Report Number : ICRR0023900

1. Project Data

Project ID P156687	**Program Name** Himachal PFM Capacity Building Program	
Country India	**Practice Area(Lead)** Governance	
L/C/TF Number(s) IBRD-87530	**Closing Date (Original)** 30-Sep-2022	**Total Program Cost (USD)** 36,000,000.00
Bank Approval Date 17-May-2017	**Closing Date (Actual)** 30-Jun-2023	

	IBRD/IDA (USD)	Grants (USD)
Original Commitment	36,000,000.00	0.00
Revised Commitment	36,000,000.00	0.00
Actual	36,000,000.00	0.00

Prepared by	Reviewed by	ICR Review Coordinator	Group
Deryck R. Brown	Vandana Chandra	Donna Kaidou Jeffrey	IEGEC (Unit 1)

2. Program Context and Development Objectives

a. Objectives

The Program Development Objective (PDO) was *"to improve the efficiency of public expenditure management and tax administration in Himachal Pradesh,"* (Loan Agreement dated May 31, 2017).

The Program supported the public financial management (PFM) reform program of the Government of Himachal Pradesh (GoHP) and contributed to enhancing the efficiency of selected departments in GoHP. The specific departments targeted were the FD and the Excise and Taxation Department (ETD). Other departments also benefitted including the Directorate of Treasuries and Accounts (DoTA), the Department of Irrigation and Public Health (IPH - also referred to as the Jal Shakti Vibhag or JSV), the Department of Information Technology (DIT), and departments that conduct procurement.

Although the PforR supported the GoHP's PFM Reform program, GoHP's program was not documented in any strategy, policy or program document. Instead, the PAD noted that "the Program objectives are closely aligned with the key development goals of the GoHP," (PAD, p.5) and were based on "priority areas identified by the GoHP, which were articulated in various stakeholder workshops during Program preparation," (PAD, p.6) and as "articulated in this PforR operation," (PAD, p.11). It is notable that the government's program (small 'p') and the Bank's Program (big 'P') were identical (footnote 7 on p.12 of the PAD).

For the purposes of this ICRR, the PDO is disaggregated as follows:

- PDO1: To improve the efficiency of public expenditure management; and
- PDO2: To improve the efficiency of tax administration.

b. Were the program objectives/key associated outcome targets revised during implementation?

No

c. Will a split evaluation be undertaken?

No

d. Components

According to the Program description in the PAD (Annex 1), the Program had three (3) components (described as Results Areas or RAs), and ten (10) sub-components. For clarity, IEG is labelling the RAs as Components 1-3 (PAD, Annex 1).

Component 1: **Improving efficiency of the Finance Department (FD) in an enhanced control environment.** This component aimed at contributing towards strengthening budget credibility, effective PFM operations, and enhancing governance, financial controls and accountability by strengthening the treasury system, and establishing and/or upgrading enabling IT systems.

- Sub-component 1.1: *Strengthening treasury functioning and implementing second-generation IFMIS reforms*;
- Sub-component 1.2: *Strengthening PFM reforms architecture*; and
- Sub-component 1.3: *Establishing/strengthening enabling IT systems and support*.

Component 2: **Increasing efficiency and performance through better contract management**. This component aimed at strengthening contract management in one of the major works departments, namely the IPH Department, and supporting the rollout of the eProcurement solution across the state.

- Sub-component 2.1: *Establishing an integrated contract management system (CMS)*; and
- Sub-component 2.2: *Rollout of eProcurement in all government departments*.

Component 3: **Unlocking revenue potential through modernization of the Excise and Taxation Department (ETD)**. This component supported activities geared towards increasing efficiency in operations within ETD, including the upgrading of skills and competency levels for staff to improve their capacity and enhancing systems with a view to increasing revenue.

- Sub-component 3.1: *Diagnostic of the institutional framework and revenue administration*.
- Sub-component 3.2: *Strengthening analytical skills and business intelligence (BI) capabilities*.
- Sub-component 3.3: *e-Governance in the excise function*.
- Sub-component 3.4: *Independent third-party IT audit.*
- Sub-component 3.5: *Hiring of personnel for addressing backlog of Value Added Tax (VAT) and Central Sales Tax (CST) assessments*.

Program management: Though not described as a component, the PforR also provided support for Program Management, including:

1. Operational costs incurred in connection with Program implementation.
2. Outstation travel, local travel, office space and per diems.
3. Financial audit, internal audit, procurement post review, and Independent Verification Agent (IVA).
4. Consultancy for management and monitoring and evaluation (M&E).

e. Comments on Program Cost, Financing, Borrower Contribution, and Dates

Program expenditure: The total Program cost at appraisal was US$45 million. The Program cost at closing was estimated at US$48,780,000, equivalent to 108 percent of the original planned expenditure (ICR Annex 3: Program Expenditure Summary). There is a discrepancy between the Financing table in the data sheet of the ICR and the Program Expenditure Summary in Annex 3. The former shows the Borrower's Contribution as zero while the latter shows that the Borrower's Contribution exceeded the original estimate of US$9 million by 26 percent (see below).

Financing: The PforR was financed with a US$36 million IBRD credit which was fully disbursed.

Borrower contribution: In line with Government of India (GoI) guidelines, GoHP committed to providing 20 percent of the total program costs (US$9 million). However, at closing GoHP's contribution was estimated at 26 percent of total program costs or US$12.78 million (ICR Annex 3: Program Expenditure Summary).

Dates: The Program was approved by the Bank's Board of Executive Directors on May 17, 2017, and became effective on July 11, 2017. A Mid-Term Review was conducted November 2019. The original closing date was September 30, 2022, but the Program was extended by nine months and closed on June 30, 2023.

Restructurings: While the PDO remained the same throughout, the Program was restructured three times with the approval of the Country Director.

Restructuring No. 1: The first restructuring was approved in September 2020 and led to the revision of the baseline values for two of the three PDO indicators (which were also DLIs) as better data had become available during implementation.

Restructuring No. 2: The second restructuring was approved in December 2021, and led to the modification of three annual DLI targets and relatively minor adjustments to the disbursement amounts of some DLIs. These changes stemmed from policy decisions taken by GoHP.

Restructuring No. 3: The third and final restructuring was approved in September 2022, and led to the 9-month extension of the closing date to June 30, 2023, to compensate for delays in program implementation occasioned by the COVID-19 pandemic.

DLI	Changes made during Restructuring No. 2
DLI1: Electronic interface of IFMIS implemented in all departments.	i. Year 2 disbursement amount reduced by US$5 million. ii. Year 4 target 'Online submissions of monthly accounts by treasuries to AG' removed. iii. New Year 5 target 'Treasury Quality Control function and the Himachal Pradesh State Audit Department (HPSAD) strengthened' introduced with disbursement amount of US$1.5 million.
DLI2: Internal controls of the FD strengthened.	i. Year 3 target changed from 'Commitment Control and Debt Management Modules implemented' to 'Medium-term debt management strategy formulated, Debt Management Manual developed, and Debt Management Module implemented.' The disbursement allocation increased from US$1 million to US$2 million.
DLI8: e-Governance application for excise function implemented.	i. Reference to Himachal Pradesh Breweries Ltd. Removed due to winding up of the institution by the GoHP.

3. Relevance

a. Relevance of Objectives

Rationale

Program contribution to cooperative federalism. The PDO was relevant at appraisal both in the broader country context as well as the more specific context of the state of Himachal Pradesh (HP). As a federal system, the PFM framework at the state level in India derives from the national constitution and is guided by central government policies and procedures. Policy changes within India following the recommendations of the 14th Finance Commission signaled a fundamental shift in relations between the central and subnational governments, with a move towards increased fiscal devolution. The significant increase in transaction volumes and the low level of automation in critical government functions made PFM reforms assume greater importance in a context in which subnational/state-level governments would be expected to up their game in terms of better planning, revenue collection, multi-year budgeting, resource allocation, managing fiscal risks and public expenditure management, as well as enhanced transparency and accountability to citizens. As stated in the PAD (p.3, para.9), "for cooperative federalism to be effective, robust PFM systems would have to be designed at the subnational level to enhance efficiency and fiscal performance."

Responsive to the State's changing fiscal situation and ongoing reform initiative. The state of HP has the status of a 'Special Category' state within India in recognition of its particular development challenges and constraints (India has 'General Category' and 'Special Category' states). A major constraint is the state's weak capacity to generate sufficient fiscal revenues to finance its priorities, as reflected in the substantial increase in both its expenditure and deficits. These features made HP eligible for special grants and incentives from the central government. However, due to the reduction in grants consequent upon the recommendations of the 14th Finance Commission, GoHP was estimated to lose significant fiscal transfers from central government. The state's compliance with the Fiscal Responsibility and Budget Management (FRBM) legislation had also slipped. GoHP's goal was to improve the overall governance environment and to further its ongoing reform initiatives including PFM reforms.

Bank's Country Partnership Strategy. The Program was well-aligned with the Bank's Country Partnership Strategy (CPS, 2013-2017), in which governance was defined as a cross-cutting theme with an emphasis on e-governance, public procurement and financial management reform. While the PforR Program was relevant at approval in 2017, it is less clear whether it was still relevant for the next Country Partnership Framework (CPF) covering the period FY2018-FY2022, as well as any subsequent country strategies. The PforR objectives were consistent with at least two of the "approaches for smarter engagement" outlined in the CPF FY2018-22: (a) 'Engaging a federal India' and (b) 'Strengthening public sector institutions'. The former approach called for a "states at the center" focus and the development of strategic partnerships at the state level (India CPF FY2018-22, p.24). The latter approach included, *inter alia*, support for core capability including lending and technical assistance to (i) strengthen PFM and procurement systems, primarily at the state level; (ii) improve debt management practices at national and state levels; (iii) develop accountability mechanisms, including support for digital platforms to remove discretion for routine interactions between government, businesses and citizens, as well as enabling citizen engagement channels; and (iv) strengthen planning, budgeting, and M&E at state levels. All these approaches were to be supported through use of e-governance tools to modernize operations and improve performance.

Alignment with sector strategy. The Program objectives were also aligned with the Bank's previous engagement and sector work in HP which dated back several years. The Bank had produced an Economic Report in 2007 that included public finance and other fiscal issues; a PEFA assessment published in 2009; and a non-lending technical assistance (NLTA) between 2014 and 2015 that aimed to assist the GoHP in improving financial management in key state-level agencies, strengthening performance of the HP Treasuries and benchmarking them with other states in the country, and improving contract management in key departments, namely, the Public Works Department (PWD) and IPH Department. Thus, the PforR operation was the next generation of GoHP's PFM reforms.

State capacity and adequacy of the PforR instrument. Given the challenges prevailing in HP, designing the Program around three "pillars" (as illustrated in Figure 1 of the PAD) which were the same as the three RAs was appropriate as they addressed the key underlying constraints and challenges confronting GoHP. The three PDO-level indicators and targets, as well as the DLIs, were considered adequate outcome measures. While the Program's Theory of Change (ToC) and the results chain were not identical, they both present a credible and logical flow of activities (inputs) to intermediate-level outcomes and on to final outcomes. For example, it was not as if the IFMIS was being introduced under the PforR for the first time; IFMIS reforms began in 1998 and were ongoing for almost 20 years when the Bank's PforR operation materialized. The challenge was to implement the IFMIS system throughout the GoHP. After 20 years, it was apparent that a traditional, input-based investment project would not have motivated and energized the GoHP to achieve the desired outcomes. Thus, the choice of the PforR instrument was driven mainly by the desire to incentivize what was essentially a change management process by focusing on outputs and outcomes. It was also a logical next phase to the Bank's prior engagements with GoHP, making the PforR the culmination of several years of engagement, with each phase building upon the previous phases.

Based on the above, the relevance of objectives is **High**.

Rating

High

b. Relevance of DLIs

DLI 1

DLI

Electronic interface of IFMIS implemented in all departments: (Appraisal: USD$8 million; Actual: USD$7 million).

Rationale

DLI #1 contributed to PDO 1 by improving the efficiency of the FD by moving transactions processing from a manual of bills from departments (through 4,700 Drawing and Disbursing Officers [DDOs]) to Treasuries and manual submission to the AG to an electronic system. This was to be measured by the percentage of users DDOs to whom the IFMIS electronic interface was extended, training, coverage of the Letters of Credit (LoC), and online submission of monthly accounts by treasuries to the Accountant-General (later removed and replaced by a new Year 5 target). The coverage of the rollout to all DDOs including DDOs of all three LoC departments and online submission of monthly accounts by Treasuries to the AG progressed from 30 percent in the first year to 65 percent in year 2 and 100 percent in year 3. The original disbursement allocated to this DLI was USD8 million, but this was reduced by USD1 million after adjustments were made to the annual targets at the second restructuring.

Achieving this outcome would improve efficiency in the FD and other departments by ensuring that the previously partially implemented IFMIS, which had been in place for more than 20 years, would be adopted and implemented across all departments of the GoHP, eliminating the need for manual transactions. This, in turn, would contribute to the achievement of PDO 1 (improve efficiency of public expenditure management) by narrowing the occurrence of budget variance in the state's expenditure.

This DLI is rated **High**.

Rating
High

DLI 2

DLI
Internal controls of the FD strengthened: (Appraisal: USD$5 million; Actual: USD$6 million).

Rationale
Strengthening internal controls in the FD was an essential aspect of improving its efficiency. Specifically, DLI #2, which was linked to PDO 1, aimed to reduce the variance between what was approved in the budget and what was recorded as the actual expenditure in six large departments in the GoHP from 44 to 15 percent. As the internal controls were weak because specific financial management functions were still manual, DLI#2 entailed revising treasury rules manuals (for DDOs, treasuries staff) adopted and made operational, automating the budget preparation process and rolling it out to cover 100% of the plan/scheme budget, implementing the commitment control and debt management modules of the IFMIS (inclusive of regular reporting on the state's contractual obligations and debt position), interfacing with Reserve Bank of India (RBIs) e-Kuber operational and biometric authentications for all IFMIS users and ensuring full electronic exchange of data and account reconciliations.

The Year 3 target was modified during the second restructuring and the disbursement allocation increased by USD$1 million.

This DLI was achieved and is rated **High**.

Rating
High

DLI 3

DLI
Increased transparency and citizen engagement: (Appraisal: USD$3 million; Actual: USD$3 million).

Rationale
DLI #3 contributed to PDO 1 and potentially to PDO 2. Before the Program, there was nascent citizen engagement on the budget, no disclosure of contract information, and fiscal information was only available through standard reports. The DLI sought to improve and scale up citizen engagement and participation around the budget process through better disclosure of fiscal and public expenditure information in a user-friendly format including accepting off-line feedback on the budget; stakeholder consultations to solicit feedback and inputs; real-time disclosure of procurement opportunities and contracts awarded through the e-Procurement system, as well as real-time information on the progress of large IPH works to be posted on the new Jal Shakti Vibhag (JSV) system and GoHP website. In the last year, BI tools (on treasury systems) were to be rolled out for citizens to access key fiscal information.

As designed, while DLI#3 was appropriately focused on eliciting citizen engagement, during the span of the Program, it did not seek to employ any surveys of citizens in HP to measure their perceptions of the GoHP's efforts, the new measures introduced and their level of satisfaction with GoHP's responsiveness to the feedback from citizens. It is possible that even though the fiscal and public expenditure data were packaged and published in a user-friendly format, few citizens accessed it; that the inputs from the consultations held to solicit feedback were not used; and the procurement information that was published was not used by the citizens to monitor and hold the GoHP accountable. Simply making the information available or holding stakeholder consultations does not automatically lead to greater transparency and citizen engagement.

The relevance of this DLI is rated as **Modest**.

Rating
Modest

DLI 4

DLI
Increased value of transactions processed through the e-Procurement system: Appraisal: USD$5 million; Actual: USD$5 million).

Rationale
DLI #4, linked to PDO 1, aimed at increasing the coverage and value of procurements done through the e-Procurement system by 90 percent, including at least 20 departments. Before the start of the Program, the software was implemented in only 5 departments and 15 parastatals with sporadic usage of the six modules. DLI#4 required increased usage of all modules of the e-Procurement across state departments in GoHP, and replacing manual processes with a comprehensive automated system. These were to enable enhanced accountability and transparency, achieve better value for money in public procurement, as well as strengthen contract management. It would ultimately contribute to improving the efficiency of public expenditure management. The DLI does not call for 100 percent of procurement transactions to be processed through the e-Procurement system, nor does it specifically call for an increasing share of **high-value contracts** to be handled through the system. The aim was to increase the value of transactions processed through the system by 30 percent over the baseline in year 1, by 60 percent by year 3 and to 90 percent by the end of the Program.

The DLI is rated **Substantial**.

Rating
Substantial

DLI 5

DLI
Contract management system (CMS) in the IPH implemented (Appraisal: USD$3.91 million; Actual: USD$3.91 million).

Rationale

DLI #5 pertained to the customization and progressive rollout of the CMS across all divisions of the IPH Department during the implementation of the Program. Prior to the Program, it was used in 17 divisions but its usage was irregular. The Program measured the complete rollout of all 14 modules on CMS in all divisions and head office of the IPH Department, discontinuation of the manual contract management and accounting system, and the submission of monthly accounts to the Accountant-General via the CMS. The Program aimed for 100 percent implementation of the CMS. It was associated with PDO 1.

This DLI is rated **High**.

Rating
High

DLI 6

DLI
Backlog of pending VAT/GST assessments reduced by 100 percent over the period of the Program: (Appraisal: USD$4 million; Actual:USD$4 million).

Rationale
This DLI #6 was linked to PDO 2 and supported the GoHP's goal of progressively clearing the entire backlog of pending assessments (VAT and CST) totaling 294,000 (2011/12–2015/16) and completion of 90 percent of in-year assessments within one year by the end of the Program. It entailed institutional reforms in the Excise and Taxation Department (ETD), including training, for better revenue management and clearing the backlog of assessments. The ability to clear the huge backlog and become current on 90 percent of all current assessments would be a substantial step towards improving the efficiency of tax administration in HP as the ETD would be able to focus on efficiency in managing current assessments and not have to devote resources to work carried over from previous years.

Rating
High

DLI 7

DLI
Institutional performance of the ETD improved: (Appraisal: USD$3 million; Actual: USD$3 million.

Rationale
Prior to the Program, there were no specialized units, and the revenue recovery process was weak. Given the importance of increasing revenue, DLI #7 sought to strengthen ETD which was the GoHP's main revenue collection arm and contribute to PDO 2. The institutional reforms in the ETD, including recruitment of new staff, training, strengthening the Economic Intelligence Unit (EIU) and overall analytical capabilities of the ETD, creating a service tax specialization, and strengthening the audit function would contribute to the achievement of this DLI. Progress was measured by demonstrating that the audit system was strengthened (eg. timeliness of audit reports) by year 4 of the Program. A fully functional EIU was integrated within the ETD by year 2 of the Program, and a formal service tax specialization was created in the ETD by year 3. It would

take time to build up the expertise and acumen of the new functional units before their effectiveness could be fully observable and verifiable. The DLI is rated **Substantial**.

Rating
Substantial

DLI 8

DLI
e-Governance application for excise function implemented: (Appraisal: USD$4 million; Actual: USD$4 million).

Rationale
As prior to the Program, there were no e-Governance applications available for the excise function, DLI #8 which was linked to PDO 2, focused on digitizing the excise functions within ETD, including a software package for Himachal Pradesh Beverages Limited (HPBL). The specific reference to HPBL was removed during the second restructuring as the company was wound up by GoHP and was no longer relevant. Progress was measured by verifying that the excise e-Governance system was rolled out in 100 percent of the offices, including issuance of at least 90 percent transport permits through the system. This led to the discontinuation of manual processes and covered the excise core functions across all offices of ETD and was achieved through the provision of necessary hardware and software, as well as staff training that were indicators of success.

This DLI is rated **High**.

Rating
High

OVERALL RELEVANCE RATING

Rationale
Both the Program's objectives and the eight DLIs were extremely relevant to the GoHP's reform priorities and the Bank's country strategies, at appraisal and at closing. The CPF FY18–FY22 focused on strengthening of public sector institutions and on the results chain in service delivery through improved systems, performance incentives, and coordination mechanisms. The PDO addressed the CPF's broader goal through strengthening systems and institutions for public expenditure management and tax administration in the state of HP. The Program facilitated cross-learning from PFM reforms in other Indian states and global experiences, consistent with the Lighthouse India Initiative envisaged in the CPF. The PforR Program was also the logical next phase to the Bank's prior engagements with GoHP in PFM reforms. IFMIS reforms had begun as early as 1998 but were input focused and ineffective in improving efficiency in either public expenditure management or revenue collection. The PforR made a substantial contribution in reversing this situation.

The PDO continued to be relevant and consistent with the GoI's and GoHP's reform priorities through the life of the Program. In its report for 2021–26, the 15th Finance Commission identified the need to address reform priorities in a PFM framework at the central and state levels for a future fiscal architecture guided by the principles of equity, efficiency, and transparency. The PDO and DLIs nurtured GoHP institutional capacity to prepare it for the new fiscal architecture by building capacity, digitalization and institutional strengthening.

The eight DLIs reflected measurable progress towards the broader outcome of government's reform priorities by providing incentives to strengthen PFM systems with a shift to monitor outputs and outcomes. All DLIs were clearly defined, well aligned with the PDO, and provided appropriate incentives to trigger action and performance. They improved PFM efficiency mainly by facilitating its transition from manual to electronic processing, clearing backlogs and building human and institutional capacity to sustain PFM reforms over the long term.

The overall relevance rating is **Substantial**.

Rating
Substantial

4. Achievement of Objectives (Efficacy)

OBJECTIVE 1

Objective
PDO1: To improve the efficiency of public expenditure management.

Rationale
Theory of Change: The theory of change (ToC) underlying PFM was addressed through two Results Areas (RAs): 1) improving efficiency of the FD in an enhanced control environment; and 2) increasing efficiency and performance through better contract management (effectively improving the public procurement function since procurement accounts for a large share of public expenditure). By transitioning from a manually implemented system to a modern electronically-operated one across all government departments, and building enhanced personnel capacity in the FD, the Program would help to reduce the variance between budgetary allocations made through the GoHP's annual budget process and actual expenditures, thus improving the budgetary systems' credibility, and enhancing the efficiency of the overall PFM system. This was to be achieved by rolling out the IFMIS and mandating its use across all GoHP departments. The discontinuation of manually operated systems and establishment of electronic ones enhanced internal controls and strengthening of the PFM was achieved through updated manuals, capacity building, and overall better trained staff. Similar efficiency improvements were implemented in contract management by rolling out the e-Procurement and contract management systems (CMS) systems and ensuring their adoption and usage across all departments, but particularly the IPH which dealt with the largest share of contracts as well as the largest contracts in terms of value.

Key outputs:

- Complete rollout of the HP IFMIS (referred to as HIMKOSHA) across all departments. The HIMKOSH was live at all 107 Treasury offices and all 5,500 plus expenditure points, with end-to-end processing of expenditure bills including 2.5 million receipt and almost a million payment transactions. Training was conducted on the IFMIS, the use of the software, Treasury rules and a range of other related areas to build capacity among officials to make use of the system (DLI-1).
- Strengthening of the FD's internal controls (DLI-2).
- The formalization of citizen engagement through stakeholder consultations, access to pertinent budget information and procurement data (eg. on award of contracts) opened GoHP up to greater scrutiny and made officials more conscious of the need to comply with the new systems and procedures (DLI-3).
- Six modules of the e-Procurement software were implemented and over 100 state agencies (departments, corporations, boards and companies) were onboarded and receiving training in the use of the system (DLI-4).
- Implementation of the CMS in the IPH Department which, together with PWD, account for most of the procurement contracts (DLI-5).

Intermediate indicators and outcomes

There were six intermediate results indicators (4 for RA1, 1 for RA2 and 1 that applies to both). These prompted activities that measured GoHP's progress towards the achievement of the DLIs, and contribution to the broader outcome (PDO1). Some of the IRIs overlapped with the DLIs.

IRI-1: *Strengthening PFM in the state by provision of comprehensive and wide-ranging training*. Prior to the PforR Program **(baseline)**, training was deemed to be neither strategic nor planned. The original **target** was for FD to carry out of a training needs assessment and development of a training plan, and the provision of adequate resources to deliver the training to all stakeholders in accordance with the plan. **Actual achieved at completion**: At completion in June 2023, regular training was being conducted on IFMIS, GST, gender issues, Treasury Rules, usage of application software, NPS, etc. The IRI target was not a number but a result and ongoing process. The training needs were identified in consultation with senior administrators, staff of various departments and external stakeholders. The training was based on a training plan and was informed by a Training Needs Assessment. **(Achieved - Substantial)**

IRI-2: *Strengthening components of the PFM cycle through analytical studies of the core FD functions*. **Baseline**: The last study conducted to refine the core functions of the FD was during the PEFA in 2009. **Target**: Studies conducted, and recommendations made to GoHP on funds, debt, revenue and expenditure management. **Actual achieved at completion**: Debt Management Performance Assessment (DeMPA) completed, and recommendations translated into DLI-2. Action taken by GoHP on expenditure management in terms of scheme rationalization and consolidation. A Procurement Assessment (MAPS) was also commissioned during the Program period. The IRI target was not a number but a result and ongoing process. **(Achieved - Substantial)**

Note: While the IRI2 focuses on “analytical studies," it does not specify who would do the studies. The ICR suggests that only one study was implemented (the DeMPA) and was done by the Bank and not the FD. The MAPS was "commissioned" and is also a World Bank analytical product.

IRI-3: *Electronic interface of IMFIS implemented in all departments*. **Baseline**: Manual submission of bills from departments (via 4,700 DDOs) to treasuries and manual submission to the Accountant General. **Original target**: Rollout to all DDOs for all 3 LoC departments and online submissions of monthly accounts by treasuries to the Accountant General. **Revised target**: Treasury inspection function and the HP State Audit Department (HPSAD) strengthened. **Actual achieved at completion:** Rollout to all DDOs completed. Treasury inspection software was rolled out and the SOP was approved. The Audit Code was finalized and the Audit Management System was developed. **(Achieved - Substantial)**

IRI-4: *Internal controls in the FD strengthened*. **Baseline**: Weak internal controls; specific FM functions were still manual. **Target**: Revised Treasury rules/manuals were adopted and made operational, and specific manual processes were automated. **Actual achieved at completion**: Revised Treasury rules were notified and published on FD website. The online budget preparation process was used for preparing annual budgets. The debt management module was implemented including coverage of guarantees – the process has changed from manual to automated, improving internal controls, facilitating analysis and generating prompts. This streamlined the process and increased transparency. **(Achieved - Substantial)**

IRI-5: *Increased transparency and citizen engagement.* **Baseline**: Nascent citizen engagement on budget; no disclosure of contract information; fiscal information only through standard reports. **Target**: Scaling up citizen engagement on the budget process; disclosure of (a) contract award and procurement opportunities through e-Procurement; and (b) progress on large contracts through new IPH system. **Actual achieved at completion**: FD added more reports - including visualization tools - over time on the public domain. Citizen participation (by citizens, industry groups, tax practitioners) in the budget process was ensured in 3 annual budgets (2021, 2022, 2023). **(Achieved - Substantial)**

IRI-6: *CMS in IPH Department implemented*. **Baseline**: CMS implemented in 17 percent of the divisions within the IPH Department. **Target:** CMS implemented in 60 percent of the divisions. **Actual achieved at completion**: the rollout was complete in 60 percent of IPH divisions and monthly accounts were being generated from the CMS. The Legacy system was discontinued. **(Achieved - Substantial)**

PDO 1 Results Indicators

PDO1 had two RAs:

RA-1: Improving the efficiency of the FD in an enhanced control environment (i.e. the management of the budgetary process) and

- RA-1 indicator: Reduce variance between originally approved budget to expenditure.

Baseline: The variance between the originally approved budget to expenditure outturns of the six largest departments was 19 percent in FY 2015 – 16.

Target: Variance between originally approved budget to expenditure outturns of six large departments reduced to 15 % by June 2022.

Actual Achieved at Completion: 15 percent in June 2022. The ICR reports that GoHP has achieved and maintained the target until Program closure. However, by PEFA standards, a variance in excess of 5 percent is considered on the higher side, making 19 percent exceptionally high. Reducing this variance by 4 percentage points - from 19 to 15 percent - while not insignificant, does not appear to be a particularly ambitious target or achievement over a period of 6 years. **(Substantial)**

RA-2: improving the public procurement and contract management process. The PDO indicators for these two sub-objectives were, respectively:

- RA-2 indicator: Increased value of transactions processed through the e-Procurement system.

Baseline: Software implemented in 5 departments and 15 parastatals with sporadic usage (of the six modules) and value of transactions processed at INR 24.41 billion for value of tenders uploaded and INR 1.88 billion for value of contracts awarded.

Target: Increased in value of transaction processed through the eProcurement system by 90% over baseline.

Actual Achieved at Completion: Value of transactions processed through the e-Procurement system increased by 90% over baseline. The target was achieved in advance and was sustained in 2021–22 and until Project closure. **(Substantial)**

Both PDO-level result indicators for PDO1 were achieved. **(Substantial)**

Rollout of e-Procurement was a notable achievement under the Program, with the related DLI (DLI 4) achieved in Year 1 (May 2018) instead of Year 5 as originally planned, paving the way for advance achievement of the DLI targets. More than 100 departments, corporations, boards, and companies were onboarded and training imparted. The value threshold of 90 percent over the baseline for tenders processed and contracts awarded was sustained throughout the Program period with the number of tenders published increasing 2.5 times by the end of the Program period. For FY2022–23, the value of tenders processed through e-Procurement covered the entire public procurement universe in the state except procurements valued less than INR 0.5 million. The outcomes are starting to be reflected in select key performance indicators.

The CMS implemented in JSV (under DLI 5) covered the downstream function of contract management in FY2023–24 from contract award till final payment. Since go-live in FY2020–21, JSV has officially transitioned to electronic maintenance of registers and documents including accounting records covering 100 percent of works executed. Even in remote locations, where connectivity is poor at times, officials update the CMS at the nearest division office. As of August 2023, a total of 114,000 work awards (annual average of 35,000) and INR 29.56 billion worth of work bills (annual average of INR 12 billion) were processed on the CMS. JSV officials use system-generated reports for decision-making and administrative actions. The GoHP has now integrated the CMS with the core IFMIS, ensuring seamless electronic processing of work bills. The CMS can potentially be rolled out in all GoHP departments handling works expenditure.

Rating
Substantial

OBJECTIVE 2

Objective
To improve the efficiency of tax administration.

Rationale
Theory of Change

The Program would achieve the PDO of improving the efficiency of tax administration mainly by enhancing the revenue potential of the Excise and Taxation Department (ETD) through RA3 focused on reducing the huge backlog of pending VAT/CST assessments (DLI-6). This would also include making current the in-year tax filings. This would be achieved by restructuring the ETD, recruiting, and training personnel, particularly additional specialized staff (DLI-7), strengthening ETD's audit systems and rolling out a new e-Governance system (DLI-8). ETD would leverage a risk-based approach to select cases for assessment and use data analytics to improve tax compliance and performance incentives linked to collection targets and three Legacy Cases Resolution Schemes. In short, ETD embraced technology, employed modern techniques, and hired additional staff with new skills who were incentivized to perform. The ultimate outcome sought was the full automation of core business processes and improved performance of the ETD, which would optimize the potential for revenue collection.

Key Outputs

- Backlog of VAT and CST cases reduced by 100 percent over 4 years.
- 90 percent of in-year assessments are completed within current year.
- Economic Intelligence Unit (EIU) is established within ETD.
- Specialization for service tax experts is created within ETD.
- Excise e-Governance system designed and rolled out in 100 percent of offices.

Intermediate indicators and outcomes

Apart from the three DLIs (DLIs 6-8), there were four IRIs. The PDO indicator RA-3 was identical to DLI-6 and two of the IRIs were identical to DLIs-7 and DLI-8. All targets were successfully achieved.

IRI-7: *Institutional strengthening and modernization of the ETD*. **Baseline**: Weak institutional and organizational structure and obsolete e-applications. **Target**: Implementation of all accepted short and medium-term recommendations, including optimizing the assessment function. **Actual achieved at completion**: New specializations were created for the EIU, Audit Unit and Service Tax Unit.
These units were established and staffed, and became fully functional providing analysis, audit findings and advice respectively. The department was reorganized based on functional specializations. **(Achieved - Substantial)**

IRI-8: *Enhanced capacity of officials implementing GST by providing training that was not covered by the sovereign function*. **Baseline**: GST rollout training to be imparted and systematic training instituted for the department. **Target**: Field-level staff of the ETD trained in functional aspects of GST. Additionally, training and communication are provided to dealers. **Actual achieved at completion**: An audit training module was prepared and approximately 1,000 tax inspectors were trained in tax audit. **(Achieved - Substantial)**

IRI-9: *e-Governance application for excise function implemented (same as DLI-8)*. **Baseline**: No e-Governance application for excise function. **Target**: Excise e-Governance system rolled out in 100 percent of the offices, including issuance of at least 90 percent transport permits through the system. **Actual achieved at completion**: The e-Governance system was rolled out with identified licenses onboarded. The system went live in April/May 2023 and earlier manual systems were discontinued. **(Achieved - Substantial)**

IRI-10: *Institutional performance of ETD improved (same as DLI-7)*. **Baseline**: No specialized unit; recovery process was weak. **Target**: Audit functions, service tax specialization, EIU functioning as an integral part of ETD. **Actual achieved at completion**: Specialized units were set up and operating. However, it was difficult to measure whether the institutional performance of ETD was indeed improved. **(Modest - Modest)**

IRI- 7, 8 and 10 did not have any metrics to measure their impact. They were process indicators that included establishments of new units or functions, and staff training that were necessary for unlocking the revenue potential of ETD but could not be measured in terms of their material contribution. IRI-10 (Institutional performance of the ETD improved) is an outcome and not an indicator (it is also DLI-7). It is not possible to measure whether the institutional performance of ETD has indeed improved. The same comment applies to the targets related with organizational features and procedures (creation of an audit function, service tax specialization, functioning EIU, development of a tax manual) which make their contribution to the *performance* of the ETD difficult to gauge.

PDO 2 Results Indicators

PDO 2 had one RA-3: Unlocking revenue potential through modernization of the ETD.

RA-3 indicator: Backlog of pending VAT/CST assessments reduced.

Baseline: Pending tax assessments (VAT and CST) from 2011/12–2015/16 are 294,000.

Target: Backlog reduced by 100% over baseline and 90% of in-year of return filing.

Actual Achieved at Completion: The entire backlog of over 300,000 cases in 2015/16 was reduced in addition to clearing 90 percent of the current cases within a year of the returns being filed (DLI-6). In the process, the state recovered INR2.57 billion of taxes owed. **(Substantial)**

Improving the Efficiency of Tax Administration was achieved through the dual target of reducing the backlog of VAT and CST cases (DLI-6) and disposing of 90 percent of all new cases within one year of return filing resulting in boosting the state's revenues. Under DLI-7, institutional strengthening in GoHP's tax administration prepared it for the GST regime and improved its overall effectiveness. The ETD emerged as a more goal-oriented entity with specialized units for tax enforcement, a 24x7 helpdesk, and a Central Registration Unit. As a result, the monthly/quarterly GSTR1 returns filed increased from 460,000 in FY2019–20 to 770,000 in FY2022–23. The development of the tax audit manual and staff training in modern tax audit procedures has empowered a data analytics team to identify potential revenue recovery cases and alert ETD field offices. During the Program period, 5,195 cases of suspected revenue leakages amounting to INR 11 billion were detected. Tax recovered stood at INR 1.70 billion.

Revenues from excise on liquor constituted 55 percent of total revenues of the ETD in FY2021–22. Under DLI-8, the implementation of the e-Governance system automated the excise function covering key processes, such as excise license issue and management, registration of labels, goods movement, filing of stock and other returns, and collection of fees. The system's roll out also covered 2,229 licensees and implemented ICT hardware-based 'Track and Trace' facility for effective monitoring of the liquor supply chain.

Since go-live in April 2023, all permits and passes are generated electronically. The streamlining and automation of processes has reduced the footfall at ETD offices and increased transparency. The ETD expects collections from liquor licenses to increase by 17 percent in FY2023–24 compared to FY2022–23.

Rating
Substantial

OVERALL EFFICACY

Rationale
The Program met both objectives: improving the efficiency of (a) public expenditure management, and (b) tax administration. While two of the eight DLIs contributed to strengthening expenditure management, three DLIs contributed to improving tax administration. The remaining three DLIs contributed to strengthening the overall PFM architecture of the state. All PDO indicators, DLI and IRI targets were met, and the Program was fully disbursed at closing. Notably, GoHP's contribution exceeded the original estimate.

The key achievements in improving the expenditure efficiency of the GoHP to support PDO1 were: (1) a complete rollout of HIMKOSH (the state IFMIS) that is presently live at all 107 Treasury offices and all 5,500 plus expenditure points with end-to-end electronic processing of all GoHP receipts and payments. The HIMKOSH boasts of secure biometric login, paperless transactions, is fully integrated with the central bank's systems and has a reporting module employing business intelligence tools. (ii) Development of a Debt Management Manual, a medium-term debt management strategy, and a debt management module of HIMKOSH. (iii) Better cash and debt management contributed to a 1.3 percent decline in GoHP's interest payments as a percentage of total expenditure between FY2017– FY2022. (iv) Due to the early rollout of e-Procurement in Year 1, for FY2022–23, the value of tenders processed through e-Procurement covered the entire public procurement universe in the state except procurements valued less than INR 0.5 million. The CMS implemented in JSV applied to contract management for 100 percent of works executed in FY2023–24. Officials update the CMS at the nearest division office in remote locations and use system-generated reports for decision-making. (iv) The GoHP has now integrated the CMS with the core IFMIS, ensuring seamless electronic processing of work bills. The CMS can potentially be rolled out in all GoHP departments handling works expenditure. (v) Digitization of the budget preparation process - aggregation of budget proposals and distribution of approved budget allocations till the last expenditure point. (vi) GoHP established a process and a portal for collecting citizens' feedback on the annual state budget.[1] (vii) eBhugtan, a mobile app developed as part of the IFMIS, provides alerts about any payment received from the GoHP to contractors, employees, and citizens receiving old-age pension. (ix) The development of standard operating procedures (SOPs) and software has improved the effectiveness of the treasury quality control function through better internal controls and audits. The new Audit Code and audit software are now used for most audits.

The notable achievements for improving the efficiency of tax administration (PDO2) include: (i) reducing the backlog of VAT and CST cases and processing 90 percent of all new cases within one year of return filing resulting in boosting the state's revenues. (ii) Institutional strengthening in GoHP's tax administration prepared it for the GST regime. (iii) The ETD emerged as a more goal-oriented entity with specialized units for tax enforcement, a 24x7 helpdesk, and a Central Registration Unit. As a result, the monthly/quarterly

GSTR1 returns filed increased from 460,000 in FY2019–20 to 770,000 in FY2022–23; (iv) The development of a modern tax audit system empowered ETD officials to identify potential revenue recovery cases and follow through. (v) The implementation of the e-Governance system automated the excise function pertaining to excise on liquor covering key processes, such as excise license issue and management and using the 'Track and Trace' facility for effective monitoring of the liquor supply chain. The streamlining and automation of processes has reduced the footfall at ETD offices and increased transparency. The ETD expects collections from liquor licenses to increase by 17 percent in FY2023–24 compared to FY2022–23.

The Program strengthened GoHP 's institutional capacity building in several ways: (i) Staff training became an integral element across Program activities (IFMIS implementation, rollout of e-Procurement and CMS, data analytics for tax administration, and GST preparedness) with special training for women. The training programs included gender aspects, Program financial management, IT security, green buildings, and Environmental and Social Management Plans (ESMPs), and were conducted through face-to-face learning, and e-Learning modules. Manuals, guides and SOPs developed under the Program serve the Treasury Officers and Treasury Quality Control, Audit process, IT Security, and Debt Management. The Program also produced deep-rooted behavioral and systemic changes such as integrating technology considerations in governance reforms from the beginning. The Program experience instilled in the GoHP the confidence to implement technology-intensive projects and views the IFMIS, e-Procurement, and CMS as building blocks for developing future governance initiatives.

[1] *https://ebudget.hp.nic.in/bshp*.

Rating
Substantial

5. Outcome

The relevance of the Program's objectives was **High**. They strongly aligned with the country context and the PFM Reform goals of the GoHP, as well as the Bank's CPS, 2013-2017 and its CPF FY18-FY22), and directly supported the GoHP's efforts to improve the capacity of the FD and ETD, the two main departments responsible for fiscal management and tax administration, respectively. The DLIs were also highly relevant. All eight DLIs, three PDO indicators and ten IRIs were achieved and their Efficacy is rated **Substantial**. Therefore, the overall Program Outcome is rated **Satisfactory**.

Outcome Rating
Satisfactory

6. Risk to Development Outcome

The PforR operation succeeded in embedding new systems and processes in the GoHP. Specifically, the major digitalization initiatives undertaken under the Program - the IFMIS in FD, the CMS in IPH/JSV, the e-Procurement system across GoHP and the e-Governance in ETD - have replaced manual systems and GoHP's legacy systems was discontinued. This implies that a reversal to previously-existing systems will be difficult, and any business done outside of these systems should be the exception, not the norm. The main foreseeable challenge is the ability and willingness of GoHP to maintain and update the new systems as and when required. Often, digital systems installed with the support of World Bank financing are allowed to fall into disrepair in the absence of external resources.

Barring some major catastrophe, new cadres of staff employed to perform key functions (eg. audit, procurement) and the staff trained in the use of the new systems are likely to remain employed by the GoHP into the future, making it difficult to roll back the progress achieved.

Nevertheless, the ICR does point to increasing fiscal pressures on account of both internal and external factors that can threaten to undermine the progress mad. Therefore, the IEG rates the risk to development outcome as **Moderate**.

7. Assessment of Bank Performance

a. Quality-at-Entry

The PforR operation was the culmination of several years of engagement with GoHP. PFM reforms in HP began in 1998 and have been ongoing for over 20 years. Ten years before the Program was approved, the Bank team had prepared an Economic Report that raised some of the PFM issues affecting GoHP. A PEFA assessment was carried out in 2008/09 and the Bank delivered an NLTA for a period of two years (from January 2014 to December 2015), during which time it worked very closely with the FD, DoTA and IPH/JSV. This enabled the Bank team to develop both a deeper understanding of the issues and challenges confronting GoHP as well as forge a close working relationship with the client. The Program thus drew and built upon prior Bank experience with PFM in HP, and was designed collaboratively.

The Program was the first PFM reform operation in India to employ the PforR instrument. The decision to use the PforR instrument was informed by an understanding that an appropriately incentivized change management approach was required and that a traditional investment project would not be able to achieve these objectives. The DLIs were carefully crafted with the FD and other relevant departments to ensure they were realistic and achievable, and the implementation arrangements kept relatively simple to avoid unnecessary complication and delays.

The Bank preparation team comprised a range of relevant skills including a local Task Team Leader (TTL) who had led the NLTA that preceded the operation. The TTL therefore had a first-hand understanding of the problems to be addressed and had built up credibility and trust with GoHP officials. The team also consulted extensively with other Bank staff who had direct experience in Mozambique and Bangladesh where other successful PFM reform PforR operations had been or were being implemented, thus ensuring the sourcing of knowledge and good practice to inform the design of the Program.

The IEG assessment of Bank performance on quality-of-entry is **Satisfactory**.

Quality-at-Entry Rating
Satisfactory

b. Quality of supervision

A core group of the task team and, most importantly, the TTL remained engaged throughout the life of the Program. One of the shortcomings sometimes observed in Bank projects and programs is the change of TTLs and team members that can be disruptive as new TTLs take time to become familiar with the program and the client. In this case, perhaps because it was a subnational program and the majority of team members were local staff, there were no significant changes. The team carried out regular implementation as well as technical support missions during which they did trouble-shooting. At least four Implementation Support Missions (ISMs) were done virtually due to the pandemic. At the end of each mission, several potential problems were discussed including debriefings with the Additional Chief Secretary and other relevant heads of department. The ICR also reports that workshops were organized with relevant departments to brainstorm on specific topics such as public works management systems, PEFA, IFMIS and initiatives to clear the backlog of tax cases, as well as virtual interactions during the COVID-19 pandemic to address disruptions and uncertainties caused by the lock-down. Moreover, the team shared knowledge and experience with PFM reforms elsewhere with their counterparts, provided short notes and brought outside expertise to interact with GoHP officials. This points to a high level of proactivity and commitment by the team to the success of the Program. Eleven ISRs were filed after each ISM during the life of the Program. Three restructurings occurred when it was necessary to adapt to changes in circumstances, including an extension to the closing date. Aide Memoires accompanied by Management Letters were prepared and sent to the Additional Chief Secretary after the ISMs.

As intended with the PforR instrument, the Program relied on country (or in this case state) systems for fiduciary as well as environmental and social compliance and oversight. Fiduciary performance was adequate for the most part, except for a period when there were delays in the submission of audited financial statements caused by tardiness on the part of the federal government and not the GoHP.

Overall, the quality of supervision is assessed as **Satisfactory**.

Quality of Supervision Rating
Satisfactory

Overall Bank Performance Rating
Satisfactory

8. M&E Design, Implementation, & Utilization

a. M&E Design

The PAD laid out the M&E design for the Program (p.16). A comprehensive Results Framework (RF) spelling out the PDO and intermediate-level results indicators was developed jointly with the participating departments in GoHP. All three PDO indicators were devised as DLIs to build in financial incentives within the PforR Program for the GoHP to pursue its larger PFM reform agenda. The RF provided the baselines, target values, frequency of data collection, data sources, data collection methods, and responsible institutions in commendable detail. Some baselines and targets were later modified during implementation when the data became available or circumstances changed. At the very outset, therefore, the participating institutions understood which results they were responsible for and what data they were expected to collect to demonstrate achievement of those results.

In keeping with the use of the PforR instrument, the M&E function relied on country (or, in this case, state) systems. The PFM Reforms Division (PRD) of the FD of the GoHP was responsible for tracking and reporting on activities and results - collecting and collating data from the stakeholder departments, and preparing and submitting semi-annual reports to the Bank. The e-Governance, e-Procurement and CMS systems to be installed and activated under the Program would, in effect, generate the data required to show progress. DLI verification was contracted out to an Independent Verification Agent (IVA), who was responsible for certifying the achievement of results in line with the verification protocols and PforR guidelines.

Overall, the design of the M&E system was well designed and appropriate.

b. M&E Implementation

Based on the ICR, the M&E arrangements worked well during implementation. The PRD collected, collated and analyzed the data, and produced/submitted their reports on time, and these were used by both the FD and Bank team to gauge progress and identify potential problems or delays. Regular meetings were held to review progress. In all, 16 review meetings were held under the leadership of the Additional Chief Secretary (Finance) with active participation from heads of other implementing departments. Periodic meetings were held with the IVA to apprise them of the progress and upcoming DLI verification tasks. This resulted in fewer feedback loops and quick turnaround of verification reports, thus helping in faster disbursements. Program monitoring by the World Bank was undertaken over 11 formal half-yearly ISMs as well as several technical missions in the intervening periods during which they held discussions with the implementing departments. This afforded the Bank team the opportunity to interrogate the reports, raise issues and address problems before or as they emerged. DLIs achievement was also carefully monitored as this was tied to disbursements, and corrective action taken if/when it was found that the DLIs were off-track.

c. M&E Utilization

The M&E system put in place informed operational decisions. Key outcomes of each ISM were captured in wrap-up meeting presentations, Aide Memoires, and Implementation Status and Results Reports (ISRs). The World Bank's Management Letter to the Chief Secretary of the GoHP that accompanied each Aide Memoire highlighted two to three key action points for immediate attention. DLI achievement was monitored closely, and corrective action was initiated when progress was found to be weak. For instance, when the Department of IT was found to be lacking in terms of convening power and administrative bandwidth to lead the e-Procurement rollout under DLI 4, the World Bank team brought this to the attention of the senior leadership at the GoHP. The responsibility was shifted to the FD, after which the DLI results were achieved quickly. Program implementation status, achievements, and key issues were placed for discussion at the Tripartite Portfolio Review Meetings.[1] The GoHP has documented its success story of IFMIS reform and placed it on the project page of the FD's website.[2]

The Bank team utilized the output of the semi-annual reports and its discussions with GoHP officials in the preparation of its ISRs and Aide Memoires. These not only informed discussions at the level of the FD, but also the higher levels of the GoHP.

[1] Meetings held between GoI, implementing agencies, and the World Bank.

[2] *https://himachal.nic.in/index1.php?lang=1&dpt_id=1&level=0&linkid=3794&lid=11673*.

M&E Quality Rating
Substantial

9. Other Issues

a. Safeguards
Environmental and Social Risk was assessed as Moderate at the outset and, based on the ISRs, remained so throughout implementation. The Program contemplated some civil works (construction and upgrade of Treasury and sub-Treasury offices) that were not expected to cause any adverse impact. The Environmental and Social Safeguards Assessment (ESSA) yielded a few recommendations that were incorporated into the Program Action Plan (PAP). Specifically, these related to:

Environmental

1. Exclusion of high-risk activities;
2. Screening and preparation of site-specific Environmental and Social Management Plans;
3. Orientation for Public Works Department engineers and contractors;
4. Green Building Certification for buildings to be constructed; and
5. e-Waste disposal/management.

Social

1. Screening for land identified for construction to rule out any social impact;
2. Ensuring basic amenities for construction workers as well as a grievance redress mechanism;
3. Addressing the needs of women and differently-abled people in building design and construction;
4. Ensuring public safety; and
5. Establishing a mechanism for labor law-related compliance.

The ICR (p.26) reports that the Program complied with all recommendations and measures outlined in the ESSA and PAP, respectively, as well as advice offered during ISMs.

It is worth noting that the ICR points to the construction of 28 new Treasury buildings and the renovation/refurbishment of 73 existing buildings under the Program as part of the strengthening of Treasury infrastructure. Six of the newly-constructed buildings were built in accordance with the parameters

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It is worth noting that the ICR points to the construction of 28 new Treasury buildings and the renovation/refurbishment of 73 existing buildings under the Program as part of the strengthening of Treasury infrastructure. Six of the newly-constructed buildings were built in accordance with the parameters of the Simple Versatile Affordable Green Rating for Integrated Habitat Assessment (SVAGRIHA), an affordable rating system for small buildings in India, and have received Green Building Certification.

The GoHP had a functional grievance redress mechanism (GRM) that received grievances through three channels, which were also available to this Program: (a) the e-Samadhan portal (https://esamadhan.nic.in/), (b) the Chief Minister's grievance portal (https://cmsankalp.hp.gov.in/), and (c) the Centralized Public Grievance Redress and Monitoring System of the GoI (https://pgportal.gov.in/). No complaints were received under the Program. The department also conducted gender sensitization training for all its staff and constituted Internal Complaint Committees as per the Protection of Women from Sexual Harassment Act, 2013 in all the District Treasury Offices and at the directorate level. No complaints have been reported (August 2023).

b. Fiduciary Compliance

Fiduciary Risks were assessed as Moderate by the task team at the outset. The Fiduciary Systems Assessment (FSA) covered financial management, procurement, and fraud and corruption risks associated with the Program. The fiduciary risks and proposed mitigation measures are laid out in Annex 8 of the PAD (p.80).

Financial Management (FM). In keeping with the use of the PforR instrument, the FM arrangements relied on country (or, in this case, state) systems. The FD, as the main implementing agency, was responsible for budgeting, accounting and funds management. The FSA found that there were adequate arrangements in place to safeguard Program finances. The ICR (p.26) reports that the FM arrangements under the Program performed adequately.

Overall performance on FM was rated Satisfactory during the first half of the Program period but slipped to Moderately Satisfactory throughout the second half. The ICR (p.26) explains that this slippage was due to delays in conducting the Program audit by the Office of Comptroller and Auditor-General (C&AG) of India, occasioned by the late submission of audited financial statements by GoHP. There were no significant adverse audit observations reported.

Procurement. The Program envisaged procurement consisting mainly of goods (IT equipment), services (consultancies) and small civil works/contractors. Six different departments or agencies were expected to carry out procurement under the program. It was noted that GoHP would be following financial rules as there was no specific law on procurement. Also, standard bidding documents were to be prepared in line with various procurement methods.

There were no procurement complaints and no high-value contracts awarded in line with agreed procurement exclusions. Unfortunately, despite this being recommended, the C&AG did not include a review of the procurement process in the Program audit. Nevertheless, procurement performance was rated Satisfactory throughout the Program period.

c. Unintended impacts (Positive or Negative)

Gender. Although the Program's activities were gender-neutral, gender sensitization training was provided for all FD staff as part of the operationalization of the grievance redress mechanism.

d. Other

N/A

10. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Satisfactory	Satisfactory	
Bank Performance	Satisfactory	Satisfactory	
Quality of M&E	Substantial	Substantial	
Quality of ICR	---	Substantial	

11. Lessons

The ICR presents seven lessons (p.28/29) based on the experience of this PFM capacity-building Program in HP, two of which are worth highlighting here. Both these lessons pertain to projects/programs that are technology-intensive:

1. **Investments in process automation ensure business continuity in times of crisis.** This Program was IT-intensive and involved multiple DLIs directed towards automation of GoHP business processes. These very investments turned out to be helpful in maintaining some level of business continuity during the COVID-19 pandemic when lock-downs and social distancing made physical in-office presence challenging. When/if automation does not affect underlying business processes, the use of "back-up" paper files becomes imperative. However, where automation results in a thorough review and modification of the underlying business processes, there is a greater likelihood of success.
2. **Creating IT capacities up-front is a fundamental requirement in technology-intensive programs**. While software development and implementation can be outsourced to solutions providers, in-house personnel with deep IT knowledge and project management skills are needed to ensure (a) that the right solutions are being applied and (b) that the changes will be sustainable.

A third lesson that can be drawn from this Program has to do with the "reform champions". The GoHP PFM capacity building Program relied heavily on the championship of the designated nodal officer (Additional Director Treasuries), and on the Additional Chief Secretary (Finance), who served as chair of the steering committee. The lesson here is that it is best not to place all eggs in a single basket. The ICR notes that there was turnover of key personnel in the participating departments; however, the designated nodal officer provided continuity and leadership to the Program. What would have happened in the absence of this nodal officer? Fortunately, the Additional Chief Secretary (Finance) was also there to provide leadership and continuity. The Program was very fortunate to have had ***both*** these senior officials throughout the implementation period.

12. Assessment Recommended?

No

13. Comments on Quality of ICR

The ICR provides a good overview of the Program and describes the key achievements as well as challenges. The narrative is well-supported by evidence and analysis. For the most part, the ratings are justified and fair if the achievement of targets are taken at face value.

There are, however, several shortcomings in the ICR. For example, the DLIs are not presented/discussed individually in the Relevance section (Section A), where there is a single paragraph (para. 22) confirming that the DLIs' relevance is rated High. In addition, the results indicators are reported on without question and no time was taken to reflect on whether they really indicate results or whether the bar was set too low.

a. Quality of ICR Rating
Substantial