toward effective PFM operations, improving budget credibility and enhancing governance, financial controls and accountability by strengthening treasury systems and establishing or upgrading enabling IT systems.

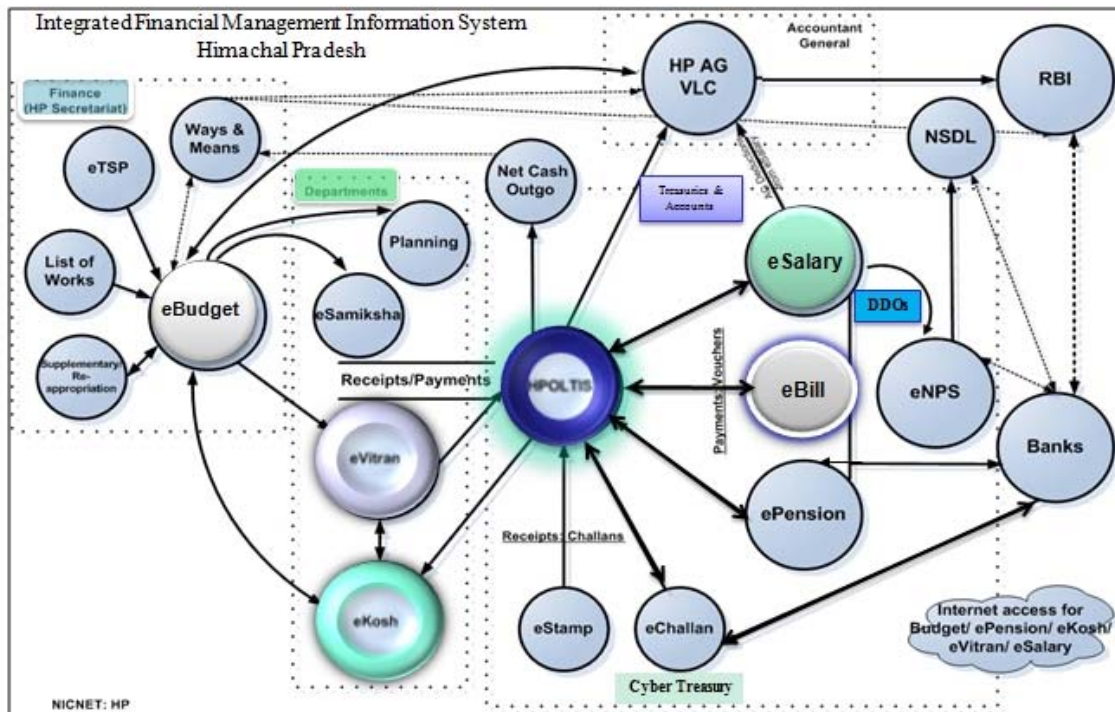
15. **Improvement in treasury administration through strengthened internal controls and improved expenditure management control and transparency.** The DoTA is responsible for all government financial transactions including collection of government receipts, making payments on behalf of the state, and compilation of accounts for rendition to the state's AG. The DoTA has 15 treasuries and 85 sub-treasuries across the state and services are provided to the various departments through their DDOs. The DoTA caters to a large number of internal and external customers, including 4,700 DDOs, 200,000 employees, 130,000 pensioners, 60,000 work charged employees, and 62,000 National Pension Scheme (NPS) subscribers, in addition to a large number of vendors.



16. **Over the last few years, the DoTA has undertaken several modernization steps to increase the efficiency and effectiveness of the treasury system, in response to the serious control weaknesses noted in the last PEFA assessment.** These include development and deployment of the following modules of IFMIS that have resulted in significant process changes and benefits thereof:

- A web-based application software is being deployed by the DoTA in a centralized architecture to provide treasury services at the various treasuries, replacing the existing local area network-based treasuries management software.
- e-Salary and e-Pension: The DoTA has created a database of employees and pensioners and the monthly processing of salaries/pension is done online. Payment of salary and pension is done directly in the bank accounts of the employees and pensioners.
- e-NPS: Contributions on account of NPS are deducted and uploaded through this online system.
- e-Vitaran: This is the online system of budget allocation by all department heads to their respective DDOs.
- e-Kosh: This application manages the financial reporting and MIS. It provides more than 120 reports on different parameters captured in the vouchers and challans.
- Cyber treasury: This web-based application software is operational for collection of receipt pertaining to all revenue-earning departments through an online web portal.

Figure 4.1.HP's IFMIS



17. **HP's financial systems and processes need to be robust and well instituted to facilitate smooth transitions and create institutional history simultaneously.** In the current dynamic environment of growing complexity of operations, increasing transaction volume, and rapid changes—for instance, LOC discontinuation, routing of CSSs funds through the state exchequer—the state treasuries need to be ready to act and adapt within a limited turnaround time and be responsive to the need of its customers—contractors, pensioners, and employees.

18. **The Program has drawn upon lessons learned from past PFM operations Bank-wide on strengthening IFMIS systems.** Important lessons learned include (a) interventions have to be selective, modest and build gradually; (b) policy reforms have to be undertaken alongside process and technology reforms; (c) fiscal controls and fund management processes must be focus areas for reform; (d) importance must be given to internal control measures and information security; (e) need for good connectivity and availability of technical expertise; (f) importance of training and capacity building efforts; and (g) the need for a good change management focus to drive the reform agenda.

19. **In the context of the lessons learned and the earlier engagement, there are certain areas in the development and implementation requiring strengthening at this stage of statewide scale up.** The systems have developed rapidly and organically over time with support of the NIC state team, and a number of functionalities need to be developed or strengthened further to transition the organic home-grown system into a full-fledged robust system. Following is a summary of the issues noted that need to be addressed:

- **Weak IT function and security norms.** During the rapid process of development, the efforts were focussed on optimization of the applications. At this stage of scale-up and rollout across the state, specific attention on the IT and security measures is required as their weakness may result in making the hardware and software vulnerable. Currently, the DoTA is heavily dependent on the state NIC team and does not have IT skills within the government function. There is a need to hire IT professionals to perform a technical role within the DoTA.
- **Lack of documentation and analytical studies.** The modernization of the treasury function has been significant, but the same has not been accompanied by corresponding documentation of the changes specifying the system and functional requirements (SRS and FRS), thereby leading to a lack of institutional memory and noncompliance with globally accepted standards of software development. Also, there are no manuals or guidance notes available for new or existing users.
- **Need for analytical studies.** The GoHP has not conducted a formal analytical study in the recent past and the current stage of upgrade of IT applications is apt for adoption and implementation of good practices as it will allow structural development of applications incorporating feedback from the various studies. Studies will be conducted in areas of Budgeting (reasons for large variances, dialogue with the FD/departments, evaluation of realism in budget estimates, and consolidation of demands for grants); Revenue and Expenditure Management; Fund Management; and Debt Management to adopt national and international good practices to improve the core functions of its FD.
- **Need for continuous training.** Although the DoTA organizes trainings for treasury officers from time to time, there is a need for continuous and regular training/skill augmentation for all users of the treasury system. This not only includes the treasury staff but also the frontline departmental staff across the state responsible for delivery of services to the beneficiaries. The training plan should include refresher trainings for existing users. The training is expected to cover the functionalities of the treasury system comprehensively with real life examples.
- **Additionalities required in the treasury software.** As stated earlier, the systems have developed over time in response to user needs. To transition the system to a comprehensive one, development of additional functionalities is required. For instance, the following two modules require immediate attention:
  - **Development of an online budget preparation module:** Budget preparation is a manual process. A module is required for the online preparation of budgets—incorporating fixation of ceilings by the FD, preparation of detailed departmental estimates, and finalization. The online module must provide interface for all departments for the entire process of budget preparation.
  - **Debt and Fund Management module (including commitment control):** Debt and fund management are done on manual registers and/or Excel spreadsheets. A module is required to be developed to record commitments made by the GoHP

linked to fund management to inform the stakeholders of the liquidity position of the government. This information should be used to prepare debt/borrowing plans of the GoHP.

- **Automation of interaction with stakeholders.** Currently, several aspects of the workflow are manual; for instance, interaction with stakeholders such as DDOs and AG. The module for DDOs for online bill submission is being developed and has been rolled out to 4,700 DDOs across the state. This initiative will need to be followed up with extensive trainings and hand-holding support to ensure effective usage of the module and include a feature for biometric authentication of users to enhance security. Additionally, integration is required of the DoTA system with external stakeholders' system to ensure time-saving and efficiency gains. Following are examples illustrating useful integrations with external systems:
  - **Integration with the AG's software:** This integration will serve two purposes: (a) electronic access of accounts—the accounts are submitted manually and online currently to the AG; access should be provided to the AG for the accounts as and when required for the purposes of Voucher Level Computerized data entry, book sections, and AG (Audit); (b) online generation of Pension Payment Order—with the integration of the e-Salary and e-Pension modules with the AG's software, the manual processes in Pension Payment Order generation can be discontinued.
  - **Integration with the e-Kuber system of the RBI:** The treasury systems could integrate with the RBI's e-Kuber on the receipt as well as payment side. This will facilitate faster settlements (from current T+2 or T+3 days to immediate settlements) and easier reconciliations (as individual bank scrolls will be replaced with a single scroll from RBI).
- **Outdated treasury infrastructure and connectivity issues.** The infrastructure including buildings housing the treasuries need significant upgrade—own buildings for about 20 treasuries need to be constructed. Additionally, the computer and peripheral hardware used by treasury staff and DDOs has become obsolete, and is in need of replacement. Given the difficult terrain in the state, connectivity poses a challenge especially in remote locations. The IT infrastructure across the state needs to be strengthened—including both horizontal and vertical connectivity. Facilitation centers are required to be set up close to treasuries at remote locations to provide the DDOs (who have limited hardware and network resources) access to IFMIS (for online bill generation and submission to the treasury).

20. **On its trajectory of reforms, the GoHP is committed to addressing these issues and the World Bank is supporting the former through this proposed operation.** The GoHP intends to improve credibility of its budget process, increase transparency, and citizen engagement, and at the same time enhance the current control environment to address the gaps noted above. Under this proposed operation, the GoHP has agreed to deliver the following results that will strengthen the treasury systems in the state. The following are the agreed DLIs for the proposed operation:

- **Electronic interface of IFMIS implemented in all departments:** Measured by the percentage of the 4,700 DDOs to whom the electronic interface of IFMIS is extended and training is imparted, specific coverage of DDOs of the LoC departments, and online submission of monthly accounts by treasuries to the AG.
- **Internal controls of the FD strengthened:** Measured by adoption and operationalization of revised treasury rules and manuals for DDOs and treasury staff; automated budget preparation covering 100 percent of the state budget; implementation of Commitment Control and Debt Management modules of IFMIS and operationalization of the interface with RBI's e-Kuber; implementation of a biometric authentication system for all IFMIS users and reduction in budget variances in six large departments to 15%.
- **Increased transparency and citizen engagement:** Measured by better disclosure, public consultation, and acceptance of off-line feedback from citizens in the budget process; real-time disclosure on the GoHP website of contract awards following e-Procurement and progress of large works of IPH; and citizens' access to key fiscal information (in a user-friendly manner).

21. **The operation will provide the GoHP with opportunities to carry out process reengineering and ensure high quality of financial data.** It will improve budget credibility and lead to strengthened financial and payroll controls facilitated through online distribution of budgets, online submission and approval of bills, electronic payments, online generation of salary bills, electronic payment of government revenue, and online submission of accounts to the state AG resulting in efficiency gains for the state. Also, it will help in establishing and strengthening of the enabling IT systems and support which will directly benefit the PFM architecture in the state. The operation will result in hardware/network/connectivity upgrades, software development, testing, implementation rollout, capacity building, documentation (including policy notes), and civil works.

*Results Area 2: Increasing efficiency and performance through better contract management*

The objective is to strengthen contract management in IPH Department. Further the component will support rollout of the e-Procurement solution across the state.

**Subcomponent 2.1: Establishing an integrated CMS**

22. **The IPH Department, one of the largest departments in the GoHP, is an important component of public service in the state of HP, due to the widespread hilly terrain and hundreds of schemes being implemented.** It has a relatively large workforce, with a spending of over US\$132.47 million on works during FY2015–16. It is responsible for providing drinking water supply, sewerage systems, and irrigation systems, and undertaking flood protection.

23. **The key issue is the absence of real-time management reporting and monitoring systems for ongoing works projects.** Currently, the IPH is maintaining manual records for measurement and monitoring of various works projects. There are possibilities of reconciliation issues, errors, and omissions, and a lack of a robust technology-driven system to monitor and report

the overall status of various works as well as to highlight project delays and cost overruns. The state AG's report for FY2014–15 has also identified issues in delays in 10 projects (having project costs of US\$11.37 million) with cost overruns of US\$6.21 million.

24. **A web-based application has been developed by the NIC called the 'Works MIS', a few years ago.** This application tracks the entire process of contract management through 15 modules starting from identification of scheme and works to monitoring progress and generation of bills and accounts. The application has good built-in functionalities, and has been piloted in IPH for the last few years. However, due to the lack of incentive it is yet to see its full benefits and rollout across the state.

25. **The Chief Minister, in his budget speech for 2015–16, committed to implement a CMS across the state.**<sup>15</sup> Under this proposed operation, the GoHP plans to help the IPH Department in an end-to-end rollout of this Works MIS and discontinuation of the manual system of record maintenance. The DLI for this results area is 'Better contract management through implementation of a Contract Management Software in all divisions across the state'.

26. **The GoHP will reap long-term benefits with the rollout of the CMS.** It will lead to (a) discontinuation of the manual records and books by all the divisions and subdivisions; (b) complete migration of all schemes and contracts to the Works MIS system; (c) generation and submission of electronic records, documents, and accounts to the state AG through the Works MIS system; and (d) publishing of key information and reports on the public domain linked to the Works MIS. Additionally, the CMS once integrated with the e-Procurement software will provide an end-to-end solution for contract management for the state and result in complete automation of the process. It will include hardware upgrades, software development, testing, and implementation rollout, and costs such as training, software maintenance, and data entry support.

### **Subcomponent 2.2: Rollout of e-Procurement in all government departments**

27. **Currently, about 65 percent<sup>16</sup> of the state's procurement is done manually—right from tendering to award of contract.** This has resulted in a lot of time being spent on administrative work, issues related to transparency, increased delivery timelines, reconciliation issues, and increased scope for F&C. Moreover, due to the hilly terrain and the transit time involved, contractors from outside HP face difficulties in bidding.

28. **The GoHP is in the process of implementation of an e-Procurement solution in the state, which has been developed by the NIC.** The e-Procurement solution covers automation of various processes such as tender creation, tender publication, online bid submission, tender opening, negotiations and sample checking, and award of contract. Throughout India, 27 states are using this system where HP is ranked 12th (by usage) in the country. The proposed intervention will support the GoHP in enhancing the e-Procurement application in various government departments/semigovernment organizations in the state in two phases. The state government has already implemented the e-Procurement application in 5 government departments and 15

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<sup>15</sup> The other key works department in the GoHP is the PWD. An end-to-end solution for contract management is being implemented in the PWD under another World Bank-funded operation 'HP State Roads Project' (P096019).

<sup>16</sup> Value of transactions under e-Procurement is INR 24.41 billion against the overall procurement universe of the state of INR 69.51 billion.

parastatals. These departments have already seen the benefits of e-Procurement, such as increased transparency, reduced costs, and so on. The current experience of user departments indicates that with the introduction of e-Procurement there is an increase in competition in terms of number of bidders.

29. **The GoHP intends to derive enhanced value for money through implementation of e-Procurement.** The related DLI proposes to increase the transactions brought under the e-Procurement mode by 90 percent. The expected outcomes are (a) reduction in the cost of procurement process for the government as well as the private sector; (b) improvement in process transparency, credibility, consistency, and integrity; (c) reduction in opportunities for corruption; (d) improvement in accountability for procurement activities; and (e) access to talent and contractors from other states. The operation will result in development and rollout of the application across the state, along with necessary support and training to the users.

#### *Results Area 3: Unlocking revenue potential through modernization of the ETD*

30. The ETD is the key revenue department in the state and accounted for almost 87 percent of the total tax revenue collection in the state. Apart from its headquarters in Shimla, the department has 13 district offices and manages 10 interstate checkpoints in the state. The objective of this results area is to support activities that are expected to strengthen the institutional capacity, performance, and organizational efficiency of the ETD GoHP that will lead to improved revenue administration in this key department. The activities envisaged under this results area will positively impact taxpayer services and improve tax compliance, reduce revenue leakages, and thereby contribute to strengthen the tax base of the state.

#### **Current Status and Issues**

31. At present, the ETD is administering the following 14 important tax laws:

- (a) H.P. VAT Act, 2005
- (b) Central Sales Tax Act, 1956
- (c) Punjab Excise Act, 1914
- (d) Medicinal and Toilet Preparation Act, 1955
- (e) East Punjab Molasses Control Act, 1948
- (f) Indian Alcohol Powers Act, 1948
- (g) H.P. Entertainment (Cinematograph Show) Act, 1968
- (h) H.P. Passengers and Goods Taxation Act, 1955
- (i) H.P. Tax on Luxuries (in Hotels and Lodging Houses) Act, 1979
- (j) H.P. Entertainments Duty Act, 1968
- (k) Narcotics Drugs and Psychotropic Substances Act, 1985
- (l) H.P. Taxation (On Certain Goods Carried by Road) Act, 1999
- (m) H.P. Tolls Act, 1975
- (n) H.P. Tax on Entry of Goods into Local Area Act, 2010

#### **Institutional Challenges**

32. The ETD of the GoHP administers key indirect tax revenue legislations in the state as listed above, of which the largest revenue source is VAT followed by excise duty that is levied on

alcohol. Human resources in terms of numbers and skills and IT systems have not kept pace with the increase in business volumes. Moreover, the department will face the challenge of migrating to the nationwide regime GST that is proposed to be rolled out from July, 2017. The transition to GST will absorb several taxes currently administered by the department such as the VAT, entertainment, luxury tax, entry tax, passengers and goods tax, and so on. However, several VAT-revenue important goods including petroleum products such as crude, petrol, diesel, natural gas, and aviation fuel and alcoholic liquor for human consumption will stay outside the GST and VAT will continue to be levied by the state on their sale.

33. While changing the workload in several work areas such as registration and assessment, the introduction of a modern IT-based GST renews the focus on several back-end VAT/GST administration processes that need strengthening. Along with the transition to GST, the department is also planning to modernize its excise administration by introducing e-Governance.

34. The transition to GST presents an opportunity to the department to modernize tax administration by undertaking an institutional strengthening program of activities to address capacity constraints in several functional areas. In addition to strengthening functional capacity, the department will undertake e-Governance reforms and IT system upgrades as several functions within the department (back-end processing of VAT returns and in the excise function) are still exercised manually. Examples include assessment of VAT returns or verification of input tax credit which are carried out without an integrated view of the taxpayer or consultation with past electronic data records. Strengthening e-Governance and IT systems while improving taxpayer service is expected to improve the department's performance in several back-end areas such as Assessment, Audit, and Recoveries. Moreover, functionally, each Tax Officer looks after all the tax legislations dealt with by the ETD and carries out all the tax administration activities as there is no functional specialization. An assessment made during the preparation of the Program identified shortfalls in key areas of the department's functioning. This has affected the quality of tax administration and a gradual increase in arrears of revenue collection, assessments, and refunds.

35. **Some progress has been achieved but challenges remain.** Over the last few years, the ETD has taken some important steps toward e-Governance of VAT business process such as registrations, payments, and simplification of statutory forms which was mandatory for dealers with a turnover of over INR 4 million. With GST now planned for rollout from July 2017, the ETD is presented with the opportunity to strengthen itself with regard to skills and processes for tax administration. However, the department faces the issue of severe backlog of assessments which has arisen due to lagging back-end processes and the fact that assessment orders have not been passed. There are almost 294,000 files pending assessment as on March 31, 2016, which does not include the cases of FY16, yet to be instituted, and further cases. By the end of FY2017, possible numbers for such new intakes may be more than 200,000 files. The ETD proposes a three-pronged approach for the backlog reduction: (a) deemed assessment, (b) amnesty schemes, and (c) deploying additional manpower to process assessments. These aspects are important to ensure that the department is ready to effectively implement GST as and when it is implemented.

36. **Institutional structure of ETD.** The Head of the department is the Excise and Taxation Commissioner who reports to the ACS, ETD. The entire ETD in the state is presently divided into three zones, each headed by Additional/Deputy Excise and Taxation Commissioners. Each zone



comprises districts headed by Assistant Excise and Taxation Commissioner and circles headed either by Assistant Commissioner of Taxes or Excise and Taxation Officers. Currently there are 56 circle offices, and 13 Assistant Excise and Taxation Commissioners are also working as Assessing Authorities. In July 2016, a new entity, the HPBL, was created by the GoHP to improve the inventory management and wholesale business transactions related to the liquor operations in the state. Currently, the staff of the ETD are on deputation at the HPBL to ensure smooth functioning of the company and handhold the change management process. Though the HPBL is at a nascent stage, it is expected to independently handle and take complete control over the liquor operations of the ETD in the next few years. The NIC is already in the process of developing and implementing an application software to manage the business operations of the HPBL.

### **Impact of the Current Weaknesses**

37. The department needs to functionally strengthen excise administration through e-Governance upgrades and introducing a web portal for excise application, and also requires advisory services for institutional modernization that will enable it to transit into the new GST regime wherein the volume of returns processing is expected to multiply several fold. The GoHP has opted for the full-circle model of the GST proposed by the national agency GSTN responsible for rollout of GST IT infrastructure. Under this model, the GoHP will get access to an entire range of IT functionalities covering all aspects of GST administration, thus minimizing its investment in IT hardware upgrades. But at the same time, since this is a nationwide tax, the volume of returns is expected to increase and will test the administration capacity of the ETD staff. Therefore, given its limited capacity, the ETD will need significant capacity building and hand-holding to strengthen its back-end scrutiny, assessment, audit, and recovery processes based on data submitted in the GSTN portal. Also, excise and VAT will continue to coexist for commodities that are not included in the GST regime, which will require the state to keep a continuous focus on the backlog of assessments, appeals, and litigation under VAT.

### **The Proposed Program and Results**

38. The activities under this results area focus on improving the governance measures within the ETD and will support the establishment of relevant systems and processes in view of the ongoing developments related to the rolling out of the GST. The GoHP has confirmed its commitment to achieve a number of strategic and forward-looking results with respect to revenue administration by implementing the activities discussed in annex 1. The agreed DLIs for this results area are as follows:

- **Backlog of pending VAT/ CST assessments reduced:** Measured by reduction in backlog assessments for 2015–16 (294,000 assessments) by 100 percent and completion of (90% of) in-year assessments within one year by the end of the Program period.
- **Institutional performance of the ETD improved:** Measured by a strengthened audit system and increased manpower deployment and creation of formal service tax specialization and EIU functionality in the ETD.

- **e-Governance application for excise function implemented:** Measured by rollout of an application covering excise core function across all offices of the ETD and discontinuation of the manual processes; rollout of a software solution in the HPBL; and provision of the necessary training/support/hardware and linkages between the two systems.

### **Expected Outcome of the Intervention**

39. The proposed reforms are expected to substantially increase the operational efficiency of the ETD and will lead to revenue augmentation and improve taxpayer services in the medium term. Some of the major results that are expected to be visible within the Program period are:

- **Readiness to roll out GST:** The proposed activities under this results area intend to make the transition to the GST regime smooth and efficient. Change management (along with capacity and capability building) is considered a key component for successful introduction of the GST. The organizational reforms, system upgrades, and training activities designed under this reform area will help the GoHP seamlessly implement GST across the state once it is introduced nationwide.
- **Improvement in taxpayer services:** As a result of the proposed organizational and e-Governance reforms, services available to the large taxpayers, who contribute bulk of the revenues, will be improved. This will include dedicated staff and a separate departmental unit to help these taxpayers readily obtain all information needed to assess tax liabilities and understand obligations.
- **Improvement in BI capabilities:** The proposed reforms will enable the ETD to undertake robust revenue forecasting exercises and improve data/records management. Improved data analysis capabilities will identify revenue leakages and reduce tax evasion for both the excise and taxation functions.
- **Improved e-Governance and risk management:** The anticipated improvements in IT systems and organizational capacity will significantly increase the operational efficiency of the ETD. The department will be able to considerably reduce its backlog of pending assessments as well as complete the annual tax assessments on time. The IT system improvements within the excise function and the recently designed MIS platform for the HPBL will streamline business processes, reduce administrative delays, and enable better planning and management of resources. In addition, the system improvements will also help the department design and implement further governance measures such as e-Auctioning of liquor licenses and better MIS. Overall, the engagement is expected to minimize risk due to noncompliance and improve taxpayer satisfaction with the services of the department.

### ***Institutional Assessment***

40. **The operation spans across functions (that is, expenditure, contract management and revenue), thereby requiring multiple government departments to be involved as implementing agencies.** The expenditure interventions are led by the FD; contract management

by IPH Department; e-Procurement by the DIT; and revenue by ETD. Additionally, as IT strengthening and upgrade is a cross-cutting theme of the operation, the DIT will also play the pivotal role of an enabler.

41. **Implementation arrangements have been designed and agreed with the GoHP.** There will be highest possible degree of ownership with unified management by senior officials, while allowing agency-level ownership and direction of their respective activities and results. Due to multiplicity of implementing agencies, orderly coordination in the implementation of the activities and completion of deliverables will be important.

42. **The operation is fully integrated in the GoHP administration and implementation is designed to promote the use of existing GoHP structures.** At various stages the GoHP has confirmed its willingness and commitment to see this operation designed and implemented quickly, by providing leadership and direction for its preparation. Further, by anchoring implementation within the departments and giving them full responsibility for management and execution of activities, the operation will have a positive effect on building capacity and experience within these departments. Where institutional capacity is limited and special skills are required, outside expertise including technical assistance and consulting services will be acquired.

43. **Strategic direction, oversight, and interdepartmental coordination** and approval of annual plans will be vested in a PSC chaired by the ACS, Finance, GoHP, and having the Secretary of each of the implementing departments as members. This will ensure that the operation receives adequate level of authority and attention. The PSC has already been constituted.

44. **The nodal implementing agency will be the FD, GoHP.** The FD has been fully engaged in the PFM reform initiatives in the past and has skills in identifying and prioritizing reform interventions. A PRD has been set up with the following structure:

**Table 4.2. Program Management Structure**

<b>Designation</b>	<b>Responsibility</b>
ACS (Finance) designated as the Project Director (an officer of the Indian Administrative Service)	Provide overall strategic direction and ensure coordination between the departments
Special Secretary Finance cum Director of Treasuries as the Additional Project Director	Ensure implementation of the day-to-day activities
Additional Director of Treasuries as the Nodal Officer	Ensure relevant resources are made available for tasks to be completed on time
Team of specialists for the administrative, finance, and procurement functions (on deputation/consultant full-time basis)	Ensure orderly implementation on time and in an efficient manner Assist all the participating departments in procurement (consultancy, IT Hardware, civil works) related to the operation
Nodal Officer/Coordinator nominated from each implementing department	Coordinate between the PRD and participating departments Ensure orderly implementation on time and in an efficient manner

45. **The fiduciary functions (FM and procurement) will be the responsibility of the PRD.** Capacity of the PRD will be strengthened through support of technical advisors/consultants, as needed from time to time.

46. **Each of the participating departments will lead their part of the reform interventions,** including procurement of the consultancies and goods, monitoring implementation, and signing off on deliverables. The procurement systems of the GoHP will be followed for any procurement under this operation, supported with technical inputs from the World Bank team. Further, the departments will pay the consultants/suppliers based on a budgetary allocation from the HP treasuries.

### **Description and Assessment of Program Expenditure Framework**

47. The Program size is US\$45 million and World Bank financing is US\$36 million of the same. Expenditure will be incurred by four departments namely, the FD, the DIT, the IPH Department, and the ETD. In addition, the HPSEDC will undertake IT procurement and the PWD will execute civil works. Table 4.3 gives the implementing department-wise breakdown of Program expenditure. Expenditure will be on consultancies, IT hardware, connectivity, software development, training and other capacity-building activities, M&E, civil works, staff salaries, and operational expenditure. Nature of the expenditure and indicative share on the program is: Consultancies (34%), Goods and IT Systems (28%), Works (12%) and Others (26%). The Program Expenditure Framework is well structured and is considered adequate to achieve the desired results.

**Table 4.3. Program Expenditure by Department**

	<b>Implementing Department</b>	<b>Amount in US\$, million</b>	<b>Percentage</b>
1	FD/DoTA (consultancies, IT hardware, software development, training M&E, salaries, and civil works)	16.32	36%
2	DIT (IT hardware, connectivity, software development, and training and other capacity-building activities)	10.55	24%
3	IPH (consultancies, IT hardware, software development, training, and salaries)	7.29	16%
4	ETD (consultancies, IT hardware, software development, training, salaries and other capacity-building activities)	10.75	24%
5	Front-end fee	0.09	
	<b>Total</b>	<b>45.00</b>	<b>100%</b>

48. There is a need for increasing revenue potential and better expenditure management in HP. To address this need, there is a high level of commitment to PFM reforms within the GoHP. Reform measures proposed under the Program such as treasury modernization, e-Procurement, works CMSs, and modernization of Excise and VAT departments are on similar lines as initiatives under way in other reform-oriented Indian states. These reforms also reflect the PFM reform priorities and areas of attention of the government at the national level. Therefore, the Program

expenditure is well aligned with the government's policy priorities. Around 60 percent of the expenditure is directed toward reforms in the FD and ETD, which are also beneficiaries of the desired results, thereby creating an inherent incentive for both the departments to execute the underlying activities.

49. Program expenditure constitutes a small portion of the overall state budget and is expected to have a positive impact in the medium to long term. Extraneous factors affecting overall government expenditure are unlikely to affect budget allocations to the Program. Therefore, risks to the Program Expenditure Framework are considered low.

50. Implementation is reliant on use of state/country systems. Expenditure will be incurred using the GoHP budget and expenditure tracking systems which are well established and operating efficiently. The Fiduciary Assessment given in annex 5 indicates that the FM systems and procurement systems are adequate to ensure proper utilization of Program funds. Program expenditure will be under a separate budget line item under Demand Number 29 in the state budget. Once the funds are released by the FD, the implementing departments have the autonomy to undertake procurement and spend the budget allocations on identified activities. All expenditure is subject to audit by the CAG.

### **Description and Assessment of Program RF and M&E**

51. **An RF with specific indicators and actionable monitoring arrangements has been developed jointly with the GoHP to support progress and monitoring of results (annex 2).** The GoHP has developed a robust system for M&E of the target outcomes and outputs. The M&E system will support the successful implementation of the operation by maintaining records on implementation and generating semiannual reports (within 30 days from the close of the semester) and annual reports (within 45 days from the end of the FY). Such progress reports will be submitted to the PSC which will review the progress toward the achievement of key objectives and endorse the submissions to the World Bank. The progress assessed during supervision missions will be reported to the World Bank's management through Implementation Status and Results Reports, an MTR, and at the completion of the operation, an Implementation Completion and Results Report.

52. **The M&E for the operation will report on qualitative issues being identified by the ongoing consultancy studies.** Due to the inherent nature of the operation, the Program interventions are centered around consultancy studies and hardware procurement for the government departments and officials—making it essential for the reporting mechanism to capture issues and status of the same. The citizens of HP will benefit from the operation indirectly, thus the need for extensive field-level data collection is not envisaged in this operation. The M&E systems and reports generated thereof will provide details and status on procurement of goods and services, implementation of systems, and capacity building. The PRD has been vested with the responsibility of instituting a robust M&E system with inputs from the various participating departments.

### **Program Economic Evaluation**

#### ***Rationale for Public Provision and Financing***

53. **Sound PFM is important for democratic governance, macroeconomic stability, and effective allocation and use of available resources, which contribute to economic growth and reduction in poverty.** PFM includes all components of a country's budget process—both upstream (including strategic planning, Medium Term Expenditure Framework, growth and resource estimation, and annual budgeting) and downstream (including revenue management, procurement, control, accounting, reporting, M&E, audits, oversight, and transparency/openness). Good PFM systems also contribute to reducing corruption and improve developmental effectiveness as outlined in the table 4.4 (ODI 2013).<sup>17</sup>

**Table 4.4. Linking PFM Dimensions to Development Priorities**

Development Objective	Priority PFM functions identified as contributing to development objective
Macroeconomic stability	Timely and reliable fiscal and financial information A basic understanding of the overall debt position of the government An awareness of key risks to the fiscal position of the government
Efficient allocation of resources	Timely and reliable fiscal and financial information A well-structured budget preparation process
Service delivery	Regular payments of salaries and wages to staff engaged in delivering basic services Beyond salaries, the PFM functions to be prioritized will depend on the nature of the priority public service sectors chosen
State building	Basic budgeting in the sense of expenditure control and execution ability Regular and timely payment of public sector salaries Understanding of the current structure of the revenue base and options for expansion in the future

***Program's Economic Impact and Evaluation***

54. **The Program aims to support reforms in public expenditure and revenue administration using IT as a key driver.** Quantification of benefits of a PFM Technical Assistance Program is not a straightforward exercise. Though outputs and outcomes can be identified, quantification of the direct or indirect economic and social benefits and efficiency gains is generally not feasible.

55. **The proximate objective of the operation is to strengthen public expenditure management and revenue administration, sustainably enhancing the delivery of critical public services to citizens and businesses** through focused interventions in strengthening IT architecture and automation of processes along with capacity building. The benefits that are likely to accrue include (a) process efficiency gains from automation and elimination of many manual processes in budget execution and in fund management; (b) efficiency from enhanced e-collection and e-payments; (c) revenue augmentation in the ETD as a result of organizational restructuring, enhancing IT systems (for the excise function), better data analysis, streamlined back-end processes, and electronic interfaces for taxpayers; (d) lower procurement costs due to use of e-Procurement application; and (e) benefits of enhanced transparency and disclosure of public financial information.

56. More specifically the interventions will result in the following benefits:

<sup>17</sup> ODI. 2013. "Linking PFM Dimensions to Development Priorities." Working Paper 380.

- **Benefits from e-Submission of bills by user departments (some 4,700 DDOs):** Rollout of IFMIS to all departments will result in significant saving to some 4,700 DDOs across the state who, till now, were submitting bills in a manual form to the treasuries. The electronic submission of bills will ensure faster payments, reduce paperwork, and reduce costs associated with physical interface between the departments and the treasuries.
- **Benefits from rolling out e-Procurement across the state:** e-Procurement initiative leads to several benefits including reduced tender cycle time, better market participation in the form of empowerment of bidders, elimination of contractor cartels and streamlining of processes, and above all savings in taxpayer money. Significant cost savings are expected for the procurement transactions processed on the e-Procurement platform due to the competitive environment created resulting from cost savings calculated as the difference between the estimated cost of procurement and the contract award value. Another ancillary cost savings will be in the form of reduced advertisement cost as e-Procurement tender notices require much lesser advertising space.
- **Benefits from restructuring and modernization of the ETD:** The operation will support significant interventions in institutional restructuring and modernization of IT systems and also building capacity of the human resources in the ETD to improve performance of tax agencies, thereby contributing to their credibility. This is expected to improve the efficiency of operations, resulting in better compliance by the taxpayers, improvement in disposal of assessments by the department, and enhanced intelligence available on taxpayers' transactions. These collectively will result in increase in the state's own tax revenue through better debt collection and reduction in tax arrears.
- **Benefits from better fund and debt management.** It will support capacity building of GoHP officials in fund and debt management including revenue forecasting and fund flow forecasting. Improved capacity in fund management potentially leads to lower required cash balances and borrowing, reducing negative carry costs. Development of debt strategies will also help optimize the cost-risk trade-off among different sources of borrowing. Overall, these interventions are likely to support better and more efficient fund management, more accurate budget preparation, and reduce effective costs of deficit financing.

57. **The effective return on investments will be in the form of better-performing public institutions and more efficient and effective use of financial and human resources.** Second-tier benefits will accrue to the private sector (contractors/ suppliers) and households (government employees, pensioners, public at large) from improvements in the efficiency, effectiveness, and accountability of public spending and public services, though these too are difficult to quantify and value. Most of the benefits described will continue to be realized beyond the lifetime of the intervention.

### **World Bank's Value Addition**

58. The GoHP is interested in focusing on results and has shown its leadership and commitment in reform plans to lead from the front. The World Bank is well placed to support the GoHP in its agenda of ushering in PFM reforms.

59. **The World Bank's support adds value to the PFM reforms in HP mainly through knowledge** based on previous experience in the state and various central and subnational engagements in India and other countries on PFM reforms. The main value addition of the GoHP and World Bank partnership revolves around the following points:

- (a) It builds on the outcomes of the earlier engagement through the PEFA and the NLTA assessments which provide a basis for scaling up the efforts undertaken so far.
- (b) The GoHP sees the World Bank as a strategic partner and adviser in scaling up its PFM reform initiatives.
- (c) This being part of the first set of World Bank PFM reform operations at the subnational level, the Program is expected to have a demonstration effect on other Indian states facing similar challenges.
- (d) The design of this operation demonstrates the World Bank's ability to respond to the 'Finance Plus' criteria of the GoI.

### **Inputs to the PAP**

60. **The PAP has been created and will cover key actions to be undertaken by the state related to Program-related areas**, cross-cutting areas, and fiduciary and safeguards (social and environment related) aspects. These actions are provided in table 4.5.

**Table 4.5. PAP Actions**

1	Maintain full staff strength (including coordinators) in the PRD to ensure smooth functioning and implementation of the operation.
2	Appoint full-time IT professionals in participating departments given the cross-cutting nature of IT reforms across departments and sectors.
3	Investing in human capital is extremely important for successful implementation of a PFM reforms Program. Training plan for staff must be devised and followed by the participating departments of the GoHP to cover (a) IFMIS; (b) GST readiness - software; (c) GST readiness - law; (d) GST readiness - dealers. (complementing GOI initiatives on GST implementation)

### **Technical Risk Rating**

61. The operation is supporting an ongoing reform agenda of the GoHP to strengthen the PFM environment in the state. The technical risk of the operation has been assessed as **Moderate**. Following is a summary of the risks identified with the proposed mitigation measures:



**Table 4.6. Risk and Mitigation Measures**

Risk Identified	Proposed Mitigation Measure
<p>Multiple departments are involved in implementing the operation. There is a possibility that the operation does not get a ‘management push’ in a particular department, stalling the progress of the operation. Also, there is a risk of lack of <b>coordination</b> between departments.</p>	<p>The counterparts in the department leading the Program implementation (FD) are effective and reform oriented. Similar champions need to be identified in the participating departments to lead the implementation.</p> <p>A PRD housed within the DoTA is proposed to coordinate the Program activities and is responsible for their implementation and monitoring. Officials from the respective departments will be designated as nodal persons for the Program and interact on a regular basis with the PRD staff.</p> <p>(PAP action)</p>
<p>The reforms being undertaken in this operation are heavily IT oriented. Currently, the GoHP is dependent upon the NIC (although a GoI entity) for all its IT needs. Thus there is an IT skill gap within the core government function.</p>	<p>It is proposed to hire IT professionals within the government to provide technical services.</p> <p>(PAP action)</p>
<p>The two systems being upgraded or implemented under this operation—treasury systems and e-IPH—have developed organically over time with the support of the state NIC team. User requests and needs have formed the basis for development of these software. There is lack of documentation in both the cases, contributing to lack of institutional history and increased dependence on individuals.</p>	<p>The operation includes preparation of required documentation to meet globally accepted standards of software development and change management.</p>
<p>Supporting implementation of the GST is unchartered territory for the state government.</p>	<p>All states of India will face a similar challenge. In addition to the support provided by the GoI, the operation will build capacity of the field-level functionaries and dealers in legislation and software aspects through structured training programs.</p>

## **Annex 5: Fiduciary Systems Assessment**

### **Summary**

1. An FSA of the arrangements under the Program was undertaken. The FSA covered FM, procurement, and F&C aspects. The FSA has been conducted in accordance with the principles governing PforR programs as set out in the World Bank's internal guidelines. The FSA focused on determining whether the Program systems provide reasonable assurance that Program funds will be used for the intended purpose and that principles of economy, efficiency, effectiveness, transparency, and accountability will be maintained. Program FM systems have been assessed for the effectiveness of planning, budgeting, accounting, internal controls, funds flow, financial reporting, and auditing procedures. The Program procurement systems have been assessed for effectiveness of the planning, bidding, evaluation, contract award, and contract administration procedures. The FSA has also assessed how Program systems address the risks of F&C and enable redressal of complaints. The FSA reviewed the existence and adequacy of existing rules, policies, and procedures and the extent of their implementation in gaining assurance that the Program objectives shall be met.

2. Key features of the Program relevant to the FSA are as follows:

- The Program uses the GoHP's own procurement and FM systems.
- The Program components themselves aim to complement the performance of some of the fiduciary systems.
- The total number of contracts and the quantum of expenditure over the Program period of five years are not large compared to the scale of operations of the GoHP departments involved.

3. The conclusion of the FSA is that the Program systems meet the requirements of OP 9.00 and are adequate for achievement of the Program objectives. The FSA has identified certain risks and measures to mitigate such risks. The risk mitigation actions have been included in the PAP as appropriate. Considering the small number of contracts and the quantum of Program expenditure, fiduciary risks are considered 'moderate'.

### **Overview of PFM Architecture**

4. The GoHP has had a continuous and long engagement with the World Bank on Governance and PFM reforms.

- HP is one of the few states in India that have completed a PEFA assessment (World Bank Report No. 48635-IN of 2009). The assessment was a collaborative work with full participation of the state and its recommendations were given attention at the highest level. The report identified performance issues in several areas, including tax administration and management; internal audit; procurement; oversight of fiscal risk from other public sector entities; and multiyear perspective in fiscal planning and budgeting. Several of these issues have already been addressed or are part of the proposed Program.

- The state was engaged with the World Bank through an NLTA which closed recently (P148190 started January 2014 and ended December 2015). This NLTA supported (a) state treasuries for an Operational Review and IT Systems Audit to review treasury rules and guidelines and make them more effective and to fill in any control gaps that may have arisen; (b) the HPSEB (energy utility) for enhancing corporate governance, preparation of an opening balance sheet, and developing a road map for accounts reorganization to address the significant weaknesses in governance and accounting procedure; and (c) a needs assessment for implementation of a CMS in key works departments.

5. Based on the PEFA findings, NLTA engagement, and its own initiative, the GoHP has undertaken several reform measures. These include (a) revision of the State Financial Rules; among others, this has increased accountability of the heads of department and improved internal controls; (b) revision of the treasury rules, which is under way; (c) reduction in cash payments to improve internal controls; and (d) rolling out of HIMKOSH—a suite of software applications, which includes a Treasury Information System, IFMIS, bill processing system (e-Vitran), e-Salary, e-Pension, e-NPS, e-Kosh, and Cyber treasury. The GoHP proposes to improve its IT systems by developing them further. Subsequent to the PEFA assessment, the GoHP has rolled out e-Procurement in major departments. The GoHP now proposes to extend the coverage of e-Procurement to all departments. Rollout of e-Procurement is one of the activities under the Program. The state has also improved audit performance with the CAG audit reports being submitted on time. Overall, the state continues to strengthen its PFM systems and processes.

### Overview of the Program

6. The program will be managed and implemented by the FD and three other departments as described in the subsequent sections. While the FD will play the role of the nodal agency, each of the four departments will be responsible for the entire PFM cycle, that is, planning, budgeting, procurement, accounting/payments, and auditing. Because the program is fully reliant on the use of country systems, there is little variation between the fiduciary systems of the implementing agency. The list of entities and nature of activities is given below.

**Table 5.1: Participating Entities**

	<b>Implementing Departments</b>	<b>Nature of Expenditure</b>
1	FD/DoTA	Consultancies, IT hardware, software development, training, monitoring and evaluation, salaries, and civil works
2	DIT	IT hardware, connectivity, software development, training, and other capacity-building activities
3	IPH	Consultancies, IT hardware, software development, training, and salaries
4	ETD	Consultancies, IT hardware, software development, training, salaries and other capacity-building activities
	<b>Procuring Entities</b>	<b>Nature of Payments</b>
1	HPSEDC	IT hardware and software
2	PWD	Civil works

7. The program size is USD 45 million and the Bank financing out of the same is USD 36 million. The Program Expenditure Framework (presented in Table 4.3 in Annex 4 on the Technical Assessment) forms the basis for conduct of the fiduciary assessment. Nature of the expenditure and indicative share on the program is: Consultancies (34%), Goods and IT Systems (28%), Works (12%) and Others (26%).

### **Program Institutional Arrangements**

8. The Program is being implemented by the FD, GoHP. The Program envisages involvement of four implementing departments: (a) DoTA, the nodal agency; (b) ETD; (c) IPH; and (d) DIT. Strategic Program oversight, coordination, and approval of annual plans are vested in a PSC chaired by the ACS, Finance, GoHP with the secretary of each of the implementing departments as members. This will ensure that the Program receives adequate level of authority and attention.

9. The PRD is housed in the DoTA, under the Program Director. The PRD structure has a Program Director (additional responsibility of the ACS of the FD), an Additional Program Director (additional responsibility of the Director of Treasuries), and a Program Nodal Officer (additional responsibility of Additional Director of Treasuries). The Program Director provides overall strategic direction both during preparatory and implementation phases and ensures coordination between implementing departments. The Additional Program Director/Program Nodal Officer ensure implementation of day-to-day activities and that relevant resources are made available to complete tasks on time. A team of specialists for the administrative, finance, and procurement functions will be put in place, so that the Program is implemented in an orderly and efficient manner and on time. The fiduciary functions (FM and procurement) will be housed in the PRD.

### **Use of Country Systems**

10. The FM arrangements are fully reliant on the ‘use of country systems’, that is, the GoHP’s own systems for funds flow, payments, accounting, and auditing will be used.

### **Budgeting and Planning**

11. The Program has a separate budget head for its activities under Demand No. 29 in the state budget under the DoTA to receive funds from the GoI and the GoHP. Budgets for all other implementing departments are approved as minor heads under this major head. Key Program components and activities have already been laid out along with approximate financial outlays. These outlays will form part of the DoTA’s annual budget proposal and will get incorporated into the annual state budget. The FD will review the annual plans and budgets of all the implementing departments and will give its concurrence before the same is presented to the FD for approval. This will ensure effective coordination of activities across the implementing departments. Finally, the Program budget is approved by the state legislature as part of the overall budget of the FD.

12. Under the provisions of state rules, any allotment remaining unspent as at the end of the financial year lapses and cannot be carried forward to the succeeding financial year even if the expenditure has been committed against that budgeted/allotted head. However, in case the Program has a committed expenditure in a financial year which could not be paid, then the department can

make provisions in the budget and seek reallocation/allocation in the succeeding financial year, provided it is within the overall approved outlay. The budget for the Program is developed with participation of the implementing departments and is based on the States' overall vision for PFM reforms; this budget is assessed to be realistic and adequate.

### **Transparency**

13. The state budget and annual financial statements are public documents and are available on the website of the FD. The Program budget will be made available on the website of the FD.

### **Accounting and Financial Reporting**

14. Accounting will be on a cash basis using government systems; expenditure will be recorded and reported at the time of final payment for works, goods, services, and other expenditures. Accounting will be guided by the Himachal Pradesh Financial Rules, 2009 (HPFR). The rules lay down policies and procedures for the entire FM cycle, from budgeting to accounting/internal controls and also prescribe formats for reporting and record keeping. A national-level PWD account code and rules is also relevant in case of works-related payments. Adequate records will be maintained at accounting locations and will include vouchers, invoices, cashbooks, ledgers, and asset registers. The number of accounting locations under the Program will be 4 (four), with one in each implementing department. The accounting system is assessed to have adequate capacity to track and report Program expenditure with a comprehensive budget classification system for Program reporting, decision making, and auditing.

### **Treasury Management and Flow of Funds**

15. Based on the approved budget and allocations made by the GoHP, periodic allotments/sanctions will be made by the DoTA to other implementing departments. The DoTA will use IFMIS for preparation and allotment of budgets. All accounting locations will draw on the budget, approve bills, and make payments through the state treasuries. Treasuries in the GoHP are computerized and this will facilitate in obtaining financial statements under the Program-specific heads/subheads, also to consolidate periodic utilization of funds for effective reporting and monitoring purpose. In addition to this, under the Program, the DoTA will make payments to the PWD as deposits for execution of civil works. The DoTA and other implementing departments will also make payments to the HPSEDC to undertake IT-related procurement under the Program. It is assessed that adequate and timely funds are available to finance Program implementation based on budgeted activities.

### **Internal Control**

16. Program FM arrangements will include the following arrangements for internal controls: (a) processing of all payments by the HP treasuries, which will review, check compliance, and only then approve payments; (b) no use of commercial bank accounts at any level; and (c) periodic financial reporting and reconciliation. With the internal controls described earlier and the external audit by the CAG, there is a reasonable assurance that adequate controls are in place for all transactions/payments.

17. FM being the core function of the DoTA, Program FM aspects will be integrated in the DoTA functioning. In each of the implementing departments, the finance function is handled by Accounts Officers deputed from the FD and designated as Joint/Deputy/Assistant Controllers. There are satisfactory arrangements within PRD to monitor, evaluate, validate results; and to exercise control over and stewardship of Program funds.

### **Program External Audit**

18. The CAG, through its offices in Shimla, will be the external auditor for the Program. The CAG's office will conduct an annual audit of the Program financial statements. The implementing departments will be required to maintain the records of the Program to enable the auditor to carry out necessary checks and verification effectively. A consolidated audit report for the entire Program will be submitted to the World Bank by December 31 of every financial year. Coverage of the procurement aspects as part of the CAG audit will be emphasized and if needed a post procurement review may be conducted. HP has a record of timely submission of CAG Audit Reports. The CAG is assessed to have sufficient capacity to produce reliable audit reports providing assurance about the use of Program funds.

### **Disbursement Arrangements**

19. On achievement of disbursement linked results, these are verified as per the agreed verification protocol by an IVA. On certification, the FD communicates the achievement of the disbursement linked results to the World Bank in the form agreed with the World Bank. Based on the World Bank's approval letter, disbursement requests will be submitted to the World Bank office, by the Controller of Aid, Accounts, and Audit, using the World Bank's e-Business platform. To provide the participating departments with sufficient liquidity to implement activities under the Program, the Government has requested 20 percent of the loan proceeds be paid as an advance. The Bank will provide an advance of upto USD 7.2 million, as detailed in the Bank Disbursement Table, in Annexure 3. The advance will be adjusted against disbursements due when DLIs are achieved or in the later years of the Program. The drawdown of the advance, including quantum will be based on GoHP's needs and cash flow mismatches if any.

### **Policy Framework for Public Procurement in the State**

20. The GoHP has not legislated procurement-specific law/acts and regulations to provide the legislative/policy framework for public procurement in the state. Public procurement is governed by the HPFR 2009, and detailed instructions and guidelines for the procurement of goods and services are issued by the Department of Industries, GoHP. These were reviewed and found to be adequate.

21. HPFR 2009 describes the procedure for execution of works and the GoHP follows the Punjab Public Works Account Code and Central Public Works Account Code.

### **Procurable Expenditure**

22. The expenditure incurred toward developmental programs and projects (initiatives) is relatively small in comparison with the other heads of expenditure. The spend activities are concentrated in a few departments such as the DoTA, IPH, and others. The procurement experience

with a few departments indicates that the procurement proficiency is not available across all the departments. Officials in these departments manage the procurement process and there is no dedicated cadre for procurement.

23. The DoTA, ETD, and DIT mainly spend on their operational expenditure and relatively less on capital expenditure. Capital expenditure is incurred by other specialized departments such as the PWD, which constructs and maintains facilities, and IT goods are procured through the HPSEDC. User departments are also instructed to procure items/goods under rate contracts/framework contracts established by the Department of Industries.

24. Capital expenditure is based on developmental initiatives and is cyclical in nature. This may result in non-availability of in-house expertise and institutional memory of previous procurement transactions for reference of historic details.

25. The procurable expenditure envisaged under the Program is mainly procurement of IT-related goods such as computers and peripherals, workstations, servers, networking equipment, data center, and proprietary/customized application software. The expenditure also includes various consultancy services spread across components. The consultancies would be of the nature of studies, preparation of manuals, training, and implementation of IT solutions. Non-consulting services would involve operation and maintenance of data centers, network infrastructure, and so on. Civil works would be minor and of the nature of new buildings or major repairs/refurbishment. Moving to e-Procurement and expanding the scope of audit to cover procurement, will mitigate above procurement risks significantly.

### **Linkage between Budget Cycle and Procurement Cycle**

26. Each department prepares a list of requirements with approximate estimate through internal planning process. The list with estimates is submitted to the FD for review and incorporation into the budget. The FD reviews these estimates of projects/programs submitted by the departments and incorporates them into the state budget based on the state priorities and availability of resources. The department initiates the procurement process after the approval of budget and internal review meeting of the budget committee. The department does not prepare a procurement plan. The departments are expected to prepare the appropriate timeline for each stage of procurement as per HPFR paragraph 110. However, these timelines are generally not monitored. This may be achieved under the Program by using a list of annual procurement transactions and timelines for each stage of the procurement cycle in form of a procurement plan. The procurement plan tool/comprehensive format will be a useful tool for monitoring and review by the PRD of the GoHP.

### **Procurement Categories**

27. As per HPFR 2009, the requirement is categorized under 'Works: Chapter 5'. The chapter describes the procedure for execution of works and indicates that tenders have been invited and processed in accordance with rules.

28. The government approach to carry out all required services through their staff is changing to an outsourcing regime. Business processes are outsourced to private sector service providers

and knowledge-based services are obtained through consultants. There is a need for clear and concise procedural framework to contract these type of services in addition to the HPFR 2009.

### **Procurement Methods**

29. The procurement methods are selected based on thresholds stipulated in the HPFR 2009, and which have been found to be adequate for procurement under the Program.

- **Goods:** (a) advertised tender system where estimated cost is more than INR 1,000,000; (b) limited tender system where estimated cost is less than INR 1,000,000 and more than INR 50,000; and (c) single tender system where estimated cost is less than INR 50,000 and more than INR 3,000.
- **Works:** (a) advertised tender system where estimated cost is more than INR 1,000,000; (b) limited tender system where estimated cost is less than INR 1,000,000 and more than INR 100,000, with publication of advertisement in newspaper, and tender notice published only on office noticeboard, where estimated cost is less than INR 100,000 and more than INR 10,000; and (c) through three quotations where estimated cost is less than INR 10,000.
- **Services:** (a) advertised tender system where estimated cost is more than INR 1,000,000; (b) limited tender system where estimated cost is less than INR 1,000,000; and (c) hiring by choice with concurrence of the FD.
- The advertised tender system generally follows single-stage two-cover system, that is, technical bid and financial bid.

### **E-Procurement System**

30. The GoHP adapts the e-Procurement system developed by the NIC for the management of the tendering process, from advertisement up to award of contract. e-Procurement system is adapted in a phased manner, and only a few 'Awards of Contracts' are uploaded on the NIC website. To implement the end-to-end e-Procurement system, the end users/departments should start using the Award of Contract module to disclose the details of contract award. This measure also enhances transparency. Expanding use of the e-Procurement system across the departments including full usage of all the modules is one of the DLIs under the program.

### **Publication of Potential Opportunities**

31. As per HPFR 2009, the potential opportunities are published for three weeks for the advertised tender process. Limited tender shall be invited from the registered suppliers/contractors. Minimum six should be invited through registered/speed post to submit their quotations. Minimum three quotations are required for comparison and award of the contract. HPFR (DIT rules) also prescribes the minimum number of tenders to be received for the advertised tender process.



## **Bidding Documents and Evaluation**

32. The HPFR provides broad guidelines for preparation of tender documents and states that those shall be self-contained and comprehensive without any ambiguities. Further, the GoHP has not developed standard/model bidding documents for various methods of procurement. Each department has its own model/reference tender documents (DIT calls it Request for Proposal and other departments call it tender). It is observed that the tender/Request for Proposal does not have F&C clauses as part of the bidding document. The tender document of the PWD has a clause related to arbitration.

33. The advertised tender process uses the single-stage two-cover system, that is, technical bid and financial bid. The HPSEDC uses the three-stage evaluation process (eligibility, technical, and financial). The HPSEDC solicits the bids with three years of comprehensive warranty with additional two years of Annual Maintenance Contract. The Net Present Value of price quoted for Annual Maintenance Contract will be considered for ranking of the tenders. The HPFR provides avenues to use the Buy Back Offer through paragraph 111 'Buy Back Offer', which may be useful for IT-related equipment (short product life cycle and early obsolescence because of technological upgrades).

34. The HPSEDC uses the three-stage evaluation. It is noted that there is no clear distinction between the eligibility and technical criteria. The eligibility criteria also include the technical parameters. The technical criteria include post qualification parameters. Hence, it is advised to have clear distinction on the classification of parameters. To mitigate the above risks, the PRD plans to prepare model bidding documents based on the broad guidelines issued in HPFR 2009 and consistently use them in the Program implementing departments.

## **Contract Management**

35. For goods, Chapter 7: Inventory Management of the HPFR prescribes guidelines for receipt of goods, accepting, taking them to stock, issuing, and so on. The chapter also mentions the list of goods/items to be maintained, including fixed asset register and annual physical verification. The chapter prescribes the method and procedure for disposing of obsolete and unserviceable goods.

36. The department does not measure the cost overruns and time overruns. It is advised to keep track of these details by procurement activity.

## **Procurement Staff**

37. Procurement specialist of the PRD will help the departments, mainly for the selection and employment of consultants and wherever required under the Program.

## **Anti-Fraud and Corruption Framework**

38. The SV&ACB has jurisdiction over all employees of the state government. The SV&ACB has the mandate to investigate matters and cases relating to corruption and economic offences. The state Lokayukta is also empowered by statute to register complaints from public and investigate cases of corruption. The state operates a portal called e-Samadhan where online complaints can be registered. The portal also provides daily statistics of grievances registered and disposed.

39. Other governance and accountability mechanisms include the following: (a) CAG audit, the scope of which includes both the prevention and detection of F&C, and (b) the GoHP's disclosure of information and response to requests for information in line with the RTI Act of 2005. RTI Act of 2005 offers a valuable tool to enhance transparency of the Program. The framework for anticorruption activities/controls/process is largely in place and in context of the limited scope and coverage of the Program; this framework is assessed to be adequate.

40. Implementation of the Program will be aligned with the ACGs applicable to PforR operations, that is, 'Guidelines on Preventing and Combating Fraud and Corruption in Program-for-Results Financing', dated February 1, 2012, and revised on July 10, 2015.

**Table 5.2. Fiduciary Risks and Mitigation Measures**

<b>Sl. No.</b>	<b>Risk</b>	<b>Mitigation Measure</b>	<b>Priority</b>
1	Treasury rules need to be updated.	Update treasury rules and guidelines and make them more effective and fill in any control gaps.	Medium term
2	The implementing departments do not, on their own, have a track record of managing consultancy contracts, IT procurement, or civil works.	The PRD in the DoTA will support the implementing departments in procurement, contract management, and Program expenditure management. Training and capacity-building efforts are also expected to overcome such risks. Further, the number of contracts to be managed by each implementing department would be small. All Program expenditure will be through the treasury channel, a system that all departments are experienced in using. (PAP action)	Medium term
3	Absence of model bidding documents leads to weak contract management.	Prepare the model bidding document based on the broad guidelines issued in HPFR 2009 paragraphs 109 and 153 and other related paragraphs and consistently use them in the Program departments. (PAP action)	Medium term
4	CAG audit limited to the transactions through the Program.	Include the review of procurement process to the scope of internal audit/CAG audit.	Short term
5	Inadequate and manual CMS is being followed.	Discontinuation of manual system and implementation of better contract management through an integrated CMS in one key department. (DLI 5)	Long term
6	Low usage of e-Procurement system in the GoHP departments	Enhanced value for money through rollout of e-Procurement to all the major GoHP departments. (DLI 4)	Long term
7	Inadequate complaint handling system	Establish a complaint handling system for the Program and update the World Bank at periodic intervals.	Medium term

## **Annex 6: Summary ESSA**

### **Background and Scope**

1. The World Bank policy and directive on PforR financing (July 2015) requires an ESSA of operations financed under the PforR instrument. In accordance with the policy and directive, the World Bank team has conducted an ESSA of operations to be financed under the Program.
2. The World Bank team carried out an ESSA as part of Program preparation, to assess the adequacy of environmental and social systems at the national and state levels. The broad scope of the ESSA was to assess the extent to which the Program systems promote environmental and social sustainability; avoid, minimize, or mitigate adverse impacts on natural habitats and physical cultural resources; protect public and worker safety; manage land acquisition; consider issues related to indigenous peoples and vulnerable groups; and avoid social conflict.
3. The specific objectives of the ESSA included the following: (a) identify potential environmental and social benefits, risks, and impacts applicable to the Program interventions; (b) review the policy and legal framework related to management of environmental and social impacts of the Program interventions; (c) assess institutional capacity for environmental and social management systems within the Program system; (d) assess Program system performance with respect to the core principles of the PforR instrument and identify gaps, if any; and (e) describe actions to be taken to fill the gaps that will be used as input/s to the PAP.

### **Methodology**

4. The ESSA relied primarily on existing data sources (published and unpublished), complemented by primary data collection and assessment through site visits, consultations, and discussions with key stakeholders.
5. The desk review covered available documents, reports, websites, building plans, and so on. It focused on understanding existing policy, operational procedures, institutional capacity, and implementation effectiveness relevant to the construction activities under the Program. It also covered legal and regulatory requirements, including those on forest conservation, pollution control, occupational health and public safety, and building construction codes.
6. The ESSA drew information through extensive consultations with relevant stakeholders, especially from the government line departments—Forest Department, HP State Council of Science and Technology, Directorate of Energy, HP Energy Development Agency (HIMURJA), HP PWD, Department of Treasuries, and so on.

### **Consultations and Disclosure**

7. The draft report of the ESSA was disclosed through a state-level consultation workshop organized on November 22, 2016, in Shimla. The draft report was finalized after incorporating relevant suggestions from the stakeholders during the consultation workshop. The final report of the ESSA was disclosed on the website of the World Bank on February 7, 2017.

## **Key Findings of Institutional Assessment on Environment and Social Aspects:**

8. There is a strong institutional setup and the institutions handling various aspects of environment management related to constructions are functioning well according to their mandates. The institutional coordination is good among the departments. The Revenue and Forest Departments play a key role in identifying the land for construction and the regulatory processes are strictly followed. The PWD implements the construction activity. Both the PWD and Department of Treasuries coordinate with other departments for necessary support during construction and the legal and regulatory requirements pertaining to construction are adhered to.

9. The capacity to address social issues related to SC and ST does exist with the departments along with capacities to address formulation of the Scheduled Caste Sub Plan and Tribal Sub Plan in accordance with the revised guidelines. The institutional capacity of the Revenue Department for transfer of land or updating land records is quite good and the process for the same is well laid out and transparent.

## **Legal and Regulatory Framework:**

### *On Environmental Management*

10. The existing legal and regulatory framework provides for the following environmental aspects pertaining to construction of office buildings for treasuries/sub-treasuries:

- Laws and regulations are in place for prevention and management of negative environmental impacts related to construction activities, especially construction in ecologically sensitive areas such as forests, national parks and wildlife sanctuaries, archeological sites, and protected monuments (for example, Indian Forest Act, FCA, 1980).
- There are laws and regulations governing natural resource use (for example, HP Ground Water [Regulation and Control of Development and Management] Act, 2005) and disposal of wastes which would happen as part of the construction (for example Construction and Demolition Waste Management Rules, 2016).
- There are guidelines/policies concerning public safety and worker safety integrated into infrastructure and public amenities (for example, National Policy of Safety, Health and Environment at Work Place, 2009).
- There are policies governing disaster-proof construction and energy efficiency in operation and maintenance of the buildings (for example, National Disaster Management Act, 2005; National Building Code, 2005; HP Energy Conservation Building Code).

11. The existing legislative framework is adequate to ensure environmental sustainability of the construction activities under the Program. The enforcement of the laws and regulations is stringent in the state and the Department of Treasuries and PWD strictly abide by the legislative framework for obtaining clearance of FCA 1980, No-Objection Certificate from Forest

Department as part of construction. The worker safety guidelines are integrated into the bid documents of the PWD.

12. However, there is a need to integrate aspects related to public safety during constructions, guidelines for disaster-proof construction, and so on.

#### *On Social Management*

13. The legislative framework provides for fair wage policy and employment for any construction of treasuries and sub-treasuries. The existing legislative framework is adequate to ensure social sustainability of the protection of interest of marginalized and vulnerable population, that is, SC and ST population and women.

### **Assessment of Environmental and Social Management Systems**

#### *Existence of Systems and Processes for Environmental Management*

14. The relevant laws and regulations are strictly adhered to in identification and transfer of land, obtaining clearances from Forest Department, and so on. The guidelines/codes pertaining to building constructions are integrated into the tender documents of the PWD. The adherence is monitored. The integration of environment-friendly features such as rainwater harvesting, solar passive construction, and so on are followed as a mandate, in accordance with state legislations.

#### *Potential Environmental Benefits and Opportunities*

15. The potential environmental benefits of the Program could be creation of environmentally sustainable infrastructure which integrates better environmental management practices such as solar passive technologies, rainwater harvesting, disaster-proof construction guidelines, National Building Code, Energy Conservation Building Code, and so on. This would also cut down the operational and maintenance costs over time. Compliance with the legal and regulatory requirements ensures constructions without harming the local environment. Worker safety and public safety is also ensured by following the compliance requirements and safety guidelines. The system of inclusion of the compliance requirements into the contract agreements would help in ensuring the implementation and serves as an example for the contractors as well.

#### *Potential Environmental Impacts and Risks*

16. The potential environmental negative impacts of the Program could be because of non-adherence to the legal and regulatory requirements for construction. Construction activities in the fragile ecosystem without integration of environment management guidelines may damage the local environment, biodiversity, and so on. Inadequate compliance with the existing environment management guidelines for buildings would result in poor-quality infrastructure with issues like damage due to disasters, such as earthquake, floods, landslides, and high energy costs for the buildings, which will also reduce the durability of the infrastructure and increase the cost of maintenance. There is a possibility of health risks to workers and the community in case of negligence of worker safety and health standards during construction and post construction.

## *Social Impact Assessment*

17. The Program interventions have no adverse social impact. The Program has very little direct or immediate social effects and engagement with people and does not directly identify indigenous population and/or other marginalized population as beneficiaries. The process of land transfer from one department to another is in place and being followed rigorously. The Program would not fund construction on any land for which clear title is not available with the nodal department, or where it impacts livelihood and living of residents, or where any resettlement of squatters is required. However, it was found that the system of screening land during its identification for any social impact is not uniform and is proposed to be strengthened. The screening checklist will be used to ascertain that land selected for construction are free from any such encumbrances.

## **Gender**

18. HP fares among the better states in gender development indexes<sup>18</sup> and gender parity<sup>19</sup> compared to most of the North Indian states. The women's work participation ratio is 44.82 percent in the state, about 21.2 percent of the government employees in HP are women, and about 57 percent of the women got elected to the panchayat in the recent panchayat election. The GoHP has also passed orders to align government service rules with the Sexual Harassment of Women at the Workplace (Prevention, Prohibition, and Redressal) Act 2013 and defined the steps for conducting enquiry in case of allegation of sexual harassment.<sup>20</sup> The Program activities have no direct engagement with citizens, and it promotes equal opportunity for men and women employees to participate in carrying forward the Program activities. However, some of the training aspects will target gender sensitization and some of the functional training will target female employees only. The action plan recommends the design and construction of building for treasury/sub-treasury offices to consider public safety norms, especially regarding women safety and services.

## **Alignment of the Operation Systems with the Core Principles of the PforR Instrument**

19. The Program system has existing provision for environmental sustainability, mitigating adverse negative social impacts, and promoting informed decision making. Adequate provisions are put in place through the legal and regulatory requirements to avoid, minimize, and mitigate against adverse impacts on natural habitats and physical cultural resources. There are codes/standards/guidelines for construction of disaster-proof, energy-efficient buildings. There are provisions for social aspects and minimal impacts on vulnerable population.

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<sup>18</sup> [http://www.undp.org/content/dam/india/docs/gendering\\_human\\_development\\_indices\\_summary\\_report.pdf](http://www.undp.org/content/dam/india/docs/gendering_human_development_indices_summary_report.pdf).

<sup>19</sup> [http://admis.hp.nic.in/himachal/economics/REPORTS/ManWomenHP2015\\_A1b.pdf](http://admis.hp.nic.in/himachal/economics/REPORTS/ManWomenHP2015_A1b.pdf) and [http://www.mckinsey.com/~media/McKinsey/Global%20Themes/Employment%20and%20Growth/The%20power%20of%20parity%20Advancing%20womens%20equality%20in%20India/MGI%20India%20parity\\_Full%20report\\_November%202015.ashx](http://www.mckinsey.com/~media/McKinsey/Global%20Themes/Employment%20and%20Growth/The%20power%20of%20parity%20Advancing%20womens%20equality%20in%20India/MGI%20India%20parity_Full%20report_November%202015.ashx).

<sup>20</sup> [http://himachal.nic.in/WriteReadData/l892s/5\\_l892s/Personnel-22219525.pdf](http://himachal.nic.in/WriteReadData/l892s/5_l892s/Personnel-22219525.pdf).

## Recommendations on Environmental and Social Aspects

### *Environmental Aspects*

20. **Exclusion of high-risk activities.** The high-risk activities are largely based on the legal and regulatory framework concerning environment management of the state and the country. The following activities should be excluded under the Program:

- Identification of forestland (other than the wasteland that is classified as forestland) for constructions without clearance from the FCA, No Objection Certificate from Forest Department
- Identification of the areas notified by the state government under HP Land Preservation Act, 1978 for building constructions
- Constructions within 10 km radius of Eco-Sensitive Zones around national parks and Wildlife Sanctuaries identified by the Ministry of Environment, Forest and Climate Change

21. **Preparation of site-specific ESMP.** To ensure sustainable constructions and worker safety, site-specific ESMPs can be prepared by an Environmental Engineer from the PWD or an external consultant hired for the purpose. These ESMPs should be incorporated into the contract agreements and monitored regularly.

22. **Orientation to executive engineers and contractors.** An orientation should be organized for the executive engineers responsible for execution of constructions works and the contractors on adherence to the ‘legal and regulatory framework’, codes, standards, guidelines integration of environment management aspects into constructions, Green Building Certification, and so on.

23. **Green Building Certification for the treasury/sub-treasury offices.** All the buildings/or a sample of buildings constructed under the Program should be certified as ‘green buildings’. The Green Building Certification will ensure adherence to environmental management aspects such as site selection, energy and water efficiency, waste management, worker safety, public safety, and requirements for people with disabilities.

### *Social Aspects*

24. The key recommendations are to (a) undertake screening of the land identified for construction of treasury/sub-treasury buildings to rule out any social impact; (b) ensure basic amenities for the construction workers near the sites during construction along with mechanism for their grievance redressal and code of conduct training; and (c) consider public safety, especially of women and needs of differently abled people in building design and constructions. Of the above, recommendation (a) is for the Program Action Plan and (b) and (c) would form part of the Program Manual.

25. **Environmental and social risk rating.** Even though the constructions are few in number, given the geographical location of the constructions, which is situated in a highly fragile environment, the risk rating is Moderate from the environmental and social safeguard perspective.

26. **Conclusion.** Overall, the ESSA indicates that the environmental and social systems at the national and state levels are adequate for implementation, with integration of the identified actions to address the gaps and to enhance performance during implementation.



## Annex 7: Systematic Operations Risk Rating (SORT)

### INDIA: Himachal Pradesh Public Financial Management Capacity Building Program

<b>Systematic Operations Risk-Rating Tool (SORT)</b>	
<b>Risk Category</b>	<b>Rating (H, S, M, L)</b>
1. Political and Governance	Low
2. Macroeconomic	Moderate
3. Sector Strategies and Policies	Moderate
4. Technical Design of Program	Moderate
5. Institutional Capacity for Implementation and Sustainability	Moderate
6. Fiduciary	Moderate
7. Environment and Social	Moderate
8. Stakeholders	Low
9. Other	
<b>OVERALL</b>	Moderate

### Annex 8: Program Action Plan

Action Description	Due Date	Responsible Party	Completion Measurement
<b>Technical</b>			
Appoint IT managers across all implementing departments, namely the DoTA, IPH, and ETD  Maintain or strengthen connectivity for all departments implementing the Program through a defined service standard; ensure power backup; insurance of strong room; adequate data storage capacity; Disaster Recovery Plan	Year 2	Respective departments	Specialists deployment as per agreed plan  Annual reports on connectivity (up-time) to all locations
Training of staff on IFMIS, GST readiness and gender issues	Continuous	FD, ETD	Training completion on IFMIS as per training plan and coverage of ETD staff in training on GST
Preparation of policy notes on fund and debt management	Year 2	FD	Finalized policy notes on fund and debt management and implementation of the recommendations
<b>Fiduciary</b>			
Ongoing training of departmental Finance Officers in the IPH, ETD, DIT, and HPSEDC on Program FM	Year 1	FD	Annual training to finance officers
Prepare the model bidding document based on the broad guidelines issued in the HPFR 2009 and consistently use them in the Program departments	Year 3	All Program departments	Adherence to the model bidding documents in the Program departments
<b>Environmental</b>			
Screening for exclusions of high-risk activities	Continuous	DOTA, PWD	ESMPs conforming to legal and regulatory framework concerning environment management
Preparation of site-specific ESMPs	At the time of building plans	Environment Engineer/Consultant, PWD	Existence of ESMPs in contract agreements and reports on monitoring of compliance to these ESMPs
Green Building Certification for the treasury/sub-treasury offices	From the time of building plan to completion	DoTA	'Green Building' status to identified sub-treasury offices
<b>Social</b>			
Undertake screening of the land identified for construction of Treasury/ sub-treasury buildings to rule out any social impact	While identifying site for construction	DoTA	ESMPs conforming to legal and regulatory framework concerning social impacts
<b>Crosscutting</b>			
Articulate and implement a communication and outreach plan to ensure effective change management	Year 2	FD	Communication and outreach plan developed and implemented year on year
Adequate staffing of the PRD to ensure smooth functioning and interdepartmental coordination	Year 1	FD	Staffing of the PRD maintained at all times

## Annex 9: Implementation Support Plan

### Strategy and Approach for Implementation Support

1. This Implementation Support Plan for the HP PFM Capacity Building Program is to ensure successful achievement of the DLIs and various other commitments under the Program. Although, the overall responsibility for the Program’s implementation rests with the GoHP, the World Bank will provide necessary and continuous implementation support in the following areas:

- (a) Reviewing implementation progress and achieving Program results, including the PAP
- (b) Assisting in compliance with the DLI disbursement requirements
- (c) Contributing to the joint problem-solving exercise with the government
- (d) Resolving implementation issues and carrying out institutional capacity building
- (e) Monitoring changes in Program risks and compliance with the provisions of legal covenants

2. Considering that the Program involves technical assistance, the support for the Program will be significant. Formal review missions will be carried out twice a year. The World Bank will provide regular support as needed, particularly in providing advice and support in the development of terms of reference and in solving problems related to both meeting DLIs and achieving Program targets.

3. For each DLI, the government will be requested to produce action plans at least twice a year, explaining the steps taken for achievement of DLIs and those planned, to ensure that these targets are met. This will also help in ironing out issues relating to Program progress and bottlenecks faced, identifying issues and risks, and arriving at approaches to meet and achieve the Program results.

4. A World Bank team will have a joint MTR along with the GoHP teams, to assess the overall progress, action plans, coordination arrangements, disbursements, technical assistance, and capacity-development activities.

5. The skills needed and number of staff weeks per year are provided in table 9.1.

**Table 9.1. Number of Staff Weeks**

Time	Focus	Role	Number of staff weeks per year
First 12 months	Task team leadership	Task Team Leader	10
	FM Specialist	IFMIS specialist	3
	Operational - Procurement	Procurement specialist	3
	Operational - FM	FM specialist	3
	Assisting the ETD in implementation	Taxation specialist	2

<b>Time</b>	<b>Focus</b>	<b>Role</b>	<b>Number of staff weeks per year</b>
	Assisting in IT-related aspects	IT specialist	4
12 to 48 months	Task team leadership	Task Team Leader	10
	FM Specialist	IFMIS specialist	2
	Operational - Procurement	Procurement specialist	2
	Operational - FM	FM specialist	2
	Assisting the ETD in implementation	Taxation specialist	2
	Assisting in IT-related aspects	IT specialist	2
Beyond 48 months	Task team leadership	Task Team Leader	10
	FM Specialist	IFMIS specialist	1
	Operational - Procurement	Procurement specialist	1
	Operational - FM	FM specialist	1
	Assisting the ETD in implementation	Taxation specialist	1
	Assisting in IT-related aspects	IT specialist	1