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

Report No.: PIDISDSC15903

Date Prepared/Updated: 27-Oct-2016

I. BASIC INFORMATION

A. Basic Project Data

Country:	India	**Project ID:**	P157198
		Parent Project ID (if any):	
Project Name:	Assam State Public Finance Institutional Reforms (ASPIRe) Project (P157198)		
Region:	SOUTH ASIA		
Estimated Appraisal Date:	15-Dec-2016	**Estimated Board Date:**	09-Mar-2017
Practice Area (Lead):	Governance	**Lending Instrument:**	Investment Project Financing
Borrower(s):	Republic of India		
Implementing Agency:	Assam Society for Comprehensive Financial Management System (AS-CFMS)		
Financing (in USD Million)			
Financing Source			**Amount**
Borrower			9.00
International Bank for Reconstruction and Development			35.00
Total Project Cost			44.00
Environmental Category:	C - Not Required		
Concept Review Decision:	Track I - The review did authorize the preparation to continue		
Is this a Repeater project?	No		
Other Decision (as needed):			

B. Introduction and Context

Country Context

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

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

2. Fiscal and PFM framework emanates from the Indian Constitution and is largely guided by Central policies and processes: to a large extent, public financial management (PFM) framework in the States follow the overall framework established at the Centre (specifically in areas related to budgeting, financial reporting including the chart of accounts and external audit) and consequently PFM reforms in the states dovetail reform initiatives taken at the Union level, though there have been notable instances of States suo moto taking up reforms in PFM, especially in areas relating to use of IT for strengthening financial management information systems, cash management and reforms in 3rd tier of government i.e. urban and rural local bodies.

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

4. Realizing the full potential of these reforms will call for greater competence and efficient systems in Public Financial Management at the state level, coupled with measures for enhancing transparency and accountability. Individual states will need to manage a complex set of three PFM objectives involving trade off and sequencing: (i) improve the quality and sustainability of fiscal deficits, contingent liabilities and fiscal risks; (ii) increase public investment; and (iii) focus on outcomes of government expenditure rather than merely outlays. Consequently these are expected to impose significant pressure on systems of planning, spending and reporting of the use of public funds in the states.

Sectoral and Institutional Context

5. The state of Assam in the North-east Region is rich in natural resources but remains one of the country➢(s low-income states. Vulnerable to natural disasters such as floods, and long troubled by ethnic divisions, Assam➢(s economy registered an annualized growth of 5.6 % during 2004-2014 well below the national average of 7.6 % during the same period. In addition to slower economic growth, poverty reduction in Assam was less responsive to growth than in

rest of India. State➢(s poverty rate declined from 34.4 to 32 % during 2004-05 to 2011-12, while the all India poverty rate declined by 15.3 %age points to 21.9 % ➢(resulting in a greater concentration of the poor in Assam. Based on a classification system developed in 1969 by India's 5th Finance Commission, Assam has been identified as a Special Category state. Special Category states are deemed to have a low resource base and a limited ability to mobilize resources for development; the designation provides these states with preferential treatment in the form of central assistance and tax breaks.

6. A rule based Fiscal Responsibility and Budget Management (FRBM) Act 2011 was enacted with the objective of improving the fiscal situation of the state. Over the last few years, Assam has largely complied with the FRBM targets State government➢(s fiscal deficit, which stood at an average of 3.4 % of GSDP in five years preceding 2004-05, turned to an average surplus of 1.1 % in the four years after the enactment of AFRBM Act, 2005, largely on account of increase in revenue collections and transfers from the center. Post the shock to expenditures due to the 6th pay commission in 2009-10, Assam reverted to its path of fiscal consolidation and its fiscal deficit consistently remained within the 3 % of GSDP target prescribed in the fiscal responsibility law ➢(registering an average of 2 % of GSDP during 2010-11 to 2015-16.

7. Assam, similar to other North-eastern states are characterized by low level of economic activity and consequentially low revenue capacity and disability arising from large forest cover, hilly terrain, remoteness and infrastructure deficit. The state has largely been dependent on central transfers (share of taxes and grants) with own source revenue contributing only around 35% of the overall receipts. Therefore, within the constraints of low revenue capacity per se, enhancing own source revenue and improved expenditure efficiency is critical for Assam to progress towards development vision. RBI in its study of state finances for 2014-15 has also emphasized that key to successful sub-national fiscal consolidation is a sustained increase in states' own revenues, with grants from the central government playing a supplemental role. Assam recognizes that the need to usher in a modern system of financial management, enhanced efficiency of treasury and tax administration to ensure faster delivery of services to tax payers to facilitate easy compliance.

8. The state needs to significantly strengthen its public expenditure and tax administration systems to better positon itself to meet the above challenges: The core treasury payment and accounting system (Comprehensive Treasury Management and Information System (CTMIS) was implemented in 2005. Recent efforts in transition to an Integrated Government Financial Management Information System- (IGFMIS) by developing additional modules around CTMIS has not been fully implemented and are facing operational issues. This has resulting in continuing dependence on largely manual procedures and control processes in budget preparation, its allotment, exercising budget control and in managing fund releases, contributing to delays in budget execution and payments, weaknesses in internal controls, delays in accounting and resulting in low budget credibility. On the revenue management also the processes in Commercial tax is managed by dis-integrated back end (TIMS) and front end (e-TIMS) systems and there is no IT automation in the excise department. Additionally, the state is facing challenges in establishment of its State Data Center (SDC) and in both horizontal and vertical network connectivity resulting in stand-alone departmental investments in establishment and management of data centers and in addressing connectivity issues. With recent developments in IT solutions for treasuries, incremental enhancements to CTMIS and TIMS/e-TIMS is not an optimum solution and GoA is keen to implement a new FMIS and GST compliant tax solutions.

9. Assam recognizes the role strong PFM systems play in contributing to better fiscal position, improving financial accountability and fiscal transparency and in enhancing service delivery in the medium term. The state government is keen to undertake further reforms in PFM, particularly in the areas of tax administration and financial management systems using Information Technology as a key driver.

Relationship to CAS/CPS/CPF

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

C. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)

The project development objective (PDO) is to improve Public Expenditure Management and Tax Administration in the state of Assam.

Key Results (From PCN)

The achievement of the proposed PDO will be measured through the following key performance indicators. Detailed results framework for the project will be developed and agreed during project preparation.

1) Improved Budget Credibility i.e. reduced primary expenditure variance.
2) Improvement in timeliness and integrity in fiscal reporting. (i.e. reduction of delays submission of monthly accounts to the accountant general (no. of days and no. of agencies) and reduction in un-reconciled accounts)
3) Increased public access to key budget and fiscal information.
4) Improved efficiency and transparency in administration of commercial taxes and excise.

D. Concept Description

The project focuses on strengthening the Public Financial Management framework, systems and capacity in the state of Assam. Successful implementation of the proposed project will contribute to improved budget execution, credibility and transparency, better cash and debt management and strengthen capacity of institutions through skills upgrading. The primary beneficiaries of the project include the Finance and key revenue Departments and key procuring agencies. The proposed project consists of the following four main components.

Component 1: Strengthen Public Finance Institutional Framework and Capacity: The objective of this component is to support strengthening of PFM institutional framework, systems and improve capacity in the areas of budgeting, cash and debt management, procurement and public investment management. These objectives will be carried out through the following thematic sub components:

Sub-component 1.1: Strengthening Cash and Debt Management which will support evaluating current cash management practices by benchmarking against good sub national and international practices, including building cash forecasting tools/ analytics and linking it to design and development of FMIS; building/ strengthening institutional capacities for analytics; carrying out a debt management performance assessment using Debt Management Performance Assessment (DeMPA) tool and developing an action plan and supporting its implementation.

Sub-component 1.2: Strengthening planning, management and monitoring of capital expenditures/ projects, including Public Private Partnership by carrying out an assessment of current practices of planning and budget preparation and benchmarking it with good practices in other sub-national governments and linking it with design and development of FMIS and assessment of current PPP policy framework and institutional structure and supporting its strengthening.

Sub-component 1.3: Strengthening Public Procurement Framework including Review and upgrade of existing procurement rules and manuals; enhancing the use of e-Tendering System to Full-Cycle e-Procurement System and impact assessment of e-Tendering System

Sub-component 1.4: Training and Capacity Building: The capacity of state institutions to deliver such programs will be strengthened by consolidating the stand-alone training functions of various branches of finance department and enhance delivery. The project will support content development including e-learning modules, training and capacity building programs in key thematic areas of planning and budgeting, procurement, cash and debt management and treasury/ finance rules, using IT and twinning with key national training institutions in the area of PFM as a key enabler for delivery.

Component 2: Strengthening Expenditure Management and Controls through Financial Management Information Systems: objective of this component is to modernize budget and expenditure management systems by addressing many of the existing infirmities including automating manual processes and controls in the budget execution cycle which will help improve budget execution, strengthen controls and reconciliations, improve timeliness of reporting to the accountant general and establish a management decision support system. This objective will be achieved through the following thematic sub-components

Sub Component 2.1: Implementation of FMIS: as the existing CTMIS is over 10 years old, the project will support the implementation of a new FMIS solution. The implementation design and implementation of the new FMIS will take into account the lessons from earlier experiences in the state, which include need for (i) ownership of internal stakeholders by ensuring their active involvement in the design of the requirements; (ii) phasing out roll out and implementation and (iv) supplemented by significant and sustained investment in hand-holding and change management. The component will support the design, development and implementation of a new FMIS including investments in hardware, Functional and technical requirement studies and business process reviews; Studying options for enhancing connectivity and hosting of data centers; studies and exposure visits to other states which have successfully implemented FMIS and Change management, communication and capacity building for roll out of FMIS.

Sub Component 2.2: Modernization of and updating Assam Treasury Rules: review and update the Assam Treasury Rules and Subsidiary Orders and Assam Financial Rules in order to make these consistent with business process reviews and changes in the controls due to use of IT systems.

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Component 3: Improving Efficiency of tax administration and tax payers services: the objective of this component is to improve the efficiency of tax administration in key revenue generating departments (commercial taxes and excise), enhance e-services to tax payers to provide faster delivery of services which will facilitate better compliance and contribute to enhancement in revenue. This will be achieved through the following thematic activities:

Sub-Component 3.1: Strengthening Commercial Tax Administration (CTD) : component will support strengthening tax administration in CTD to meet the twin challenges of readying the department for the anticipated roll-out of GST and also ensure that the VAT applications are used to their potential. This will include technical assessment and upgrading tax administration and management IT applications and hardware; preparing a roadmap and support implementation of missing processes such as dedicated LTU, e-filing, e-scrutiny, risk based audit; enhancing data collection and analysis through roll-out of an Integrated Tax Payer Data Management System (ITDMS) and setting up an Economic Intelligence Unit (EIU); and Rapid perception survey of tax payers.

Sub Component 3.2: Strengthen the administration of state excise: by supporting the introduction of e-governance measures and IT tools to regulate the manufacture, stocking, transport and sale of bottled alcohol; the project will support preparation of a DPR including road map for reform through introduction of networked IT applications; development and implementation of work flow based e-governance application linked to e-payment and to the treasury systems

Component 3.3: E-Collection Portal for revenue collection: with the objective of reducing delays in receipt and deposit of revenue collections, providing an efficient payment platform for citizens and reducing human interface and intervention, the project will support the development of a common e-collection platform which will facilitate online collection of majority of government revenues.

Component 4: Project Management: this component will support project management, communication and change management strategy and will include operational costs on implementation, co-ordination, monitoring and evaluation, including gender tracking within activities under the project.

II. SAFEGUARDS

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

The project will be implemented in the state of Assam, which has 12.4% of Scheduled Tribe (ST) and 7.2% Scheduled Caste (SC) population. The areas with high concentration of Schedules Tribes includes 3 Autonomous hill councils (with resident hill tribes) under the Schedule VI area as listed in the Constitution of India, and 6 specific tribes based Autonomous council areas (with resident plain tribes) outside the Schedule VI area with substantive tribal population. The Autonomous councils have been given varying degrees of autonomy within the state legislature by the Central government. Similar to other states, Assam also receives funds as part of the budget allocations from the Centre for financing targeted interventions in Tribal areas/for Tribals. However, Tribals are not expected to be direct beneficiaries of the project, and hence OP4.10 is not triggered. Also, the project does not envisage any resettlement or additional land requirement for minor civil works under the project as it is limited to building renovation and refurbishments on the same land. And hence, OP4.12 is not triggered. As the project will only support minor refurbishment works related to e-governance solutions for the offices which are not expected to have any adverse impact on environment, OP/BP 4.01 is not triggered.

B. Borrower's Institutional Capacity for Safeguard Policies

The Govt. of Assam has been working with the Bank in the area of Agriculture, Roads etc. and they have prior experience in implementation of safeguard policies.

C. Environmental and Social Safeguards Specialists on the Team

D. POLICIES THAT MIGHT APPLY

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	No	The project interventions include only minor works related refurbishment of offices related to implementation of various e-governance solutions which are not expected to have any adverse impacts on the environment.
Natural Habitats OP/BP 4.04	No	
Forests OP/BP 4.36	No	
Pest Management OP 4.09	No	
Physical Cultural Resources OP/BP 4.11	No	
Indigenous Peoples OP/BP 4.10	No	The activities are largely in the nature of technical assistance to support the Finance and key Tax administration departments of the state in strengthening institutions and systems of Public financial Management Reforms. Tribals and people of the autonomous councils are not direct beneficiaries of the project.
Involuntary Resettlement OP/ BP 4.12	No	The refurbishment and minor civil works in selected office / is not likely to involve involuntary settlement.
Safety of Dams OP/BP 4.37	No	
Projects on International Waterways OP/BP 7.50	No	
Projects in Disputed Areas OP/ BP 7.60	No	

E. Safeguard Preparation Plan

1. Tentative target date for preparing the PAD Stage ISDS

30-Nov-2016

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

No environment assessment is required for this project.

III. Contact point

World Bank

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V. Approval

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Country Director:	Name: Hisham A. Abdo Kahin (CD)	Date: 27-Nov-2016

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