

# Public Financial Management System

Ideas and lessons from India

April, 2020





### **About MicroSave Consulting**

MicroSave Consulting (MSC) is a boutique consulting firm that has, for 20 years, pushed the world towards meaningful financial, social, and economic inclusion. We are a globally trusted, yet locally based organization that offers high-quality, practical market-led solutions to accelerate financial, economic, and social inclusion in the digital age.

With about 190 staff of different nationalities and varied expertise, MSC is proud to be working in over 50 developing countries. We have offices in Bangladesh, India, Indonesia, Kenya, Philippines, Senegal, Singapore, Vietnam, Uganda, and the United Kingdom.

We work with participants in financial, economic, and social ecosystems to achieve sustainable performance improvements and unlock enduring value. Our clients include governments, donors, private sector corporations, and local businesses. We can help you seize the digital opportunity, address the mass market, and future-proof your operations.

## Table of Content

1. Objectives of the module	04
2. An overview of the Public Finance Management System (PFMS)	05
3. History and evolution of PFMS	08
4. DBT through PFMS	10
5. Key lessons	13
5.1 Benefits of PFMS	13
5.2 Challenges and the way ahead for the PFMS	14
6. Appendix	15





# 1. Objectives of the module



01



How the Public Finance Management System (PFMS) functions

04



Understanding the Integrated Financial Management System (IFMS)

02



The origin of the PFMS and organization structure

05



Benefits of PFMS

03



Fund flow management with respect to the direct benefit transfer process

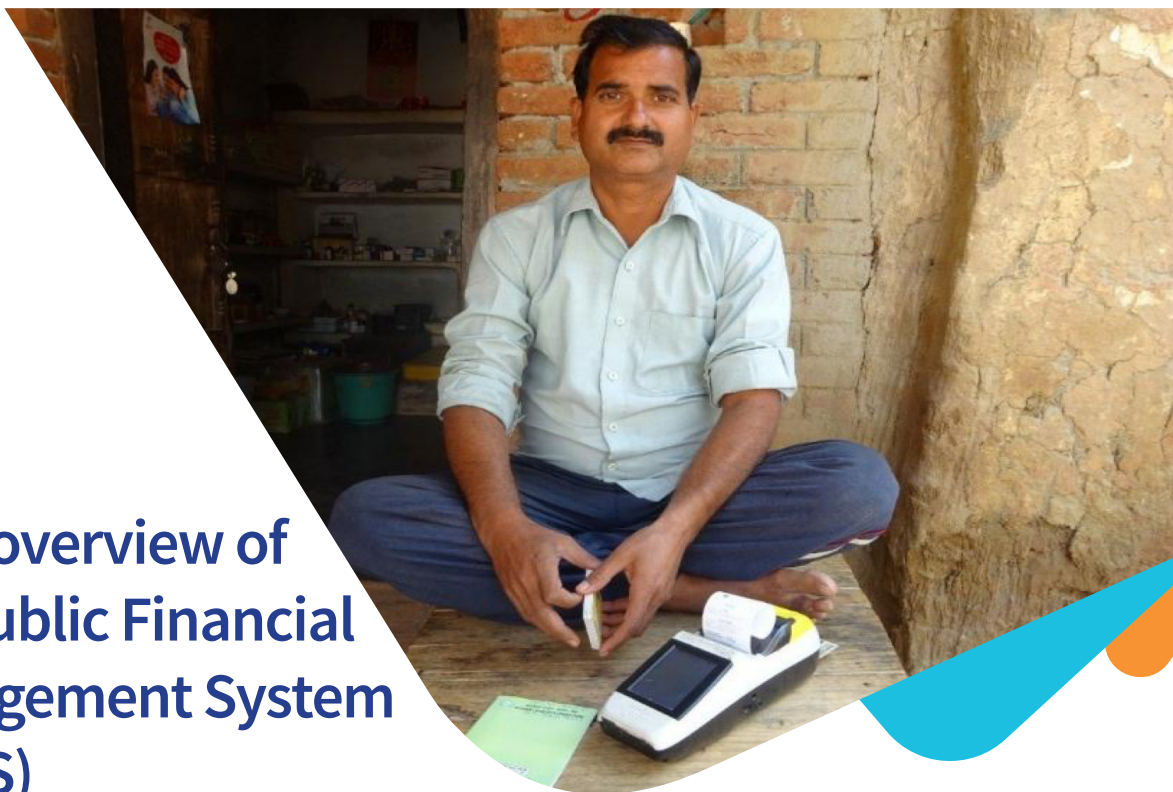
06



The road ahead for an effective finance management system



## 2. An overview of the Public Financial Management System (PFMS)



The Public Financial Management System (PFMS) is a web-based application for payment, accounting, and reconciliation of government transactions

### About PFMS

The PFMS scheme has been rolled-out by the Controller General of Accounts (CGA) of India as a Public Finance Management (PFM) reform in the country. The objectives are to promote:

- **Accountability** to show the utilization of public funds
- **Transparency** for ready access to reliable, comprehensive, understandable, and internationally comparable information on government activities
- **Predictability** for a uniform and an effective enforcement of documented lawful procedures

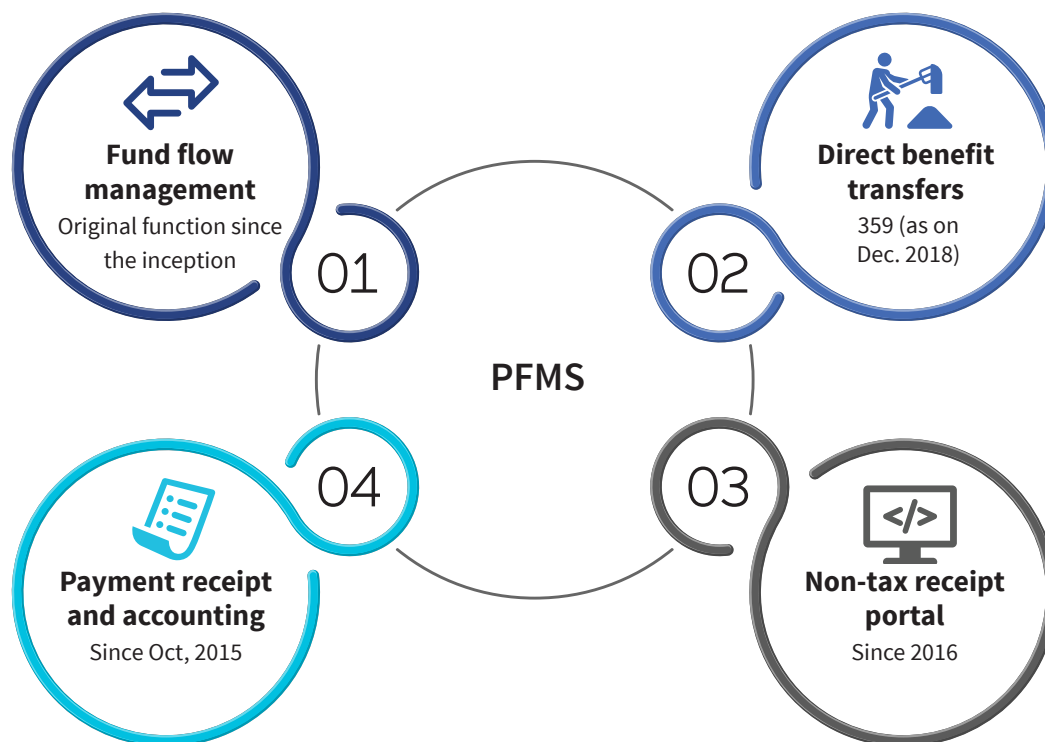
### Why PFMS?

- To provide a robust system to ensure requirement based “Just-in-Time”<sup>\*</sup> fund release. This helps to reduce idle float funds that held for a “Just-in-Case”<sup>\*\*</sup> scenario.
- To provide stakeholders with a reliable and meaningful management information system and an effective decision support system.
- To become, in the course of time, the only platform for Direct Benefit Transfer (DBT) or G2P payments across India.
- To integrate with the Core (Centralized Online Real-time Exchange) Banking System of banks to offer unique capability to push online payments to virtually every beneficiary or vendor.

<sup>\*</sup>**Just-in-Time:** A strategy to increase operational efficiency by receiving funds only when required in order to reduce inventory costs.

<sup>\*\*</sup>**Just-in-Case:** A operation management strategy to minimize the probability that funds will run out thereby parking large funds on standby.

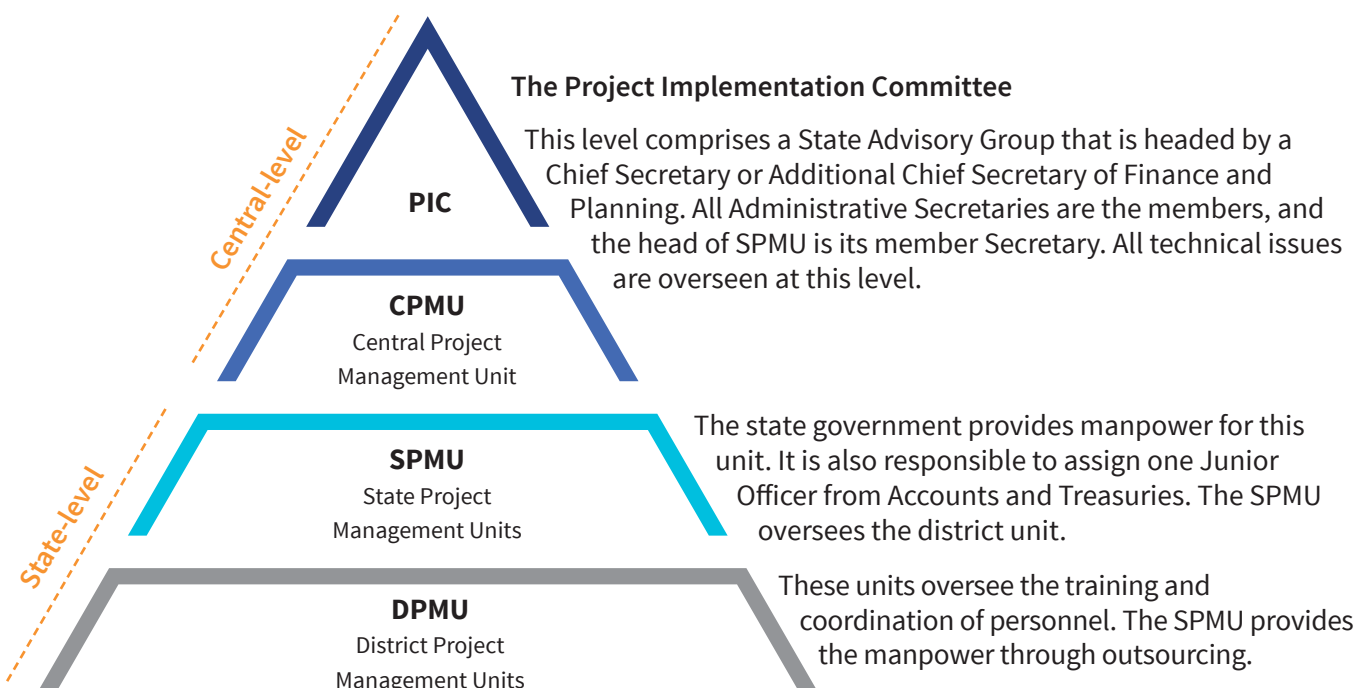
## The PFMS has four key functions and operates in a four tiered structure



As of March 2020, there are 2.7 million program implementing agencies registered on the PFMS.

Over 1800 central and state government schemes are now on-boarded on the PFMS platform.

### Four-tiered project organization structure



Source: PIB report, March 2020

## The government mandates have molded PFMS to deliver four key functions

### **Fund flow monitoring**

- This technology helps track the funds provided to various implementing agencies.
- The monitoring of funds allows stakeholders to track their use by multiple implementing agencies of the central and state governments in real-time.

### **Direct Benefit Transfer (DBT) module**

- PFMS facilitates the transfer of benefits to validated bank or Post Office accounts of beneficiaries.
- This ensures that the money is transferred into a legitimate account, thereby reducing the risk of misdirected payments.

### **EAT module**

- Post registration, the Program Implementing Agencies (PIAs) can use the Expenditure-Advance-Transfer module (EAT module) to transfer funds or advances to lower-level agencies. These agencies can also make e-payments to vendors, employees, and beneficiaries.
- This is an extremely important functional module of PFMS to monitor the ultimate utilization of funds. Out of 1.79 million registered agencies, 26,011 agencies are using the EAT module.

### **The Non-Tax Receipt Portal (NTRP)\***

- This provides one-stop services to deposit any fees or fine or any other money (other than tax) into the Government Account. It aims to provide year-round electronic services to deposit the money into Government Accounts using internet-based payment technologies.

## Bridging the gap

1	~USD 20 billion	Idle central funds at the implementing agencies or state-level at any point of time in FY18
2	~USD 12.6 billion	Current float funds after the implementation of just-in-time transfers
3	~USD 14.3 billion	Has been saved till March 2020

\* Non tax receipt is government income as dividends and profits from its profit-making public enterprises (PSUs) and the interest on government loans. Data mentioned, as on August, 2018  
Source: PFMS: A smart move by government could save Rs 10,000 cr taxpayer money, The Financial Express, August, 2018  
PIB report, March 2020



### 3. History and evolution of PFMS



#### Milestones of the direct benefit transfer (DBT) on the PFMS platform

The Government of India started the Direct Benefit Transfer (DBT) program on 1st January, 2013. The aim was to reform the government delivery system by re-engineering the existing process in welfare schemes for easier and faster flow of information or funds. The government also ensured accurate targeting of the beneficiaries, de-duplication, and reduction of fraud.

#### 2009

- In 2009, DBT was implemented in four states for four government programs
- The PFMS was earlier known as the Central Plan Schemes Monitoring System (CPSMS)

#### Dec, 2014

Phase III: Launched in all districts or MNREGA 300 districts. It had all the schemes.

#### 2017-18

- In FY 2017-18 all subsidy schemes, except for LPG and fertilizer, are being implemented through PFMS. Only three ministries—Defence, Railway, and Post and Telegraph (Communication)—do not use PFMS.
- Transactions through PFMS in the FY 2018-19\*
  - Number of transactions: 5,536,65,322
  - Amount in USD: 316,896,473,094

#### 2011-12

A pilot of MNREGA, a rural employment guarantee program, in Bihar was commenced

#### 2013

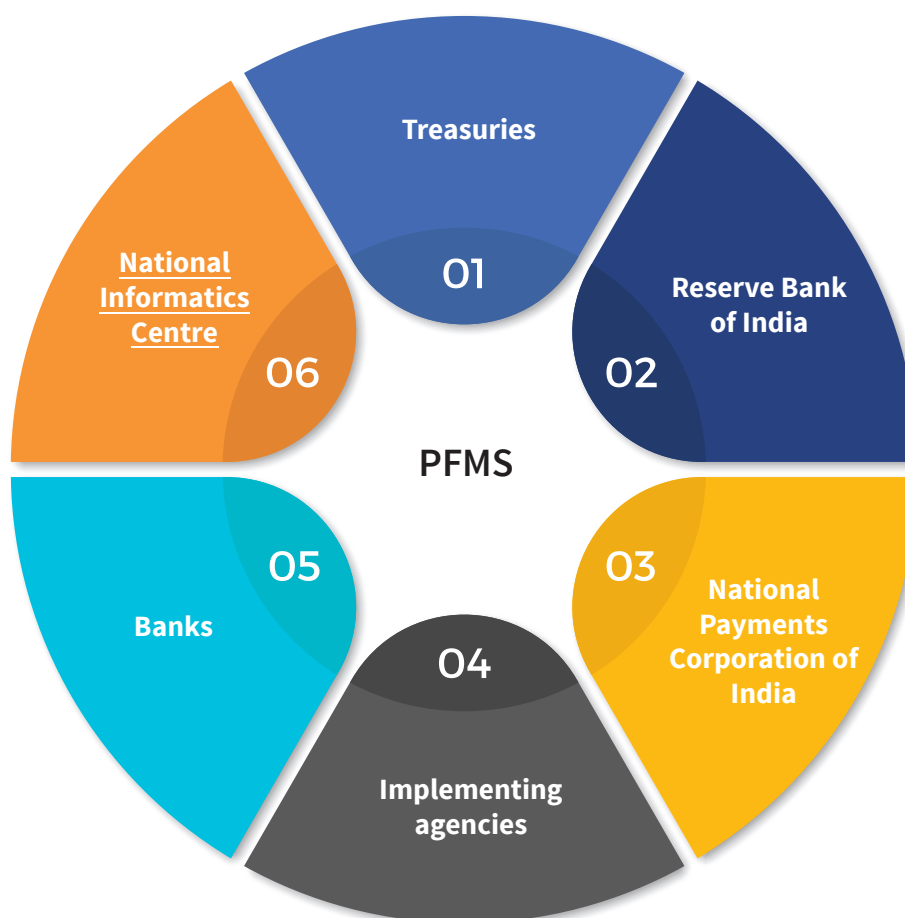
- First DBT payments for the National Rural Health Mission, Puducherry
- DBT payments, Phase I: Launched in January, 2013, in 43 districts. It had 27 schemes.
- DBT payments, Phase II: Launched in October, 2013, in all districts of Puducherry.

#### 2019-20

- Transactions through PFMS in FY 2019-20 More than 1 billion DBT transactions  
Amount in USD: 38 billion (INR 2.67 trillion).
- On March 30<sup>th</sup> 2020, in a single day, 21.9 million transactions were made across departments. This is highest till date in a single day.

\*PFMS transaction data as on 16th February, 2019

## The building blocks of the PFMS ecosystem



### 01. Treasuries

Integrated with state treasuries to monitor the fund flow and manage DBT to beneficiaries

At present, all 31 state treasuries are integrated to PFMS.

### 02. Reserve Bank of India

Implementing agencies for welfare schemes can also include autonomous bodies. These entities have to open an account with the RBI to receive the money. RBI functions as the primary banker to the Ministries or Departments in this regard.

### 03. National Payments Corporation of India

Departments or ministries use NPCI to settle beneficiary payments, which are linked with *Aadhaar*, for direct benefit transfer on the PFMS platform.

### 04. Implementing agencies

Implementing agencies comprise trusts, registered societies, local bodies, etc. These are registered mandatorily on the PFMS to monitor bank balances and track fund flows.

### 05. Banks

The Core Banking Solution\* (CBS) interface of the PFMS is operational with 362 banks, as on March 2020

### 06. National Informatics Centre<sup>13</sup>

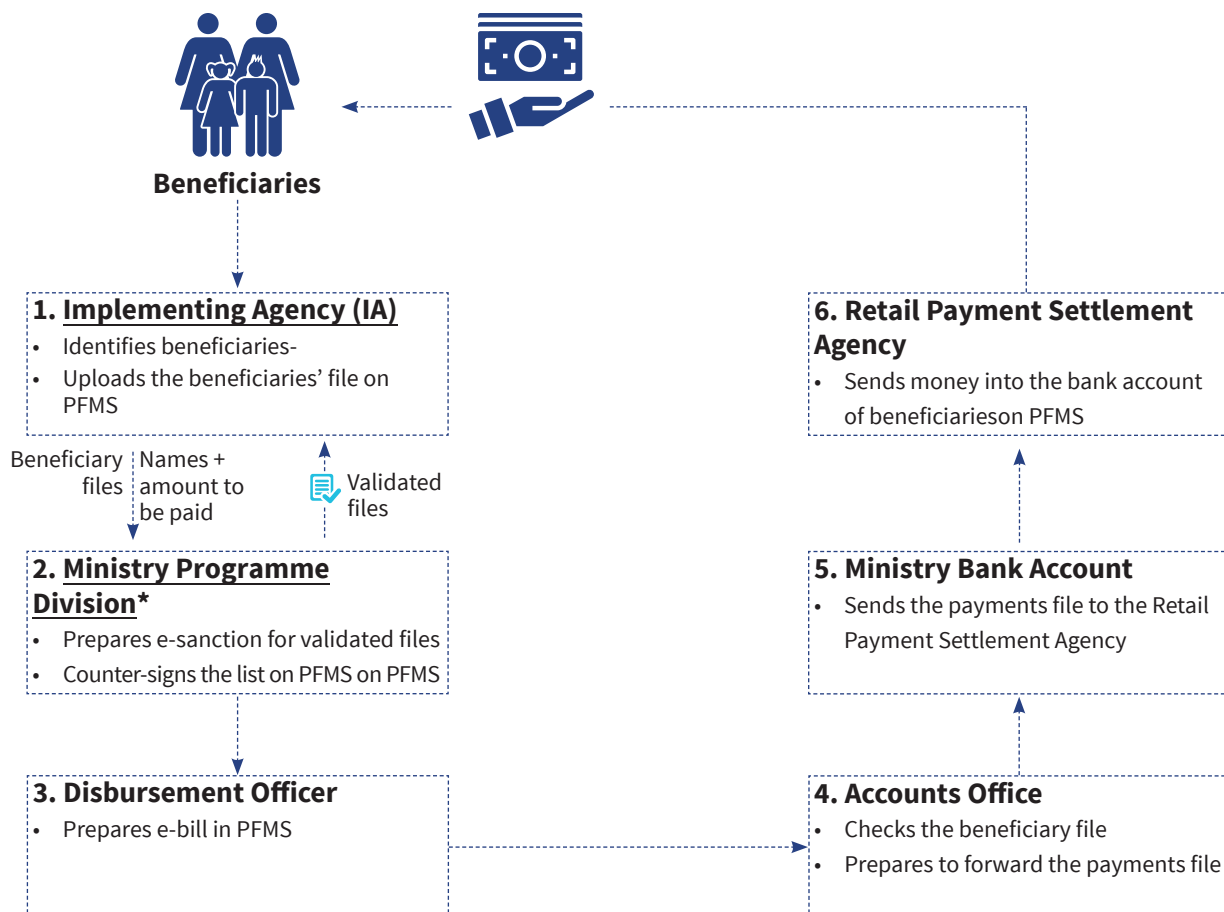
The National Informatics Centre—creator of e-governance solutions—built PFMS for a better management of all aspects of public funds

\* Core Banking Solution (CBS) interface – a centralized system established by a bank which allows its customers to conduct their business without geo-specific impediments  
 PIB, 44<sup>th</sup> Civil Account's Day, March 2020

## 4. DBT through PFMS



### The DBT process flow of Central Sector Programs on PFMS



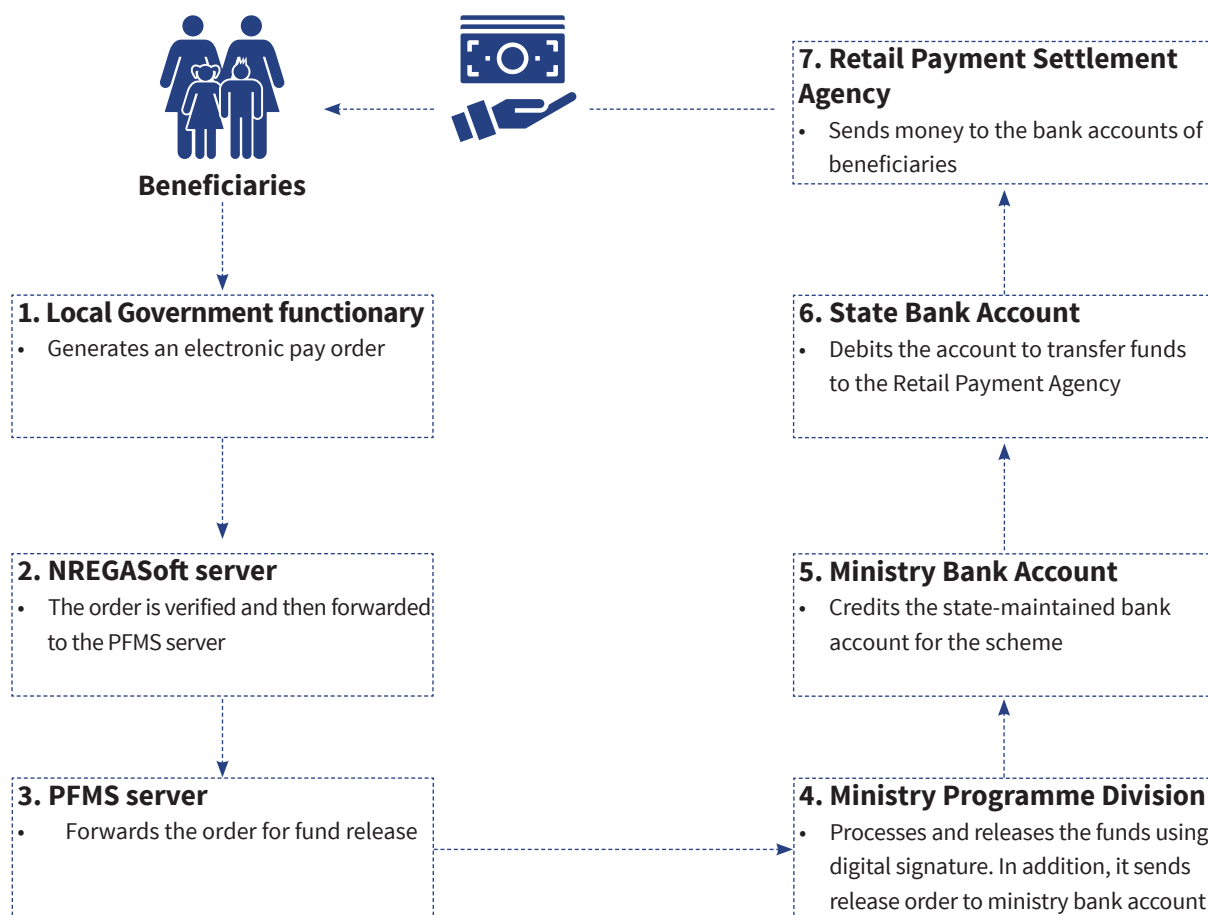
Source: Overview of Central Plan Scheme Monitoring System, DBT Bharat

\*The payment process of PFMS starts with the Program Division of the concerned ministry. It is tasked with creation of fund sanctions and passing them on for fund disbursement.



## DBT under Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) through the PFMS

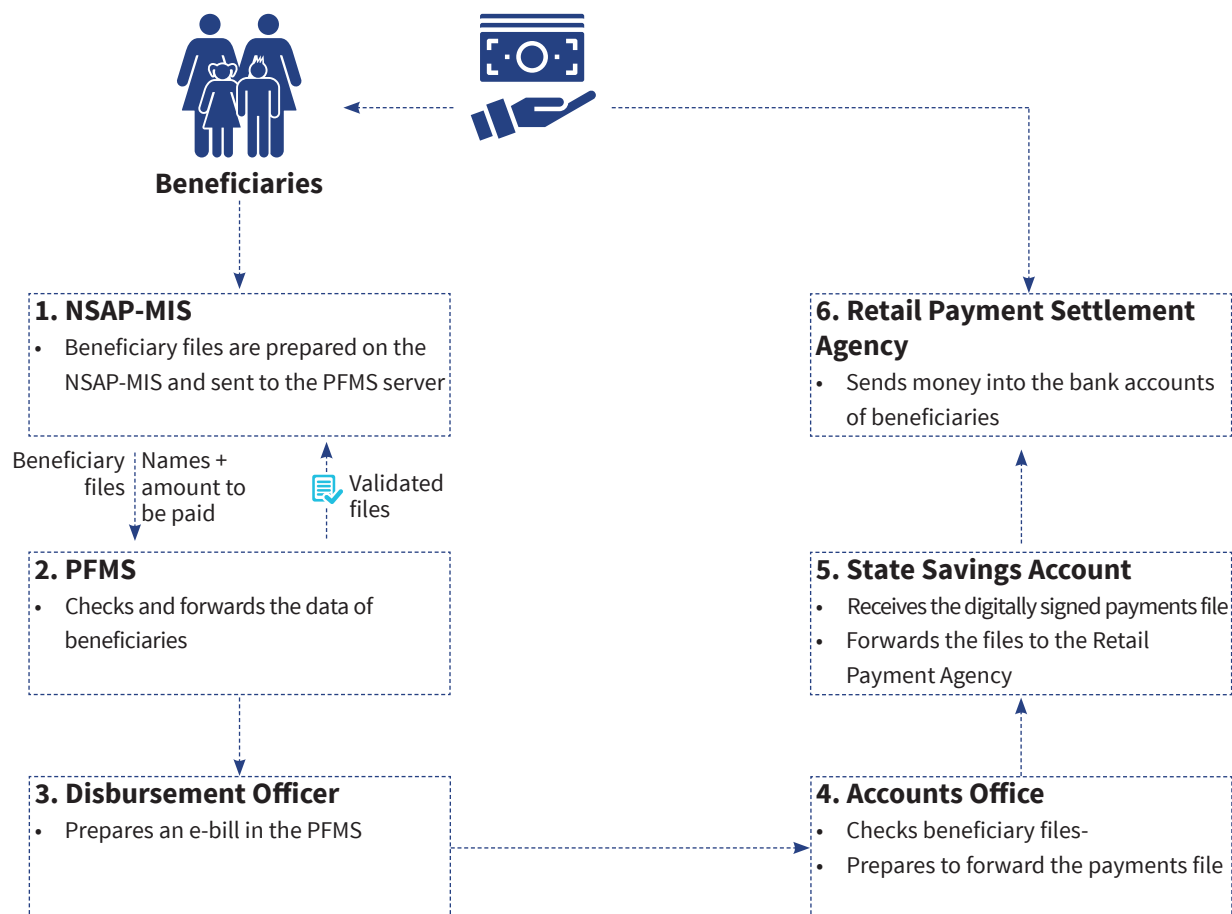
This program uses NREGASoft, a local language-enabled workflow-based e-governance system that is available in offline as well as online mode. The system captures all the activities under NREGA at the levels of the center, state, district, block, and village.



Source: National Electronic Fund management System, MGNREGA, May, 2016

## DBT under the pension programs for elderly, widows, and disabled (NSAP) through the PFMS

NSAP-MIS is a software for managing the beneficiaries of National Social Assistance Program (NSAP). The software is integrated with the PFMS.



Payments for failed transactions are re-initiated by carrying out the required modification or rectification according to the reasons for failures mentioned in the response file. These may also be settled bypassing the PFMS and rectifying the errors for the next payment cycle.



## 5. Key lessons



### Benefits of PFMS



PFMS is designed to help establish a common electronic platform for comprehensive tracking of fund flows from the Central Government to a large number of program implementing agencies, both under the central government and the state governments, till it reaches the final intended beneficiaries.



It reduces the fund float in the financial systems by enabling “just-in-time” releases and also the government borrowings with a direct impact on the interest cost.



PFMS has enabled the digitization of direct benefit transfers (DBT) with collateral benefits, such as to plug leakages and eliminate ghost beneficiaries.

**The linkage of *Aadhaar* and DBT has helped government save close to USD 20.2 billion (INR 1.42 trillion), as on March 2019. PFMS has been an efficient and effective tool for monitoring of government funds saving upto USD 14.3 billion (INR 1 trillion) till March 2020.**



## Challenges and the way ahead for the PFMS



Railways and Defence ministries are still not integrated with the PFMS



Huge volume of data in PFMS is not being used to its full potential



The vision of “Just in time” release of funds is still not realised



Lack of proper communication within the PFMS ecosystem

## The way ahead for PFMS

- Integration of PFMS with Railways and Defence should be taken forward immediately
- The enormous data available within the PFMS should be analyzed and used to further improve the quality of expenditure under various programs. Better data monitoring and analysis will not only ensure better implementation of G2P programs, but could also potentially save a lot more money for the government.
- To ensure complete realization of “Just in time” release of funds, strengthening PFMS infrastructure (both hardware and software) is required. This will ensure seamless generation of Electronic Utilisation Certificate (E-UCs) on the portal and online submission of the same.
- Better communication within PFMS ecosystem is essential to ensure correct and optimal agency mapping, timely resolution of payment failure issues, and various other challenges.



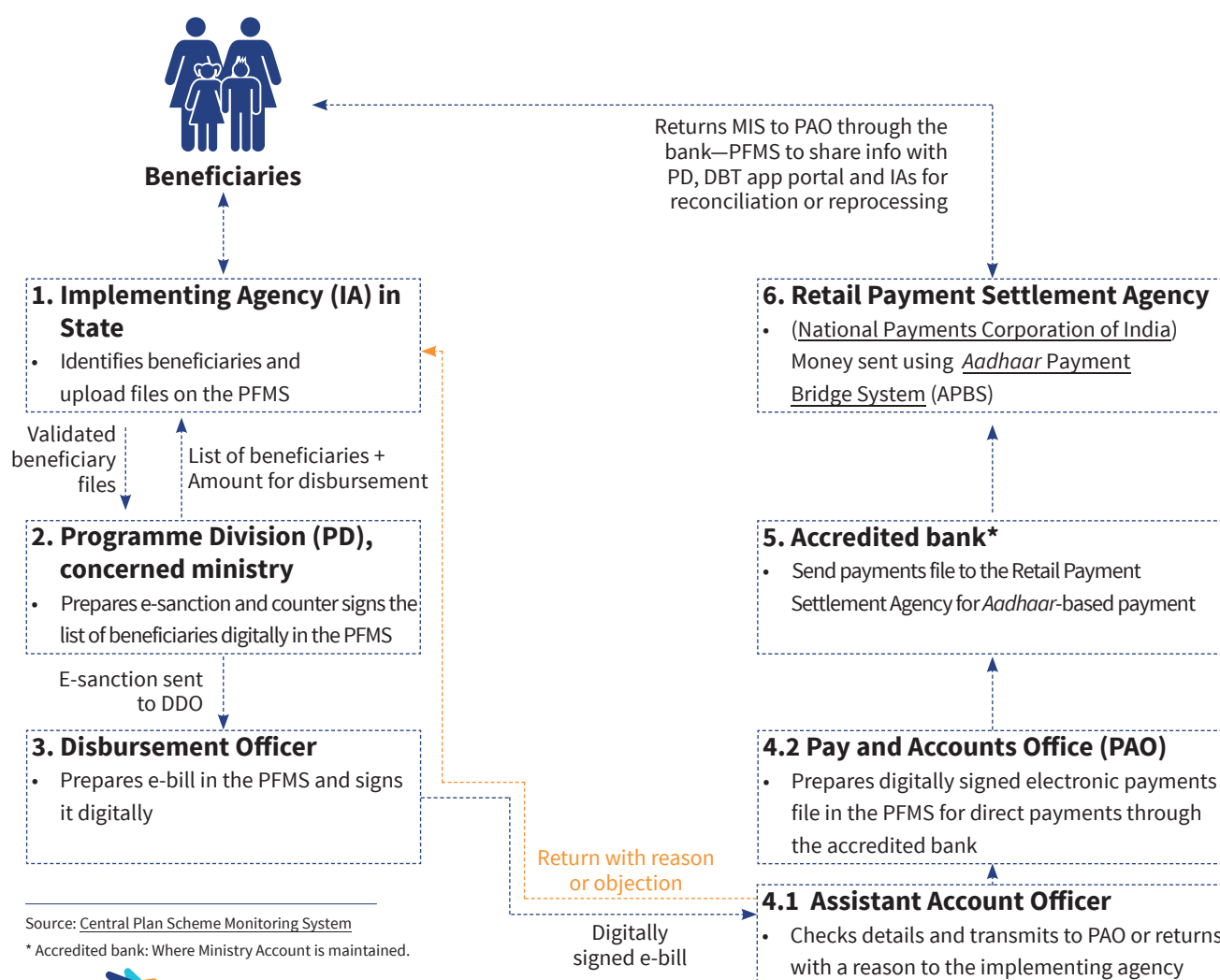
Source: Report on PFMS workshop, MoRD, June 2019

We have saved Rs 1 trn through DBT by using tech efficiently: Sitharaman, Business Standard, March 2020

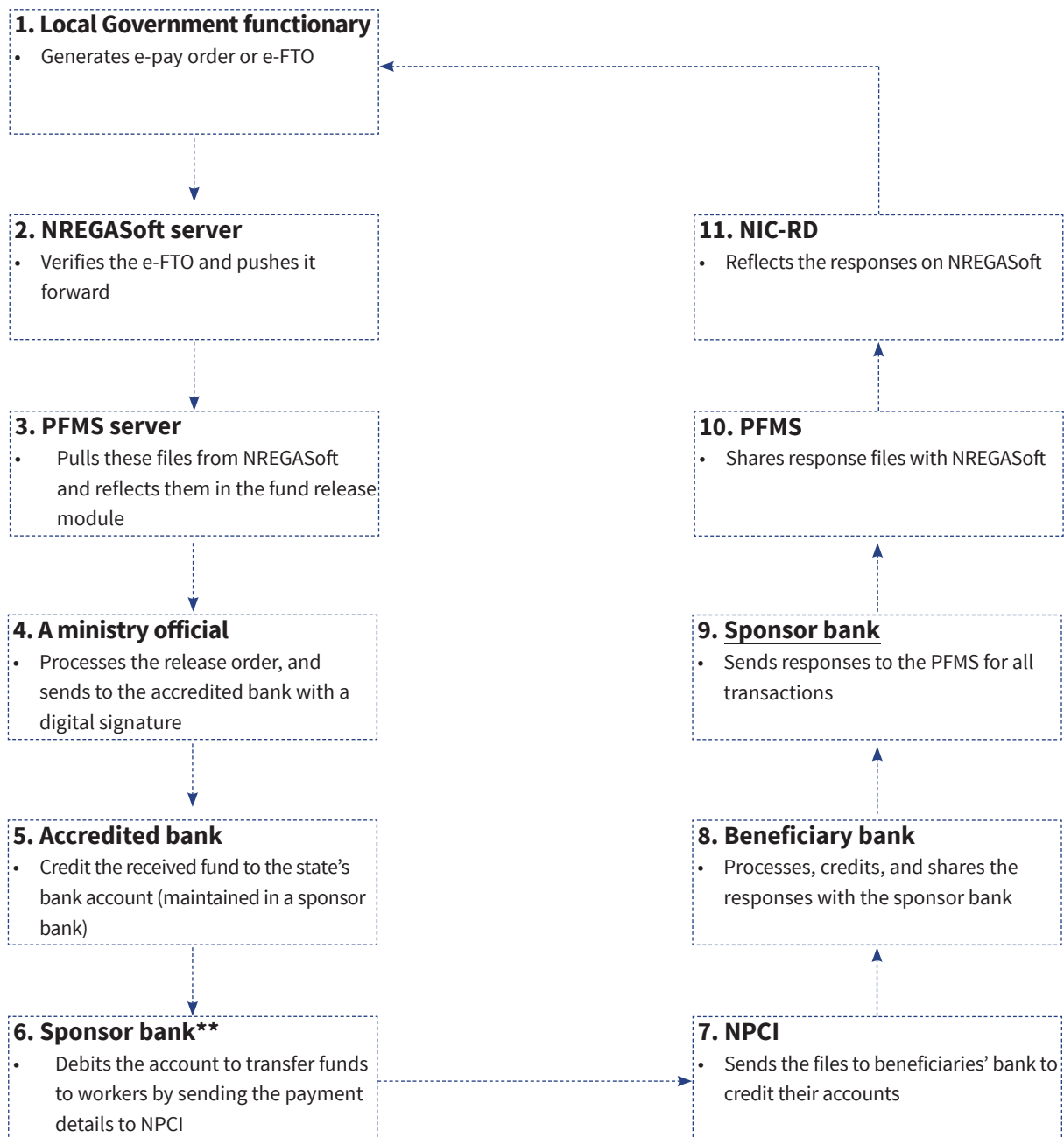
## 6. Appendix



### The DBT process flow of Central Sector Schemes on the PFMS



## DBT under Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) through the PFMS



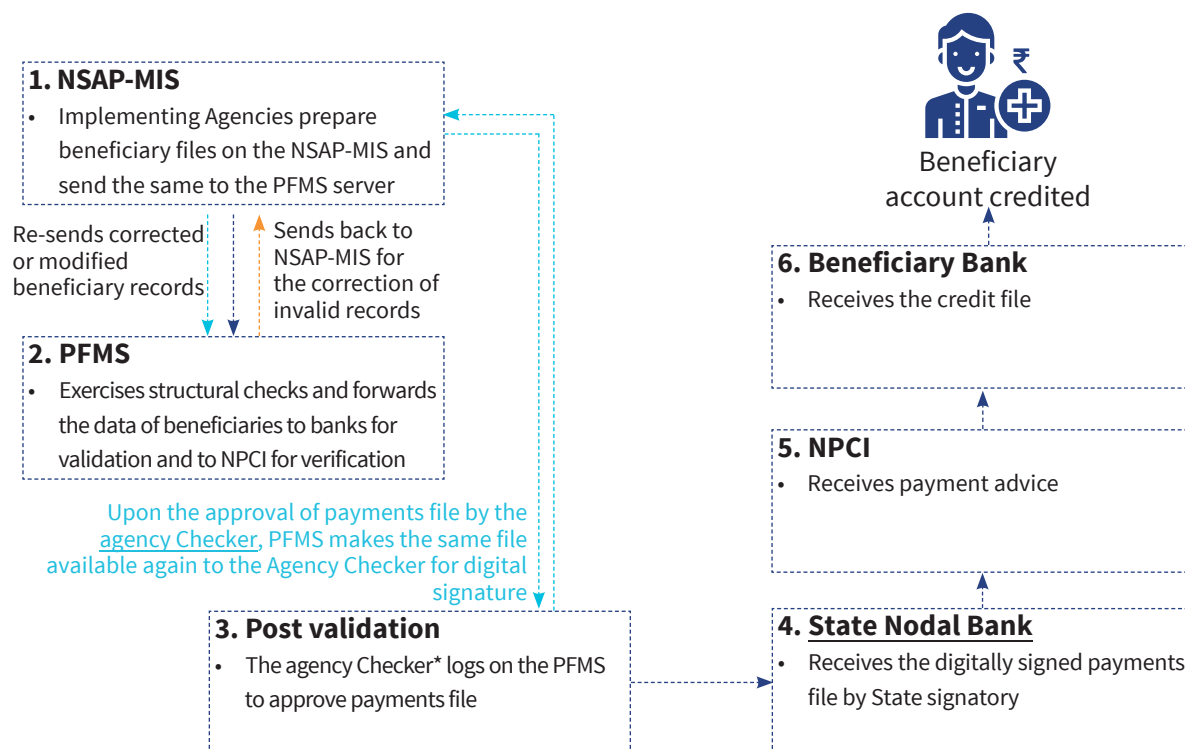
Source: National Electronic Fund Management System, MGNREGA

\*NREGASoft is a local language enabled workflow-based e-Governance system and is available in offline as well as online mode. It captures all the activities under NREGA at the centre-, state-, district-, block-, and panchayat-level. \*\* Sponsor Bank: The account maintained by the state for a welfare scheme.



## DBT under the pension programs for elderly, widows and disabled (NSAP) through the PFMS

NSAP-MIS is a software for managing NSAP beneficiaries and is already integrated with the PFMS. The states that do not capture beneficiary details on the 'NSAP MIS' use Excel Upload facility to upload beneficiary files on the PFMS.



Payments for failed transactions are re-initiated by carrying out the required modification or rectification as per the reasons in the response file. These may also be settled bypassing the PFMS and rectifying the errors for the next payment cycle.



\* PFMS has been designed using the Maker Checker concept where the Data Operator (Maker) enters all transaction entries and submits it to the Data Approver (Checker) for the verification and approval/rejection of transactions.

## Milestones and objectives of the Integrated Financial Management Systems (IFMS)

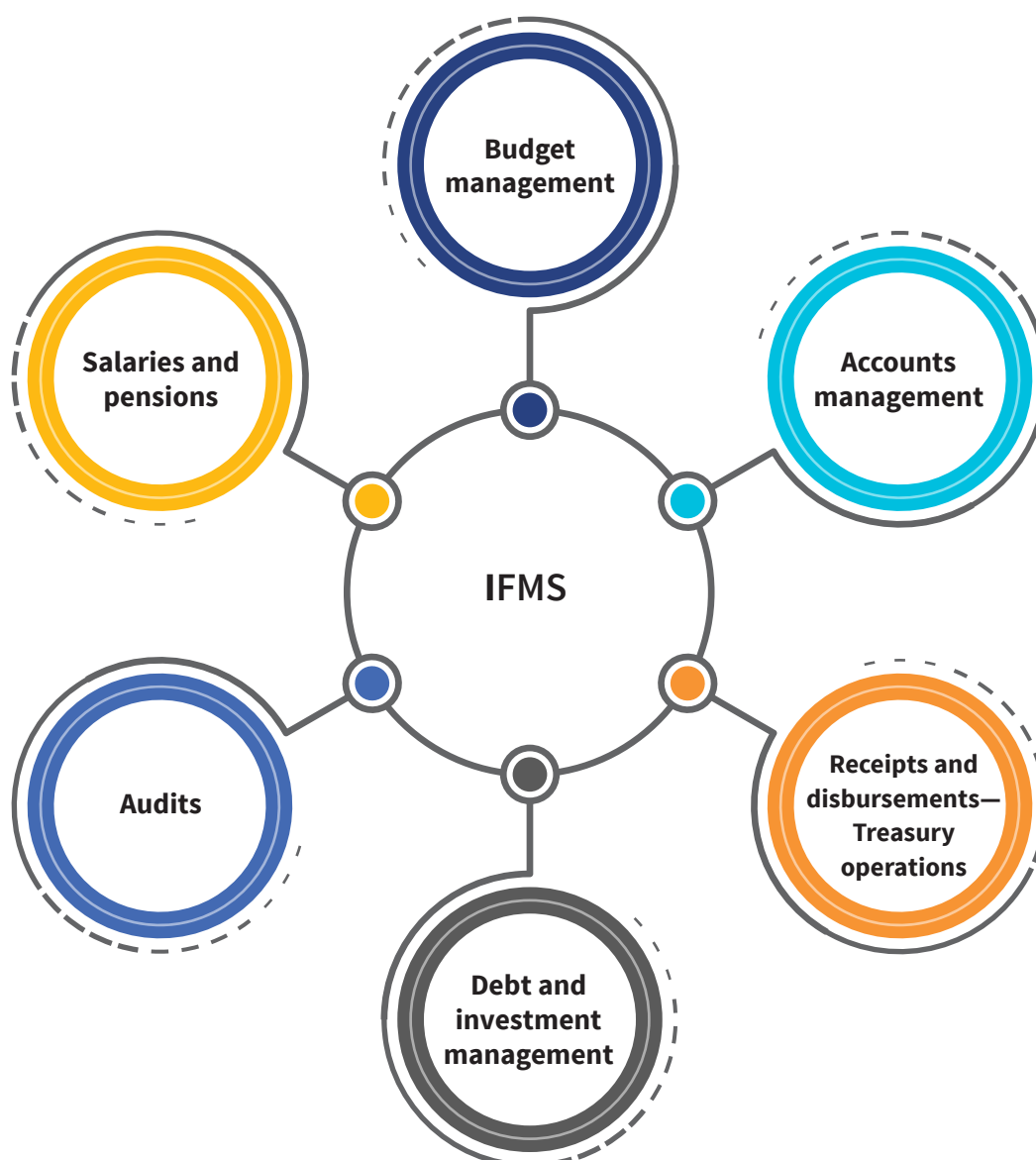
The Government of India approved the scheme for the implementation of the Mission Mode Projects—“Computerization of State Treasuries”

2010

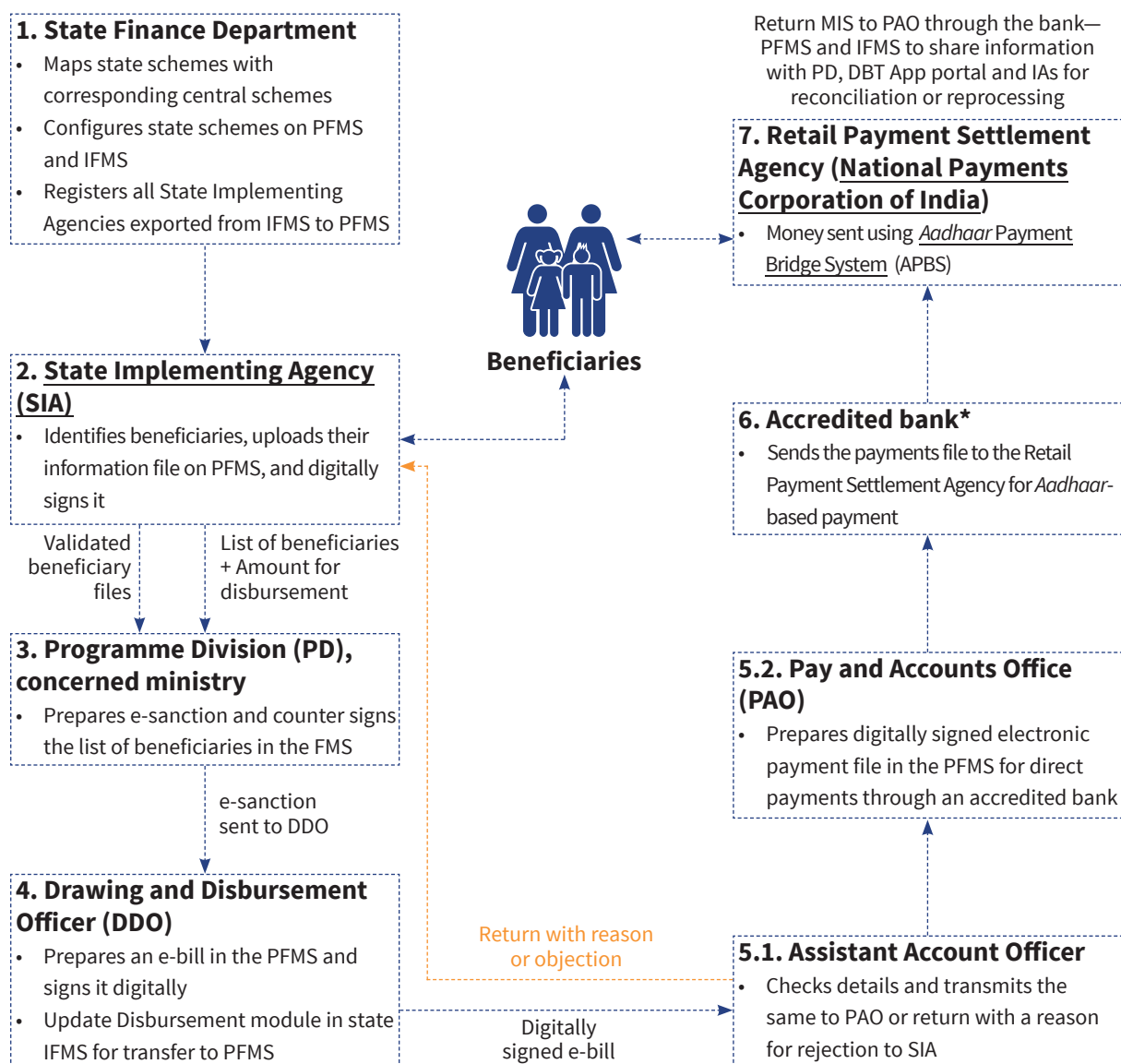
2011-13

Most states digitized their treasuries and availed up to 75% -90%, in case of North Eastern States, of the project cost funding provided by the government of India

IFMS provides better financial management along with an improved quality of governance in States and Union Territories. To achieve this, IFMS makes the budgeting processes more efficient, improves the cash flow management, promotes real-time reconciliation of accounts, strengthens Management Information Systems (MIS), improves accuracy and timeliness in accounts preparation, brings about transparency and efficiency in public delivery systems.



## PFMS and IFMS integration for Centrally Assisted State Plan (CASP) Schemes



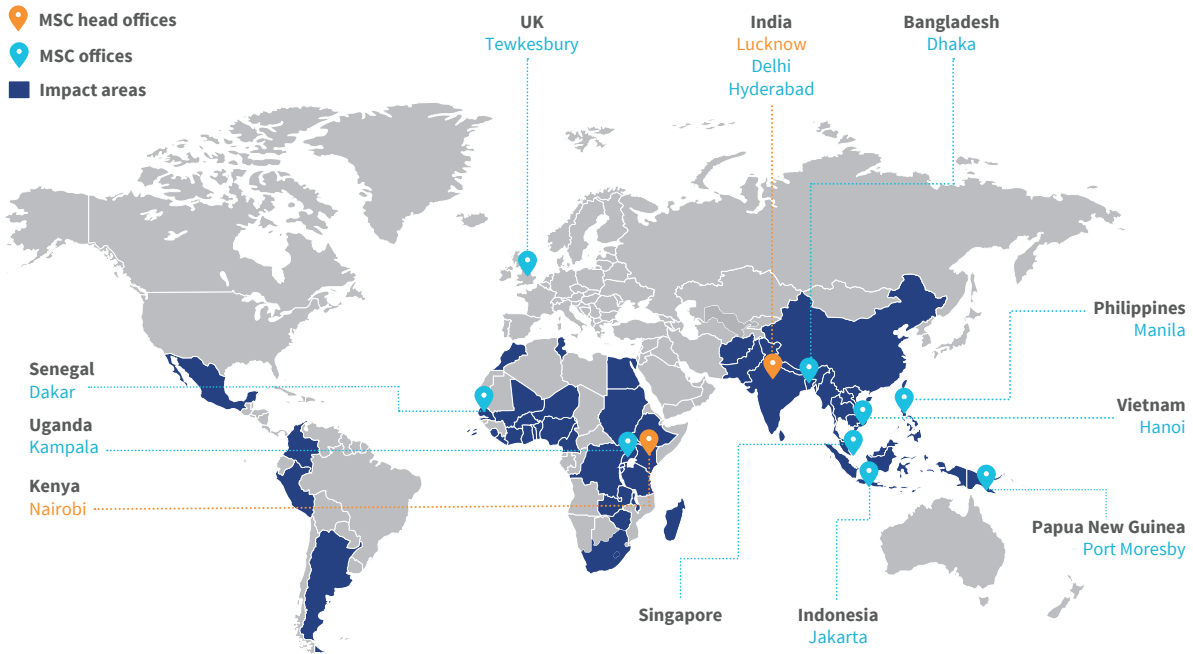
Source: Central Plan Scheme Monitoring System

\*Accredited bank: Where Ministry account is maintained



## List of abbreviations

AAO	Assistant Accounts Officer
CA	Controller of Accounts
CCA	Chief Controller of Accounts
CGA	Chief Controller of Accounts
DDO	Drawing and Disbursing Officer
CPSMS	Central Plan Scheme Monitoring System
DDO	Drawing and Disbursing Officer
FTO	Fund transfer order
FY	Financial year
MoRD	Ministry of Rural Development
NIC	National Informatics Center
NPCI	National Payment Corporation of India
PAO	Pay and Accounts Officer
PD	Program Division (Administrative Division)
PFMS	Public Finance Management System
Vendor	Denoted payee (To whom a payment is to be made)



## Asia head office

28/35, Ground Floor, Princeton Business Park, 16 Ashok Marg,  
Lucknow, Uttar Pradesh, India 226001

Tel : +91-522-228-8783 | Fax : +91-522-406-3773

Email : [manoj@microsave.net](mailto:manoj@microsave.net)

## Africa head office

Shelter Afrique House, Mamlaka Road, P.O. Box 76436,  
Yaya 00508, Nairobi, Kenya

Tel : +25-420-272-4801 | Fax : +25-420-272-0133

Email : [anup@microsave.net](mailto:anup@microsave.net)

**[www.microsave.net](http://www.microsave.net)**