

ASIAN DEVELOPMENT BANK

TAR: IND 36348

**TECHNICAL ASSISTANCE
(Financed by the Government of the United Kingdom)**

TO

INDIA

FOR

**BUDGET PROCEDURE REFORM, COMPUTERIZATION, AND EXPENDITURE
MANAGEMENT (ASSAM)**

June 2003

CURRENCY EQUIVALENTS

(as of 13 June 2003)

Currency Unit	–	rupee/s (Re/Rs)
Re1.00	=	\$0.0214477
\$1.00	=	Rs46.625000

ABBREVIATIONS

ADB	–	Asian Development Bank
DFID	–	Department for International Development
EGG	–	E-Governance Group
E-Governance	–	electronic governance
EMCG	–	Expenditure Management and Control Group
FRG	–	Fiscal Reform Group
GoA	–	Government of Assam
GSDP	–	gross state domestic product
MOU	–	Memorandum of Understanding
MTFRP	–	Medium Term Fiscal Reform Program
PSRG	–	Public Sector Restructuring Group
TA	–	technical assistance

NOTES

- (i) The fiscal year (FY) of the Government ends on 31 March.
- (ii) In this report, "\$" refers to US dollars.

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I. INTRODUCTION

1. The Government of India (the Government) and the government of the state of Assam (GoA) have requested the Asian Development Bank (ADB) to provide advisory technical assistance (TA) to the GoA Finance Department to strengthen the state government's budgeting and planning processes and improve the state's expenditure management. An ADB Mission visited Guwahati, the state capital, and Delhi from 3 to 12 March 2003, to undertake fact-finding for the TA. The Mission and representatives from the GoA Finance Department and the central government's Ministry of Finance held discussions, and reached an understanding on the objective, scope, cost, and implementation arrangements of the TA. Assam is an ADB focal state, and the TA is included in ADB's India Country Strategy and Program 2003-2006.¹

II. ISSUES

2. The state of Assam is the gateway to India's northeastern states. Situated between other northeastern states, and the plain regions of Bihar, eastern Uttar Pradesh, and parts of West Bengal and Orissa, Assam shares the problems of both neighboring areas. With other northeastern states, it shares the physical constraints and high transportation costs associated with a remote hilly terrain. With its neighboring states of the plain region, it shares a high incidence of poverty, problems associated with high population density, an economy heavily dependent on agriculture, and a limited industrial base. Insurgency in the 1990s, while now ebbing out, has deterred investment and economic growth.

3. Assam, with a population of 26.6 million and a population density of 340 persons per square kilometer, is the largest and most densely populated state among the special category states in India. In addition, with 36% of the population below the poverty line (1999-2000) and an average per capita gross state domestic product (GSDP) of Rs7,968 (1994/95-1996/97), it is among the poorest. The poverty ratio for both the urban and rural areas and some core human development indicators such as total fertility rate, infant mortality rate, and literacy rate, have visibly improved over recent decades. The table shows the improvement achieved in Assam, relative to national trends.

Human Development Indicators (%)							
Indicator	1975	1980	1985	1990	1995	1997	Latest Year ^a
Assam							
Total Fertility Rate	4.1	4.0	4.1	3.4	2.2	-	2.3 ^b
Infant Mortality Rate	144	103	111	76	76	76	78 ^c
Literacy Rate	-	-	-	53	-	75	-
All India							
Total Fertility Rate	4.9	4.4	4.3	3.8	3.5	-	2.9 ^b
Infant Mortality Rate	140	114	97	80	74	71	68 ^b
Literacy Rate	-	44	-	52	59	62	64 ^c

^a Source: India CSP 2003-2006, Gol Economic Survey 2002-03, and National Family Health Survey.

^b 1999.

^c 2001.

Source: World Bank. 2000. India: Policies to Reduce Poverty and Accelerate Sustainable Development.

¹ The TA first appeared in *ADB Business Opportunities (Internet Edition)* on 17 March 2003.

4. Assam's economic growth rate for 1990s was 2.5%, about 4 percentage points below the national gross domestic product (GDP) growth rate for the same period. Assam's main natural resources are water, forests, and minerals. However, with the implementation of the Forestry Conservancy Act in 1980, forests have ceased to be an effective revenue resource. Moreover, revenue from mineral resources continues to be subject to central control, and to date water as a source for hydro energy has yet to be developed to any substantive degree. Assam's industry sector accounts for only 18% of total GSDP (1999/2000) and is narrowly focused on petroleum, tea, and forest products. Agriculture, the second largest sector, accounts for 37% of total GSDP. Assam's service sector, comprising hotels and restaurants, and public administration, is the largest of the three sectors (at 45% of total GSDP, 1999/2000) and the fastest growing. Growth in the service sector, however, is due to a great extent to growth of public administration. Public administration represents almost 8% of total GSDP (1999/2000), an increase of over 40% since the mid-1990s. However, the growth of public administration masks declines in commercial services over the same period.

5. Assam's state finances have steeply deteriorated since fiscal year (FY) 1998/99. Despite recent relaxations in overdraft regulations, Assam continues to run an overdraft with the Reserve Bank of India (RBI), and among states it currently has the highest number of days a year on which payments are suspended by the state's treasury. Budget estimates for FY2001/02, indicate Assam's revenues comprised 32% of own revenues and 68% from central transfers (of which 40% is the state share of central taxes and 60% is central plan assistance). Total expenditure estimated for the same period indicates a 38% revenue deficit over estimated revenue receipts for the year. Revenue expenditure comprises roughly 75% wages, 15% interest payments, and 7% pension payments. Revenue expenditure far exceeds the state's own revenue (both tax and nontax), and the state's share of central taxes. In fact, of the approximate 40% of the total state budget that is financed by central plan assistance for development, three fourths is applied to revenue expenditure and only one fourth is actually utilized for capital expenditure. Thus, despite the significantly improved tax buoyancy, Assam's financial situation continues to be problematic primarily because of the growth in government salaries, pensions, and interest payments.

6. The state's fiscal trends raise several concerns for both the state and central government. First, as the proportion of the state budget required for revenue expenditure increases, the allocation available for state investment in social and infrastructure development decreases. Second, the existing plan transfer regime, consisting of 90% grant and 10% loan,² has created an incentive to set plans larger than the state's implementation capacity without taking into account the recurring cost implications of the projects or the state's financial capacity to sustain such investments. Third, the increasing reliance on loan-financed central assistance to fund the state's revenue expenditure raises critical liquidity and financial viability issues. Recognizing the serious fiscal crisis it faces, the state government entered into a Memorandum of Understanding (MOU) with the central government in January 2000, to undertake a program of fiscal reforms. In accordance with this agreement the central government provided medium-term assistance totaling Rs3 billion to GoA, comprised of extended ways and means advances and market borrowings. Under the MOU, key fiscal reforms³ that have been implemented include revenue improvements such as the introduction of uniform floor rates for the sales tax;

² As a special category state, Assam is eligible to receive all central plan assistance in accordance with this transfer regime.

³ Srivastava, D.K. et al. 2000. National Institute of Public Finance and Policy, Assam: Study of State Finances.

and public expenditure rationalizations such as identification of 4,080 positions for abolition, and implementation of a periodic review and revision of tariffs, and fees and user charges in the power sector, the irrigation and water supply sectors, and the tertiary education sector.

7. In February 2002, GoA submitted to the central government's State Fiscal Reform Facility a proposal for a Medium-Term Fiscal Reform Program (MTFRP). The proposal builds on the previous program of reforms agreed to in the January 2000 MOU. The February 2002 proposal again outlines an ambitious program of fiscal reform that includes (i) restructuring and rightsizing of the public sector administration, and civil service pension reform; (ii) rationalization of government expenditure and subsidies, and improved cost recovery policies for tariffs, fees, and user charges in specified sectors; and (iii) improved public sector financial management and expenditure (as well as contingent liability) control.

8. On 28 March 2003, an MOU outlining GoA's MTFRP was signed by GoA and the central government. Recognizing the challenges ahead, GoA has requested TA support⁴ to strengthen its efforts in addressing the state's MTFRP. Support to strengthen policy analysis and improve management information systems will enable GoA to implement better expenditure control and management. Moreover, improved policy analysis will enable GoA to assess the degree that existing financial priorities support the state's development objectives, as well as the fiscal viability and sustainability of policy choices ahead. These assessments will in turn enable the GoA to develop the practical rationales needed to engender sufficient political will to make and implement the difficult policy choices required.

III. THE TECHNICAL ASSISTANCE

A. Purpose and Output

9. The TA will strengthen GoA's capacity to implement MTFRP by supporting (i) the establishment of a legislative framework for improving the state's fiscal management and fiscal reporting; (ii) improvement of the state's planning and budgeting process; (iii) strengthening of the GoA's expenditure management and control; (iv) improvement of public sector service delivery by supporting the preparation of a functional assessment of the state administration, and the development and evaluation of options for its organizational restructuring and rightsizing; and (v) exploration and piloting of e-governance options for improving staff relations, and procurement and disbursement processes. The TA framework is presented in Appendix 1.

B. Methodology and Key Activities

10. The TA will have five components:

- (i) **Establishing a legislative framework for improving fiscal management.** This component will support the development of the legislative framework for improving the state's fiscal management and fiscal reporting.
- (ii) **Improving public sector planning and budgeting.** This component will support the implementation of effective planning and budgeting practices that focus on enabling the state to better allocate resources, improve fiscal performance, and ensure fiscal sustainability.

⁴ TA support may also be provided by the Australian Agency for International Development (AUSAID) and/or DFID. TA support will be coordinated to ensure potential synergies are explored and duplication of support is avoided.

- (iii) **Strengthening public sector expenditure management and control.** This component will support the implementation of efficient and effective procurement, and treasury and payment systems; and the strengthening of financial management and reporting systems to improve transparency and accountability.
- (iv) **More effective public sector service delivery:** The ability of GoA to address fiscal reform and improve equitable service delivery will be critically linked with the pace at which civil service reform can be achieved—given the substantive burden wages are on the state’s finances. This component will support the development of a strategy and action plan to implement civil service reforms and enable more effective use of human resources in government service.
- (v) **E-Governance.** This component will explore e-governance options to improve the efficiency and effectiveness of public service delivery, improve transparency of processes, and facilitate ease and equality of access. Specific options to be explored include establishing an electronic database of personnel/employee records for access to staff benefits and/or personnel records; establishing electronic links with suppliers, if feasible, to improve the transparency, efficiency, and speed of procurement and payment; and establishing electronic links with banks, again if feasible, to improve cash management, and the transparency, ease of access, and speed of payments to suppliers, and, more importantly, government employees and pensioners.

C. Cost and Financing

11. The total cost of the TA is estimated at \$1,262,000 equivalent, consisting of \$558,000 in foreign exchange and \$704,000 equivalent in local currency. The entire foreign exchange cost and \$442,000 equivalent of the local currency cost amounting to \$1,000,000 equivalent will be financed on a grant basis by the Government of the United Kingdom. GoA will finance the remaining local currency cost of \$262,000 equivalent in kind, including provision of counterpart staff (estimated at 264 person-months), office accommodation and office supplies, transport, and workshop venue and organizational arrangements. The detailed cost estimates and financing plan are in Appendix 2.

D. Implementation Arrangements

12. GoA will establish a steering committee for TA coordination to review the inception report, and periodically review the progress of the TA and resolve any issues that may arise. The committee will be chaired by the Finance Department and will include the following departments: (i) Finance Department, (ii) Planning and Development Department, and (iii) the Administrative Reforms Department. The GoA Finance Department will be the Executing Agency for the TA. It will set up a working secretariat or TA implementing unit, appoint a manager for the secretariat/unit, and ensure provision of counterpart staff, office space, furniture, and equipment, as required. The TA budget provides \$150,000 equivalent for the purchase of computer equipment, to be procured in accordance with ADB’s *Guidelines for Procurement*, and other arrangements satisfactory to ADB.

13. GoA will also establish a high-level apex committee, under the chairmanship of the chief secretary, to review the terms of reference for the functional assessment; support and facilitate its implementation and resolve any issues that may arise; and review and approve the strategy,

time-bound action plan, and performance benchmarks for implementing the agreed-upon civil service reforms. The high-level committee will include representatives from the Office of the Chief Secretary, Finance Department, Planning and Development Department, Administrative Reforms Department, Personnel Department, and representation from key line departments (for example, the Education and Health Departments, the Irrigation and Flood Departments, and the Public Works Department).

14. A consulting firm will be recruited to provide a team of international and domestic consultants to execute the TA. ADB will select and engage the consultants in accordance with ADB's *Guidelines on the Use of Consultants* and other arrangements satisfactory to ADB. In selecting a consulting firm, the quality and cost-based selection method with the simplified technical proposal will be used. The outline terms of reference are in Appendix 3. Approximately 21 person-months of international and 55 person-months of domestic consulting services will be required over 13 months. The consultants must have experience in developing and implementing fiscal reform programs, macroeconomic forecasting, government budgeting and planning processes, government treasury and procurement processes, public expenditure management and control, civil service reform, and use of information technology to support e-governance.

15. The TA will be completed in about 13 months, from September 2003 to November 2004. An inception report outlining the consultant's approach and methodology will be prepared within 3 weeks of the start of the TA and will be reviewed at a tripartite meeting to be attended by representatives of the central and Assam state governments, ADB, and the TA consultants. Progress reports will be prepared quarterly, and a draft final report will be prepared 11 months after the start of the work. Both the mid-term progress report and the draft final report will be reviewed at tripartite meetings, with the final report to be submitted within 1 month following the tripartite meeting.

IV. THE PRESIDENT'S DECISION

16. The President, acting under the authority delegated by the Board, has approved ADB administering technical assistance not exceeding the equivalent of \$1,000,000 to the Government of India to be financed on a grant basis by the Government of the United Kingdom for Budget Procedure Reform, Computerization, and Expenditure Management (Assam), and hereby reports this action to the Board.

TECHNICAL ASSISTANCE FRAMEWORK

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
<p>Goal Improved fiscal management and effective use of public resources by the Government of Assam (GoA)</p>	<p>In accordance with the medium-term fiscal reform program (MTFRP), measurable performance improvements in fiscal consolidation trends achieved</p> <p>In accordance with the MTFRP, measurable performance improvements in public sector expenditure trends in priority sectors achieved</p>	<p>GoA MTFRP reporting and annual fiscal reports</p> <p>GoA consolidated financial statements</p>	<p>Political willingness and commitment of GoA to implement fiscal reforms</p>
<p>Purpose To strengthen GoA's capacity to implement the MTFRP</p>	<p>MTFRP legislation effected</p> <p>System of MTFRP reporting and preparation of consolidated government financial statements approved and implemented</p> <p>Strategy and action plan for implementing MTFRP developed, approved, and initiated</p> <p>Strategy and action plan for improved GoA planning and budgeting process developed, approved, and initiated</p> <p>Strategy and action plan for improved GoA procurement and disbursement developed, approved, and initiated</p> <p>Strategy and action plan for implementing civil service reforms developed, approved, and initiated</p> <p>Strategy and action plan for implementing e-governance proposals developed, approved, and initiated</p>	<p>GoA gazette</p> <p>GoA MTFRP reporting and annual fiscal reports</p> <p>Consultant progress reports</p> <p>Asian Development Bank (ADB) TA Review Mission Reports</p>	<p>Political willingness and commitment of GoA to develop and approve appropriate strategies and action plans for addressing priority reforms and allocate sufficient resources for their implementation</p>
<p>Outputs MTFRP legislation MTFRP reporting system</p>	<p>MTFRP legislation drafted and approved system of MTFRP reporting and preparation of consolidated</p>	<p>GoA gazette</p> <p>GoA MTFRP reporting and annual fiscal reports</p>	<p>Political willingness and commitment of the GoA to (i) provide capable counterpart assistance to facilitate sufficiently</p>

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
<p>Consolidated government financial statements</p> <p>Strategy and action plan for implementing MTFRP</p> <p>Strategy and action plan for improved GoA planning and budgeting process</p> <p>Strategy and action plan for improved GoA procurement and disbursement</p> <p>Strategy and action plan for implementing civil service reforms</p> <p>Strategy and action plan for implementing e-governance proposals</p>	<p>government financial statements developed and approved for implementation</p> <p>Strategy and action plans approved for implementation and resources allocated for their implementation</p>	<p>Consultant progress reports</p> <p>ADB TA Review Mission reports</p>	<p>comprehensive assessments (ii) develop pragmatic recommendations that are appropriately targeted on priority reforms required and (iii) expedite approval processes</p>
<p>Activities</p> <p>Establish a legislative framework for improving fiscal management Prepare draft fiscal responsibility and budget management legislation</p> <p>Establish fiscal management and fiscal reporting, monitoring, evaluation and follow-up process and procedures</p> <p>Update annual plans and MTFRP plans</p> <p>Analyze expenditure priorities in key social sectors</p> <p>Rationalize unit cost assumptions</p> <p>Assess cost recovery level of user charges, and poverty impact of subsidies</p> <p>Develop strategy and criteria for zero-based budgeting approach to eliminating unproductive or less productive capital investments</p>	<p>Draft legislation prepared</p> <p>New fiscal management and fiscal reporting, monitoring, evaluation and follow-up process and procedures established, approved and implemented</p> <p>Annual plans and MTFRP plans updated</p> <p>Expenditure priorities rationalized</p> <p>Unit costs rationalized</p> <p>Subsidies rationalized</p> <p>Capital investments rationalized</p>	<p>GoA MTFRP</p> <p>GoA MTFRP reporting</p> <p>Consultant summary assessments</p> <p>Consultant progress reports</p> <p>ADB TA Review Mission reports</p>	<p>Required information and data available</p> <p>Key departments committed to participating</p>

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
<p>Improve public sector planning and budgeting Assess the performance of existing planning and budgeting systems</p> <p>Improve coordination of planning and budgeting process among key departments</p> <p>Update budget manuals and develop in-house training capacity and training materials</p>	<p>Assessment of planning and budgeting process completed</p> <p>Strategy and action plan for strengthened GoA planning and budgeting process prepared</p> <p>Manuals, and in-house training and training materials updated</p>	<p>GoA manuals, and in-house training and training materials</p> <p>Consultant summary assessments</p> <p>Consultant progress reports</p> <p>ADB TA Review Mission reports</p>	<p>Required information and data available</p> <p>Key departments committed to participating</p> <p>Existing manuals and training materials providing an adequate basis for updating purposes</p>
<p>Strengthen public sector expenditure management and control Assess performance of existing GoA procurement, and treasury and payment policies and processes</p> <p>Revise the 'schedule of rates'</p> <p>Revise the current contract arrangements and provisions</p> <p>Prepare strategies and time-bound action plans for the implementation of prioritized improvements recommended for strengthened procurement, and treasury and payment system</p> <p>Revise policies and procedures for procurement, and treasury and payment systems</p> <p>Update manuals and develop in-house training capacity and training materials to reflect 'improved' procurement, and treasury and payment systems</p> <p>Examine the chart of accounts and system of financial reports</p> <p>Prepare a sample format for a complete set of government financial statements .</p> <p>Prepare strategy and time-</p>	<p>Assessment of procurement, and treasury and payment systems completed</p> <p>Schedules of rates revised</p> <p>Contract arrangements and provisions revised</p> <p>Strategy and action plan for strengthened GoA procurement, treasury and payment systems prepared</p> <p>Policies and procedures for procurement, treasury and payment systems revised</p> <p>Manuals, and in-house training and training materials updated</p> <p>Chart of accounts and financial statement format revised</p> <p>A sample format for a complete set of government financial statements prepared</p> <p>Strategy and action plan for</p>	<p>GoA manuals, and in-house training and training materials</p> <p>Consultant Summary Assessments</p> <p>Consultant progress reports</p> <p>ADB TA Review Mission reports</p>	<p>Required information and data available</p> <p>Key departments committed to participating</p> <p>Existing manuals and training materials providing an adequate basis for updating purposes</p>

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
bound action plan for implementing prioritized improvements recommended for strengthened financial management systems	strengthened GoA financial management, accounting and financial reporting system prepared		
<p>More effective public sector service delivery Undertake a functional review of state administration</p> <p>Develop a complete and verified inventory of employees</p> <p>Review civil service legislation, policies and procedures</p> <p>Identify alternative strategies for restructuring and/or streamlining departments</p> <p>Evaluate staffing levels</p> <p>Describe and evaluate alternative approaches to rightsizing, redeployment, redefining qualifications and competencies, etc.</p> <p>Prepare a strategy and time-bound action plan for implementation of approved civil service reform strategies</p> <p>Establish performance monitoring, evaluation and follow-up processes and procedures</p> <p>Provide practical support for the initiation of strategy and action plans</p>	<p>Functional review completed</p> <p>Verified inventory of employees developed</p> <p>Civil service legislation, policies and procedures reviewed</p> <p>Alternative strategies for restructuring and/or streamlining departments assessed</p> <p>Staffing levels evaluated</p> <p>Alternative approaches identified and evaluated</p> <p>Strategy and time-bound action plan prepared</p> <p>Performance monitoring, evaluation, and follow-up processes and procedures established</p> <p>Strategy and action plan successfully launched</p>	<p>Consultant summary assessments</p> <p>Consultant progress reports</p> <p>ADB TA Review Mission reports</p>	<p>Required information and data available</p> <p>Key departments committed to participating</p>

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
<p>E-Governance Assess possibility of establishing ITC based personnel management system</p> <p>Identify and assess opportunities to improve procurement, and payment and cash management through use of ITC</p> <p>Prepare strategies and time-bound action plan</p> <p>Establishing performance monitoring and evaluation and follow-up processes and procedures</p> <p>Provide practical support for the initiation of strategies and action plans</p>	<p>Possibilities for establishing ITC based personnel management identified and assessed</p> <p>Possibilities for using ITC to improve procurement, and payment and cash management identified and assessed</p> <p>Strategies and time-bound action plans prepared</p> <p>Performance monitoring, evaluation, and follow-up processes and procedures established</p> <p>Strategy and action plan successfully launched</p>	<p>Consultant summary assessments</p> <p>Consultant progress reports</p> <p>ADB TA Review Mission Reports</p>	<p>Required information and data available</p> <p>Key departments committed to participating</p>
<p>Inputs</p> <p>TA budget</p> <p>ADB financing (through Government of the United Kingdom grant)</p> <p>Consultants</p> <ul style="list-style-type: none"> • International consultants • Domestic consultants <p>Information Technology (IT) Technical Support-Modeling</p> <p>Equipment</p> <p>Workshops and seminars</p> <p>Others</p> <p>Government financing</p> <p>Counterpart staff</p> <p>Office accommodation and facilities</p> <p>Local transport</p> <p>Workshops and seminars</p> <p>Others</p>	<p>\$1,262,000</p> <p>\$1,000,000</p> <p>\$755,000</p> <p>21 person-months</p> <p>55 person-months</p> <p>\$20,000</p> <p>\$150,000</p> <p>\$20,000</p> <p>\$50,000</p> <p>\$262,000</p> <p>\$132,000</p> <p>\$50,000</p> <p>\$25,000</p> <p>\$20,000</p> <p>\$35,000</p>	<p>Consultant Progress and Completion Reports</p> <p>ADB TA Review Mission Reports</p>	<p>Timely recruitment of consultants</p> <p>Capable counterpart staff</p>

COST ESTIMATES AND FINANCING PLAN
(\$'000)

Item	Foreign Exchange	Local Currency	Total Cost
A. Financed by the Government of the United Kingdom			
1. Consultants	525	230	755
a. Remuneration/Per Diem			
i. International Consultants	483	0	483
ii. Domestic Consultants	0	220	220
b. International and Domestic Travel	40	6	46
c. Communication/Reports	2	4	6
2. Information Technology Technical Support–Modelling	0	20	20
3. Equipment (Computers and Accessories) ^a	0	150	150
4. Workshop and Seminars	0	20	20
5. Contract negotiations	5	0	5
6. Contingency ^b	28	22	50
Subtotal (A)	558	442	1,000
B. Financed by the Government of Assam			
1. Counterpart Staff	0	132	132
2. Office Accommodation and Facilities	0	50	50
3. Local Transportation	0	25	25
4. Workshop and Training Seminars	0	20	20
5. Preparation of Reports	0	10	10
6. Contingency	0	25	25
Subtotal (B)	0	262	262
Total	558	704	1,262

TA=technical assistance.

^a Equipment list to be approved by TA steering committee.

^b Including cost of TA contract negotiations.

Source: Asian Development Bank estimates.

OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

A. TA Approach

1. The TA will focus on strengthening the state of Assam's capacity to implement its Medium-Term Fiscal Reform Program (MTFRP) by improving its budgeting and planning processes and its expenditure management. Moreover, through a highly consultative process¹, it will engender increased ownership in the fiscal reform process and the political will necessary to enable difficult policy choices to be made and practical implementation of required reforms.

2. The international/domestic consulting team will bring to Assam international and national experiences and best practices and will provide pragmatic advice that fully takes into account the situation in Assam. The team will focus on improvements that contribute substantial value added and on establishing sustainable processes. This will be achieved through the development of a close working relationship with government counterparts in the Departments of Finance, and Planning and Development, as well as relevant line departments. Government counterparts will be fully responsible for all data collection and data entry. Through hands-on involvement government counterparts will also be fully engaged in analysis, and the preparation of all strategies and action plans. Moreover, while the team will supervise and provide guidance, government counterparts will be fully engaged in revising guidelines and work procedures, designing of management report formats to support improved decision-making, and performance monitoring and evaluation, and preparing training materials and delivering training to support the dissemination of proposed changes in work practices.

3. The TA team leader will organize and manage the entire consulting team and coordinate the overall TA. The team leader will manage the timing and coordination of component activities and ensure effective use of available resources so as to achieve the purpose and objective of the TA. The team leader will also be accountable for ensuring that activities are clearly and concisely documented, and for the overall quality and timeliness of all deliverables. An inception report outlining the consultant's approach and methodology will be prepared within 3 weeks of the start of the TA and will be reviewed at a tripartite meeting to be attended by representatives of the central government, GoA, ADB, and TA consultants. Progress reports to be prepared quarterly, will include a summary of major achievements during the 3-month period, the status of key activities under each component, summary findings of assessments, and the approval status of strategies and action plans. A draft final report will be prepared 11 months after the start of the work. The midterm progress report and the draft final report will be reviewed at tripartite meetings, and the final report will be submitted within 1 month following the meeting.

B. TA Terms of Reference

1. Fiscal Reform Group (FRG)

4. The FRG will be responsible for both TA Component 1 and TA Component 2. The FRG will be led by the fiscal reform specialist/TA team leader/FRG group leader (international consultant - 7 person-months), and supported by a macroeconomist (domestic consultant - 7 person-months) and a public expenditure review/government budget specialist (domestic consultant - 6 person-months). The FRG collectively will have extensive experience in improving

¹ The team will organize a series of workshops with key stakeholders – government (executive and technical line departments), development partners, non government organizations (NGOs), etc. to review and participate in the finalization of summary assessments of the existing fiscal situation and the implications of current fiscal trends for development, and the proposed fiscal reforms.

government budget systems, macroeconomic forecasting, and public expenditure review; and in preparing and implementing strategies and time-bound action plans for fiscal management and budget reforms in developing countries, preferably in South Asia. The consultants will support GoA in the following tasks.

- (i) Prepare draft state fiscal responsibility and budget management legislation that outlines the government's fiscal management performance targets and standards for fiscal reporting²; and establish appropriate fiscal management and fiscal reporting performance monitoring and evaluation and follow-up processes and procedures.
- (ii) Update GoA's annual plan and its medium-term fiscal framework, based on realistic macroeconomic forecasts, prudent revenue projections, and improved estimations of the multiyear fiscal impacts of the various structural measures proposed by the state; and analyze Assam's expenditure priorities in key social sectors so as to determine their relevance in the context of the changing socioeconomic environment and resource constraints, and make suitable recommendations to improve the efficiency of inter- and intra-sectoral allocations.
- (iii) Evaluate and rationalize unit cost assumptions used for budget allocation purposes; and the cost recovery level of user charges and subsidy levels³.
- (iv) Develop a strategy and effective criteria to practically apply a zero-based budgeting approach, i.e., a prioritized review and reevaluation of existing programs/schemes/projects in light of the resource constraints of the state, and with emphasis on consolidating or eliminating unproductive investments; and design modalities and effective criteria for phasing out and/or eliminating capital projects, which have become unproductive investments.
- (v) Examine the performance of GoA budgeting systems, and assess weaknesses and inadequacies⁴; improve the coordination of key departments involved in planning and the budget process including finance, planning and development, and major line departments; and develop a more responsive budget process through reevaluation of the timing of the budget cycle, and a review and redesign of budget circular procedures.
- (vi) Update budget manuals to reflect improvements, and develop relevant in-house training capacity and training materials⁵ for staff in the planning and finance departments, and the key line departments.

² Performance targets for fiscal management should include reducing the revenue and fiscal deficit; containing the growth of public debt and stabilizing public debt as a proportion of gross state domestic product (GSDP) over the medium term; and limiting the growth of government guarantees and other contingent liabilities. Standards for fiscal reporting will focus on improving transparency and accountability, including adequate reporting on major contingent liabilities.

³ To estimate the cost of providing subsidies and their prioritization in light of the resource constraints of the state, as well as the poverty impact of proposed subsidies.

⁴ Review should include an evaluation of the flow and quality of budget information between Finance, Planning and Development Departments and line departments; and the procedures for preparing budgets, setting output and performance targets and evaluating outputs and performance against expenditure.

⁵ i.e., training in preparing budget estimates and the development of forward estimates; and in undertaking performance reviews of existing programs/ schemes/ projects in accordance with defined criteria.

2. Expenditure Management and Control Group (EMCG)

5. The EMCG will be responsible for TA Component 3. The EMCG will be led by the financial management specialist (international consultant -2 person-months), supported by three domestic financial management specialists (2 person-months each). The EMCG will also be supported by treasury and payment systems specialists (international - 2 person-months, and three domestic consultants - 2 person-months each), and procurement and contract specialists (international - 2 person-months, and 3 domestic consultants - 2 person-months each). The EMCG will collectively have extensive experience in international and national government financial management and reporting systems; international and national accounting and auditing standards; modern treasury systems and electronic payment systems; and international and national procurement, tendering, and contracting procedures.

6. From the assessments of each specialist subgroup, strategies and time-bound action plans (with defined performance benchmarks) will be prepared for implementing prioritized improvements (that take into account the existing capacity and resource constraints). Considering the legislative framework of the central and Assam state governments, recommended actions for improvement will be made and evaluated and prioritized based on the relative value added of implementing each of the improvements (i.e., the value added in terms of improved efficiency or improved transparency or accountability) versus the relative ease or difficulty of their implementation. For each strategy and action plan, an appropriate performance monitoring and evaluation system and follow-up process will be established; and guidance and practical support will be provided for initiating the first phase of each strategy and action plan.

7. The financial management specialists will support the GoA in the following tasks:

- (i) Examine the existing chart of accounts⁶ (structure of heads/subheads of accounts - recognizing the legislative requirements of the Government/GoA) and system of financial reports, to improve their utility for performance evaluation and management decision-making and financial management purposes.
- (ii) Prepare an appropriate format for a complete set of government financial statements (including a schedule of major contingent liabilities), i.e., for the government entity⁷ as a whole, and present best estimates of values⁸ as at end of FY2001/02.
- (iii) For each government account category and/or account item identified, clearly document the assumptions and standards or methodology applied in estimating their value; and outline the practical steps necessary to improve the valuation approach to reflect generally accepted modified or full accrual standards. Assess the relative value added of implementing each of the "improved" accounting standards (i.e., the value added in terms of improved financial information and management versus the relative ease or difficulty of their implementation).

8. The treasury and payment systems specialists will support GoA in the following tasks:

⁶ In accordance with International Monetary Fund (IMF) government financial reporting requirements.

⁷ In accordance with the IMF Government Finance Statistics (GFS) definition of government entity.

⁸ Within the framework of data currently available.

- (i) Examine the performance of the existing GoA payment approval process, and treasury and payment disbursement systems; assess major management weaknesses and inadequacies and control risks; and make recommendations (exploring manual as well as information technology (IT) options) to improve transparency, accountability, efficiency, and speed of payment approval processes, and treasury and payment disbursement⁹ systems, as well as cash management operations.
- (ii) Revise and update treasury policies and procedures, and treasury manuals; and develop relevant in-house training capacity and training materials.

9. The procurement and contract specialists will support the GoA in the following tasks:

- (i) Examine the performance and assess major weaknesses and inadequacies of the existing GoA procurement systems - tendering and evaluation, award and contracting, and project supervision and quality assessment of works¹⁰; and update policies and procedures to incorporate internationally accepted practices to the degree practically possible.
- (ii) Update the schedule of rates for construction materials and services, as well as GoA procurement manuals; and develop relevant in-house training capacity and training materials.

3. Public Sector Restructuring Group (PSRG)

10. The PSRG will be responsible for TA Component 4. The PSRG will be led by the civil service reform specialist (international consultant - 6 person-months), and supported by 3 domestic civil service reform/functional review specialists (6 person-months each). The PRSG will collectively have extensive experience in developing and implementing civil service reform strategies in developing countries, preferably in South Asia. Specific experience is required in developing and implementing organizational restructuring, redeployment, and rightsizing strategies. The consultants will support GoA in the following tasks:

- (i) Undertake a functional review of the state administration and departmental structure in terms of mandated roles and responsibilities: evaluate an effective staff level both in terms of the staff number and the mix of skills required for efficient delivery of public sector services; and identify and describe alternative strategies for restructuring and streamlining departments.
- (ii) Develop a complete and verified inventory of employees by class and skill level; and a system for registering new employees, and noting or deleting those staff on leave, who have resigned, or who are retired.
- (iii) Based on the findings for (i) and (ii), identify gaps/surpluses in staffing, and propose a strategy for functional redeployment to efficiently deliver the service needs of the public, and ensure the needs of the poor and disadvantaged are

⁹ With a focus on improving the speed and accessibility of settlement and payment for suppliers, employees, and pensioners.

¹⁰ As well as current contract arrangements/provisions with respect to performance standards, and recourse for noncompliance

equitably addressed. In addition, identify and describe alternative approaches to rightsizing and redeployment, and redefine entry-level qualifications and competencies required for advancement (that reflect computer skills and aptitude, among others), which include clearly outlined benefits and costs of options proposed.

- (iv) Review civil service legislation, policies and procedures and make recommendations to improve objectivity and transparency in staff appointments and advancement, and strengthen staff accountability and performance.
- (v) Prepare a strategy and time-bound action plan (with defined performance benchmarks) for implementing approved civil service reform strategies (that take into account the existing capacity and resource constraints). Establish appropriate performance monitoring and evaluation and follow-up processes and procedures for the strategy and action plan, and provide practical support for the initiation of the first phase of the strategy and action plan.

4. E-Governance Group (EGG)

11. The EGG will be responsible for TA Component 5 The EGG will be led by an e-governance and information technology expert (international - 2 person-months) supported by three domestic e-governance and information technology experts (2 person-months each). The EGG will collectively have extensive experience in the use of information technology to support e-governance, and possess both technical/engineering knowledge and end-user consultation skills. The consultants will take into account experiences and lessons learned under other externally supported e-governance initiatives in India¹¹. The consultants will support the GoA in the following tasks:

- (i) Assess the possibility of establishing¹² an e-database of civil service personnel and employment records for restricted access by individual staff members and by GoA human resource personnel for personnel management purposes.
- (ii) Identify and assess information technology opportunities to improve the efficiency, transparency, accuracy and speed of GoA procurement;¹³ and payment, and cash management systems (including treasury)¹⁴.
- (iii) Detail options, including clearly outlined benefits and costs; and prepare strategies and time-bound action plans (with defined performance benchmarks) that take into account existing capacity and resource constraints. Establish appropriate performance monitoring and evaluation and follow-up procedures for the strategies and action plans, and provide practical support for the initiation of the first phase of each strategy and action plan.

¹¹ Including the World Bank-supported DEMIST Project in Uttar Pradesh and e-governance projects supported by Department for International Development (DFID) in Orissa.

¹² Using nonproprietary consumer software.

¹³ Opportunities to be explored include establishing a web-based bulletin board to post and advertise GoA procurement activities; establishing of a tracking system for monitoring performance of GoA procurement actions; establishing a database of suppliers and contractors to monitor procurement activities of each and their supply/contract performance; and establishing electronic linkages between GoA and suppliers and banks to support electronic ordering and electronic payments.

¹⁴ By examining the scope for and implications of utilizing banks as disbursement agents and the scope and desirability of replacing cash payments with electronic payments, and/or check payments.