



OFFICIAL USE ONLY

R2019-0029/1

February 15, 2019

**Closing Date: Thursday, March 7, 2019
at 6:00 p.m.**

FROM: Acting Vice President and Corporate Secretary

India - Uttarakhand Public Financial Management Strengthening Project

Project Appraisal Document

Attached is the Project Appraisal Document regarding a proposed loan to India for a Uttarakhand Public Financial Management Strengthening Project (R2019-0029), which is being processed on an absence-of-objection basis.

Distribution:

Executive Directors and Alternates

President

Bank Group Senior Management

Vice Presidents, Bank, IFC and MIGA

Directors and Department Heads, Bank, IFC, and MIGA



FOR OFFICIAL USE ONLY

Report No: PAD3001

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED LOAN

IN THE AMOUNT OF US\$31.58 MILLION

TO THE

REPUBLIC OF INDIA

FOR A

UTTARAKHAND PUBLIC FINANCIAL MANAGEMENT STRENGTHENING PROJECT

FEBRUARY 8, 2019

Governance Global Practice
South Asia Region

This document has a restricted distribution and may be used by recipients only in the performance of their official duties. Its contents may not otherwise be disclosed without World Bank authorization.

CURRENCY EQUIVALENTS

Exchange Rate Effective December 31, 2018

Currency Unit = Indian Rupee (INR)

INR 69.57 = US\$1

INR 1 = US\$0.1437

FISCAL YEAR

April 1 – March 31

Regional Vice President:	Hartwig Schafer
Country Director:	Junaid Kamal Ahmad
Senior Global Practice Director:	Deborah L. Wetzel
Practice Manager:	Adrian Fozzard
Task Team Leader(s):	Krishnamurthy Sankaranarayanan, Puneet Kapoor

ABBREVIATIONS AND ACRONYMS

AFS	Annual Financial Statements
BPR	Business Process Re-engineering
CPF	Country Partnership Framework
CTRFA	Center for Training and Research in Financial Administration
CTS	Core Treasury System
DDO	Drawing and Disbursing Officer
DeMPA	Debt Management Performance Assessment
DLI	Disbursement Linked Indicator
DSA	Debt Sustainability Analysis
EEP	Eligible Expenditures Program
EFC	Expenditure Finance Committee
EIRR	Economic Internal Rate of Return
FAAR	Financial Attest Audit Report
FD	Finance Department
FIRR	Financial Internal Rate of Return
FM	Financial Management
FRBM	Uttarakhand Fiscal Responsibility and Budget Management Act 2005
FY	Financial Year
GDP	Gross Domestic Product
GIS	Geographic Information System
GMVN	Garhwal Mandal Vikas Nigam
GoI	Government of India
GO	Government Order
GoUk	Government of Uttarakhand
GRM	Grievance Redressal Mechanism
GRS	Grievance Redress Service
GST	Goods and Service Tax
GSDP	Gross State Domestic Product
HPC	High Powered Committee
HRMIS	Human Resource Management Information System
IAS	Indian Administrative Service
IBRD	International Bank for Reconstruction and Development
IFMIS	Integrated Financial Management Information System
IFR	Interim Unaudited Financial Reports
INR	Indian Rupee
IPF	Investment Project Financing
IT	Information Technology
IVA	Independent Verification Agency
M&E	Monitoring and Evaluation
MAS	Municipal Accounting Software
MIS	Management Information System

MTDS	Medium-Term Debt Strategy
MTEF	Medium term Expenditure Framework
MTFP	Medium term Fiscal Plan
MTR	Mid Term Review
NPV	Net Present Value
OAMS	Online Audit Management System
OSR	Own Source Revenue
PDO	Project Development Objective
PEFA	Public Expenditure and Financial Accountability Assessment
PFM	Public Financial Management
PMD	Project Monitoring Dashboard
PMU	Project Management Unit
SBD	Standard Bidding Documents
SCD	Systematic Country Diagnostic
SOE	State-Owned Enterprises
STEP	Systematic Tracking of Exchanges in Procurement
TA	Technical Assistance
UDD	Urban Development Directorate
ULB/ULBs	Urban Local Body/Urban Local Bodies
UMAM	Uttarakhand Municipal Accounts Manual
US\$/USD	United States Dollar
WB/the Bank	World Bank



TABLE OF CONTENTS

DATASHEET	i
I. STRATEGIC CONTEXT	1
A. Country Context.....	1
B. Sectoral and Institutional Context	1
C. Relevance to Higher Level Objectives.....	4
II. PROJECT DESCRIPTION	5
A. Project Development Objective	5
B. Project Components	6
C. Project Beneficiaries	7
D. Results Chain	7
E. Rationale for Bank Involvement and Role of Partners	8
F. Lessons Learned and Reflected in the Project Design	9
III. IMPLEMENTATION ARRANGEMENTS.....	9
A. Institutional and Implementation Arrangements	9
B. Results Monitoring and Evaluation Arrangements.....	10
C. Sustainability.....	10
IV. PROJECT APPRAISAL SUMMARY	11
A. Technical, Economic and Financial Analysis	11
B. Fiduciary.....	12
C. Safeguards	13
V. KEY RISKS	15
VI. RESULTS FRAMEWORK AND MONITORING.....	16
ANNEX 1: Implementation Arrangements and Support Plan.....	41
ANNEX 2: Technical Annex: Project Components and sub components	46
ANNEX 3: Economic Analysis	57



DATASHEET

BASIC INFORMATION

Country(ies)	Project Name	
India	Uttarakhand Public Financial Management Strengthening Project	
Project ID	Financing Instrument	Environmental Assessment Category
P166923	Investment Project Financing	C-Not Required

Financing & Implementation Modalities

<input type="checkbox"/> Multiphase Programmatic Approach (MPA)	<input type="checkbox"/> Contingent Emergency Response Component (CERC)
<input type="checkbox"/> Series of Projects (SOP)	<input type="checkbox"/> Fragile State(s)
<input checked="" type="checkbox"/> Disbursement-linked Indicators (DLIs)	<input type="checkbox"/> Small State(s)
<input type="checkbox"/> Financial Intermediaries (FI)	<input type="checkbox"/> Fragile within a non-fragile Country
<input type="checkbox"/> Project-Based Guarantee	<input type="checkbox"/> Conflict
<input type="checkbox"/> Deferred Drawdown	<input type="checkbox"/> Responding to Natural or Man-made Disaster
<input type="checkbox"/> Alternate Procurement Arrangements (APA)	

Expected Approval Date	Expected Closing Date
07-Mar-2019	30-Jun-2024

Bank/IFC Collaboration

No

Proposed Development Objective(s)

The project development objective is to enhance accountability in public finances and increase effectiveness of revenue management systems in Uttarakhand

Components

Component Name	Cost (US\$, millions)
----------------	-----------------------



Component 1: Strengthening the Public Financial Management Functions	25.52
Component 2: Strengthening Revenue Management Systems	6.79
Component 3: Strengthening PFM in Urban Local Bodies and State-Owned Enterprises	5.30
Component 4: Project Management and Monitoring & Evaluation	1.79
Front end Fees	0.08

Organizations

Borrower:	Republic of India
Implementing Agency:	Finance Department, Government of Uttarakhand

PROJECT FINANCING DATA (US\$, Millions)

SUMMARY

Total Project Cost	39.48
Total Financing	39.48
of which IBRD/IDA	31.58
Financing Gap	0.00

DETAILS

World Bank Group Financing

International Bank for Reconstruction and Development (IBRD)	31.58
--	-------

Non-World Bank Group Financing

Counterpart Funding	7.90
Borrower/Recipient	7.90

Expected Disbursements (in US\$, Millions)

WB Fiscal Year	2019	2020	2021	2022	2023	2024	2025
Annual	0.18	3.75	6.95	7.20	7.15	5.50	0.85



Cumulative	0.18	3.93	10.88	18.08	25.23	30.73	31.58
------------	------	------	-------	-------	-------	-------	-------

INSTITUTIONAL DATA

Practice Area (Lead)

Governance

Contributing Practice Areas

Macroeconomics, Trade and Investment, Social, Urban, Rural and Resilience Global Practice

Climate Change and Disaster Screening

This operation has been screened for short and long-term climate change and disaster risks

Gender Tag

Does the project plan to undertake any of the following?

a. Analysis to identify Project-relevant gaps between males and females, especially in light of country gaps identified through SCD and CPF	Yes
b. Specific action(s) to address the gender gaps identified in (a) and/or to improve women or men's empowerment	Yes
c. Include Indicators in results framework to monitor outcomes from actions identified in (b)	Yes

SYSTEMATIC OPERATIONS RISK-RATING TOOL (SORT)

Risk Category

Rating

1. Political and Governance	● Low
2. Macroeconomic	● Moderate
3. Sector Strategies and Policies	● Moderate
4. Technical Design of Project or Program	● Substantial
5. Institutional Capacity for Implementation and Sustainability	● Substantial
6. Fiduciary	● Moderate
7. Environment and Social	● Low
8. Stakeholders	● Moderate



9. Other	● Low
10. Overall	● Moderate

COMPLIANCE

Policy

Does the project depart from the CPF in content or in other significant respects?

☐ Yes ☒ No

Does the project require any waivers of Bank policies?

☐ Yes ☒ No

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01		✓
Performance Standards for Private Sector Activities OP/BP 4.03		✓
Natural Habitats OP/BP 4.04		✓
Forests OP/BP 4.36		✓
Pest Management OP 4.09		✓
Physical Cultural Resources OP/BP 4.11		✓
Indigenous Peoples OP/BP 4.10		✓
Involuntary Resettlement OP/BP 4.12		✓
Safety of Dams OP/BP 4.37		✓
Projects on International Waterways OP/BP 7.50		✓
Projects in Disputed Areas OP/BP 7.60		✓

Legal Covenants

Sections and Description

Project Management Unit (PMU): The Project Implementing Entity shall maintain, at all times during Project implementation, a PMU within Center for Training and Research in Financial Administration (CTRFA) of Uttarakhand's Finance Department (FD), for the Project with functions and responsibilities acceptable to the Bank, and with staff in adequate numbers and qualifications, experience and terms of reference agreed with the Bank as set forth in the Project Implementation Plan. Without limitation on the foregoing, the PMU shall be chaired/led by



a Project director from the Indian Administrative Service (IAS), and be responsible, for inter-alia : (i) coordinating activities with the other Implementing Agency(ies); (ii) taking actions for procurement, financial management (FM), monitoring progress and evaluating performance; (iii) ensuring financial reports are available and submitted to the Bank; (iv) hiring technical experts and consultants, all in accordance with the Project Implementation Plan; and (v) ensuring timely funds flow to facilitate Project implementation.

Sections and Description

High Powered Committee (HPC): The Project Implementing Entity shall maintain, at all times during Project implementation, a HPC, chaired by the Chief Secretary and comprising inter alia of the Principal Secretaries/key Directors of relevant Implementing Agency(ies) as applicable to the Project, to meet at least once every six (6) months and to provide overall strategic guidance to the Project and encourage inter-departmental coordination.

Sections and Description

Project Implementation: The Project Implementing Entity shall implement the Project in accordance with the Project Implementation Plan; and shall not amend, revise or waive nor allow to be amended, revised or waived, the provisions of the Project Implementation Plan or any part thereof without the prior written agreement of the Bank. In the event of any inconsistency between the provisions of the Project Implementation Plan, on the one hand, and those of the Loan Agreement and the Project Agreement, on the other hand, the provisions of the latter shall prevail.

Sections and Description

Reversal of Disbursement Linked Indicators (DLI): Unless otherwise agreed with the Bank, in the event that (i) a reversal of a DLI Target, has occurred in a manner that would, in the opinion of the Bank, adversely affect the achievement of the objectives of the Project, and (ii) the said DLI Target has already been verified using the DLI Verification Protocol and for which the corresponding disbursements have been made by the Bank, the Borrower shall refund the disbursements already made by the Bank for such DLI Target, promptly upon notice thereof by the Bank.

Sections and Description

DLI Verification and Withdrawals: The Project Implementing Entity shall undertake the verification process, with an independent verification agent to be appointed within three (3) months of the Effective Date for the duration of the Project, being either an external independent party or an independent government agency, in accordance with the DLI Verification Protocol and under the terms of reference agreed with the Bank and set out in the Project Implementation Plan, to certify the fulfillment of each DLI Target set out in Schedule 4 to the Loan Agreement; and furnish to the Bank corresponding verification reports in a timely manner, in form and substance satisfactory to the Bank.

Sections and Description

Retroactive Financing: No withdrawal shall be made for payments made prior to the Signature Date, except that withdrawals up to an aggregate amount not to exceed six million Dollars (US\$ 6,000,000) may be made for payments made prior to this date but on or after April 1, 2018 for the Project.

Sections and Description

Project Monitoring, and Reporting: The Project Implementing Entity shall monitor and evaluate the progress of the



Project and prepare Project Reports in accordance with the provisions of Section 5.08 (b) of the General Conditions and on the basis of indicators acceptable to the Bank. Each such Project Report shall cover the period of one calendar semester, and shall be furnished to the Borrower not later than 45 days after the end of the period covered by such report for incorporation and forwarding by the Borrower to the Bank of the overall Project Report.

Sections and Description

Project Completion Report: The Project Implementing Entity shall prepare and provide to the Borrower and the Bank not later than two months after the Closing Date, for incorporation in the report referred to in Section 5.08 (c) of the General Conditions all such information as the Borrower or the Bank shall reasonably request for the purposes of that Section.

Sections and Description

Grievance Redressal Mechanism (GRM): The Borrower shall ensure the Project Implementing Entity maintains and publicizes or causes the respective Implementing Agency(ies) to maintain and publicize the availability of appropriate GRMs, in form and substance satisfactory to the Bank, to hear and determine fairly and in good faith all complaints raised in relation to the Project, and take measures necessary to implement the determinations made by such mechanisms in a manner satisfactory to the Bank. The Project Implementing Entity shall ensure that the appropriate GRMs are developed and implemented under the Project, by each Urban Local Body (ULB) and selected Implementing Agency(ies) as applicable with respect to inter alia property tax administration, and procurement.

Sections and Description

Nodal Officers: The Project Implementing Entity shall ensure at all times during Project Implementation, for each Part/sub-Part of the Project, a nodal officer from each of the Implementing Agency(ies) is designated to lead the technical part of the reform interventions for the Project and coordinate with the PMU on the implementation of activities, monitoring, and reporting.

Sections and Description

Mid Term Review (MTR): The Project Implementing Entity shall: (a) prepare and furnish to the Borrower and the Bank, by no later than September 30, 2022 or such later date as mutually agreed with the Bank, a MTR report, in a manner and substance satisfactory to the Bank, integrating and complementing the results of the monitoring and evaluation (M&E) of Project activities, which report shall detail the progress achieved in carrying out the Project during the period preceding the date of such report, and setting out measures recommended to ensure thereafter the efficient implementation of the Project and the achievement of its development objectives; and (b) review with the Bank, by no later than December 31, 2022, or such later date as mutually agreed with the Bank, the MTR report referred in sub-paragraph (a) above, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank's views on the matter.

Conditions



I. STRATEGIC CONTEXT

A. Country Context

1. **India continues to be the world's fastest growing major economy.** The economy has recovered after growth dipped to 6.7 percent in Financial Year (FY) 2017/18. It has accelerated in the last two quarters to reach 8.2 percent in Q1 FY2018/19 which was supported by a revival in industrial activity, strong private consumption, and a rise in exports of goods and services. At the same time, the external situation has become less favorable. An increasing trade deficit has led the current account deficit to widen (on the back of strong import demand, and higher oil prices) from a benign 0.7 percent of Gross Domestic Product (GDP) in FY2016/17 to 1.9 percent in FY2017/18. Meanwhile, external headwinds - monetary policy 'normalization' in the US coupled with recent stress in some Emerging Market Economies- have triggered portfolio outflows from April 2018 onwards, putting additional pressure on the balance of payments. As a result, the nominal exchange rate has depreciated by about 12 percent since January 2018, and foreign reserves have declined by over 4.2 percent (though remaining comfortable at about 9 months of imports). Going forward, growth is projected to reach 7.3 percent in FY2018/19 and to firm up thereafter at around 7.5 percent, primarily on account of robust private and public consumption expenditure, a rise in exports of goods and services and a gradual increase in investments. However, the current account deficit is also projected to remain elevated in FY2018/19.

2. **Since the 2000s, India has made remarkable progress in reducing absolute poverty.** Between 2011 and 2015, poverty declined from 21.6 percent to an estimated 13.4 percent at the international poverty line (2011 Purchasing Power Parity US\$ 1.90 per person per day), continuing the earlier trend of robust reduction in poverty. Aided by robust economic growth, more than 90 million people have been alleviated from extreme poverty and their living standards have improved during this period. Despite this success, poverty remains widespread in India. In 2015, with the latest estimates, 176 million Indians were living in extreme poverty while 659 million, or half the population, were below the higher poverty line commonly used for lower middle-income countries (2011 Purchasing Power Parity US\$ 3.20 per person per day). Recent trends in the construction sector and rural wages, a major source of employment for the poorer households, suggest that the pace of poverty eradication may have moderated.

B. Sectoral and Institutional Context

3. **The Public Financial Management (PFM) framework at Union and State emanates from the Indian Constitution and is guided by Union policies and processes.** India has a federal, three-tier structure of Government comprising the national or Union government; subnational or state governments; and the third tier comprising approximately 3,200 ULBs and 350,000 Rural Local Bodies. The fiscal relationship between the Union and the States is reflected in revenue sharing through devolution of central taxes and assistance in the form of grants from the Union to the states. While State Governments have their own PFM rules and procedures to exercise accountability over public funds, key areas of PFM at the state level are guided by the Constitution of India and the Union government, particularly in the areas of budgeting, accounting including the chart of accounts, financial reporting, and auditing.

4. **Recent policy level changes at the Union level have sought to increase states' share of and control over resources in the spirit of cooperative federalism.** This presents both an opportunity and challenge for state governments. The opportunity lies in greater freedom to align local development needs and priorities with the resources available. The challenge lies in the strengthening of PFM systems so that they can allocate and deliver resources in line with policy priorities and ensure accountability. States will need to manage a complex set of three



PFM objectives involving trade-off and sequencing: first to maintain the sustainability of fiscal deficits within targets prescribed, by managing contingent liabilities and fiscal risks; the second is to increase public investment; and the third is to improve the quality and outcomes of government expenditure.

5. **Uttarakhand is one of India's fastest growing states and has seen rapid poverty reduction since 2005.** Uttarakhand's annual Gross State Domestic Product (GSDP) growth rate averaged nearly 12 percent from 2005 to 2012, and 10.86 percent between FY2011/12 to FY2017/18, the highest growth rate among Indian States. Per capita income for FY2017/18 is estimated at INR 174,622 (US\$2,510), nearly 26 percent higher than the national average. Uttarakhand's poverty rate declined from 33 percent in 2005 to 11 percent in 2012, again the strongest performance amongst Indian States. Growth is driven by non-farm sectors particularly tourism and industry. With a population of 10 million (2011), literacy rates are relatively low at 79 percent – 70 percent amongst women – and there is a marked gender imbalance at birth (963/1000).

6. **The Government of Uttarakhand (GoUk) achieved the targets set under its 2005 Uttarakhand Fiscal Responsibility and Budget Management Act (FRBM) through till FY2014 but witnessed revenue deficits during FY2014/15 to FY2017/18 and fiscal deficits over the target of three percent in FY2014/15, FY2015/16, and FY2017/18.** Figures available for FY2018/19 (till November 2018) indicates a continuation of this trend of revenue and fiscal deficits to be met through further increases in debt. Over the last three years, GoUk has managed to deliver a modest increase in own-source revenues (OSR) relative to GSDP from just 6.1 percent to 6.5 percent of the State's GDP. However, OSR do not cover committed expenditure on salaries, pensions, interest, and subsidies. GoUk is fiscally dependent on transfers from central government: more than half of GoUk's total receipts are as devolution of tax revenues and grants-in-aid (see Table 1).

Table 1: GoUk Fiscal Indicators

Particulars	FY2012/13	FY2013/14	FY2014/15	FY2015/16	FY2016/17	FY2017/18 (unaudited)
GSDP in INR crores (at current prices)	131,613	149,074	161,439	177,163	191,886	214,033
Total Revenue Receipts (INR Crore)	15,747	17,321	20,247	21,234	24,889	27,105
OSR (INR Crore)	8,017	8,672	9,449	10,597	12,243	13,907
Committed Expenditure (INR Crore)	9,342	10,642	12,376	13,708	15,831	NA
Central transfers / total receipts %	49	50	53	50	51	49
OSR / GSDP %	6.1	5.8	5.9	6.0	6.4	6.5
Committed Expenditure / OSR %	117	123	131	129	129	NA
Revenue Surplus/GSDP %	1.4	0.7	-0.6	-1.1	-0.2	-0.9
Fiscal Deficit /GSDP %	1.2	1.8	3.6	3.5	2.8	3.7
Fiscal Liabilities/ GSDP %	19.4	19.3	20.7	22.2	22.8	24.2
Expenditure outturn %	89.2	86.1	91.3	91.3	78.7	94.4
Revenue outturn %	97.5	91.4	82.7	82.4	77.1	85.8
Capital expenditure / total expenditure %	20	19	19	15	16	17

Source: Report on State Finances, the State Finance Accounts, and Accounts at a Glance (www.cag.gov.in)

7. **GoUk's deteriorating fiscal situation is largely due to stagnant tax and non-tax revenues.** While Goods and Service Tax (GST) collections in the State have increased in comparison to previous tax regime, the net impact of GST on state revenues has been adverse due to a larger outflow of Inter State GST. The introduction of GST has also eroded the tax base owing to the elimination of manufacturing taxes, while the state still must honor investment tax incentives offered to industry under the previous tax regime. The GST shortfall in Uttarakhand could be up to 35 percent of previous receipts. The shortfall will be compensated by the Union government during the transition period of five years – the state has received INR1,697 crore up to May 2018 – but GoUk will have to strengthen tax administration to deal with this situation after the transition period. GoUk recognizes the need to



initiate remedial steps in terms of institutional strengthening and explore opportunities for enhancing OSR as well as increasing GST tax base and compliance. GoUk has initiated steps to use analytics for revenue risk mitigation in commercial taxes and make the tax audit system effective. GoUk is also looking in to changes to the excise duty administration, given that alcohol excises fall short of potential due to weak enforcement.

8. **At the same time, there is scope to strengthen core PFM systems and improve expenditure efficiency.** Funding is not provided in full for planned expenditures undermining predictability of funds largely due to low revenue outturns. GoUk's expenditure outturn for FY2017/18 was 94.4 percent and its revenue outturn 85.8 percent. This is a marked improvement over previous year's outturn of 78.7 percent and 77.1 percent respectively but still points to need for improvement in fiscal marksmanship. GoUk would benefit from increased prioritization of its public investments to maximize its development impact in a fiscally constrained environment, which has led to a significant reduction in the share of expenditures allocated to capital investment over the last five years. GoUk will need to improve its public investment management systems so that public infrastructure projects can be better appraised, prioritized, and implemented. There have been attempts to implement outcome budgeting, but this exercise lacks a multi-year perspective and is not linked to effective M&E systems. GoUk has recognized the need to improve the quality of expenditure through improvements in budget processes, including development of a medium-term orientation and focus on outcomes, strengthening key expenditure management systems and the rationalization of schemes and capital expenditure prioritization.

9. **There are significant challenges in the PFM management, control and reporting framework for local bodies and state-owned enterprises.** Devolution of funds to the local bodies have doubled from US\$100 million in FY2015/16 to US\$200 million in FY2017/18 and are budgeted at US\$260 million in FY2018/19, following award by the state Finance Commission and increased urbanization in the state. PFM systems in local governments, particularly ULBs, have not kept pace with increased devolution of funds. There are significant arrears in accounting and financial reporting besides delayed audit and inadequate executive response to audit findings. Property tax collection in Uttarakhand's ULBs is far below potential due to shortcomings in the tax structure and administrative shortcomings - not all properties are taxed, property registers are manual and not updated resulting in about 30-40 percent of properties remaining outside the tax purview and tax collection efficiency is low. State Owned Enterprises (SOEs) in Uttarakhand also have deficient FM practices: processes are manual and archaic; accounting and financial reporting is delayed; internal audits are weak and not used for management purposes; and there are arrears in producing audited financial statements.

10. **GoUk has worked over the last decade to strengthen the PFM systems.** The Uttarakhand Economic Assessment Report 2012 carried out by GoUk in coordination with the World Bank (WB or the Bank), outlined the key challenges in PFM and proposed the way forward for PFM reforms. While there was no formal PFM reform action plan, GoUk has pursued reforms across a wide range of PFM functions, often driven by Information Technology (IT) solutions, including: treasury computerization; payroll automation; e-procurement and procurement rules; integration with electronic payments platform (e-Kuber) of the Reserve Bank of India; revision of budget manual; strengthening internal/local bodies audit; moves towards outcome budgeting; and increased use of Direct Benefit Transfer mechanisms for state schemes.

11. **Currently, GoUk is focused on the development of a next generation Integrated Financial Management Information System (IFMIS) and supporting improvements in procedures, accountability, and capacity building.** These include: improvements in planning and budgeting systems to support results oriented public resource allocation and moves towards a medium-term outlook; strengthening of cash and debt management; modernization of the key PFM documents laying out the state's PFM architecture, its rules and procedures; introduction of a human resource management information system (HRMIS); implementation of bill processing



through online approvals rather than physical bill submission; transitioning works accounting to the treasury system; and full electronic submission of state accounts to the Accountant General. Integration of computerized modules, enhanced data capabilities and strengthened reporting capabilities are expected to bring in efficiencies in public spending and improve the credibility and predictability in budget execution. Transparency in public procurement will be improved by the implementation of Standard Bidding Documents (SBD), publication of contract awards and integration of the e-Procurement system with IFMIS. GoUk will improve the coverage, quality, and timeliness of fiscal information available to stakeholders. It will also strengthen the institutions responsible for internal audit and audit of local bodies to improve audit timeliness and quality. GoUk will support these reforms through capacity building, particularly in management skills, and has established a PFM training institute, the CTRFA. GoUk intends to transform CTRFA into a center of excellence for training and continuous building capacity of its staff in all areas of PFM.

12. **GoUk will extend its PFM reforms to strengthen revenue systems management, including assessments and collection, in select core government departments and ULBs to generate long-term benefits and improve service delivery.** Measures to increase state's OSR include review of excise policy such as introducing ad valorem system and aligning policy with neighboring states and introduction of improved e-Governance solution including a "track and trace system" to improve citizen interaction and enforcement. GoUk is already pursuing institutional reforms in commercial taxes in the areas of audit and analytics. Tourism and transport are the two major non-tax revenue earners, but underlying revenue systems are informal, and manual. Improvement of revenue in Transport Department and Garhwal Mandal Vikas Nigam (GMVN), a key SOE, are important to contain fiscal risks and contingent liabilities. GoUk intends to leverage IT to modernize and make efficient the revenue policies, procedures, and practices in these two sectors. Supplementing the above initiatives would be revenue enhancement studies in other sectors/revenue streams (such as stamps and service charges in ULBs) and assessment of the existing public private partnership framework to explore opportunities for enhancing OSR.

13. **GoUk recognizes that it needs to build its institutional and technical capabilities in both local bodies and SOEs and modernize their PFM systems and putting in place better corporate governance structures and monitoring frameworks.** With increased urbanization, devolvement of additional state resources is inevitable and GoUk considers strengthening of urban revenue management a priority area and will support the application of modern systems of Geographical Information System (GIS) mapping, digital property tax registers, and house to house surveys in ULBs. GoUk will work to improve accounting and internal controls and transparency in local bodies', particularly the ULBs, and strengthen oversight through a more effective audit mechanism. GoUk also intends to carry out Corporate Governance assessments in other SOEs to strengthen the governance institutions in SOEs, financial restructuring, and developing strategic business plans to make them sustainable.

C. Relevance to Higher Level Objectives

14. **The project objectives support GoUk's development goals and respond to its objective of further strengthening its PFM architecture.** The project addresses three strategic priorities of GoUk: first, to further improve budget execution and strengthen accountability, by strengthening expenditure management systems and processes; second, to increase resource mobilization, through improved effectiveness of revenue administration systems; and third, to enhance accountability of ULBs and SOEs in selected sectors such as tourism, the mainstay of Uttarakhand's economy, by strengthening their PFM systems. The project supports ongoing and planned PFM interventions identified by the GoUk across the PFM cycle, broadening, and deepening these reforms and bringing PFM reforms under one overarching program.

15. **The Systematic Country Diagnostic (SCD) for India identifies improvements in public sector effectiveness as one of the key challenges the country faces if it is to sustain high growth rates.** The SCD argues for a



transformation in the public sector by improving accountability, efficiency, and effectiveness in public finances. The SCD recognizes that recent policy level changes at the Union level increasing untied transfers to states and local bodies will need to be accompanied by improvements in PFM systems if they are to translate into improvements in public services.

16. **The project is consistent with the WB Group Country Partnership Framework (CPF) FY 2018-2022 discussed at the Board on September 20, 2018 (Report no.126667-IN).** The CPF focuses on strengthening capability of public sector institutions, particularly at state and local levels. Capability means having effective systems to assess drivers of performance and problems in service delivery, plan and implement reforms, seek citizen feedback, monitor progress, and adjust to sustain improved institutional performance. Improved performance includes improvements in transparency and the proper use of public resources. The CPF anticipates lending to strengthen capabilities in PFM at the state level. It also anticipates lending to develop the core competencies— FM, resource mobilization, accountability mechanisms — of rural and urban local bodies so that they can assume greater service delivery responsibilities.

17. **The project will promote knowledge exchange between states in line with the Lighthouse India approach supported by the CPF.** The project is one of a series of WB PFM engagements at state level, following projects in Himachal Pradesh, Assam, Rajasthan, and Chhattisgarh. While each of these projects is aligned with the specific policy priorities and development challenges of each state, there are common agendas. The project will draw on and share experience with other states when identifying appropriate technology solutions, structuring of procurement packages, and sequencing/phasing of implementation to facilitate successful implementation and mitigate change management risks. Knowledge exchange will extend to other states through national forums such as the Bank-supported PFM Knowledge and Innovation Network (PFM-KIN) which brings together PFM practitioners for peer to peer learning and exchanges on technical matters to promote and support the implementation of PFM reforms.

II. PROJECT DESCRIPTION

A. Project Development Objective

18. **The Project Development Objective (PDO) is to enhance accountability in public finances and increase effectiveness of revenue management systems in Uttarakhand.**

19. **The PDO will be measured by five PDO indicators given below.** These indicators are further detailed in Results Framework in section VI of this document.

- Complete and timely State financial reports made available in public domain (PDO 1; linked to DLI 1)
- Improved coverage of internal audit for high risk auditees (PDO 2; linked to DLI 2)
- Enhanced transparency of key budget and procurement information (PDO 3; linked to DLI 3)
- Improved timeliness in preparation and publication of Annual Financial Statements (AFS) of ULBs (PDO 4; linked to DLI 4)
- Increased property tax collections of participating ULBs over baseline (PDO 5; linked to DLI 5)



B. Project Components

20. **The project is an Investment Project Financing (IPF) which combines Technical Assistance (TA) and results-based financing.** Of the US\$31.58 million in IBRD financing, US\$24.00 million, about 76 percent, will be disbursed based on the achievement of DLIs and the remaining US\$7.58 million (including front end fee), 24 percent, will be in the form of TA. There are seven DLIs out of which five DLIs will be measured at the PDO level and two DLIs (DLI 6- Strengthened coverage and timeliness of financial attest audit for local bodies (urban and rural) and DLI 7 - Improved cash and debt management practices) will be measured at the level of intermediate results. The project will finance consultancies, analytical studies, training and capacity building, goods including IT equipment, and support development and roll out of software applications. Project activities focus on priorities identified by GoUk supporting ongoing reform initiatives and new activities that GoUk wishes to pursue. Project activities are grouped in three technical components and a fourth component supporting project management. Details of the components and sub-components are provided in Annex 2.

21. **Component 1: Strengthening the Public Financial Management Functions (Total US\$25.52 million, IBRD: US\$20.40 million of which DLIs US\$16.80 million).** This component will support strengthening of PFM institutional framework and systems and improve capacity in the areas of: cash and debt management; public audit; planning, budgeting, and capital expenditure management; public procurement; and support measures to improve transparency of budget and procurement information. The component will finance institutional assessments, capacity building, and analytical work, state-wide roll-out of the IFMIS, the HRMIS and the Online Audit Management System (OAMS) and support CTRFA in its efforts to become a center of excellence for PFM training. Reforms proposed in outcome budgeting, gender budgeting, and public investment appraisal and management, are challenging and require significant technical expertise. Progress in these areas will be monitored as intermediate indicators. The following DLIs support implementation of this component:

- DLI#1: “Strengthened controls over payments, accounting, and reporting” through implementation of the IFMIS and HRMIS and adoption of new practices (US\$5.30 million)
- DLI#2: “Strengthened coverage and improved timeliness of Internal Audit for high risk auditees and areas” through implementation of OAMS and adoption of new audit practices (US\$3.00 million)
- DLI#3: “Enhanced transparency of key budget and procurement information” through enhanced disclosure of budget information, preparation of SBDs and citizen engagement (US\$2.0 million)
- DLI#6: “Strengthened coverage and timeliness of financial attest audit of local bodies (urban and rural)” through development of systems, procedures, and capacity building (US\$3.50 Million)
- DLI#7: “Improved cash and debt management practices” through development of systems, procedures, and capacity building (US\$3.00 Million)

22. **Component 2: Strengthening Revenue Management Systems (Total US\$6.79 million, IBRD US\$5.43 million of which DLIs US\$4.00 million).** This component will finance activities that will enhance OSR through a combination of policy measures, improving efficiency of tax administration in key revenue-generating departments/agencies (excise, tourism, and ULBs) by strengthening institutional capacities and enhancing e-services for taxpayers to facilitate better compliance. Measures to increase state’s OSR include: review of excise policy; upgrading the state’s excise management system for improving compliance; IT enablement of the department to improve monitoring capabilities; revenue enhancement studies; GIS mapping of towns and online registration of properties in ULBs; and assessment of the existing public private partnership framework. The component will finance institutional assessments, capacity building, analytical work, and the



development/modernization of information systems for revenue administration. The success of these interventions is expected to have a demonstration effect on other sectoral departments to adopt similar practices. The following DLI support implementation of this component:

- DLI#5: “Increase in property tax collections of participating Urban Local Bodies over baseline” through modern systems of GIS mapping, digital property tax registers and house to house surveys (US\$ 4 million).

23. **Component 3: Strengthening PFM in Urban Local Bodies and State-Owned Enterprises (Total US\$5.30 million, IBRD US\$4.24 million of which DLIs US\$3.20 million).** This component supports strengthening PFM and improving accountability in ULBs and selected SOEs by strengthening accounting, financial reporting, and oversight. The component will finance institutional assessments, capacity building, analytical work, and the development/modernization of information systems for FM and reporting. The following DLI support implementation of this component:

- DLI#4: “Improved timeliness in preparation and publication of AFS of ULBs” through the modernization the accounting and financial reporting systems of ULBs (US\$ 3.2 Million).

24. **Component 4: Project Management and Monitoring and Evaluation (Total US\$1.79 million, IBRD US\$1.43 million).** This component will support costs on implementation, coordination, monitoring, and evaluation. This will include establishment and operation of the PMU under CTRFA. The PMU will set up an M&E system for the project, including a project Management Information Systems (MIS) to monitor project performance. This component will finance project operating costs (project staffing, consultancies, training, office equipment and other operational costs); the Independent Verification Agency (IVA); audit; and M&E systems.

C. Project Beneficiaries

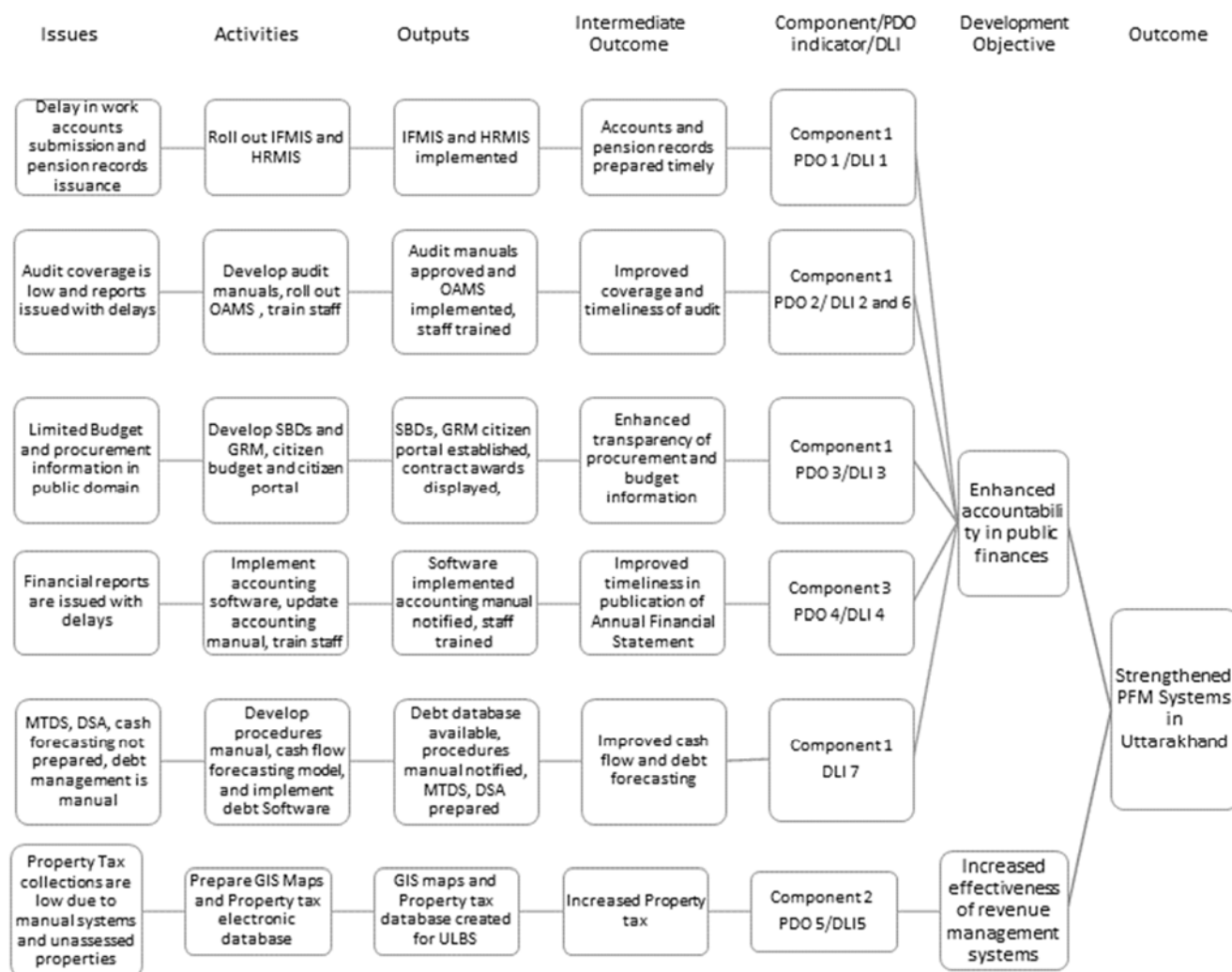
25. **The direct project beneficiaries are the GoUk institutions implementing the project.** These are: the FD and its constituent departments including the Budget Cell, Audit Cell, the Directorates of Audit, Accounts and Treasuries & Pensions, and CTRFA; the Planning Department; the Urban Development Directorate (UDD) and the ULBs; the Excise Department; and selected SOEs. All line departments, directorates and field level units will benefit indirectly from capacity building, improvements in IFMIS and access to improved information on budget execution to support decision making. The project will ultimately benefit the citizens and vendors of Uttarakhand through more effective management of public resources, improvements in transparency, more efficient administration of tax and non-tax revenues, and, ultimately, improvements in service delivery.

D. Results Chain

26. **The results chain presented in Figure 1 overleaf exhibits the issues, key activities, outputs, intermediate outcomes, linkage to components, PDO indicators, DLIs, Development Objective and the larger outcome.** The results chain rests on a number of key assumptions: the timely acquisition of project inputs, including consultancies, training, goods and IT equipment; successful implementation of training and capacity building programs across the GoUk institutions supporting all project components; timely development and roll-out of software applications for IFMIS, HRMIS, and OAMS; successful implementation of change management activities to overcome resistance to change, particularly resistance within GoUk institutions to reforms strengthening internal controls, the elimination of manual processes and automation; and continued support for the project and reform agenda, with champions among the Uttarakhand’s political leadership and at the higher levels of the civil service.



Figure 1: Results Chain



E. Rationale for Bank Involvement and Role of Partners

27. **The Bank has a strong and ongoing PFM engagement with the Union and State governments that has been nurtured over the last decade.** This engagement has been built on the foundation of: strong operational knowledge of PFM systems gained from experience in Bank-financed projects; and diagnostics including Public Expenditure and Financial Accountability (PEFA) assessments at the union level and states. Both Union and state governments see the WB as a strategic partner supporting PFM reforms, contributing knowledge on globally-accepted good practices, and sharing experience in the implementation of complex institutional reforms. The Bank has extensive experience in supporting implementation of PFM and revenue administration reforms involving IT and brings an independent perspective on project design and implementation and helps mitigate the risks of PFM reform.

28. **The PFM project complements and supports Uttarakhand's active portfolio of WB projects with a commitment of US\$1,000 million.** The Bank has provided support on PFM reforms through the Uttarakhand Economic Assessment Report 2012 and Debt Management Performance Assessment Report (DeMPA) 2018.



GoUk's recent request for WB support for its PFM reform agenda arises from its experience of working on PFM issues across the Bank portfolio in Uttarakhand, its interest in accessing the Bank's experience on PFM issues across Indian States and its international experience.

29. **GoUk benefits from financing from other development partners in various sectors but no other development partner is working on PFM issues.** The State has asked the Bank to work on its PFM reform agenda given the Bank's technical expertise in this area and the potential linkages to the Bank's engagement in other Indian States (Assam, Himachal Pradesh, Rajasthan, and Chhattisgarh). Bank financing of the project will ensure that GoUk has adequate funds to carry out PFM reforms and invest in systems development which would otherwise be constrained by the current fiscal situation.

F. Lessons Learned and Reflected in the Project Design

30. **PFM reforms require commitment at the highest level and effective change management to overcome resistance to change.** Experience with similar projects, including state-level operations in India, indicate that strong and early client engagement increases the likelihood of successful implementation. The project has support of the State's Finance Minister and is being spearheaded at the level of the Secretary (Finance). Project components, the results framework, and DLIs have been designed in close coordination with the GoUk. The project fits within GoUk's strategic and business priorities. There is a strong stakeholder support and buy-in for the project at the highest level, which is crucial for achieving the results of the project. Beneficiary departments demonstrated ownership by taking a lead role in the design of their respective components and procurement of related consultancies and will be fully involved in implementation. Significant investments for change management, capacity building, and communications activities have been built in the design to inform key stakeholders and build internal constituencies. DLIs will support behavioral change and implementation of the most challenging reforms.

31. **Adequate preparation, appropriate sequencing, and a realistic timeframe are critical for successful implementation of PFM reforms and IT solutions.** This first PFM operation in Uttarakhand, builds on reforms already planned and underway. The project draws on the experience from PFM projects/TA operations in Rajasthan, Assam, Himachal Pradesh, and other states, at the central level in India and other countries in the region. The proposed reforms are feasible to undertake within the project timeline. Investments in the IFMIS and OAMS are in an advanced stage of roll-out and revenue MIS will be informed by an assessment of the institutional, regulatory, and technological framework. This will identify opportunities for process reengineering, the appropriate technical solution, which in turn will determine the phasing and rollout plan and change management and communication aspects.

32. **The project design should allow some flexibility to accommodate adjustments in priorities and take advantage of opportunities for reform.** The project will support diagnostic studies during the early years of implementation, which will help identify further areas for improvement and provide inputs for any adjustments on the activities and baseline/indicators during implementation. The Mid-Term Review (MTR) will provide an opportunity to incorporate the results of these assessments and the lessons learned from implementation in the project design.

III. IMPLEMENTATION ARRANGEMENTS

A. Institutional and Implementation Arrangements

33. **A state level HPC under the leadership of Chief Secretary has been constituted and will provide strategic direction for the operation.** The HPC will accord the administrative and financial sanctions for the project activities



and ensure inter-departmental coordination. The HPC will comprise Principal Secretaries of all implementing departments and Directors of key Directorates of FD. Meetings of the HPC will be held at least once every six months.

34. **GoUk's FD will be the nodal department, implementing the project through CTRFA.** CTRFA was setup as a society in 2013 with a vision to support FD on policy matters and to anchor all PFM training for the state. CTRFA has been designated as the PMU because its mandate aligns with the PDO. This will ensure continuity and sustainability after the project closes. The PMU will be responsible for FM, procurement, contract management, and safeguard requirements.

35. **The PMU has been setup and key officers have been appointed.** The Secretary Finance (an IAS officer) will be the Project Director and Additional Secretary Finance (an IAS officer) will be the Deputy Project Director. A senior official from the state finance services has been designated as the Finance Controller and a senior official from audit services has been appointed as the Project Coordinator. GoUk will engage a full-time Project Manager after project effectiveness to take lead in project management and coordination.

36. **Each of the participating implementing agencies will lead the technical part of respective reform interventions including contract management, implementation monitoring and signing off on deliverables of consultants and vendors.** Each participating agency has nominated a senior official as nodal officer. These arrangements have been formalized and notified through a Government Order (GO). The project's institutional arrangements are described in Annex 1 and in the Project Implementation Plan.

B. Results Monitoring and Evaluation Arrangements

37. **Progress towards the achievement of the PDO will be measured and monitored through the PDO-level and Intermediate level Results indicators.** These indicators have been developed and designed in active participation of the component owners for enhanced ownership. The indicator description and the M&E plan are outlined in section VI of this document. The DeMPA, the procurement assessment, and background studies and assessments have been used to determine the baseline for the indicators.

38. **The PMU will prepare biannual progress reports based on information obtained from participating departments.** These reports will highlight achievement of results, implementation constraints, and proposed measures to improve project performance. Much of the data required will be available from the software supported under the project, such as IFMIS and OAMS, while for others, the PMU would develop formats and a MIS system which will be used for data capture and monitoring. Each participating department will collect and provide the data in agreed format to the PMU who would collate the data and prepare M&E report. Progress against DLIs will be assessed by a third-party IVA. Progress will be monitored in HPC meetings.

39. **The Project will be subject to a MTR, conducted by the GoUk and the WB.** The MTR will review and update the project design, results framework and DLIs considering implementation progress and changing priorities. The MTR, scheduled in 2022, will provide an opportunity to incorporate the results of the diagnostic assessments conducted during the initial years of project implementation.

C. Sustainability

40. **GoUk has demonstrated its commitment to implement the project.** The state cabinet has approved the project, the HPC and PMU have been formed and project activities initiated. GoUk will contribute towards the project costs and provide parallel financing for current ongoing software development (IFMIS and OAMS) and construction of buildings for the key directorates of FD.



41. **The reforms implemented under the project – including changes to policies, processes and procedures, and capacity enhancement and skills of officials – will be permanent system improvements that will continue after project closure.** The IT applications (IFMIS, HRMIS, and OAMS) are ongoing GoUk initiatives. The systems will support changes in the operational framework and business processes that will guide and facilitate routine work and improve the quality of information available to senior management and other stakeholders. Operational reforms, business process re-engineering (BPR) and IT systems will embed new working practices and behaviors. The rollout of these systems will be completed before project closure. The relevant departments will lead project implementation, building their ownership and capacity. CTRFA will gain experience as PMU and serve as a platform for future reforms. CTRFA will support extensive capacity building for officials during the implementation of reforms and be well placed to provide follow-up training as needed and will continue to provide internal skills and a platform for future PFM reforms.

IV. PROJECT APPRAISAL SUMMARY

A. Technical, Economic and Financial Analysis

42. **The project objectives are aligned with the key development goals of the GoUk.** The focus on PFM control, accountability and revenue generation is strategically relevant given GoUk's fiscal constraints. GoUk will have to improve the efficiency and effectiveness of expenditure and improve resource mobilization if it is to realize the investments in infrastructure and the social sectors needed to meet its development challenges. This calls for strengthening the systems of planning, revenue administration, cash and debt management, expenditure management and reporting on the use of public funds for informed decision-making coupled with enhanced accountability and transparency.

43. **The project design is aligned with the GoUk's PFM reform priorities, and the broader PFM reform agenda in India.** The technical aspects of the project design, components and activities are based on GoUk's priorities. They build incrementally on ongoing reforms and align well with GoUk's goal to further improve efficiency and create a 'paperless' and 'cashless' PFM environment through further process automation. The reforms are consistent with the PFM agenda implemented in other states in India, where reforms tend to be IT-led. The IT solutions proposed are comparable to solutions adopted in other Indian states and will be tailored to meet GoUk's needs. International experience and cross-learning from other states within India have informed project design and will provide on-going support during implementation. GoUk will be able to draw on the experience of projects in other states when identifying appropriate technology solutions, structuring of procurement packages, and sequencing/phasing of implementation to facilitate successful implementation and mitigate change management risks. The project's emphasis on change management and capacity building will support implementation and longer-term sustainability.

44. **The direct benefits arising from the project are related to improvements in GoUk management systems.** The benefits to GoUk departments include: process efficiency gains and enhanced controls from automation and elimination of many manual/ disaggregated processes in budget execution (treasury operations and payroll) and cash management; strengthening planning and selection of capital investment projects; improvements in tax administration from organizational restructuring and enhanced use of IT systems including better data analysis, streamlined back-end processes, and electronic interfaces for payment of government dues; enhanced transparency and disclosure of public financial information; and increased accountability through robust audit functions. These reforms will contribute to outcomes that benefit citizens and businesses operating in Uttarakhand: increases in state revenues and improvements in FM will increase the resources available to finance public services and investments in infrastructure; improvements in budgeting, expenditure planning and selection



of capital projects will lead to more effective use of limited resources; improvements in budget control and cash management will reduce delays and scope for discretion in payments to contractors. Unfortunately, these benefits cannot be readily quantified.

45. **Economic and financial analyses consider three streams of benefits that are strongly positive.** The benefit streams are: first, increases in revenues from excise duty arising from the introduction of a modernized excise e-Governance application; second, increases in property taxes arising from improvements in the property tax register using GIS mapping and property surveys; and third, a reduction in interest expenditure through more effective cash and debt management by the state treasury. Based on conservative estimates for these benefit streams, the Economic Internal Rate of Return (EIRR) is 29 percent with a Net Present Value (NPV) of US\$43 million, while the Financial Internal Rate of Return (FIRR) is 46 percent with an NPV of \$63 million, at 12 percent discount rate. Details are provided in Annex 3 of this document.

B. Fiduciary

Procurement

46. **Project procurement will be carried out in accordance with applicable WB's Procurement Regulations for IPF Borrowers: Procurement in Investment Project Financing Goods, Works, Non-Consulting and Consulting Services, dated July 2016 revised November 2017 and August 2018.** A Project Procurement Strategy for Development (PPSD) based on extensive market analysis and Procurement Plan based on the PPCSD has been developed and submitted to the Bank which has been approved by the Bank. Special methods for procurement or selection are not envisaged at this stage. The project will use Systematic Tracking of Exchanges in Procurement (STEP) for carrying out procurement processes and clearance. The WB will carry out the post procurement review annually and this project will be subject to procurement supervision on basis of independent post-review procedures as well. Eligible Expenditure Program (EEPs) for the project include both procurable and non-procurable items.

47. **The procurement assessment of CTRFA concluded that it will require continuous monitoring, training, and capacity building in procurement.** The key issues/risks concerning the procurement function for implementation of the project are: lack of familiarity of CTRFA staff with the Bank's procurement regulations; need for strengthening the procurement review function and resolution of complaints; and need for building capacity of the staff in procurement and contract management. The proposed mitigation measures for the project include: training of procurement staff specially in IT systems and goods and consultancy services procurement and contract management and hiring of a procurement specialist with experience in Bank financed projects. Details of the assessment are provided in Annex 1 and arrangements are detailed in Project Implementation Plan.

Financial Management

48. **The FM assessment of the GoUk's treasury system and CTRFA concludes that project FM arrangements can be predicated on existing FM systems and that these will provide reasonable assurance over the use of project funds.** GoUk has created a separate budget head with a provision of INR 15 million for FY 2018-19. The PMU has opened a separate project bank account and funds has been transferred into this bank account. All project payments will be centralized and made from the project bank account. CTRFA uses an off the shelf accounting system and this system will be used for project accounting and financial reporting. PMU in CTRFA will hire additional qualified FM staff from the market. CTRFA's audit is conducted by an external audit firm appointed by the Board of Directors of the Society. This audit will also cover project transactions and a separate schedule for the project will be annexed to CTRFA's Entity financial statements. The auditor will also provide a separate audit report for the salary payments and consultancy fees accounted in the budget lines of GoUk treasury system (e-



kosh) that are considered under EEP of the project. These two audit reports will be submitted to the WB within six months from the end of each FY.

49. **The GoUk will pre-finance project expenditures using its budgetary resources and receive reimbursement from the Bank.** DLIs will be reimbursed against achievement of results as well as availability of adequate EEP reported through interim unaudited financial reports (IFR). The EEPs include goods, consulting services, training, non-consulting services, related to DLIs accounted by CTRFA, salaries of Audit Directorate, Audit Cell, Treasury Directorate, and audit consulting fees of the Audit Directorate and Audit Cell, accounted in the state's treasury systems. The project will be eligible for retroactive financing as per Bank rules. Disbursement schedule is provided in Table 2.

Table 2: Disbursement Schedule

Category	Amount of the Loan Allocated (US\$)	Percentage of Expenditures to be Financed (Inclusive of Taxes)
1. Goods, non-consulting services, and consultant services, Training, and Incremental Operating Costs for TA	7,501,050	80%
2. Eligible Expenditure Program for DLIs	24,000,000	80%
3. Front-end fee	78,950	
Total Amount	31,580,000	

C. Safeguards

Environmental Safeguards

50. **This is a category 'C' project with a 'Low' Environmental risk rating.** The project supports investments in capacity building, training, consultancies, and procurement of goods including IT hardware to enhance the efficiency of the various Department's processes. No civil works are envisaged. The e-waste disposal regulations of GoUk will be adhered to in the event of disposing the procured electronic hardware.

Social Safeguards

51. **The project does not trigger the Bank's social safeguard policies.** The project will improve GoUk-wide systems and processes leading to enhanced accountability. These improvements will benefit institutions responsible for planning and implementation of social welfare schemes and overall social management in the state. The project does not entail land acquisition or involuntary resettlement impacts. 2.9 percent of the total population of Uttarakhand are Scheduled Tribes. Project activities will not impact directly on the tribal population.

Citizen engagement

52. **The project will strengthen citizens' access to information on public finances and create forums where they can provide inputs to the budget process.** The project supports improved timeliness and quality of budget documentation, enhanced access, and disclosures of budget information, in-year budget execution reports, and contract award information. The budget preparation process will benefit from establishment of a new portal for citizens to post ideas on the budget. GoUk will upload summaries of consultative meetings on budget issues. GoUk will also upload follow up action taken in response to citizen feedback. The project will support preparation of a citizen budget that will facilitate access to budget information for citizens. These activities will be supported by DLIs and are monitored as part of results framework.

53. **The project promotes the establishment of consultative mechanisms in ULBs to support improvements in property tax administration.** UDD and ULB, the nodal agencies for this activity, will engage with communities



through periodic ward level meetings with citizens to address issues related to the roll-out of the system of self-assessment of property tax; digitization of existing property records; GIS mapping and door to door survey of properties. The consultations will provide an opportunity to inform citizens and businesses, hear concerns and provide feedback on the process of property valuation and property tax administration. Each ULB will create a GRM process specific to this activity.

Gender

54. **As part of project preparation, gender analysis was undertaken based on review of secondary data and interactions with participating departments.** The female workforce ratio in Uttarakhand is 26.7 percent (Census 2011). Since 2006, the state government has reserved 30 percent of government jobs for women, and the actual number of women employed averaged 24 percent (37,846 in number), though this varies across different sectors and government departments. The project will not directly support the recruitment of women employees but will ensure that at least 25 percent of the total trainees are female officials employed in the participating agencies.

55. **Uttarakhand already practices some elements of gender budgeting, but further work is needed to improve its effectiveness as a planning tool.** There is no systematic monitoring and reporting on the number of beneficiaries or the assignment of benefits by gender. The project will undertake Training Needs Assessment to develop modules for training on gender budgeting for government departments with a view to improving the quality of budgeting, targeting, and reporting on female beneficiaries in social welfare schemes.

Climate Change

56. **The State of Uttarakhand faces natural disasters every year and is highly vulnerable to the impact of climate change.** The timing and quantity of precipitation is becoming increasingly unpredictable. Landslides, flash floods, and river bank erosion are common and continue to disrupt movement and cause accidents, affecting the livelihood and access to services of the local community. The State also falls in seismic zones IV and V and frequently experiences earthquakes. The impacts of climate change and future disasters remain uncertain. Efforts to review environment impacts and improve climate resilience design in any future capital investments and asset creation namely roads, bridges, hydropower plants, and other natural asset-based sectors will have important longer-term effects on livelihoods and sustainability. The project is intended to build resilience to climate change and other hazards through the development of systems that support climate change policies. The project will contribute to the climate change mitigation, resilience, and adaptation by integrating climate change considerations in regulations, systems, and procedures for investment project screening and appraisal.

Grievance Redressal Mechanisms

57. **GoUk has an existing online Samadhan portal (<http://samadhan.uk.gov.in/>) that acts as a GRM for all government employees and addressing citizen complaints.** Additionally, separate GRM relating to the project including procurement aspects, shall be developed, and implemented under the project. The project will monitor the indicator relating to the receipt and redressal of grievances.

58. **Communities and individuals who believe that they are adversely affected by a WB supported project may submit complaints to existing project-level grievance redress mechanisms or the WB's Grievance Redress Service (GRS).** The GRS ensures that complaints received are promptly reviewed to address project-related concerns. Project 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 WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the WB's attention, and Bank Management has been given an opportunity to respond. For information on how



to submit complaints to the WB's corporate GRS, please visit <http://www.worldbank.org/en/projects-operations/products-and-services/grievance-redress-service>. For information on how to submit complaints to the WB Inspection Panel, please visit www.inspectionpanel.org.

V. KEY RISKS

59. **The overall project risk is assessed as Moderate.** The project supports ongoing reform program and will strengthen the institutional arrangements for implementation of the reforms. Nonetheless, project implementation poses a significant challenge for GoUk and other stakeholders.

60. **Political and Governance (Low) and Stakeholders (Moderate).** The project enjoys broad stakeholder support and there is strong commitment to the project at political level and within the highest levels of the civil service. Project activities have been identified by the beneficiary departments and little resistance to reforms is expected during implementation. Changes in Government leadership, key interlocutors, bureaucratic reshuffles, and transfers may impact the reform process. These risks are mitigated by the appointment of two high-ranking officials as Project Director and Deputy Project Director and a second line of project management.

61. **Macroeconomic (Moderate).** Even though GoUk has not met the FRBM targets, macro-economic risks are considered moderate. The project cost is modest relative to state's expenditures. Consequently, the project is unlikely to be impacted by adverse macro-economic conditions.

62. **Technical Design (Substantial).** The most significant technical design risk arises from implementing agencies' lack of familiarity with DLIs which are used to support most of the key reforms and the project support to advanced technologies such as GIS mapping. The proposed activities are aligned with reforms at national level, supported by the Government of India (GoI) and are comparable to those taken in other Indian states. While the project requires substantial investments in IT systems, GoUk is already at an advanced stage of development of software applications for IFMIS, HRMIS, and OAMS and thus has limited software development risks. The project supports roll-out of these reforms with significant investments in change management, communication and capacity building for government personnel and stakeholders. The project design incorporates some flexibility to consider implementation progress, results of PEFA and other assessments undertaken during project implementation at MTR.

63. **Implementation Capacity (Substantial).** There is adequate capacity at senior management level to guide and oversee project implementation. However, there are capacity constraints in middle and lower level officials. Moreover, the project encompasses departments and agencies that have limited experience in the implementation of PFM reforms (such as activities around GMVN and ULBs) that will require intensive implementation support. Some of the reforms will require a shift in organizational culture and coordination across participating departments. The project will address these risks by providing implementation support through the PMU and appointment of consultants to advise on implementation of reforms. This will allow GoUk to bring in specialist skills to support the reforms, advise on change management and support skills transfer to officials.

64. **Fiduciary risk (Moderate) and Environment and Social risk (Low).** FM risk is moderate as the project follows existing systems which have been assessed to be adequate. Procurement risk is assessed as substantial as the PMU does not have familiarity with the Banks procurement regulations as well as full time procurement staff, and there is a need for capacity building. Other safeguard risks are rated as low as there is no adverse impact envisaged from this project.



VI. RESULTS FRAMEWORK AND MONITORING

Results Framework

COUNTRY: India

Uttarakhand Public Financial Management Strengthening Project

Project Development Objectives(s)

The project development objective is to enhance accountability in public finances and increase effectiveness of revenue management systems in Uttarakhand

Project Development Objective Indicators

Indicator Name	DLI	Baseline	Intermediate Targets					End Target
			1	2	3	4	5	
Enhanced accountability in public finances								
Complete and timely State financial reports made available in public domain (Text)	DLI 1	(a) Stand- alone applications for treasury and budgeting and manual systems in Works departments. (b) Employee service records are manual and not linked with current payroll database and there are delays in processing of pension data	Payment Bills processed by Drawing and Disbursing Officers (DDOs), other than of Works departments, and Treasuries through IFMIS	(a) Online Payments and accounts of all Works departments are processed through IFMIS (b) Payroll processing and approvals have been done through HRMIS	Budget preparation, allocation and distribution have been done through IFMIS.	(a) Treasuries have submitted monthly accounts to the Accountant General, including for Works departments, through IFMIS, within ten days from close of the calendar month (b) Service records have been validated for all employees, digitized and linked to Payroll module of HRMIS.	FD has provided to the public online access to Budget execution reports in user friendly format.	(a) Full state accounts submitted to Accountant General through IFMIS in paperless form, within ten days from close of the month (b) Payroll and employee service records are integrated and up to date



Indicator Name	DLI	Baseline	Intermediate Targets					End Target
			1	2	3	4	5	
Improved coverage of internal audit for high risk auditees (Percentage)	DLI 2	10.00	10.00	20.00	40.00	60.00	60.00	60.00
Enhanced transparency of key budget and procurement information (Text)	DLI 3	(a) Budget execution reports and procurement contract awards are not published. (b) Absence of Standard Bidding Documents. (c) Limited citizen participation in budgeting. (d) GRM for procurement not established	Online portal established for citizens to provide comments during budget preparation process.	(a) FD has notified the SBDs in the Official Gazette(b) GRM for procurement complaints established and functional.	(a) FD has disclosed publicly:(i) action taken report on budget proposals for last completed year; (ii) Medium Term Fiscal Plan (MTFP) in compliance with the FRBM Act; and (iii) Citizen Budget; (b) FD has published budget information bilingually in open format	FD has provided public access to information electronically on at least 90% of procurement contracts awarded over the e-procurement threshold		(a) Budget reports and procurement contract awards are published. (b) SBD notified and operationalized (c) GRM established (d) Citizen provide inputs to budget
Improved timeliness in preparation and publication of AFS of ULBs (Number)	DLI 4	0.00	0.00	0.00	10.00	50.00	70.00	70.00
Increased effectiveness of revenue management systems								
Increased property tax collections of participating ULBs over baseline (Percentage)	DLI 5	0.00	0.00	0.00	10.00	20.00	30.00	30.00



Intermediate Results Indicators by Components

Indicator Name	DLI	Baseline	Intermediate Targets				End Target
			1	2	3	4	
Strengthening the Public Finance Management Functions							
New generation FMIS with enhanced controls and processes implemented (Text)		Stand- alone applications for treasury and budgeting and manual systems in works departments.	(a) Core modules of FMIS namely budget, payments, e-DDO rolled out (b) GO issued mandating bill processing through IFMIS	(a) GO issued for transition of works accounting to IFMIS (b) Works module have been implemented including project wise budget, commitments and expenditure (c) Cash credit limit system discontinued	(a) GO issued mandating budget preparation, allocation and distribution through e-budget module of IFMIS (b) e-Budget module operationalized and integrated with other modules of IFMIS	Approval obtained from Accountant General for submission of combined accounts	New generation IFMIS implemented
Online HRMIS with integrated service records and payroll implemented (Text)		(a) Computerized payroll system with manual interventions (b) Service records are maintained manually and not linked to payroll	(a) Payroll module ready for deployment (User Acceptance Testing and training completed)(b) Contract awarded for service record digitization	(a) GO issued mandating payroll processing and approvals through HRMIS (b) 30% of service records digitized and validated by DDOs	60% of service records digitized and validated by DDOs	(a) Initiation of HRMIS to cover employees of selected state own enterprises and parastatals (b) 100% of service records digitized and validated by DDOs	Payroll and employee service records integrated and are up to date
Improved cash and debt management practices institutionalised (Text)	DLI 7	Debt records are maintained manually, Medium Term Debt Strategy (MTDS) and Public Debt Statistical Bulletin not prepared and Debt Sustainability Analysis (DSA) not conducted	(a) Cash and Debt Management Cell established and Cash and Debt Management Committee constituted. (b) Debt recording and management Software identified. (c) GoUk has notified the Public Debt Procedures Manual.	(a) An Annual Cash and Borrowing Plan has been prepared and updated monthly (b) Complete debt data is available on an electronic Debt Recording and Management system	(a) Training provided to staff on software and debt management (b) Public Debt Statistical Bulletin published for last FY	(a) Training provided to staff on software and debt management. (b) MTDS has been prepared and used for the annual borrowing calendar.	(a) Training provided to staff (b) Debt management software implemented. (c) Debt statistical bulletin, MTDS,DSA and Cash & Borrowing Plan prepared.



Indicator Name	DLI	Baseline	Intermediate Targets				End Target
			1	2	3	4	
Improved planning, budgeting and evaluation framework implemented (Text)		(a) Weak alignment in government goals and expenditures (b) Limited evaluations done post budget	Training on outcome and gender budget provided	(a) Guidelines developed and adopted by GoUk for MTEF, Medium Term Expenditure Framework (MTEF), outcome and gender budget and evaluation.(b) Preparation of MTEF, outcome budget, and gender budget for five major departments	(a) Preparation of MTEF, outcome budget, and gender budget for five major departments (b) Training on outcome, gender budget and evaluation process provided (c) Training on MTEF and MTEF provided	Evaluation of gender budget and outcome budget for five key schemes conducted by evaluation committee	Improved planning and budgeting and evaluation framework institutionalised
Improved appraisal and monitoring of high value capital projects (Text)		(a) Appraisal guidelines exist but need improvement (b) Monitoring system of high value projects needs improvement	(a) Consultant appointed to develop guidelines and project monitoring software (b) Process of schemes rationalization initiated	(a) Updated Guidelines for appraisal of capital projects approved and operationalized by GoUk(b) Rationalization of schemes completed and incorporated in budget(c) Project monitoring dashboard (PMD) developed	(a) At least 30% of new high value projects appraised under the new guidelines (b) FD reviews progress of high value projects using PMD	(a) At least 60% of new high value projects appraised under the new guidelines (b) FD reviews all high value projects using PMD	(a) At least 80% of new high value projects appraised under the new guidelines (b) FD reviews all high value projects using PMD
Audit Directorate strengthened (Text)		(a) Audit processes are manual (b) High risk Thematic audit not conducted	(a) Manuals for Internal, Works and Revenue Audit, and Financial Attest audit notified and published on the website of GoUk (b) Training provided to audit staff on the above audit manuals	(a) Manuals on Performance /Thematic and Procurement Audit notified and published on the website of GoUk (b) Training provided to audit staff on the above audit manuals	Training on thematic audit provided to staff	(a) Quality Assurance conducted based on established guidelines (b) One thematic audit completed	(a) Manuals operationalized, staff trained and two thematic audits completed (b) Annual report on audit of local bodies placed in state legislature for the year ending March 31, 2022
Online Audit Management System Implemented (Text)		No automated audit management system presently used by the	Audit module of OAMS rolled out	Compliance module of OAMS rolled out	40% of ALL Internal Audit reports have been issued through OAMS,	60% of ALL Internal Audit reports have been issued through OAMS,	60% of ALL Internal Audit reports have been issued through OAMS, within



Indicator Name	DLI	Baseline	Intermediate Targets				End Target
			1	2	3	4	
		department			within two months from completion of audit	within two months from completion of audit	two months from completion of audit
Improved auditee response to Internal Audit reports (Text)		First response rate is currently not monitored	NA	Auditees trained in use of the Compliance module of OAMS	First response entered in OAMS by auditees for 30% of audit reports issued through OAMS	First response entered in OAMS by auditees for 40% of reports issued audit through OAMS	First response entered in OAMS by auditees for 50% of reports issued audit through OAMS
Improved coverage of Financial Attest Audit of Local Bodies (Urban and Rural) (Percentage)	DLI 6	0.00	0.00	40.00	60.00	80.00	80.00
Number of staff trained in targeted PFM areas (Text)		900.00	Training Needs Assessment completed and mid-term training plan developed.	(a) Structured training curriculum and courses developed. (b) 1000 staff trained in the targeted PFM areas	Additional 1000 staff trained in the targeted areas	Additional 1000 staff trained in the targeted areas	Total 3000 staff trained in the targeted areas
Number of Female staff trained (Text)		12 percent of total trainees	NA	15 percent of total trainees	20 percent of total trainees	25 percent of total trainees	25 percent of total trainees
Grievances responded by project level GRM (Percentage)		0.00	0.00	0.00	25.00	50.00	75.00
Strengthening Revenue Management Systems							
e-Governance application for excise function implemented (Text)		Basic Excise e-Governance application exists	BPR and Functional Review Specification for the new Excise system developed.	System Integrator/Vendor appointed and System Requirement Specifications (SRS) developed for online excise management software	(a) New online excise management software rolled out (b) IT enablement of excise offices completed	Online excise management software rolled out in all offices	New online excise management software implemented in Excise Department
GIS based Property tax system implemented in participating ULBs (Number)		0.00	0.00	2.00	8.00	14.00	14.00
House hold survey		0.00	0.00	2.00	8.00	14.00	14.00



Indicator Name	DLI	Baseline	Intermediate Targets				End Target
			1	2	3	4	
completed (Number)							
ULBs have digitized their manual property tax registers (Number)		0.00	4.00	14.00	14.00	14.00	14.00
Capacity building on GIS in UDD (Text)		Dedicated GIS cell not formed and GIS trainings not provided	(a) Consultants appointed for property tax digitization and GIS mapping (b) Dedicated GIS Cell setup with adequate technical staff	(a) GIS training provided to staff of GIS Cell and 4 ULBs (b) Policy note prepared on alternative property tax mechanisms	GIS training provided to staff of additional 8 ULBs	GIS training provided to staff of additional 8 ULBs	(a) GIS training provided to staff of 20 ULBs (b) GIS cell fully operational and manages GIS for ULBs
Roadmap for strengthened Revenue systems in GMVN (Text)		Manual and disaggregated revenue systems	Strategic Business Plan including IT roadmap approved by GoUk	IT applications for revenue systems identified/Systems Integrator appointed	IT application for revenue systems has gone live		IT application for revenue systems has gone live and strategic business plan operationalised
Strengthening PFM in Urban Local Bodies and State owned enterprises							
ULBs institutionally strengthened (Text)		(a) Manual accounting process followed in the state and no state wide uniform accounting software implemented (b) Staff not trained on accrual double entry accounting system accounts	(a) Reform action plan for transition to Double entry accrual based computerized accounting system developed and approved by GoUk (b) Revised Uttarakhand Municipal Accounts Manual (UMAM) notified by GoUk(c) Municipal Accounting Software (MAS) has been identified and contract signed with vendor	(a) MAS deployed in 10 ULBs (b) GO mandating accounting on MAS issued (c) Training on the revised UMAM and software provided to 20 ULBs	Staff of additional 30 ULBs have been trained in revised UMAM and MAS	Staff of all ULBs have been trained in revised UMAM and MAS	Staff of all ULBs have been trained in revised UMAM and MAS and MAS implemented in all ULBs
Double Entry Accrual based		0.00	0.00	10.00	50.00	70.00	92.00



Indicator Name	DLI	Baseline	Intermediate Targets				End Target
			1	2	3	4	
computerised accounting system implemented in ULBs (Number)							
ULBs opening balance sheet prepared (Number)		0.00	0.00	20.00	50.00	92.00	92.00

Monitoring & Evaluation Plan: PDO Indicators

Indicator Name	Definition/Description	Frequency	Datasource	Methodology for Data Collection	Responsibility for Data Collection
Complete and timely State financial reports made available in public domain	This indicator measures the implementation of new FMIS and HRMIS leading to enhanced internal controls, online bill processing, faster payments, online accounting and reporting. This indicator will measure the completeness and timeliness of accounts submission to Accountant General and disclosing financial reports in public domain.	Annual	FMIS and HRMIS maintained by Director of Treasuries	Review of systems and reports generated from system	Directorate of Treasuries
Improved coverage of internal audit for high risk auditees	This indicator measures the increase in number of high	Annual	Reports from OAMS	Audit directorate would provide this data from	Directorate of Audit



	risk auditees (Category A) actually audited as compared to the total auditees. Audit will be deemed as completed when the audit report is issued through OAMS within two months from completion of audit.			OAMS.	
Enhanced transparency of key budget and procurement information	This indicator measures the transparency and availability of key budget and procurement information to the citizen.	Annual	FD	Reports available on websites for each of the agreed areas. Citizen portal and GRM portal available and operationalized. SBDs notified in Official Gazette.	PMU in CTRFA
Improved timeliness in preparation and publication of AFS of ULBs	This indicator measures the preparation of AFS by ULBs within six months from the close of the FY. The accounts need to be prepared as per revised UMAM and through the approved MAS.	Annual	UDD	Data will be collected year wise by UDD from the ULBs and AFS as generated from the MAS.	UDD
Increased property tax collections of participating ULBs over baseline	This indicator measures the increase in the collection of Property Tax in participating ULBs subsequent to digitization of property registers and GIS maps. The	Annual	ULB electronic Property Tax Registers	Data will be collected by UDD from ULBs	UDD



	current baseline of property tax is INR 400 Million for 14 participating ULBs.				
Monitoring & Evaluation Plan: Intermediate Results Indicators					
Indicator Name	Definition/Description	Frequency	Datasource	Methodology for Data Collection	Responsibility for Data Collection
New generation FMIS with enhanced controls and processes implemented	This indicator tracks the implementation of the new generation software IFMIS and generation of complete reports on a timely basis.	Annual	Directorate of Treasuries	User Acceptance Testing sign off, Training Reports and Usage Reports from IFMIS	Directorate of Treasuries
Online HRMIS with integrated service records and payroll implemented	This indicator tracks the implementation of HRMIS	Annual	Directorate of Treasuries	User Acceptance Testing sign off, Training Reports and Usage Reports from HRMIS	Directorate of Treasuries
Improved cash and debt management practices institutionalised	This indicator measures adoption of modern cash and debt management practices and institutional strengthening	Annual	Cash and Debt Management Cell	Reports from software and training reports. MTDS, Debt Statistical Bulleting and DSA published .	Cash and Debt Management Cell and FD
Improved planning, budgeting and evaluation framework implemented	This indicator tracks the implementation of new framework for planning, budgeting and evaluation.	Annual	Planning department and FD	Training details would be collected from MIS. The quality of training on budget interventions would be	PMU in CTRFA and FD



				measured from quality of budget documents and GO.	
Improved appraisal and monitoring of high value capital projects	This indicator will review development and operationalization of appraisal guidelines and project monitoring dashboard	Annual	Expenditure Finance Committee (EFC) MIS and PMD MIS	EFC will provide projects appraised while reports from PMD will provide project monitoring	PMU in CTRFA and FD
Audit Directorate strengthened	This indicator tracks the development and implementation of modernized audit manuals and training of staff	Annual	Audit Directorate	Audit Manuals published and Training Reports	Audit Directorate and CTRFA
Online Audit Management System Implemented	This indicator tracks the implementation of the OAMS	Annual	Audit Directorate	User Acceptance Testing sign off, Training Reports and Usage Reports from OAMS	Audit Directorate
Improved auditee response to Internal Audit reports	This indicator tracks measures the improvement in response by auditees to audit reports	Annual	Audit Directorate	Reports from OAMS	Audit Directorate
Improved coverage of Financial Attest Audit of Local Bodies (Urban and Rural)	This indicator measures the audit completion rate for available AFS of local bodies.	Annual	OAMS of Audit Directorate and MIS of UDD	Reports would be collated from OAMS and MIS maintained by Audit Directorate	Audit Directorate



Number of staff trained in targeted PFM areas	This indicator measures the capacity building of GoUk staff, including female staff, in targeted PFM areas	Annual	CTRFA	Training records to capture the required data	CTRFA
Number of Female staff trained	This indicator measures the capacity building of GoUk female staff, in targeted PFM areas	Annual	CTRFA	CTRFA training records	CTRFA
Grievances responded by project level GRM	This indicator measures the Grievances received and responded by project.	Annual	Project GRM system	GRM system would provide the details of grievance received and responded by the project	PMU in CTRFA
e-Governance application for excise function implemented	This indicator tracks the implementation of the online excise management software in Excise Department	Annual	Excise Department	User Acceptance Testing sign off, Training Reports and Usage Reports from new software	Excise Department
GIS based Property tax system implemented in participating ULBs	This indicator measures the number of participating ULBs who have implemented GIS property tax maps. This indicator will be measured cumulatively.	Annual	UDD	MIS of UDD and respective ULB certification on completion and maintenance of GIS maps	UDD and GIS cell
House hold survey completed	This indicator measures the completion of house hold surveys for ULBs. This indicator will be measured on a cumulative basis.	Annual	ULBs	Certification by ULBs and report submitted by consultants	UDD



ULBs have digitized their manual property tax registers	This indicator measures the digitization of existing property tax registers of ULB. This indicator will be measured on a cumulative basis.	Annual	ULB	Reports from property tax database	UDD
Capacity building on GIS in UDD	This indicator measures number of ULBs trained in GIS and operationalization of GIS cell	Annual	UDD	Data will be collected year wise by the Directorate.	UDD
Roadmap for strengthened Revenue systems in GMVN	This indicator tracks the development of Strategic Plan for the two selected verticals in GMVN and subsequent implementation of the computerized revenue systems	Annual	GMVN	Reports approved by GoUK and User Acceptance Testing sign off, Training Reports and Usage Reports of the new computerized revenue system	GMVN
ULBs institutionally strengthened	This indicator measures number of ULBs trained in accounting and software	Annual	ULB	Data will be collected year wise by the Directorate from training MIS	UDD
Double Entry Accrual based computerised accounting system implemented in ULBs	This indicator measures the number of ULBs who have transitioned to Double Entry Accrual based computerized accounting system. This includes generating final accounts in prescribed format from the software.	Annual	UDD	Data will be collected year wise by the Directorate. The accounts would be generated from the system and maintained by UDD.	UDD



ULBs opening balance sheet prepared	This indicator measures the number of ULBs who have created opening balance sheet	Annual	UDD	Data will be collected year wise by the Directorate	UDD
-------------------------------------	---	--------	-----	---	-----

Disbursement Linked Indicators Matrix

DLI 1	Strengthened controls over payments, accounting and reporting			
Type of DLI	Scalability	Unit of Measure	Total Allocated Amount (USD)	As % of Total Financing Amount
Intermediate Outcome	No	Text	5,300,000.00	13.42
Period	Value	Allocated Amount (USD)		Formula
Baseline	(a) Stand-alone applications for treasury and budgeting and manual systems in Works departments (b) Employee service records are manual, not linked with current payroll database, and there are delays in processing of pension data			
31-MARCH-2020	Payment Bills processed by DDOs, other than of Works departments, and Treasuries through IFMIS	1,000,000.00		NA
31-MARCH-2021	(a) Online payments and accounts of all Works departments are processed through IFMIS (b) Payroll processing and approvals of all departments of GoUK have been done through HRMIS	1,500,000.00		(a) \$1,000,000 (b)\$500,000



31-MARCH-2022	Budget preparation, allocation and distribution have been done through IFMIS	1,000,000.00	NA	
31-MARCH-2023	(a) Treasuries have submitted monthly accounts to the Accountant General, including for Works departments, through IFMIS, within ten days from close of the calendar month (b) Service records have been validated for all employees, digitized and linked to Payroll module of HRMIS	1,300,000.00	(a)\$500,000 (b)\$800,000	
31-MARCH-2024	FD has provided to the public online access to Budget execution reports in user friendly formats	500,000.00	NA	
DLI 2	Strengthened coverage and improved timeliness of Internal Audit for high risk auditees and areas			
Type of DLI	Scalability	Unit of Measure	Total Allocated Amount (USD)	As % of Total Financing Amount
Intermediate Outcome	Yes	Text	3,000,000.00	7.60
Period	Value		Allocated Amount (USD)	Formula
Baseline	(a) Audit processes are manual and reports issued with time lag of 7 months (b) Audit coverage was 10 % of total Category A auditees (high risk auditees) during 2016/17 (c) Thematic audits are not conducted			
31-MARCH-2020	GoUk has approved, operationalized, and published the Manuals for internal audit, works audit, and revenue audit	250,000.00		
31-MARCH-2021	Audit coverage increased to 20% of total Category A auditees and reports issued through	1,000,000.00		\$100,000 for every percent increase over baseline



	OAMS, within two months from completion of audit			
31-MARCH-2022	Audit coverage increased to 40% of total Category A auditees and reports issued through OAMS, within two months from completion of audit		750,000.00	\$37,500 for every percent increase over 20 percent
31-MARCH-2023	Audit coverage increased to 60% of total Category A auditees and reports issued through OAMS, within two months from completion of audit		500,000.00	\$25,000 for every percent increase over 40 percent
31-MARCH-2024	Two Thematic audits have been conducted		500,000.00	\$250,000 for each completed audit
DLI 3	Enhanced transparency of key budget and procurement information			
Type of DLI	Scalability	Unit of Measure	Total Allocated Amount (USD)	As % of Total Financing Amount
Intermediate Outcome	No	Text	2,000,000.00	5.07
Period	Value		Allocated Amount (USD)	Formula
Baseline	(a) Budget execution reports and procurement contract awards are not published (b) Absence of SBDs (c) Limited citizen participation in budgeting (d) GRM for procurement not established			
31-MARCH-2020	Online portal/mobile application setup and operationalised for citizens to provide comments during budget preparation process		500,000.00	
31-MARCH-2021	(a) FD has notified the SBDs in the Official Gazette (b) GRM portal for procurement		500,000.00	(a) \$250,000; (b) \$250,000



	complaints established and functional			
31-MARCH-2022	(a) FD has disclosed publicly:(i) action taken report on budget proposals for last completed FY; (ii) MTFP in compliance with the FRBM Act; and (iii) Citizen Budget (b) FD has published budget information bilingually (in Hindi and English) in open format		500,000.00	(a) \$250,000; (b) \$250,000
31-MARCH-2023	FD has provided public access to information electronically on at least 90% of procurement contracts awarded over the e-procurement threshold		500,000.00	
31-MARCH-2024			0.00	
DLI 4	Improved timeliness in preparation and publication of AFS of ULBs			
Type of DLI	Scalability	Unit of Measure	Total Allocated Amount (USD)	As % of Total Financing Amount
Intermediate Outcome	Yes	Text	3,200,000.00	8.11
Period	Value		Allocated Amount (USD)	Formula
Baseline	(a) Accounts of ULBs are maintained manually. (b) Delays in preparing AFS range between 12 to 24 months			
31-MARCH-2020	GoUk has approved and notified the revised UMAM		500,000.00	
31-MARCH-2021	Not Applicable		0.00	
31-MARCH-2022	10 ULBs have prepared their AFS from MAS and		500,000.00	\$50,000 per ULB who has published



	published within six months from close of previous FY		AFS	
31-MARCH-2023	50 ULBs have prepared their AFS from MAS and published within six months from close of previous FY	1,500,000.00	\$30,000 per ULB who has published AFS	
31-MARCH-2024	70 ULBs have prepared their AFS from MAS and published within six months from close of previous FY	700,000.00	\$10,000 per ULB who has published AFS	
DLI 5	Increase in property tax collections of participating urban local bodies over baseline			
Type of DLI	Scalability	Unit of Measure	Total Allocated Amount (USD)	As % of Total Financing Amount
Intermediate Outcome	Yes	Text	4,000,000.00	10.13
Period	Value		Allocated Amount (USD)	Formula
Baseline	(a) Property tax assessment, levy and collection is largely manual (b) Aggregate property tax in 14 participating ULBs for FY 2017/18 is INR. 400 million			
31-MARCH-2020	Not applicable		0.00	
31-MARCH-2021	14 participating ULBs have digitized their manual property tax registers		700,000.00	\$50000 per ULB for digitized property tax registers
31-MARCH-2022	8 participating ULBs have updated digital property tax maps (i.e. updated GIS maps with properties linked to them)		1,600,000.00	\$200,000 per ULB who complete GIS mapping
31-MARCH-2023	Participating ULBs have increased their property		1,100,000.00	\$55,000 for every percent increase



	tax by aggregate 20% over baseline			over baseline.
31-MARCH-2024	Participating ULBs have increased their property tax by aggregate 30% over baseline		600,000.00	\$20,000 for every percent increase over baseline
DLI 6	Strengthened coverage and timeliness of financial attest audit for local bodies (urban and rural)			
Type of DLI	Scalability	Unit of Measure	Total Allocated Amount (USD)	As % of Total Financing Amount
Intermediate Outcome	Yes	Text	3,500,000.00	8.87
Period	Value		Allocated Amount (USD)	Formula
Baseline	(a) Financial Attest (Certification) audit started in FY 2017/18 and baseline is presently not available (b) Financial Attest Audit manual presently not available			
31-MARCH-2020	Financial Attest Audit Manual has been accepted and notified by GoUk		500,000.00	
31-MARCH-2021	40 percent of AFS for FY2019-20 submitted for audit on or before September 30, 2020 are audited and Financial Attest Audit Reports (FAAR) issued by March 31, 2021		1,000,000.00	\$25,000 for every percent of FAAR issued
31-MARCH-2022	60 percent of AFS for FY2019-20 and FY2020-21 and submitted for audit on or after September 30,2020 and before September 30, 2021 are audited and FAAR issued by March 31, 2022		600,000.00	\$10,000 for every percent of FAAR issued
31-MARCH-2023	80 percent of AFS for FY2020-21 and FY2021-22 and submitted for audit on or after September 30, 2021 and before September 30, 2022 are		800,000.00	\$10,000 for every percent of FAAR issued



	audited and FAAR issued by March 31, 2023			
31-MARCH-2024	Annual report on audit of local bodies for FY 21-22 has been placed before State Legislature		600,000.00	
DLI 7	Improved cash and debt management practices			
Type of DLI	Scalability	Unit of Measure	Total Allocated Amount (USD)	As % of Total Financing Amount
Output	No	Text	3,000,000.00	7.60
Period	Value		Allocated Amount (USD)	Formula
Baseline	(a) Debt records are maintained manually (b) MTDS and Public Debt Statistical Bulletin are not prepared (c) DSA is not conducted			
31-MARCH-2020	GoUk has notified the Public Debt Procedures Manual in the Official Gazette		500,000.00	
31-MARCH-2021	(a) An Annual Cash and Borrowing Plan has been prepared and updated monthly by the FD (b) Complete debt data has been made available by March 31,2021 on an electronic debt recording and management system		1,000,000.00	(a) \$500,000 (b) \$500,000
31-MARCH-2022	Public Debt Statistical Bulletin published for last FY by the FD		500,000.00	
31-MARCH-2023	MTDS has been prepared and used for the annual borrowing calendar by the FD		500,000.00	
31-MARCH-2024	DSA has been conducted by the FD		500,000.00	



Verification Protocol Table: Disbursement Linked Indicators

DLI 1	Strengthened controls over payments, accounting and reporting
Description	This indicator will measure the implementation of new generation IFMIS and HRMIS which is expected to strengthen controls over payments, accounting and reporting including facilitating compilation of entire state financial reports timely and disclosing it public domain.
Data source/ Agency	Report from IFMIS/HRMIS/ Directorate of Treasuries
Verification Entity	IVA
Procedure	<p>Year 1</p> <ul style="list-style-type: none"> GO issued mandating transition of bill preparation, processing and approval to IFMIS e-DDO module implemented as evidenced by Go Live certification. “Go Live” means that the Module has received User Acceptance Testing sign off, is available for use and training provided to stakeholders on its usage. IFMIS reports reviewed to confirm automation of the bill preparation, processing and approval process as evidenced by transactions during the last three consecutive months prior to verification through a random sample of DDOs and treasuries <p>Year 2</p> <ul style="list-style-type: none"> GO issued mandating shifting of all transactions of works departments to IFMIS and merging of works accounts with the treasury monthly accounts system through IFMIS Approval of Accountant General for the transition has been obtained IFMIS reports reviewed to confirm that all DDOs of works departments are preparing, approving and submitting bills through IFMIS during the last three consecutive months prior to verification through a random sample of DDOs and treasuries GO issued mandating payroll processing and approvals through HRMIS. e-Payroll module of HRMIS implemented as evidenced by Go Live certification. HRMIS reports reviewed to confirm that payroll has been processed through HRMIS during the last three consecutive months prior to verification through a random sample of DDOs. <p>Year 3</p>



	<ul style="list-style-type: none"> GO issued mandating budget preparation, allocation and distribution through IFMIS at all levels. e-Budget module implemented as evidenced by Go Live certification. IFMIS reports reviewed to confirm that (a) budget for latest FY has been prepared through IFMIS; and (b) budget allocation and distribution has been done through IFMIS as evidenced during the last three consecutive months prior to verification, through a random sample of heads of department, budget controlling officers and DDOs <p>Year 4</p> <ul style="list-style-type: none"> IFMIS reports reviewed to confirm that monthly accounts have been submitted to Accountant General within ten days (time-stamping) from close of month for three consecutive months prior to verification and monthly accounts include transactions of works departments HRMIS reports reviewed to confirm that (a) Service Records of all employees have been digitized and brought under HRMIS; and (b) these are linked with the Payroll Module <p>Year 5</p> <ul style="list-style-type: none"> IVA will review the availability of budget execution reports in the budget website and access the reports to confirm usability. "User friendly formats" means that the reports are available in website, has query and drill down facility for further analysis by the user.
DLI 2	Strengthened coverage and improved timeliness of Internal Audit for high risk auditees and areas
Description	This indicator measures the increase in number of high risk auditees (Category A) actually audited as compared to the total Category A audited and introduction of high-risk thematic audits. Audit will be deemed as completed when the audit report is issued through OAMS within two months from completion of audit.
Data source/ Agency	Reports from OAMS / Audit Directorate
Verification Entity	Verification by the Bank team for year 1 and year 5 DLIs and verification by IVA for other years
Procedure	<p>Year 1</p> <ul style="list-style-type: none"> Internal Audit, Works Audit, and Revenue Audit Manuals notified through GO and published on GoUK website <p>Year 2, 3, and 4 (audit coverage)</p> <ul style="list-style-type: none"> "Audit coverage" means the ratio of actual number of audits conducted to the total universe audits of Category A auditees. Category A auditees mean the government departments/agencies/DDO classified as high risk by the audit directorate of GoUK based on predefined criteria.



	<ul style="list-style-type: none"> IVA will review reports from OAMS to confirm the actual number of audits completed and reports issued through OAMS as compared to total reports issued during the current FY within the stipulated time <p>Year 5 (Thematic audits)</p> <ul style="list-style-type: none"> "High risk areas" mean any area/function within GoUk identified as high risk owing to the nature and complexity of work undertaken. "Thematic audit" shall pertain to any PFM theme identified by GoUk which fall under high risk area. List of thematic audits for the year is approved by Secretary Finance, audit is conducted and reports issued by the Audit Directorate
DLI 3	Enhanced transparency of key budget and procurement information
Description	This indicator measures the accessibility of key financial information to citizens.
Data source/ Agency	GoUk website & procurement portal/ FD
Verification Entity	IVA
Procedure	<p>Year 1 Online budget portal/mobile application operationalized and citizens are able to log comments, or suggestions. IVA will check if the budget portal/mobile application was functioning properly during the budget preparation period.</p> <p>Year 2</p> <ul style="list-style-type: none"> IVA will review that SBDs have been notified and available in the GoUk website. SBDs shall mean i) for goods and works – National Competitive Bidding document developed and notified; ii) for services – consultancies, Quality and Cost Based Selection - Request For Proposal developed and notified. GRM website established and citizens are able to log comments, grievance or suggestions. IVA will check online if the website was functioning properly during the last three months prior to verification. <p>Year 3</p> <ul style="list-style-type: none"> Action Taken Report, MTFP, and Citizen Budget documents are available on the website of GoUk. Bilingual documents have been made available within 60 days from the date the budget was tabled in the State Legislature. Key budget documents includes the Budget Speech and all documents laid before the State Legislature. Budget documents with details and numbers should be in "Open format" which means in a format in which the user can copy data, download and carry out further analysis.



	<p>Year 4</p> <ul style="list-style-type: none"> IVA will review the contracts provided for public access on the procurement website and measure the percentage of disclosure. IVA will also review the integration between IFMIS and e-procurement application that facilitates public disclosure of contracts awarded.
DLI 4	Improved timeliness in preparation and publication of AFS of ULBs
Description	This indicator measures the preparation of AFS by ULBs within six months from the close of the FY. The accounts needs to be prepared as per revised UMAM and through the approved MAS.
Data source/ Agency	UDD
Verification Entity	IVA except Year 1
Procedure	<p>Year 1</p> <ul style="list-style-type: none"> Revised UMAM notified through GO and published on GoUk website <p>Year 3, Year 4, and Year 5</p> <ul style="list-style-type: none"> IVA will review the implementation of the MAS in all the ULBs, as evidenced by (a) manual accounting has been discontinued and (b) accounting transactions including payments entered in the Software as evidenced during the last three consecutive months prior to verification IVA will review the AFS of the ULBs to confirm that these have been generated from MAS and disclosed on the website of GoUk/UDD/ULB AFS as defined in revised UMAM.
DLI 5	Increase in property tax collections of participating urban local bodies over baseline
Description	This indicator measures the increase in the demand of Property Tax in participation ULBs subsequent to digitization of property registers and GIS maps. This indicator also measures the number of participating ULBs who have updated digital property tax maps. .
Data source/ Agency	Property tax reports/ UDD
Verification Entity	IVA



Procedure	<p>Year 2</p> <ul style="list-style-type: none"> • Digitization” means that data from the manual property tax registers have been migrated to an electronic database up to a cut-off date which will be approved by Director, Urban Development • “Participating ULBs” will be ULBs approved by the Director Urban Development for this activity and who have undertaken activities under the project. • IVA will review the completeness of the digital property tax registers as of the cut-off date <p>Year 3</p> <ul style="list-style-type: none"> • IVA will review the completeness of the digital property tax maps through sample checks <p>Year 4 and Year 5</p> <ul style="list-style-type: none"> • IVA will review (a) the property tax collected for the FY from the property tax reports ; and (b) increase in tax by comparing the collection during the FY with baseline collection of participating ULBs
DLI 6	Strengthened coverage and timeliness of financial attest audit for local bodies (urban and rural)
Description	This indicator measures the improvement in financial attest audit completed for available AFS of local bodies within stipulated time.
Data source/ Agency	OAMS and MIS Audit Directorate
Verification Entity	Verification by the Bank team for year 1 and year 5 DLIs and verification by IVA for other years.
Procedure	<p>Year 1</p> <ul style="list-style-type: none"> • Certification Audit Manual notified and final approved manual published on GoUk website <p>Year 2</p> <ul style="list-style-type: none"> • AFS as defined in revised UMAM for ULBs and prescribed formats for PRIs • List of AFS for FY 2019/20 available as per MIS • Reports from OAMS reviewed to confirm the number of FAAR issued in respect of the available AFS <p>Year 3</p> <ul style="list-style-type: none"> • List of AFS for FY 2019/20 and 2020/21 available as per MIS • Reports from OAMS reviewed to confirm the FAAR issued in respect of the available AFS <p>Year 4</p> <ul style="list-style-type: none"> • List of AFS for FY 2020/21 and 2021/22 available as per MIS



	<ul style="list-style-type: none"> • Reports from OAMS reviewed to confirm the FAAR issued in respect of the available AFS <p>Year 5</p> <ul style="list-style-type: none"> • Annual Report submitted to the State Legislature for year ended March 31, 2022
DLI 7	Improved cash and debt management practices
Description	This indicator measures the improvement in debt and cash management practices implemented by the state.
Data source/ Agency	FD
Verification Entity	IVA
Procedure	<p>Year 1</p> <ul style="list-style-type: none"> • Public Debt Procedures Manual has been notified through GO and published on the website of GoUk <p>Year 2</p> <ul style="list-style-type: none"> • IVA will review the Cash & Borrowing Plan for last three months prior to verification • IVA will review that the computerized Debt Recording and Management system has been implemented and updated and the completeness of the public debt data up to March 31 of the last FY <p>Year 3</p> <ul style="list-style-type: none"> • Public Debt Statistical Bulletin includes disclosures outlined in DEMPA report and is published on GoUk website <p>Year 4</p> <ul style="list-style-type: none"> • Final approved MTDS published on GoUk website and principles for its use in budgeting included in the next MTFP <p>Year 5</p> <ul style="list-style-type: none"> • DSA includes at least shock and scenario analysis and the final approved DSA is published on GoUk website



ANNEX 1: Implementation Arrangements and Support Plan

COUNTRY: India

Uttarakhand Public Financial Management Strengthening Project

Implementation arrangements

- A HPC under the leadership of Chief Secretary will provide strategic direction for the operation as well as ensure departmental coordination.** The following are the members of HPC: Chief secretary (Chair); Project Director; Secretary Finance; Secretary Excise; Secretary Urban Development; Secretary Mining; Secretary Transport; Director Treasuries; Director Audit; and Director CTRFA. The HPC will provide the administrative and financial sanctions for the project activities and ensure inter-departmental coordination. Meetings of the HPC will be held at least once every six months.
- GoUK's FD will be the nodal agency that will implement the project through CTRFA.** A PMU has been set up in CTRFA and will be responsible for day to day activities of the project including FM, procurement, contract management, safeguard requirements, liaising with the Bank and coordinating with other stakeholders. Delegation of Powers have been approved for the PMU. Secretary Finance will be the Project Director and Additional Secretary Finance will be the Deputy Project Director. A senior official from the state finance services has been designated as the Finance Controller and a senior official from audit services has been appointed as the Project Coordinator. GoUK will engage a full-time Project Manager with extensive project management and coordination capabilities to ensure successful implementation of the large number of activities planned under the project. In addition to these officers, staff positions have been created in the PMU to hire specialists from the market including FM specialist, procurement specialist, and other technical specialists for which recruitment process is underway. Staff will be provided sufficient training on project FM procedures.
- Each participating implementing agency has nominated senior person from their department as the nodal officers, who will lead the technical part of their respective reform interventions including preparing terms of reference, procurement, contract management and review of deliverables.** The departments participating in the project and responsible for implementing their sub-components are listed in Table 3. These arrangements have been formalized and notified through a GO. The project would be implemented as per the Project Implementation Plan agreed with the Bank. Project Implementation Plan will be regularly reviewed and updated in consultation with the WB.

Table 3: List of participating implementing agencies

Sub-component	Lead Participating Department/ Directorate/Other agencies
Component 1: Strengthening the Public Financial Management Functions	
1.1 Supporting the state wide roll out of the IFMIS and HRMIS	Directorate of Treasuries, Pensions and Entitlements with support of DDOs
1.2 Strengthening the Cash and Debt Management Framework	Department of Budget (Budget Cell, Finance section 1, and Cash & Debt Management Cell)
1.3 Strengthening Planning and Budgeting Process	FD and Planning Department
1.4 Strengthening capital projects appraisal framework and monitoring of high value projects	FD and Planning Department
1.5 Strengthening Effectiveness of State Public Audit Institutions	Directorate of Audit and Audit Cell



Sub-component	Lead Participating Department/ Directorate/Other agencies
1.6 Strengthening Procurement Framework and Transparency	FD (eProcurement Cell)
1.7 Institutionalizing PFM Training and improving PFM Capacity in the state	CTRFA
Component 2: Strengthening Revenue Management Systems	
2.1 Strengthening e-Governance in Excise Department	Excise Department
2.2 Strengthening Property Tax Administration	UDD and ULBs
2.3 Roadmap for improving capacity for Sectoral Revenue Management Systems	GMVN and State Transport Department
2.4 Studies on enhancing OSR	FD, Commercial Tax Department, and any other designated agency
Component 3: Strengthening PFM in Urban Local Bodies and State-owned Enterprises	
3.1 Strengthening Accounting and Financial Reporting systems in ULBs	UDD and ULBs
3.2 Strengthening PFM and Corporate Governance in selected State-owned Enterprises	GMVN and other SOEs for their respective activities
Component 4: Project Management and Monitoring & Evaluation	PMU in CTRFA

Financial Management

4. **The PMU established in CTRFA will be responsible for project FM.** The FM systems of GoUK and CTRFA are considered adequate and acceptable to provide reasonable assurance that the proceeds of the Bank Loan are used for the purposes for which they are granted. The overall FM risk is rated as “Moderate”.

5. **Planning and Budget.** The PMU will receive plans (including the Procurement Plan) from all participating departments and will develop a consolidated Annual Work Plan which will be approved by the HPC. The Annual Work Plan will be submitted to the FD for budgetary provisions, in accordance with the budget preparation process guided by Budget Manual 2012, under a separate project specific budget head. Salary of staff of Audit Directorate, Audit Cell, and Treasury Directorate (2054-098-06-01, 2054-098-06-03, 2052-091-12-01, 2052-091-12-03, 2054-095-03-01, 2054-095-03-03, 2054-097-03-01¹ and 2054-097-03-03¹), consulting fees for Audit Directorate and Audit Cell procured as per WB Procurement Regulations (2054-098-06-16, 2052-091-12-16) will be included in EEP.

6. **Flow of Funds.** The PMU has opened a bank account for the project. Budget funds will be drawn from the Government treasury into the bank account as per work plan. Contract deliverables will be approved by participating departments and all project payments will be executed centrally at the PMU from the project bank account. Salaries of the Audit Directorate staff and audit consulting fees will be paid by the treasuries as per extant rules and procedures.

7. **Accounting, Internal Controls, and Financial Reporting.** The accounting function will be centralized in the PMU. PMU will maintain project accounts in an off the shelf computerized accounting system. Internal controls for salary payments will be governed by the State Financial Handbooks and relevant GOs. Consulting fees will be procured as per the Bank Procurement Regulations and payments made as per contracts. Payments will be

¹ EEP will be limited to 25 percent of actual expenditure under this head.



recorded by Treasury in the Core Treasury System (CTS or e-kosh) of GoUk against the department budget head and these are considered acceptable. Periodic reporting will be through IFR that will document the expenditures under the project. The format of the IFR has been agreed with GoUk.

8. **Disbursement Arrangements.** The applicable disbursement method will be 'Reimbursement'. The GoUk will pre-finance expenditures for the project using its own budgetary resources and claim reimbursement from the Bank. TA funds will be disbursed based on actual expenditures reported in the six monthly IFRs. Disbursements against DLIs will be made on satisfactory achievement of DLIs, verified as per agreed verification protocol and supported by EEP which will include goods, non-consulting services, consultant services, training and operating costs incurred on the project, salaries and dearness allowance of Treasury Directorate, Audit Directorate and Audit Cell, and audit consultancy fee of the Audit Directorate and Audit Cell. If the project does not achieve the DLI targets for any year, the same will be rolled over till the DLI target is achieved. In case of non-scalable DLIs (as provided for in DLI Verification Protocol), the Bank will disburse only against full achievement of DLI target. In case of scalable DLIs, if partially achieved, the Bank may authorize withdrawal of a lesser amount of the DLI value allocated to said DLI Target and subject to availability of adequate EEP. The remaining amount of DLI will be disbursed once the DLI target value is fully achieved. In case the Project is unable to achieve DLI targets (scalable or non-scalable), the Bank may reallocate the proceeds of Loan to another DLI, in consultation with GoUk. In case the audited EEP is less than reported EEP, the difference will be adjusted from subsequent DLI claims. In case a DLI target earlier achieved is reversed, which in the opinion of the Bank adversely affect the achievement of the PDO, then the Bank can request for refund of the disbursements already made by the Bank for such DLI Target.

9. **External Audit.** The statutory audit of CTRFA is presently conducted by an external audit firm appointed by the Board of Directors of the Society. The audit opinion in the recent audit reports are unqualified and no serious issues have been highlighted. To obtain fiduciary assurance, the entity audit of CTRFA will also cover project activities and a separate schedule reporting on project transactions will be included in the entity financial statements. The auditor will also provide a separate audit report for the EEP of salary payments of Treasury Directorate, Audit Directorate and Audit Cell and consulting fees of Audit Directorate and Audit Cell accounted in the Budget Line of GoUk Treasury system (e-kosh). These audit reports will be shared with WB within six months from end of each FY and disclosed publicly.

10. **Retroactive financing.** No withdrawal shall be made for payments made prior to the Loan Signature Date, except that withdrawals up to an aggregate amount not to exceed six million Dollars (US\$ 6,000,000) may be made (a) for payments made prior to this date but on or after April 1, 2018, under Category 1; or (b) on the basis of the EEPs incurred prior to this date but on or after April 1, 2018, under Category 2.

Procurement

11. **Procurement for the project will be carried out in accordance with the WB's Procurement Regulations for IPF Borrowers, Procurement in Investment Project Financing – Goods, Works, Non-Consulting and Consulting Services dated July 2016 Revised November 2017 and August 2018.** The project will be subject to the WB's Anticorruption Guidelines, dated October 15, 2006, as revised in January 2011 and July 2016. A procurement assessment of the CTRFA has been carried out and procurement risk for the project has been assessed as 'Substantial'. The residual rating on procurement will be reviewed and updated periodically by the WB. Based on risk and market analysis, the Procurement Plan for first eighteen months has been prepared and uploaded on STEP. The Procurement Plan sets out the selection methods to be followed by the Borrower during project implementation in the procurement of goods, IT systems, non-consulting, and consulting services. Procurement training will be provided to key staff both by the Bank and other institutes.



12. **A Project Procurement Strategy for Development has been prepared for the project.** Extensive market analysis has been carried out for different packages of procurement. Decisions on packages and lots are made to ensure adequate participation of bidders. Consultancy contracts are based on market research and packaging decided in terms of scope of services and period. Based on the needs assessment, the project has decided to use Government e Marketplace for procurement of Goods up to US\$100,000. The PMU will use the State e-procurement system for all RFB (Request for Bids) for Open International and Open National procurements. This system has been assessed by the Bank and is acceptable for procurements under the WB funded projects.

13. **Procurement methods with respective thresholds, and prior review thresholds are outlined in Table 4.**

Table 4: Procurement Thresholds

Procurement Approaches and Methods	Thresholds (US\$ equivalent)
Open international (goods, IT system, and non-consulting services)	> 3 million
Open national (goods, IT system, and non-consulting services)	> 100,000 and up to 3 million
National request for quotation (goods)	Up to 100,000
Direct selection	No threshold; For goods/non-consulting services: According to paragraphs 6.8–6.10 of the Regulations; For consultants: According to paragraphs 7.13–7.15 of the Regulations
Shortlist of national consultants	Up to 800,000
Procurement prior-review thresholds.	
Goods and IT system	All contracts more than US\$2 million equivalent
Non-consulting services	All contracts more than US\$2 million equivalent
Consultants	All contracts more than US\$1 million equivalent for firms and more than US\$300,000 equivalent for individuals

14. **Prior review contracts.** In the case of contracts subject to prior review, the PMU will seek the WB's no objection before granting/agreeing to the events mentioned in clause 10 of Annex II Procurement Oversight of the Procurement Regulations. Complaints received in all prior review cases shall be sent to Bank for review and the response to the complaint in such cases, shall be cleared with the Bank. Complaints with allegations of fraud and corruption, shall be shared with Bank, irrespective of the thresholds. Contracts not subject to prior review shall be subjected to annual post procurement review by Bank. Procurements may also be subjected to Bank's independent procurement review.

15. **Disclosure of procurement information.** The following documents shall be disclosed on the project/state websites, publishing on the United Nations Development Business and the WB external website (as applicable): (a) Procurement Plan and its updates; (b) Specific Procurement Notice/an invitation for bids for procurement of goods, IT system procurement and non-consulting services; (c) request for expression of interest for selection/hiring of consulting services above USD 800,000; (d) contract awards of goods, IT system procurement and non-consulting services procured following international and national procedures; (e) a list of contracts/purchase orders placed following shopping procedures on a quarterly basis; (f) a list of contracts following direct contracting on a quarterly basis; (g) an annual financial and physical progress report of all contracts; and (h) an action taken report on the complaints received on a quarterly basis. Further, the implementing agency will also publish on their websites any information required under the provisions of 'suo moto' disclosure as specified by the Right to Information Act.



Implementation Support Plan and Resource Requirements

16. **Strategy and approach for implementation support.** This strategy has been developed based on the nature of project activities and overall project risk profile. This implementation support plan, described below, will be a live document regularly reviewed and revised during implementation.

17. **Implementation support plan.** Project implementation support will be conducted through the following: (a) at least two regular implementation support missions per year over the project duration; (b) intermediate technical missions by specialists, as needed, to support achievement of results under technical components; (c) review of half yearly implementation progress reports prepared by the PMU; (d) a MTR to review progress and assess the need for any mid-course corrections; and (e) an Implementation Completion and Results Report at the end of the project to assess achievement of the PDO and lessons learned. Table 5 summarizes the implementation support plan.

18. **Technical support.** The WB will provide the required technical support through sector specialists on a continuous basis. As noted in the risks section due to limited client technical capacity, there is a need for enhanced support in the initial years of the project.

19. **FM.** Implementation support will review the implementation of project agreed FM arrangements, including accounting, reporting and internal controls and auditing and review of audit reports and IFR.

20. **Procurement.** Implementation support will include (a) review of procurement documents and provision of timely no-objection; (b) detailed guidance to project staff on the applicable WB's Procurement Regulations; (c) monitoring of procurement progress against the Procurement Plan; (d) review of contract management activities; and, (e) identification of capacity-building and training needs of project staff on procurement processing and provision of training, if required.

21. **Environmental and social safeguards.** Due to nature of activities environment support will be minimally required. Social safeguard support will be required at least once year specially to review gender, citizen engagement, and grievance redressal mechanisms.

Table 5: Implementation Support Plan

Time Period	Focus	Skills Needed	Resource Estimate
First 12 months	<ul style="list-style-type: none"> Implementation of agreed project arrangements including institutional arrangements Technical support 	<ul style="list-style-type: none"> Technical FM Procurement Safeguards 	8-10 staff weeks for technical staff and one week for fiduciary and safeguard staff
12–60 months	<ul style="list-style-type: none"> Implementation support Technical support 	<ul style="list-style-type: none"> Technical Safeguards FM Procurement 	6-8 staff weeks for technical staff and one week for fiduciary and safeguard staff



ANNEX 2: Technical Annex: Project Components and sub components

COUNTRY: India

Uttarakhand Public Financial Management Strengthening Project

1. **The project activities are grouped in four components described below.** The component wise allocation and funding is presented in Table 6. IBRD funding will finance 80 percent of the total project costs. Counterpart funding of GoUk will be provided in proportion to the Banks disbursement.

Table 6: Component wise allocation and source of financing (US\$ Million)

Components	Total	EEPs ²	TA
Component 1: Strengthening the Public Financial Management Functions	25.52	21.00	4.52
Component 2: Strengthening Revenue Management Systems	6.79	5.00	1.79
Component 3: Strengthening PFM in Urban Local Bodies and State-Owned Enterprises	5.30	4.00	1.30
Component 4: Project Management and Monitoring & Evaluation	1.79	0.00	1.79
Total	39.40	30.00	9.40
Front End Fee	0.08	0.00	0.08
Total	39.48	30.00	9.48
Source of Financing			
IBRD	31.58	24.00	7.58
GoUk	7.90	6.00	1.90
Total	39.48	30.00	9.48

Component 1: Strengthening the Public Financial Management Functions (total US\$25.52 million, IBRD US\$20.40 million of which DLIs US\$16.80 million)

2. **This component will support strengthening the PFM institutional framework and systems, improve capacity in the areas of cash and debt management, public audit, budgeting and planning, capital expenditure management, and public procurement and support measures to improve transparency of budget and procurement information.** The component will finance institutional assessments, capacity building, and analytical studies, state-wide roll-out of software for the IFMIS, the HRMIS and the OAMS.

Subcomponent 1.1. Supporting the State-wide roll-out of the IFMIS and the HRMIS

3. **Objective: to enhance efficiencies and controls in the state treasury systems through implementation of a new generation IFMIS.** IFMIS will integrate systems for budgeting, accounting, treasury, works and projects including commitments, payroll, online receipts and payments, and paperless and seamless accounting and reporting. This will strengthen controls, increase coverage of transactions, enhance availability of budget and fiscal information, and allow GoUk to enhance disclosure and facilitate citizen engagement during budget preparation and execution. This sub-component is incentivized through DLI#1 – Strengthened Controls over Payments, Accounting and Reporting - due to the importance of this activity in enhancing the PFM controls and environment in the state. This subcomponent will also support enhance disclosure incentivized through DLI#3 – Enhanced transparency of key budget and procurement information.

² IBRD would fund 80% of EEPs in the form of DLIs aggregating to US\$24 million and GoUk will contribute to 20% of the EEPs.



4. **Status and challenges.** The current Financial Management Information system used in the state is the intranet-based CTS for treasuries and e-Kosh for external users implemented in 2011. The CTS covers key areas of bill preparation at level of the DDO, numbering approximately 4,200, bill processing and payments at the treasuries, accounting, real time financial information, reconciliation, and online salary generation through standalone modules. Accounting of works departments is presently not included in CTS and is done in parallel, leading to delays in preparation of accounts. CTS is integrated with e-Kuber platform of the central bank for online payments, and with the GST Network platform for online receipts in the state. The CTS was developed incrementally, working on two databases and two applications resulting in issues of synchronization. The platform is now obsolete and is not amenable for further enhancements. Budget software is stand alone and not integrated with the CTS. Most of the hardware in Treasuries is of 2011 vintage and needs replacement. Current payroll software is a centralized single database which has neither service records nor full details of employees for creation of pension records at time of retirement leading to delays in pension processing.

5. GoUk has conceived an integrated, role-based, paperless IFMIS on contemporary platform with integration of modules, enhanced data management capabilities and strengthened reporting capabilities. The IFMIS will have modules covering the following key areas: budget preparation, allocation and distribution transition of works accounts to the treasury mode; works accounting and project accounting with commitment control; an online Personal Ledger Accounts discouraging transfer of government funds to bank accounts; full HRMIS covering payroll, pension and service records; online submission of accounts to the state Accountant General and discontinuation of submission of physical bills; a projects database; and a dashboard for financial information. The system will have OTP/bio-metric authentication and Aadhar based login and a three-tier system of operator, supervisor, and approver for processing and approval of transactions.

6. Development of IFMIS is accompanied by detailed BPR to bring in efficiencies, revisions in financial handbooks and treasury manuals, and investments in hardware including establishment of a Disaster Recovery Site, providing for redundant connectivity, and enhancement of the data center. The IFMIS is in an advanced stage of development and phased-wise implementation is planned. HRMIS software (HR and payroll) is being developed by the state for phase wise implementation for full automation covering advances, claims, leave, e-Service record, annual confidential reports, and recruitment. This will require digitization of all employee records and validation and linking with payroll and IFMIS. The current ongoing cost of software development is being met from the state's own funds. A phased implementation plan has been developed which will be monitored and refined during project implementation. Staff cost for Treasury Directorate and Treasuries will be considered as part of EEP as these human resources are key for implementation of this subcomponent and reforms.

7. **Project activities.** This sub-component will be led by the Directorate of Treasuries with the support of all departments particularly the DDOs. The project will support IFMIS and HRMIS roll-out in the state through the following activities: (a) a training needs assessment and training in the new system; (b) roll out support including help desk; (c) change management for roll out of new systems; (d) digitization of pension data and service records; (e) third-party security and systems audit and functional review of IFMIS/HRMIS for future enhancements; (f) hardware for the Finance Data Center, the treasuries and DDOs to support the new IFMIS rollout; (g) connectivity; (h) bio-metric devices and e-sign for better access controls and secured logins; (i) a central registry for safe-custody of employee records and voucher; (j) expanding the Finance Data Center to a IFMIS cell to manage the development, roll-out and maintenance of the application as well as house the helpdesk; and (k) improvements in budget documentation, providing public access to budget execution reports and contract award details and establishment of a link for citizen engagement.



Subcomponent 1.2. Strengthening the Cash and Debt Management Framework

8. **Objective: to improve institutional framework for cash and debt management, enhance cash forecasting, improve risk management capacity, and automate debt recording.** This sub-component is supported by DLI#7 - Improved Cash and Debt Management Practices. The sub-component is expected to strengthen the borrowing planning capacity of GoUK, leading to a reduction in interest costs and improved predictability of funds to the spending units.

9. **Status and challenges.** A DeMPA for the state was carried out in April 2018 to review the cash and debt management functions of the state. While GoUK is within the FRBM limits prescribed for debt, interest payout and debt has increased over the past three years due to the state's increasing revenue deficit.

10. GoUK currently prepares an annual borrowing plan and estimates of interest payments and loan repayments for the budget. Cash flow forecasts are consolidated on spreadsheets as and when required. A Resource Mobilization Committee, chaired by the Chief Secretary, meets monthly to review cash flow forecasts and significant variations are reviewed for action. A daily report on the cash balance in the Treasury Single Account is obtained from Reserve Bank of India. GoUK does not prepare a MTDS to guide borrowing and debt structure over a 3-5 year horizon. The borrowing plan is not updated during the year using latest information on cash flows. GoUK does not prepare and publish a debt statistical bulletin providing information on the government's debt management activities. Records of borrowings are maintained on spreadsheets and the use of Commonwealth's CS-DRMS, acquired a few years back, has been discontinued.

11. GoUK maintains cash above a minimum target and the Reserve Bank of India automatically invests the surplus in GoI's Treasury Bills. Ways and means advances are used as a de-facto liquidity management instrument. A cash and debt borrowing plan is not produced which can determine the volumes and timing of market borrowings and facilitate development of the quarterly auction calendar. Monthly forecasts of expenditure and revenue cash flows prepared by the Budget Cell are monitored, but cash forecasting is done as and when required but not on a continuous basis. The current monitoring of investments, equities in SOEs, loans and advances to state agencies is weak and not done regularly as well as there is no consolidated data available on these areas.

12. **Project activities:** This activity will be led initially by the Budget Cell and Finance Section 1 under FD and later by the Cash and Debt Management Cell. The project will support the following activities: (a) constitution and staffing of a Cash and Debt Management Cell in FD; (b) provision of a Resident Advisor; (c) publication of a Debt Statistical Bulletin, at least annually, on portfolio overview and effectiveness of debt management operations; (d) development and implementation of a comprehensive and realistic Cash & Borrowing Plan tracking actuals and forecasting better timing of market borrowings; (e) implementation of a debt recording and management system and maintaining complete debt and guarantee database; (f) building capacity of staff in DSA and MTDS; (g) development and implementation of a database for investment, equity and loans and advances to state agencies and (h) development of a Debt Procedures Manual. GoUK is in the process of establishing a Debt and Cash Management Committee to facilitate effective decision-making as well as a Cash and Debt Management Cell for day to day operations.

Subcomponent 1.3. Strengthening Planning and Budgeting Process

13. **Objective: to institutionalize an integrated approach to planning and budgeting and strengthen existing budget allocation process.** This is expected to enhance government accountability by: establishing a clear linkage between expected outcomes and expenditures; improve governance efficiency with the introduction of MTEFs, program and scheme evaluation, use of analytics; and build human capacity through handholding and training.



14. **Status and challenges.** GoUk currently prepares three budget documents: General Budget and a Gender Budget, prepared by the FD; and an Outcome Budget prepared by the Planning Department. The estimated size of Uttarakhand's General Budget for FY 2018/19 is INR 45,202 crores against INR 38,046 crores in FY 2017/18 and INR 35,516 crore in FY 2016/17. For General Budget, the FD follows the budgeting process outlined in the budget manual and budget call letter. Usually, an annual increment of 10 percent is observed in allocations. The General Budget of the GoUk comes across as a comprehensive list of schemes rather than programmatic framework that aligns resources with policy objectives. Schemes are not regularly reviewed. This leads to inefficient allocation of resources, difficulty in tracking funds flow and inadequate assessment of the performance of individual schemes in terms of service delivery. FD needs to review these practices and align budgeting exercise linking it to medium term financial projections, cash and debt forecasting, outcome budgeting, and gender budgeting.

15. A Gender Budget is currently prepared from the General Budget. Each scheme is reviewed, and its gender alignment designated based on proportion of women beneficiaries expected to be served by each scheme. The size of the Gender Budget in FY 2018/19 is estimated at INR 4,955 crore versus INR 4,558 crore in FY 2017/18 and INR 3,294 crore in FY 2016/17. The government has prepared the gender budget since 2007/08 but it is used for disclosure purposes rather than decision making. The number of beneficiaries has not been re-assessed since 2007/08 and only an approximation of scheme beneficiaries is used for reporting on implementation.

16. An Outcome Budget is prepared in a well-defined reporting format which tries to: map schemes against United Nations Sustainable Development Goals; include qualitative measures of performance; and include timelines for performance which range from 1-10 years with base line values as on April 1, 2017. Two Outcome Budgets that have been released. These reveal the need for greater conceptual understanding. Outcomes and outputs are defined in qualitative terms. There are no performance indicators to measure achievement quantitatively. Overall, there is limited connection among goals, outcome, outputs, and inputs as defined by departments and achievements are not reported against agreed outcomes or outputs.

17. The Planning Department houses an Evaluation Cell which reviews the outcomes of about five schemes annually. Due to numerous factors the coverage and scope of evaluation is restricted, and reports are delayed. The lack of authority and limited scope of evaluation by departments hinders the Evaluation Cell becoming a powerful agent of change. The performance evaluation of government programs and schemes will need to be institutionalized if Government is to understand the end results of development efforts.

18. **Project activities:** This sub-component will be implemented by the FD and the Planning Department. This subcomponent will support: (a) preparation of a medium-term fiscal framework, which defines desired fiscal targets (the fiscal deficit, revenue deficit, debt etc.) and establishes broad multi-year parameters for the budget; (b) development and implementation of MTEF; (c) expenditure analysis, spending reviews and rationalization of schemes; (d) preparation of an outcome-focused budget with logically developed outcomes, outputs, inputs and performance indicators on the line of SDGs; (e) strengthen the process of preparation of Gender Budget; (f) institutionalization of performance evaluation of governments programs and schemes by strengthening Evaluation Cell; and (g) capacity building for finance and planning staff of all departments including training in analytical methods. The Planning Department is currently carrying out study for developing an MIS and GIS software for tracking scheme implementation progress, which would be supported by the project.

Subcomponent 1.4: Strengthening capital projects appraisal framework and monitoring of high value projects

19. **Objective: to improve the process of preparation, selection, prioritization, and oversight of strategic and/or high value capital projects in Uttarakhand using principles of public investment management.** This is expected to result in improvements in the quality of public investment by focusing on project preparation criteria, sequencing projects based on state priority and fiscal space, and ensure better outcomes through improvement



in the rate of completion of long term capital projects. This sub-component is closely linked to subcomponent 1.3 and the overall fiscal framework of the state.

20. **Status and challenges.** All capital projects are appraised on financial and technical parameters as per notified guidelines. Capital projects between INR 1 – 5 crores are appraised by a Technical Assistance Cell housed within the FD, while projects of value more than INR 5 crores are appraised by EFC housed within the Planning Department. The EFC is headed by the Chief Secretary, comprises Secretary FD, and Secretary, Planning Department as members, and is supported by a Technical Expert. EFC approved 40 projects in FY 2016-17 and 23 in 2017-18. Projects are appraised based on project objective, target beneficiaries, project strategy, legal framework, environmental assessment, technology issues, and sustainability. Once approved, the respective administrative department and finance controller are responsible for tracking funds released against the project. There is no project prioritization. All capital projects are funded with ‘token’ allocations, without any assessment of future availability of funds. There is no formal system of keeping track of approved or completed projects. The Public Works Department has a strong MIS system for tracking capital expenditures, but other departments do not have such systems and records are maintained manually. Cost and time over runs are common.

21. **Project activities.** This sub-component will be implemented by the FD and the Planning Department. The project will support the following activities: (a) deriving the estimate of the fiscal space over the medium term for funding ongoing capital projects/ accommodating new projects; (b) strengthening project preparation; (c) developing a criteria for prioritizing project selection and expediting completion of ongoing projects; (d) revision of project appraisal guidelines and procedures; (e) development of guidelines for screening of investment projects and alignment of investments with GoUK climate-related policies; (f) creation of an online dashboard for real time monitoring strategic and high value capital projects; and (g) capacity building of staff.

Subcomponent 1.5: Strengthening Effectiveness of State Public Audit Institutions (internal audit and financial attest audit of local bodies)

22. **Objective: to enhance effectiveness to the audit process by strengthening the Audit Directorate of GoUK, improving efficiency in terms of coverage and timelines in the internal audit function and to enhance accountability of local bodies by conducting timely financial attest audits.** This sub-component is supported by DLI#2 strengthened coverage and timeliness of Internal Audit for high risk auditees and areas and DLI#6 strengthened coverage and timeliness of financial attest audits for local bodies.

23. **Status and challenges.** State Public audit in Uttarakhand is governed by Uttarakhand Audit Act, 2012 covering internal audit and audit of local bodies. Both these functions are under a common Audit Directorate headed by a Director-Audit (an IAS officer from FD). Audit Directorate has a sanctioned staff of 150 of which only 75 positions are presently filled. 60 percent of audits are conducted by the directorate’s own staff and remainder are outsourced to empanelled private audit firms. The Audit Directorate follows a risk-based methodology with entities in three categories: ‘A’ audited every year, ‘B’ audited every two years and ‘C’ every three years. The internal audit manual, developed in 2011, needs revision. An Audit Cell in the Administrative Secretariat headed by Secretary Finance is responsible for audit policies, yearly audit plans, and monitoring audit compliance. Audit findings are reviewed and approved by specific committees (Category A by Audit Cell of Secretariat and Category B and C by the Audit Directorate). A high-level audit committee headed by Chief Secretary and officials from the administrative departments review the issued audit reports for compliance. An annual consolidated audit report is required to be laid before the State Legislative Assembly which was last submitted up to 2012.

24. GoUK’s audit function is beset with significant challenges in terms of coverage, timeliness, and executive response to audit findings. Coverage of the audit plan is limited and fewer audits are conducted than planned. The entire audit process is manual. There are delays in issue of audit reports. There is limited response by the



auditees to the audit findings. Staff assigned for audit are often not certified and may not access to contemporary tools and techniques. The directorate has recently started certification of accounts for local bodies (financial attest audit). However, only a small number of local bodies have been covered so far mainly due to non-availability of their AFS and lack of guidance on this type of audit.

25. GoUk recognizes the urgency of strengthening the audit regime by redefining the role of state public audit, advancing technical skills of the existing audit staff, shifting from compliance and financial audit to thematic audit of high-risk areas, augmenting human resources, and implementing an IT-based audit management system. The directorate is presently developing an OAMS to automate the complete audit cycle (audit planning, allocation of human resources, conduct of audit and issuance of audit reports, submitting action taken reports by the auditees and filing of audit papers). The key modules in OAMS (Audit, Compliance and Financial Attest (or Certification)) will be rolled out in phases preceded by extensive trainings. The cost of development of the current ongoing software will be funded by the state government. Staff cost and consultancy payments for Chartered Accountants firm made by Audit Directorate and Audit Cell will be considered as part of EEP as these human resources are key for implementation of this subcomponent and reforms.

26. **Project Activities.** This sub-component will be led by Audit Directorate and Audit Cell. The project will support OAMS roll-out in the state and help strengthening the effectiveness of public audit through the following interventions: (a) training of audit staff, DDOs and private auditors on OAMS; (b) national/international professional certification for identified staff; (c) upgrading technical skills of audit staff and developing institutional capacity on risk-based audits (e. g. performance, thematic, procurement and IT audits) and financial attestation (certification) audits of local bodies; (d) development of new audit manuals to reflect modern audit practices; (e) security audit of OAMS, interface of OAMS with IFMS and State Auditor General; (f) establishment of quality assurance mechanism; (g) software for audit data analysis; and (h) IT systems and hardware to support automation of the function through OAMS.

Subcomponent 1.6: Strengthening Procurement Framework and Transparency

27. **Objective: to improve procurement systems and capacity in the state by strengthening the procurement framework and enhancing procurement transparency.** This sub-component is supported by DLI # 3 Enhanced transparency of key budget and procurement information.

28. **Status and challenges.** GoUk formulated Procurement Rules in 2008 which were amended in 2015. New Procurement Rules were promulgated in 2017. Currently there are no SBDs. As a result, agencies use inconsistent criteria and documents, leading to the rejection of bids and loss in competitiveness. GoUk uses e-procurement system for goods, works and services for all procurement estimated to cost INR 0.25 million for goods and INR 2.5 million for works. This portal is now handed over to the state by the National Informatics Center and future development and maintenance is a policy decision to be made by the government. The e-procurement portal provides a platform for procurement process up to contract award stage only. The portal is not linked to IFMIS. Contracts awards are not disclosed to the public. There is no system to track contract performance, variations, and completion. There is no protocol for grievance redressal. Training is provided when required rather than on a regular basis. GoUk has acknowledged that it needs to improve disclosure requirements, build its institutional and technical capacities in procurement.

29. **Project activities.** This sub-component will be carried out by the e-procurement cell and FD. The project will support: (a) development of SBDs for procurement of goods, works and services; (b) development and implementation of a procurement GRM; (c) disclosure of contract award information to public; (d) enhancement of the State e-procurement portal by linking the e-procurement with IFMIS for end-to-end monitoring of contracts and variations; (e) review of the procurement rules, including benchmarking with other states, to strengthen the



procurement framework; and (f) development of a training module on public procurement by CTRFA and roll-out to staff handling procurement function.

Subcomponent 1.7: Institutionalizing PFM training and improving PFM capacity in the state

30. **Objective: to institutionalize PFM training in the state and strengthen the capacity of human capital in all aspects of the value chain in PFM.** GoUk recognizes the need for capacity building to strengthen the knowledge of its human resources in the core areas of PFM. Capacity building is embedded in the project and is aimed at not only implementing, but also sustaining the reforms and ensuring availability of the right type of human resources.

31. **Status and challenges.** GoUk has set up CTRFA as a modern training facility to administer and implement PFM training programs in a systematic and structured manner and carry out research to support the FD. GoUk's plans to develop the CTRFA into a center of excellence and make it the focal point for all future training and research in PFM in the state. CTRFA has its own building and training infrastructure. It has commenced training programs for the FD staff, Treasury officials, Finance service officers and accounts staff in various departments in key PFM areas. CTRFA seeks to offer training and professional support in PFM through sustainable models. As a new institution, CTRFA needs to assess PFM learning and skill development requirements, identify skills gap, and develop a strategy for its capacity building interventions.

32. **Project Activities.** This sub-component will be led by the CTRFA. Training is a cross cutting activity that will support all other sub components. The project will support the following activities: (a) conduct of Training Needs Analysis for PFM and develop a medium term training plan; (b) development of a comprehensive Training Strategy; (c) development of course curriculum and PFM Modules for the entire spectrum of PFM cycle including e-learning modules; (d) development of resource faculty including master trainers; (e) capacity building in teaching and research methodologies; (f) collaborating/twinning arrangements with international/national training institutions; and (g) providing PFM training and capacity building programs in key thematic areas such as planning, budgeting, commercial basis of accounting, public investment management, procurement, cash and debt management, treasury/ finance rules, emerging areas of PFM and new technologies. CTRFA will spearhead PEFA assessment for the state and lead the exercise in collaboration with the Bank. CTRFA will also carry out sector studies as required by the FD which would be supported by the project.

Component 2: Strengthening Revenue Management Systems (total US\$6.79 Million IBRD US\$5.43 Million of which DLIs US\$4.00 Million)

33. **This component will finance activities that will contribute to enhancing GoUk's OSR through a combination of policy measures, improvements in the efficiency of tax administration in key revenue-generating departments/agencies (excise, tourism, and ULBs) and enhancements in e-services for taxpayers to facilitate better compliance.** This will include institutional assessments, capacity building, analytical studies, and developing/modernizing information systems for improved revenue administration. The success of these interventions is expected to have a demonstration effect on other sectoral departments to adopt similar practices.

Subcomponent 2.1: Strengthening e-Governance in Excise Department

34. **Objective: to strengthen the functioning of the Excise Department by policy interventions, improving enforcement, upgrading IT systems and staff training.**

35. **Status and challenges.** The Excise Department implements the state's excise policy, grants license, and permits and acts as a regulator for manufacture, import and supply of liquor, intoxicants, and narcotics (for medicinal purposes) in the state. Liquor vends are auctioned annually through e-tendering. State excise contributed INR 1,906 crores in FY 2016/17 and INR 2,262 crore during FY 2017/18, which is around 16 percent of



state OSR, registering an average growth of 12 percent over 2012/13. GoUk has set a target of INR 2,650 crores for FY 2018/19. GoUk recognizes the need to improve collections from excise and is targeting both policy reforms and IT interventions.

36. GoUk is considering fundamental changes in regulation and excise policy to align its excise policy with neighboring states such as Uttar Pradesh. The State Excise Department has initiated steps to introduce a 'Track and Trace' System to improve enforcement of excise paid alcohol sales for human consumption. Currently, the Department operates on a web-based Uttarakhand Excise Management System, a computerized application which has basic functionalities. GoUk recognizes the need for modernizing the current system in operation with a comprehensive e-Governance system in the department to improve interaction with stakeholders and management and regulation of this sector. The upgraded system is targeted to enhance the function and outcomes of the Excise Department: online availability of information on various aspects of excise functioning to facilitate real-time decision making; enable system-based assessment of excise; online payments of excise duties and fees; and enhanced enforcement including legal management.

37. **Project activities.** This activity will be led by the Excise Department. The project will support the following activities: (a) studies to support policy initiatives in institutional strengthening of the Excise Department through IT enablement; (b) design of an enhanced e-Governance system to support compliance with the state's excise policy through a licensing module, excise legal case monitoring, audit and inspection, and grievance redressal which will contribute to ease of doing business; and (c) roll-out support, capacity building and training of excise officials.

Subcomponent 2.2: Strengthening Property Tax administration in participating ULBs

38. **Objective: to improve the efficiency of tax administration of ULBs and improve the tax collection ratio through GIS mapping, door to door survey, and digitization of property taxes.** This sub-component is supported by DLI#5: Increase in property tax collections of participating ULBs.

39. **Status and challenges.** Property tax collected by the 91 ULBs in the state is the main constituent of OSR but constitutes a small portion of total revenue of the ULBs. In Uttarakhand, ULB's OSR ranges between 20 percent for larger ULBs and 4 to 7 percent for others. This compares with a 2017 study by Janaagraha Center for Citizenship and Democracy across 21 states, which found that ULBs OSR averaged 37 percent with Punjab at 74 percent, Goa at 55 percent and Andhra Pradesh 54 percent. Uttarakhand's ULB property tax collections are below potential due to shortcomings in the structure of the tax and its administration. Property registers are maintained manually and are not updated regularly. Around 30 to 40 percent of properties are unassessed. Valuations are based on an annual rental value. A system of unit area assessment system was introduced in 2014 in ULBs such as Dehradun but extending this to other ULBs is still in planning stage. Estimated property tax valuations bear no resemblance to market rents. Collection efficiency is only around 40 percent in larger municipalities like Dehradun and none of the ULB in Uttarakhand have achieved the benchmark efficiency of 80 percent.

40. The Uttarakhand Economic Assessment Report (2012) proposed measures to strengthen the tax base including policy changes, introduction of GIS mapping, regular surveys of properties to update the GIS and property database, incentives for timely payment of taxes, penalties for late payment, and ICT based systems for tax payment. The report assessed that reforms in property taxation could raise property tax revenue by at least 50 percent. GoUk will strengthen property tax administration by mapping of properties using a GIS platform and conducting household surveys in at least 14 ULBs under this project. The following ULBs are expected to participate: Dehradun, Haridwar, Haldwani, Rudrapur, Rishikesh, Kotdwar, Roorkee, Nainital, Kashipur, Almora, Pauri, Chamoli, Mussorie, and Pithoragarh.



41. **Project Activities.** This sub-component will be led by the UDD. The project will support the following activities: (a) roll-out of system of self-assessment of property tax; (b) digitization of existing property records, procurement of satellite data, GIS mapping and household survey of properties; (c) capacity building; (d) extending online receipts system for collection of property tax; (e) policy studies, training and capacity building and IT support; (f) creation of GIS cell at the Directorate level which will ensure sustainability of GIS initiatives across all ULBs in the state; (g) a study on the creation of an urban fund and setting up a municipal revenue board, following the experience of advanced states; (h) implementation of a state-level dashboard on property tax; and (i) study of collection mechanisms and support improvements.

Subcomponent 2.3. Roadmap for improving capacity for Sectoral Revenue Management Systems

42. **Objective: to strengthen the revenue administration in the state's premier tourism and transport institutions.**

43. **Status and challenges.** Uttarakhand is a Tourism dependent state with domestic and foreign tourist arrivals at about 35 million in 2017. Tourism was accorded industry status in Uttarakhand in 2018. GMVN is a pioneer SOE with promotion of tourism as one of its key objectives. GMVN operates a chain of 100 hotels spread across almost all the key areas of the Garhwal region of Uttarakhand. Over the years, GMVN has not performed well. Operations in two key business verticals of GMVN, namely Tourism and Marketing (gas agencies and petrol pumps), are informal, disaggregated, and manual. GMVN has failed to leverage IT investments. There is little control over revenue and expenditure that is generated and incurred at the facility level. This system of running a hospitality and consumer organization is inefficient. Technology can be leveraged for near real-time information for decision-making. Improving revenue is critical for GMVN as the company does not receive government support. GMVN is endeavoring to modernize and become self-sufficient, modernizing revenue systems, and centralizing revenue capture.

44. The Transport Department in Uttarakhand is a major revenue earning department. Actual collection of Taxes of Motor Vehicles was INR 816 crores in FY2017/18 up from INR.557 crores in FY2016/17. Taxes during FY2018/19 is budgeted at INR. 850 crores. There is potential to further increase revenues. The Transport Department has migrated to web based central applications namely Vahan and Sarathi, digital systems for regulation, service delivery and administration need improvements and linkages with Vahan and Sarathi for e-payments, e-challans, license renewal and a host of other regulatory and penal services. GoUk wishes to leverage the sharing and use of transport data with related departments. The Transport Department is expected to reduce standard time-lines for delivering various services, improve regulatory transparency, maintain digital records of vehicles, drivers' licenses, and other permits, and move to an "any time anywhere" model of service delivery with the overall objective of strengthening revenue management systems in the department.

45. **Project Activities:** This activity will be led by respective agencies. The project will support the following activities in respect of GMVN: (a) strengthening the revenue systems in the Tourism and Marketing verticals of GMVN through consultancies in the areas of BPR for existing policies, procedures, and practices to bring in efficient processes and leverage IT by implementing computerized applications of automating the entire functions; (b) development of a roadmap for integrating and consolidating Tourism related assets; and (c) preparation of a business plan and exploring opportunities for private public partnership/leasing models. For Transport Department, the following activities will be supported: (a) 'As is' and Gap analysis, BPR and suggesting a To Be plan; (b) a study on revenue generation potential using IT intervention and leveraging of technology; (c) a study to improve the Uttarakhand Transport Corporation's revenue and cost efficiency; (d) Inter-state and international Comparative study with regards to provision of transport services and revenue generation. In later phase, the project may support the implementation of roadmap developed for these two institutions.



Subcomponent 2.4: Studies for enhancing Own Source Revenue

46. GoUk intends to have flexibility in project design that allows additional work on existing components or taking up new activities which are closely connected with improvement in revenue management systems and practices leading to enhanced revenue mobilization. The project will support need-based TA that may include consultancies to carry out assessments and studies, policy initiatives, including initiatives in environmentally responsible taxation, institutional review of various functions and process workflows, and appropriately support implementation of reform plans or roadmap, as may be needed. The Commercial Tax Department of GoUk has initiated reforms to strengthen the institutional capabilities of the department post-GST and the project will support activities emanating from these reforms such as tax audit and analytics, studies, and capacity building, based on the needs identified by GoUk. The project will support studies in the areas of Stamps registration and other non-tax revenues which contribute to the overall state revenues as identified by GoUk. This component will be led by the FD in co-ordination with the respective departments.

Component 3: Strengthening PFM in Urban Local Bodies and State-Owned Enterprises (total US\$5.30 Million, IBRD US\$4.24 Million of which DLIs US\$3.20 Million)

47. **This component supports strengthening PFM and improving accountability in ULBs and identified SOEs by strengthening their accounting and financial reporting systems.** This will include institutional assessment and strengthening, capacity building analytical studies, strengthening the institutions and systems and developing/modernizing information systems.

Subcomponent 3.1. Strengthening accounting and financial reporting systems in ULBs

48. **Objective: to enhance transparency and accountability by strengthening accounting and financial reporting systems in ULBs through development and deployment of uniform computerized double-entry accrual-based accounting system.** The long-term vision of the government is to improve the revenue potential of the ULBs, enhance accountability and transparency, and reform the ULBs to make them sustainable and access the market for resources. This sub-component is supported DLI#4 - Improved timeliness in preparation and publication of AFS of ULBs.

49. **Status and challenges.** Uttarakhand has 91 ULBs including 8 large municipal corporations. Increasing urbanization has led to higher allocation (devolution) of funds to ULBs which for FY 2015/16 was US\$100 million and is budgeted at US\$ 260 million for FY 2018/19. PFM reforms in ULBs to improve accountability have been done in a piecemeal manner with limited success. ULBs are required to follow the UMAM. This is based on the National Municipal Accounts Manual, adopted in 2011, mandating double entry system of accounting on accrual basis. Implementation of UMAM has not progressed well. Only few ULBs follow double entry system. Individual ULBs have used off the shelf accounting applications, but usage has been limited and these have not been implemented or scaled up across the state and hence availability of reliable and timely financial information is severely constrained. There is no uniform software for ULB accounting and level of computerization has been slow due to lack of trained workforce, absence of relevant software and under-utilization of the available hardware. Some ULBs have engaged external consultants to “convert” their books to double entry accrual system on a stand-alone off-the shelf application. There are significant arrears in accounting and financial reporting: only three ULBs have prepared financial statements for FY 2017/18; about 27 ULBs are ready with their financial statements up to FY 2016/17; while 45 ULBs have produced them up to FY 2015/16.

50. Certification or Financial Attest Audit for local bodies was introduced in Uttarakhand from August 2017. This requires that ULBs’ financial statements are available. Accountability instruments in ULBs are further weakened as indicated by arrears of audit and lack of response to audit findings. Two challenges emerge: first,



audit is delayed as the ULBs fail to prepare and present their AFS on time; and second, the Audit Directorate is short of audit staff. Consequently, ULBs in Uttarakhand are unable to access (or access with delay) the funds under various schemes, such as performance grants of the Finance Commission, which assess availability of audited financial statements as one of the parameters for eligibility to access these funds. GoUK has acknowledged that it needs to build its institutional and technical capacities in ULBs and accounting and financial reporting in ULBs needs to be strengthened and modernized urgently.

51. **Project activities.** This activity will be led by UDD with support from the participating ULBs. The Project will support the following activities: (a) revision of the UMAM; (b) development of accounting and FM guidance; (c) deployment of uniform double-entry accrual- based computerized MAS; (d) support in transition through hand-holding support, training and capacity building; (e) provision of FM staff/outourced consultants; (f) support in credit rating for ULBs (so far five ULBs have been credit rated but they have not used ratings for funds mobilization); (g) development of a dashboard of ULBs at state Directorate level; and (h) provision of need-based hardware and connectivity to ULBs. This process will be suitably tailored and modified for ULBs based on their readiness and implemented in a phased approach.

Subcomponent 3.2. Strengthening PFM and Corporate Governance in selected State-Owned Enterprises

52. **Objective: to strengthen and modernize the PFM systems and improve corporate governance in selected SOEs.** The project will support modernization of the governance and entire PFM functions in GMVN – HR, FM, and Internal Audit - by leveraging IT. Activities will expand to a further two to three SOEs to demonstrate the effectiveness of the reforms and provide a framework for other SOEs to adapt.

53. **Status and challenges.** GoUK has identified GMVN to make its processes efficient in an endeavor to make GMVN a more accountable organization with respect to the use of public funds with enhanced transparency. GMVNs current PFM and HR processes are manual and archaic. The issues identified are: lack of systems for collation and aggregation of financial information in GMVN delaying effective decision making; archaic HR procedures, lack of an electronic database for the 2,400-strong workforce in GMVN and manual HR procedures for service records, payment of salaries, transfers, and disciplinary actions; manual accounting at the units and head office so that financial information is available only with a time lag. Internal audit too is weak following archaic practices; and AFS are available with delay and audit is in arrears. The present system is not amenable to generate cost-center accounts. GMVN is looking to modernize its FM systems linked to the corporate objectives of the company. In line with this, the internal audit function in GMVN will need to be modernized. With efficient and consistent processes, GMVN expects to increase profits/reduce expenditure.

54. **Project Activities.** This activity would be led by the respective participating SOE's. The project will support the following activities: (a) BPR and preparing procedures manual; (b) Functional Requirement Specification for a computerized solution; (c) institutional functional reorganization and strengthening through training; (d) implementation of a roll-out strategy including hand-holding support; (e) a study on the corporate governance structure and practices and develop a medium-term strategy to strengthen corporate governance in line with the underlying corporate law and good practices; and (f) development of a performance monitoring system for SOEs as well as a framework for management of fiscal risks.

55. **Component 4: Project Management and Monitoring & Evaluation (Total US\$1.79 million, IBRD US\$1.43 million).** This component will support costs on implementation, coordination, monitoring, and evaluation. This component will finance project related costs: staffing for the project, consultancies, training and related material, office equipment, and operational costs. The cost of IVA and audits as well as M&E systems will be financed under this component.



ANNEX 3: Economic Analysis

COUNTRY: India

Uttarakhand Public Financial Management Strengthening Project

1. **Economic and financial analysis of the project provides a quantitative assessment of the attributable economic and financial benefits arising from the reform interventions under the project.** Quantifying many of these benefits depends on the availability and reliability of data. This analysis provides estimates of benefits and costs using data based on various sources including the Government Budget 2017-18, the International Monetary Fund World Economic Outlook, International Monetary Fund International Financial Statistics and Staff Projections. While project costs are identifiable, project benefits have been arrived at based on certain assumptions and assessing how much of these benefits could be “attributable” to the project interventions. Computation of benefits is a challenge particularly those arising from efficiency gains.

Project Benefits

2. **The direct benefits arising from the project are related to improvements in GoUk management systems.** These benefits are reviewed below. Unfortunately, most of these benefits cannot be readily quantified.

3. **Component 1. Strengthening the Public Financial Management Functions.** Implementation of a new generation IFMIS solution is expected to contribute to enhanced accountability by further strengthening controls over public expenditure, generate efficiency gains from elimination of many manual processes and bringing in all expenditure (such as works expenditure) under one IT application, enhanced data management capabilities and strengthened reporting capabilities will facilitate better real time decision making and enhanced transparency. Strengthening cash and debt management capacity in cash and revenue forecasting and development of debt strategies is expected to lower cash balances and borrowings and savings from lower interest costs, and more accurate budget preparation and providing funds for better budget execution. Modernization of the state public audit function through contemporary audit manuals and enhancing capacity for undertaking higher-level risk-based audits will allow for enhanced coverage of auditees and better accountability of public spending and can be expected to improve outputs of the government programs. Improvements in public procurement through development of SBDs, a GRM, enhancing disclosure of contracts awarded information to public, and linking e-procurement with IFMIS for end to end contract monitoring and linking to capital expenditure will facilitate market participation, expand business opportunities for a larger number of contractors and reducing their processing costs all in a more transparent manner. Improvements in planning, budgeting, and monitoring would lead to better budget alignment with outcomes and focus on gender over a medium term which would lead to better targeting and budget execution.

4. **Component 2. Strengthening Revenue Management Systems.** Improvements in the accuracy of the property tax register using GIS mapping and property surveys will generate potentially significant increases in revenues, based on the experience of similar reforms in other states. It will also improve accountability in the administration of ULBs by putting in place transparent processes for assessing taxpayer liabilities and improving access to information. Similarly, introduction of a modernized e-Governance system in the Excise Department will facilitate better control over movement of excisable products in the state and enhance revenue.

5. **Component 3. Strengthening PFM in Urban Local Bodies and State-Owned Enterprises.** Modernization of PFM in ULBs and select SOEs will enhance efficiency in their operations and promote transparency and accountability for performance. This will, in turn, reduce fiscal risks for GoUk by highlighting unfunded liabilities



and allowing GoUk to take corrective action. The success of the interventions will act as a demonstration effect for other such bodies to spearhead PFM strengthening.

6. **Second-tier benefits are expected to accrue to the private sector (contractors/suppliers) and households (government employees, pensioners, and public at large) from improvements in the efficiency, effectiveness, and accountability of public spending and public services, including greater predictability on dealings with government.** Improvements in budget control and cash management will reduce delays and scope for discretion in payments to contractors — greater predictability and shorter lag in payments will decrease costs arising from excessive or unpredictable payments by GoUk. Implementation and improvements in existing e-Government services will bring direct benefits to the private sector and households by improving transparency, facilitating access, and reducing processing costs. Most of the benefits described will continue to be realized beyond the lifetime of the intervention.

Economic Analysis

7. **The economic analysis is based on the assessment of three streams of benefits which can be readily quantified.** These are: first, increases in excise duty revenue generated from the introduction of a modernized excise e-Governance system; second, increases in property taxes generated from improvements in the accuracy of the property tax register using GIS mapping and property surveys; and third, the reduction in interest expenditure on borrowing by GoUk resulting from improved cash and debt management.

8. **Both economic analysis and financial analysis show strongly positive returns.** The EIRR is 29 percent with a NPV of US\$43 Million at 12 percent discount rate, while the FIRR is 46 percent with an NPV of \$63 Million at 12 percent discount rate. FIRR is greater than EIRR for the following major reasons: the operation is funded 90 percent as grant by GoI which reduces the financial outflow for the state in terms of loan repayment; and reimbursement of 80 percent of project investments by the Bank to the state increases the cash inflow in initial years of project. The assumptions underlying these calculations are presented in Table 7, results of the calculation of EIRR in Table 8 and the FIRR in Table 9.

Table 7: Key assumptions for the financial and economic analysis

Parameters	Assumptions
Real GDP growth annual percent change	Projections have been taken as per International Monetary Fund, World Economic Outlook Database, October 2018 report for the country
GSDP Growth rate	12 percent based on MTFP projections for next three years
Consumer Price Index inflation	4.35 percent (average for five years) based on World Economic Outlook
Exchange Rate	1\$ = 70.93 as per Reserve Bank of India website dated 31-August-2018
Time Horizon	Five years of project implementation and ten years thereafter to gauge the continuing impact
Growth rate in Property tax without reform	5 percent per annum; property tax rates have been raised very recently in the state and a major revision is not expected soon.
Growth Rate in Property tax with reform	10 percent increase over baseline (2017/18) in year 3, year 4 and year 5; thereafter, normal growth rate of 5 percent per annum
Benefits of increase in Property tax attributable to the project	Difference between the amounts of property tax with reform and property tax without reform
Growth Rate in Excise duties without reform	12 percent per annum, based on normal growth in State GSDP (tax elasticity of 1)
Growth Rate of Excise duty with reform	Additional 3 percent per annum over the base case in year 3, year 4 and year 5; due to introduction of modernized excise e-Governance system, policy changes and MIS



Parameters	Assumptions
	implementation and other project interventions, thereafter normal growth of 12 percent as per GSDP.
Benefits of increase in Excise Duty attributable to the project	Increase in excise duty is considered at 30 percent as project contributes to the system implementation and policy analysis.
Cash and debt management practice (base case)	Currently, Debt is raised every month and sometimes at the end with rising interest cost. The annual debt is in the range of INR 7 to 10 billion and major portion is raised through market borrowings.
Changes expected in Cash and debt management practices post reforms	For debt entering the market at an opportune moment could reduce the cost of borrowing by up to 0.2 percent which has been assumed as benefit. Better cash and debt forecasting would help the state in timing the debt requirements and the quantum of debt.
Project cost	This includes cost of activities financed under the loan, commitment charges and front-end fees based on disbursement schedule which in turn is based on expected implementation of activities and achievement of Disbursement Linked Results.
Staff cost	For the project period, government staff cost of relevant departments have been increased by 20 percent in the first year to account for increase in salaries due to seventh pay commission and adjusted for Consumer Price Index inflation in the following years. 25 percent of the staff cost has been taken as attributable to the project as these staff are intrinsic to the reform implementation and continuation. The cost of additional staff during the project period will be covered under the overall project investment. INR7 crores have been added after project period for additional staff to be continued by the project to sustain the reforms.
O&M Cost	During the project period, O&M costs will be covered under the overall project investment. After project period, O&M costs have been assumed at 5 percent of the overall investment and adjusted for Consumer Price Index inflation.
Front end fees	0.25 percent of the loan amount
Commitment fees	0.25 percent of the undrawn loan balance



Table 8: Economic analysis of the project

Economic analysis for UKPFMS															INR Crores	
Year	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15	
Economic costs	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34	
Project Investment	51.96	63.84	66.50	58.52	28.37	10.73	-	-	-	-	-	-	-	-	-	
Staff time expense	21.75	22.74	23.71	24.68	25.67	26.79	34.97	36.51	38.16	39.87	41.67	43.46	45.33	47.28	49.31	
O&M cost	-	-	-	-	-	-	14.00	14.61	15.27	15.96	16.67	17.39	18.14	18.92	19.73	
Front end fees	0.56	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Commitment fees	0.46	0.33	0.20	0.08	0.02	-	-	-	-	-	-	-	-	-	-	
Total economic cost	74.72	86.91	90.40	83.28	54.06	37.52	48.97	51.12	53.42	55.83	58.34	60.85	63.47	66.19	69.04	
Total real economic costs	74.72	83.28	83.01	73.28	45.58	30.32	37.91	37.93	37.98	38.03	38.08	38.06	38.04	38.02	38.00	
Economic benefits																
Property Tax gains	0.00	0.00	1.69	7.27	16.74	17.58	18.45	19.38	20.35	21.36	22.43	23.55	24.73	25.97	27.27	
Increase in Excise Duty	0.00	0.00	28.20	64.01	108.98	122.06	136.70	153.11	171.48	192.06	215.10	240.92	269.83	302.21	338.47	
Cash and Debt management gains	0.00	16.00	16.00	16.00	16.00	16.00	16.00	16.00	16.00	16.00	16.00	16.00	14.00	14.00	14.00	
Total economic benefits	0.00	16.00	45.89	87.28	141.72	155.63	171.16	188.48	207.83	229.42	253.54	280.47	308.56	342.17	379.74	
Total real economic benefits	0.00	15.33	42.13	76.79	119.49	125.74	132.51	139.83	147.74	156.29	165.50	175.44	184.95	196.54	209.00	
Total net benefit																
Total net benefit	(74.72)	(70.91)	(44.52)	4.00	87.66	118.11	122.19	137.36	154.40	173.59	195.20	219.62	245.09	275.98	310.69	
Total net economic benefit	(74.72)	(67.95)	(40.88)	3.52	73.91	95.43	94.60	101.91	109.77	118.26	127.42	137.38	146.91	158.52	171.00	
Summary																
EIRR	29%															
Project cost (INR Crores)	279.91															
NPV (INR Crores)	306.19															
Project Cost US Million	39.46															
NPV US Million	43.17															

Table 9: Financial analysis of the project

Financial analysis for UKPFMS															INR Crores	
Year	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15	
Finance Costs	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34	
Outflows																
Project Payment	51.96	63.84	66.50	58.52	28.37	10.73	-	-	-	-	-	-	-	-	-	
Staff time cost	21.75	22.74	23.71	24.68	25.67	26.79	34.97	36.51	38.16	39.87	41.67	43.46	45.33	47.28	49.31	
O&M cost (excluding staff time)	-	-	-	-	-	-	14.00	14.61	15.27	15.96	16.67	17.39	18.14	18.92	19.73	
Front end fee	0.56	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Commitment fee	0.46	0.33	0.20	0.08	0.02	-	-	-	-	-	-	-	-	-	-	
Loan Repayments (net of grants)	-	-	-	-	-	2.96	2.90	2.84	2.78	2.72	2.65	2.59	2.53	2.47	2.40	
Total outflow	74.72	86.91	90.40	83.28	54.06	40.49	51.87	53.96	56.20	58.54	60.99	63.44	65.99	68.66	71.44	
Inflows																
Property Tax gains	0.00	0.00	1.69	7.27	16.74	17.58	18.45	19.38	20.35	21.36	22.43	23.55	24.73	25.97	27.27	
Increase in Excise Duty	0.00	0.00	28.20	64.01	108.98	122.06	136.70	153.11	171.48	192.06	215.10	240.92	269.83	302.21	338.47	
Cash and Debt management gains	0.00	16.00	16.00	16.00	16.00	16.00	16.00	16.00	16.00	16.00	16.00	16.00	14.00	14.00	14.00	
Disbursements from Bank	-	41.56	51.07	53.20	46.81	22.70	8.58	-	-	-	-	-	-	-	-	
Total inflow	0	57.56	96.96	140.47	188.53	178.33	179.74	188.48	207.83	229.42	253.54	280.47	308.56	342.17	379.74	
Net cash flows	(74.72)	(29.34)	6.55	57.20	134.47	137.84	127.87	134.52	151.62	170.88	192.54	217.03	242.56	273.51	308.29	
Net cash flows adjusted for CPI	(74.72)	(28.12)	6.01	50.33	113.38	111.37	99.00	99.80	107.79	116.41	125.69	135.76	145.39	157.10	169.68	
Summary																
FIRR	46%															
Project cost (INR Crores)	279.91															
NPV (INR Crores)	444.39															
Project Cost US Million	39.46															
NPV US Million	62.65															