

Revamp PFMS to Make it a Robust Fiscal Efficiency Tool

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IT is disheartening to find political bickering dominating national discourse, side-lining vital economic issues. Dozens of such issues have lately been raised by parliamentary committees and Comptroller General of India (CAG). Their latest reports were presented during the brief, truncated winter session of Parliament.

A derailed issue that deserves national scrutiny is Public Financial Management System (PFMS). It continues to be a 'work in progress' nine years after its launch! PFMS is an overarching web-based tool, comprising several modules. Several States treasuries, banks, thousands of implementing agencies and other entities are connected to it.

PFMS is a vital key to expenditure efficiency, financial savings and minimizing revenue leakages. It is also the digital platform for direct benefit transfers (DBTs) to eligible citizens under various welfare schemes.

PFMS was rolled out in December 2013, subsuming Central Plan Scheme Management System (CPSMS). The latter was launched in 2008 as pilot project in four states for managing funds flow to four central schemes. It was subsequently expanded substantially.

Public Accounts Committee (PAC) has found PFMS implementation faulty in its report released on 14th December 2022. PAC report is a follow-up of shocking observations that CAG made on PFMS in one of its 2018 reports.

In half a dozen reports on State finances or exclusively on DBTs released during 2022, CAG has observed number of flaws in DBTs mechanism. The shortcomings exist both in central and state schemes. The defects include inordinate delays in benefit transfers, accounting errors, fund leakages, data mismatch and software limitations.

As put by PAC, "

while the grand vision of PFMS requires timely inclusion of all DBT schemes, the implementation of PFMS suffered from indecisiveness ."

It observed: "

PFMS suffered from major systemic fallacies viz. slow progress of expenditure and under-utilization of funds, on-availability of space, unrealistic projections of expenditure and delays in procurement of machinery/equipment and hardware/software ."

The fact that PFMS is a 'work in progress' becomes crystal clear if one looks at the office memoranda issued periodically by Department of Expenditure (DoE). These circulars notify changes in procedures to fix problems encountered as a learning experience.

An instance in point is DoE letter dated 2 nd December 2022 to all State chief secretaries, granting one-time exemption for irregularities in the management of funds from Centre to States under Centrally Sponsored Schemes (CSS).

DoE letter says: "

it has been observed that even after onboarding of the State Linked Schemes (SLS) on PFMS, some States have incurred expenditure under the scheme either directly from the treasury or by transferring funds to non-SNA accounts. Such expenditure done in violation of DoE's guidelines is not captured/recognized in PFMS ."

It continues: "

Accordingly, for each such fund releases to non-SNA accounts/expenditure incurred directly from State treasury, the SNA 09 report reflects a 'deficit' of the equivalent amount in the release of scheme funds from State treasury to the SNA account. The 'deficit' invokes a validation check in PFMS which prevents further release of funds by Departments to such States."

PAC has thus rightly called for a study to **"ascertain areas of duplication in the systems where PFMS has been adopted partially."** This is required to avoid prevailing duplication of efforts.

Another case in point is the software glitches mentioned in DoE's OM issued on 29th November 2022 following introduction of browser-neutral digital signatory certificate (DSC) utility in preceding month.

We would urge Finance Ministry to advise CAG to undertake comprehensive study of PFMS at the Centre and the States to reap fully multiple benefits inherent in such projects.

The proposed Committee should study whether Finance Ministry's 2016 projected savings of approximately Rs 10,000 crore on interest has been achieved through efficient funds management. These savings are in addition to Rs 1900 crore estimated earlier by avoiding provision of certain hardware and software at different locations. The underlying logic is that PFMS was conceived as **'Software as Service'** facility.

CAG should take up the study from its 2018 report and its performance audit reports on DBTs in States.

In its 2018 report, CAG concluded: "

PFMS has not adhered to timelines on almost all the parameters of project implementation and is not yet ready to deliver on any of its stated objectives. The pace of physical and financial progress remained slow and the implementation strategy lacked necessary coherence with planned course of project implementation."

International Monetary Fund (IMF) too has flagged public financial management in its annual country report on India issued on 23rd December 2022. The World Bank too has separately been trying to strengthen PFMS in a few States over the years.

According to IMF report released on 23 rd December, "

Continuing efforts to improve public financial management (PFM), fiscal institutions and transparency are critical."

The Report adds: "

The development of an integrated Government Financial Management System is welcome and can be complemented by a dedicated platform for central, state, and local governments to share fiscal information. This platform, along with enhanced center-state coordination, would support the timely production of consolidated fiscal reports and hence the identification of fiscal risks at the sub-national level. The IMF is supporting select states to improve important PFM areas such as the development of a medium-term fiscal framework and commitment control systems."

The proposed study should thus give due weight age to suggestions already mooted by different stakeholders.

It is pertinent to cite brief report on PFMS prepared by Micro Save Consulting (MSC) in April 2020. It suggested that the Railways and Defence sector should be brought under PFMS.

Similarly, PAC has noted that Indian missions abroad are not yet under the ambit of PFMS. It also noted that government entities in remote areas face connectivity problems and are thus unable to access PFMS.

The proposed study should fix timelines for inclusion of all central government appendages and schemes in PFMS. In this exercise, CAG should also suggest how big data embedded in PFMS can be put to different usages, apart from optimizing budgeting and expenditure mechanism.

As put by MSC report,

"The enormous data available within the PFMS should be analysed and used to further improve the quality of expenditure under various programs. Better data monitoring and analysis will not only ensure better implementation of G2P (Government to People) programs, but could also potentially save a lot more money for the government."

It has also rightly pitched for "

better communication within PFMS ecosystem is essential to ensure correct and optimal agency mapping, timely resolution of payment failure issues, and various other challenges."

We urge the Government to perceive and promote PFMS as key enabler of Fiscal Responsibility and Budget Management (FRBM).