SUMMARY NOTE

Panel Discussion on

Decoding India's Public Finance Management System: Challenges, Best Practices & Way Forward

14 January 2022

Panelists
Dr. Sekhar Bonu, Director General, Development Monitoring and Evaluation Office (DMEO), NITI Aayog
Satya Priya Rath, Additional Secretary, Department of Finance, Government of Odisha

Moderator
Avani Kapur, Lead — Accountability Initiative, Centre for Policy Research

About the Panel

This panel offered insights on ensuring the efficiency of spending in the face of strained resources by:

- *Looking more closely at the data management practices that often lead to weak accountability both within the government, and also to the citizens.*
- *Exploring how to strengthen fund flow practices such that funds reach the last mile in a timely manner.*

Strong public financial management practices are not only core to public finance but have a substantial, downstream impact on on-ground scheme implementation and thus the attainment of stated policy outcomes. The government's ability to raise, allocate, and use public funds effectively forms the cornerstone of them being able to to provide public goods and undertake efficient service delivery.

Attempts have been made previously to develop a public finance management system that tracks funds through the budget cycle. One such example is the Union government's Public Finance Management System (PFMS) launched in 2009, which has sought to streamline the tracking and accounting of public funds. Several states too have tried to develop their own integrated fund management systems to ensure greater transparency and efficiency in public service delivery. The need to ensure the efficiency of spending gains even more importance in the COVID-19 pandemic.

An important question to ask is — how can the government spend its money more effectively to deliver public services and achieve development outcomes? Any PFMS can be made more agile by tracking funds through the budget cycle from budget formulation to execution and finally, evaluation.

"How can the government spend its money more effectively to deliver public services and achieve development outcomes?"

Ms. Avani Kapur, as the moderator, highlighted some of the crucial points raised by the panel and asked key questions to the panelists. She pointed out that, currently, the fund flow system is 'push' based wherein funds are transferred to the next mile without clear understanding of utilisation. In such a context, the Just-in-Time funding system, which acts as a 'pull' system, will reduce the unspent funds (float) lying in government bank accounts. She spoke of the crucial distinction between PFMS and public finance management reforms which are conflated. PFM reforms are broader in scope and aim at enabling frictionless expenditure, decreasing administrative burden and increasing accountability.

To ensure transparency and accountability, she asked Dr. Bonu as to how data architecture, particularly for outcome data, can be improved and what they think about the feasibility of outcome-based budgeting. She further highlighted a crucial challenge that rings through various development discussions, namely diversity across states with regard to state capacity and infrastructure, which translates into the differential ability to implement reforms. In addition, this diversity becomes difficult to document.

She asked Dr. Bonu for his comment on a multi-year budgeting process and how clear district-wise data can be made available to both the government and the public. To Mr. Rath, she asked why there is a tendency among states to keep PFMS separate from their own systems, and if the flexibility that COVID-19 imposed on the system is likely to continue or whether the governments will go back to a rigid system.

Odisha government's experiences with idle float and pilot measures

In his response, Mr. Rath discussed the problem of idle float with the Government of India (GoI). In 2021-22, Q2, the Union government had cash surplus to the extent of ₹4.7 trillion, which is 2 per cent of the GDP. This was due to ineffective and incredible expenditure management, an area the Union and state governments need to work on, he said.

Due to a substantial increase in mining revenue in 2021, the Odisha government was facing the challenge of surplus fund management. The state government was working with MSC (MicroSave Consulting) on conducting pilot experiments for Just-in-Time funding (which is a pull-based payment mechanism) and introducing the virtual single treasury account. To reduce the idle float, the government has also embarked on commitment management and commitment control of fund flow with the support of the International Monetary Fund.

A top-down budget-making strategy has been conceptualised in the budget of 2021, he added. This is a practice where the medium-term ceiling on resource projection and department-wise ceiling on the number of approvals is communicated in advance. This practice is expected to improve budget credibility.

Public Finance Management Systems (PFMS): Salience, challenges, and way forward

Dr. Bonu started the discussion with a brief on the PFMS. PFMS not only involves a full cycle of budget formulation, execution, monitoring, and evaluation; but encompasses four important principles. These are-

- Single Source of Truth (SSOT),
- Just-in-Time Funding,
- Demonopolizing access to services, and
- Observability of data.

PFMS is also a system of input tracking, but it is ineffective if not linked to outputs and outcomes. So, the bigger picture is — how can outcomes be achieved with efficient budget allocation?

PFMS was introduced in 2009, expanded in 2013, and is now well-established across the country. It interfaces with implementation agencies, with 300 banks of the core banking system, and with the National Payment Corporation of India (NPCI). In fact, PFMS is the backbone of Direct Benefit Transfers schemes in the country.

In 2021-22, the PFMS had achieved 116 crore transactions worth ₹27 lakh crores. Further, Dr. Bonu explained, there are around 1,300 large infrastructure projects worth over ₹130 crores in the country that are funded by GoI. Tracking these projects in real-time is a herculean task, and expenditure tracking is one of the feasible methods.

PFMS has a four-tier structure and faces some challenges though, at the district project management unit level, especially in a federal country like India. A major challenge is the low usage of Expenditure Advance and Transfer Module (EAT module) by the implementation agency in Central Sector (CS) schemes and Centrally Sponsored Schemes (CSS) resulting in further challenges in the full roll-out of PFMS.

Through the EAT module, the implementation agencies are able to provide the Utilisation Certificates (UCs) quarterly, but are not able to provide the number on idle balances.

Capacity building and training are required to solve these challenges, he added. To solve the issue of idle float, implementation agencies need to give an account of unspent balances and furnish the UC, quarterly.

Dr. Bonu further explained the work done by DMEO, NITI Aayog in this regard. The application of internal IT systems for tracking schemes is at varying levels in different ministries. So, DMEO has computed the Data Governance and Quality Index (DGQI), which measures the depth of digitisation of scheme implementation, data quality, and the extent of the PFM roll-out.

For computing this index, DMEO evaluated 540 CS and CSS schemes. But around 28 per cent of schemes still do not have their database linked to Aadhaar, 22 per cent do not have linkage with bank accounts, and only 25 per cent have end-to-end computerisation. To improve on poor rankings, and outcomes, all ministries are required to achieve a DGQI score of 5.0. For this, all the ministries have rolled out an action plan and have put in place a data and strategy unit.

The DMEO has also developed an 'Output, Outcome' framework in consultation with various ministries and departments for schemes above ₹500 crores. The outcomes, outlay, and annual targets are listed, along with the demand for grants. Dr. Bonu highlighted that the data architecture for this exercise is, however, weak. There is a lag between actual and reported numbers, as many of the outcomes are based on the household level, which is not easily available. Thus, the challenge today is — how do we achieve this outcome in the most efficient manner in a budget-constrained environment? We need to strengthen our data systems, especially outcome-based data systems, he added.

Reforming expenditure management through principles of data governance

As closing remarks, Mr. Mitul Thapliyal from MSC highlighted the need for data governance and fund management to solve the problem of idle float. Recently the Tamil Nadu government revealed that about ₹2,000 crores lay as idle float. In its evaluation of a major scheme of the Ministry of Rural Development, MSC found that there was a float of ₹20,000 crores lying unspent.

The problem of inefficient budget management and idle float is threefold:

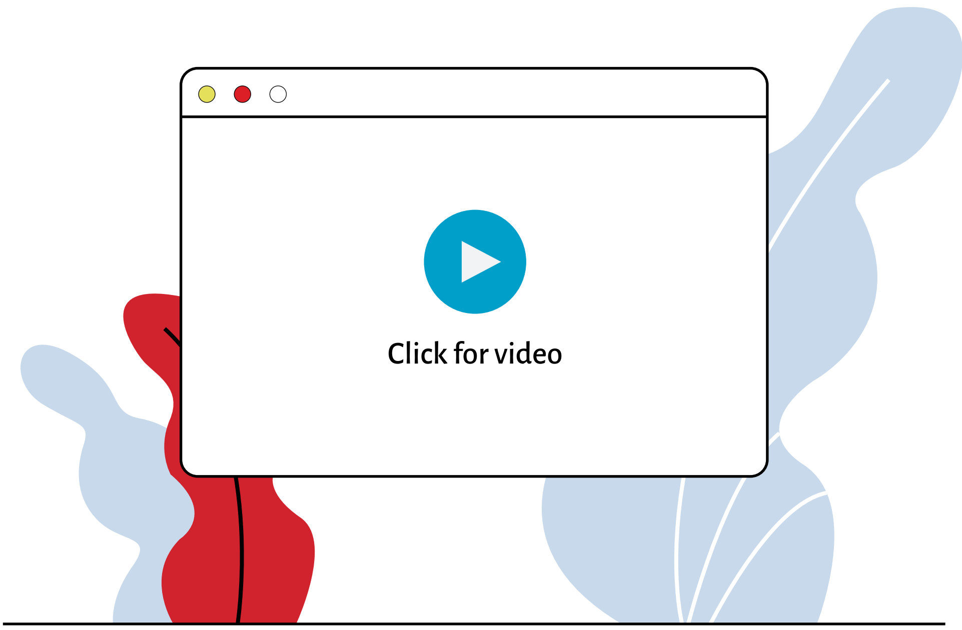
- There is high friction in expenditure and money flows in a cascading form.
- The credibility of data are low which leads to friction in expenditure.
- Incredible data leads to a high administrative burden and low accountability of government officials.

Mr. Thapliyal highlighted measures taken by the NITI Aayog and Odisha government to solve the above-mentioned issues. He said that DMEO's DGQI is a promising endeavour for assessing data preparedness of ministries and departments on a standardised framework to drive healthy

competition among them, and promote cooperative peer learning from best practices.
The DGQI is gaining traction amongst the governments and when implemented, will improve the credibility of data which will enhance the accountability of government officials and increase the transparency of fund management systems.

The initiatives of the Odisha government, on blending data governance principles with PFMS principles are revolutionary, he added. These initiatives will reduce float, increase accountability, and reduce fiscal deficit. This will ultimately increase the credibility of the budget and thereby increase credibility of the state in delivering outcomes in health, infrastructure, and education to its citizens.

This is a summary of the panel discussion, and has been paraphrased.



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