



## REFORM

### India State Fiscal Management Reform Project

#### *The REFORM Vision .....*

State governments have the necessary organizational structures, analytical tools and decision-making processes, information sources and trained staff that enable them to make better informed choices on a transparent and accountable basis with respect to state public finances. Subsequently, this capacity is institutionalized into the mainstream of state government practices to ensure the sustainability of the effort.

REFORM, therefore, was not designed to advise or guide Indian state governments on specific policy decisions but rather to enhance their ability to evaluate and to address crucial policy choices and implementation options, based on an understanding of the environment – i.e., its potentials, its limits and its perceived needs.

*“USAID-India has been extremely fortunate to have been able to work with three very forward-looking state governments - Jharkhand, Karnataka, and Uttarakhand - which provided critical direction towards a solid fiscal management infrastructure in their respective states.”*

George Deikun,  
USAID /India Mission Director

#### **REFORM OVERVIEW**

Lately, discussions have turned to “broad-based (inclusive) growth” in order to bring India’s 700 million poor, who currently survive on less than two dollars a day, into the mainstream of socio-economic activity. The critical role of India’s public funds to fuel this inclusive growth process is well recognized. While India has the necessary policies and regulations to guide the mobilization, allocation and utilization of public funds, their effectiveness, especially in the delivery of services to its citizens, is somewhat hindered by dated administrative and fiscal practices.

Effective administration of public funds and delivery of services are largely guided by institutionalized best practices, especially fiscal management tools, techniques, systems, and expertise. These management practices should be dynamic, keeping abreast of changing needs, and protected from discretionary and sometimes populist decision-making. They must also be sufficiently transparent to promote the accountability to deliver meaningful results.

The USAID/India REFORM project (2003-2008), presented an agenda for equipping Indian state governments with the necessary fiscal management tools, techniques, systems and expertise to help them make forward-looking fiscal decision-making process, grounded in careful analysis and, thereby, leading to good governance. This was and remains important, especially in light of the emerging challenges that Indian states will face with the gradual opening-up of the Indian economy and with the state finances being increasingly linked to market forces. Thus, the REFORM project interventions will continue to be complimentary and relevant to all fiscal reform endeavors. The REFORM project represents the first time such a comprehensive effort was undertaken at the state level to strengthen fiscal management practices, efforts that would help improve the quality of service delivery to India’s citizens.

#### **The specific objectives of REFORM were:**

- To improve “informed” decision-making within state (sub-national) governments.
- To ensure that decision-making processes followed consistent and transparent principles, leading to greater accountability.
- To sustain the efforts by institutionalizing and mainstreaming the capacity built.



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## KEY ACCOMPLISHMENTS

Initial reports on the impact of the REFORM interventions are very positive and reflect the many gains that can be achieved if there is a serious and sustained effort to re-engineer fiscal management practices based on international practices and standards.

- In Uttarakhand, a systemic correction has been instituted with respect to appraisal and selection of large capital projects, which enabled the government to filter out 11 unviable projects valued at INR 25 crores from a total of 35 project proposals received.
- Across all three REFORM partner states, REFORM helped introduce the *Commonwealth Secretariat Debt Recording and Management System (CS-DRMS)* software to strengthen state government capacity in debt and contingent liability management, making them among the first sub-national governments anywhere in the world to implement the software for debt and guarantees reporting.
- To help promote and sustain the new practices, states like Jharkhand, have incorporated the fiscal management training programs developed under REFORM into their state civil servant training institute, the Shri Krishna Institute for Public Administration (SKIPA) to train entry-level and mid-career officers.
- In Jharkhand the state government introduced program and performance budgeting (PPB) and now 39 of its 42 ministerial departments have developed PPB documents, covering more than 95 percent of the state budget.

## TOOLS FOR FISCAL REFORM

“Fiscal Watch” Website: <http://www.fiscalwatch.org>

During the REFORM process, state governments, expressed the need for easy access to information, data, research, best practices, and expertise on fiscal management practices available both in India and internationally. *Fiscal Watch* is a “virtual” resource designed to promote greater thinking, collaboration, discussions and access to best practices and information bases related to fiscal management issues - a “one stop shop” for fiscal information and dialogue. Fiscal Watch, which was developed by USAID and is now being maintained by the National Institute of Financial Management, Ministry of Finance, includes the following features:

- Dedicated inter-active discussion forums
- Training information
- Information on available consultancy services
- Information organizations working on fiscal issues
- Access to major fiscal documentation and data/databases
- Fiscal “News of the Week” and “Quick Fiscal Update”

## REFORM Compendium with Practitioners’ Guide

The REFORM compiled compendium serves as a baseline tool to assist state governments to implement necessary fiscal management practices in the areas of forecasting, budgeting, tracking of debt and investment, and improving project appraisal techniques. These guidelines have been developed with the aim of serving both as desk references for government officials already trained in the respective fiscal competency as well as training tools for further capacity-strengthening programs. For officials who have not been exposed to the fiscal practices introduced under REFORM, the guidelines will need to be supplemented with additional technical support or guidance.

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