

INDIA: MADHYA PRADESH
STRENGTHENING PERFORMANCE MANAGEMENT
IN GOVERNMENT (MP SPMG)

Project Memorandum
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Abbreviations

BPL	Below Poverty Line
CIF	Commissioner, Institutional Finance
CSO	Civil Society Organisation
DES	Directorate of Economics and Statistics
FA	Financial Assistance
FRBM	Fiscal Responsibility and Budget Management
FRBMA	Fiscal Responsibility and Budget Management Act
GOI	Government of India
GoMP	Government of Madhya Pradesh
GSDP	Gross State Domestic Product
M&E	Monitoring and Evaluation
MDGs	Millennium Development Goals
MTEF	Medium-Term Expenditure Framework
MTFF	Medium-Term Fiscal Framework
NSSO	National Sample Survey Organisation
PB	Performance Budget
PEM	Public Expenditure Management
PMC	Project Management Committee
PMPSU	Poverty Monitoring and Policy Support Unit
PPP	Public-Private-Partnership
PRMP	Public Resources Management Programme
PSC	Project Steering Committee
PSE	Public Sector Enterprises
PWD	Public Works Department
RCH2	Reproductive and Child Health Programme 2
SC	Scheduled Caste
SPMG	Strengthening Performance Management in Government
ST	Scheduled Tribe
TA	Technical Assistance
USAID	United States Agency for International Development
VAT	Value Added Tax

1. *Summary*

More than one-third of Madhya Pradesh's population are poor, but the ability of the Government of Madhya Pradesh (GoMP) to reduce poverty and inequalities in the state has been constrained by a weak fiscal position and insufficient links between planning, policy and budgeting.

While GoMP has now addressed the fiscal position, eliminating its revenue deficit and beginning to increase social spending, attempts to improve the poverty reduction impact of public expenditure have met with limited success, caused by:

- Inadequate capacity to prepare a robust State-level Medium-Term Fiscal Framework (MTFF) and the absence of Medium-Term Expenditure Frameworks (MTEFs), linked to goals and strategies, at departmental level; and
- Weak capacity to assess the multi-dimensional nature and causes of poverty and human development, and to monitor the impacts of programmes and policies.

The Purpose is to strengthen links between policy, planning and budgeting to achieve more effective and efficient use of public resources so as to bring about poverty reduction and human development in Madhya Pradesh. To achieve the Purpose, the project will:

- Build capacity within GoMP to prepare a strengthened MTFF, and MTEFs in selected line departments;
- Strengthen departmental capacity to set goals and strategies, and allocate resources to target poverty and promote human development more effectively;
- Strengthen the pro-poor focus in resource planning and allocation by building capacity in gender budgeting.

To underpin this work, the project will support clear and accurate analyses of poverty, and improved monitoring and evaluation of spending and project impacts. It will also make public expenditure management (PEM) more effective in procurement and in Government-led closures of public sector enterprises (PSEs), which have the potential to release additional funds for welfare spending.

The result will be strengthened capacity within GoMP to manage public expenditure, a sharper focus on poverty reduction and human development within clearly targeted departmental spending plans, based on better analyses of poverty need and the poverty impact of spending policies and projects. The project has high-level support from within GoMP, essential to drive cross-departmental co-ordination and achieve sustainable results.

The project supports Government of India policies laying increased emphasis on fiscal stability, and linking fund flows to reductions in budget deficits. Improved PEM will enable GoMP to address poor-performing Human

Development Indicators more effectively, contributing towards the achievement in India of the Millennium Development Goals, and underpinning other DFID-funded work in Madhya Pradesh on health, rural livelihoods, urban services, and the environment.

The project aligns with the 2006 White Paper focus on making governments work for the poor, and with DFID India's Country Assistance Plan and objectives for Madhya Pradesh, and reflects approaches adopted in other DFID-supported programmes in India, linking medium-term expenditure to planning goals.

The project will last 39 months, with a total commitment from DFID of £3.7 million (£3.25 million as Financial Assistance; £0.45 million as Technical Assistance).

2. Project Details

2.1 Project Description

2.1.1 Introduction

Madhya Pradesh is one of India's poorer states, with a per capita income in 2003-04 of Rs. 8,284 (£97, at Rs. 85 to £1) compared to the all-India average of Rs. 11,799 (£139). More than 37% of its population live in poverty. For Scheduled Tribes (20% of the population) and Scheduled Castes (15%), the poverty levels are higher, at 57% and 40% respectively.

Gender inequalities are reflected in the low sex ratio (916/1,000, against a national average of 933/1,000) and lower Human Development Indices for women. Within the state, there are significant regional inequalities, with extremely high poverty levels in southern and south-western districts compared to northern districts (See Technical Note, **Annex 1**).

2.1.2 What problem(s) does the project address?

The ability of the Government of Madhya Pradesh (GoMP) to reduce poverty and inequality has been constrained by a weak fiscal position and insufficient links between planning, policy and budgeting. Key contributory factors include:

- Fiscal constraints
- Line-item budgets detailing activities on which public funds will be spent, but are not linked to objectives and poverty reduction outcomes.
- Weak systems and capacities for assessing the multi-dimensional nature and causes of poverty and human development,
- Weak systems for monitoring the impacts of projects and policies.

2.1.3 What has GoMP done?

The State Government has taken several steps to improve its fiscal situation. In 2005, it passed the Fiscal Responsibility and Budget Management Act (FRBMA) to:

- Improve fiscal stability by committing the government to reduce fiscal and revenue deficits over a given time frame.
- Plan state finances within a medium-term framework;
- Increase transparency in fiscal operations of the state; and
- Pursue expenditure policies to provide the impetus for economic growth, poverty reduction and improvements in human welfare.

In addition, efforts have been made to increase tax collection, to improve budget execution and reporting by computerising district treasury operations, and to curtail unproductive expenditure.

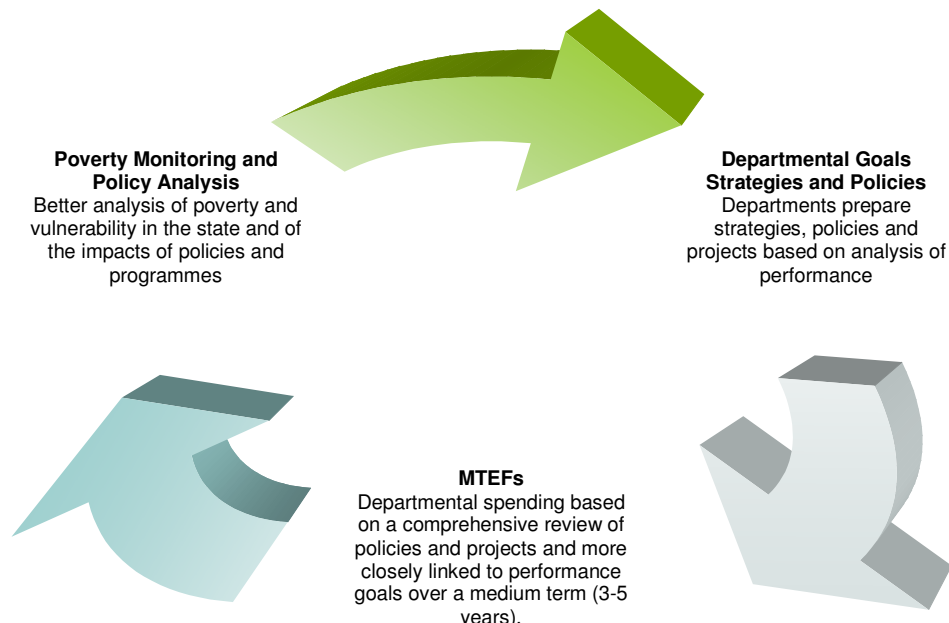
As a result, the State's revenue deficit has been eliminated, accompanied by a limited increase in social expenditure (See Technical Note, **Annex 1**). In addition, GoMP has introduced 'outcome' budgets in key departments to achieve a performance orientation in spending.

However, efforts to improve the poverty reduction impacts of public spending have met with limited success, identified as the result of inadequate capacity in preparing a more robust State-level Medium-Term Fiscal Framework (MTFF) and the absence of Medium-Term Expenditure Frameworks (MTEFs), linked to goals and strategies, at departmental level.

2.1.4 What will the project do?

The project will help GoMP overcome these constraints by building capacities and systems for monitoring poverty and for evaluating the impacts of policies and projects, and linking this analysis to PEM decisions through MTEFs, to enable better performance orientation (**Figure 1**):

Figure 1: Linking Planning, Policy and Budgeting



2.1.5 Project Goal, Purpose and Outputs

A Logical Framework is attached. The Goal of the project is the enhanced use of public resources for poverty reduction and human development. The project Purpose is strengthening linkages between policy, planning and budgeting for more effective and efficient use of public resources for poverty reduction and human development in the state. Five Outputs will together enable achievement of the project Purpose.

(a) Improved Public Expenditure Management

The project will work with finance department to strengthen state government systems and capacities to prepare a robust MTFE to: enable better forecasting of long-term revenue and expenditure, and better management of long-term liabilities such as debt and pensions; and facilitate the State's allocation of resources on a more objective basis and over the medium term, helping departmental planning.

The project will support six selected departments (School Education, Health, Public Works, Water Resources, Tribal Welfare, and Agriculture) to review sector policies and programmes, and develop medium-term sector strategies, goals and objectives. Departments will then be assisted to develop Medium-Term Expenditure Frameworks (MTEFs) detailing all the resources expected to be received over a 3-5 year period, making allocations to departmental programmes based on sectoral goals and objectives. Departments will also develop key performance indicators against goals and objectives linked to the expenditure plan. Once MTEFs have been approved by GoMP, annual budgets based on them will separately identify performance against key objectives.

GoMP plans to introduce gender budgeting in selected departments from 2007-08 to drive the evaluation of the differential impact of policies and project on men and women, and to form the basis for the review of projects and changes in expenditure priorities in order to achieve the State's gender policy objectives. Here, the project will support GoMP by capacity building for a Gender Budget cell to be established in Finance Department and of the line departments. In due course, these gender budgets will be integrated into departmental MTEFs.

(b) Poverty Monitoring and Policy Support

Within the Planning Department (separate from the Finance Department in GoMP), a Poverty Monitoring and Policy Support Unit (PMPSU) will help departments design and review policies and projects. The Unit will support capacity building within the Planning Department's Directorate of Economics and Statistics (DES) for better collection and analysis of poverty-related data. It will also produce periodic, comprehensive poverty and social monitoring reports drawing on data and analyses from the DES, the Departments of Rural Development and Urban Administration & Development, civil society organisations, and academic and research institutions. The Unit will undertake or commission specialised research on issues relating to state-level poverty, inequality, gender and social exclusion, to be shared within and outside Government to help devise better policies and programmes.

(c) Strengthening Monitoring and Evaluation

The PMPSU will strengthen GoMP systems and capacity for monitoring and evaluating projects and policies in the Planning Board (which, with the DES, comprises the Planning Department) and in selected other departments. This will involve designing key performance indicators, and systems for data collection (both quantitative and qualitative), analysis and dissemination. Stronger M&E systems will support departmental reporting against MTEF performance targets; strengthen Government decision-making when prioritising resources; and, by providing disaggregated data on key poverty and human development indices, help improve planning at district level.

(d) Enabling Policy Framework for better management of PSEs

To enable GoMP to unlock resources that can be channelled to support welfare spending, the project will support the legal closure of five non-functioning public sector enterprises (PSEs), and a diagnostic review of a further 22 PSEs. In the former case, the PSEs are already closed in practice through an earlier programme. In the latter case, project support will be limited to presenting options to government for restructuring.

(e) Strengthened systems for government procurement

To improve PEM, the project will support a review of State procurement systems and proposed procurement legislation, and options for effective implementation. It will support capacity building in the Finance Department to enable it to advise line departments on engaging with the private sector for the delivery of public services, and review existing financial systems, including internal audit.

2.1.6 What will the money be spent on?

Project funds will help GoMP procure external consultancies to work on the areas identified above, and support capacity building in the Finance and Planning Departments, and in line departments selected for the introduction of MTEFs and for M&E strengthening. The project will fund the establishment and operation of PMPSU within Planning Department and a Performance Improvement Unit (PIU) within the Finance Department.

2.1.7 Who will benefit?

The project aims to build the capacity of GoMP for better analysis of poverty and human development issues and for more effective management of public expenditure.

At the state level, more robust MTEF for enabling improved long term fiscal planning and richer understanding of the nature, extent and causes of poverty would help GoMP prioritise their resource allocations to sectors, areas or projects that have greater pro-poor impacts. Stronger financial procedures, internal controls and procurement, will improve the overall efficiency and effectiveness of State spending.

Better poverty and policy analysis by PMPSU will support evidenced based design of policies and projects and their evaluation in selected departments. This would also support preparation of MTEF linked performance-based budgeting for improved prioritisation of resources towards achieving poverty reduction and equitable human development outcomes. Strengthened

systems for monitoring of Central Sector Schemes (CSS) will help in better utilisation of resources made available by GOI and in improving their effectiveness.

Although, the Project is focused at the state / department level, better monitoring and evaluation systems that support analysis of disaggregated data and better analysis of project performance data will aid District Planning Committees in preparation of more informed district plans.

2.2. Project Appraisal

Background

2.2.1. DFID's currently supports GoMP efforts to address poverty reduction and human development through projects addressing rural livelihoods, urban services, environmental planning, health, and power sector reform.

2.2.2 GoMP's ability to address effectively the challenge of poverty reduction has for many years been limited by a weak fiscal position, from which it has only recently recovered. Systems and capacity for assessing poverty and for monitoring and evaluating projects and policies, remain relatively weak (Technical Note, **Annex 1**).

2.2.3 To address these issues, GoMP has initiated a process of fiscal reform. The 2005 Fiscal Responsibility and Budget Management Act (FRBMA) sought to reduce deficits by restructuring spending, increasing revenue, and targeting spending in priority areas. This initiative has been reinforced by Government of India (GoI) policies on restructuring state debt, increasing fiscal transfers, and incentives for reducing budget deficits. GoMP has also committed itself to preparing gender budgets from 2006-07.

2.2.4 To improve poverty assessment and analysis, GoMP has published state-level Human Development Reports since 1995; with United Nations Development Project support, it is currently preparing district-level reports. Current innovative and participatory approaches to assess poverty and vulnerability include participatory poverty assessments in four municipal corporations conducted by UN-HABITAT, and participatory wealth assessments under the DFID-funded Madhya Pradesh Rural Livelihoods Project and World Bank-funded District Poverty Initiatives Program. GoMP has collaborated with civil society organisations (CSOs) in carrying out Below Poverty Line (BPL) surveys in rural areas. Such approaches may be small-scale and yet to be institutionalised, but they nevertheless reflect a more inclusive and participatory approach as GoMP seeks to improve its understanding of the nature and causes of poverty and inequality.

2.2.5 GoMP policies to improve PEM and systems for assessing poverty and human development within the framework of a state FRBMA, which this project underpins, are in line with GoI policies linking budget outlays to outcomes, and recommendations for fiscal improvement from the Twelfth Finance Commission.

The project supports DFID's 2006 White Paper, which supports building the capability, responsiveness and accountability of governments through effective public financial management and implementing policies that meet the needs of the poor. It also contribute to DFID India's Country Assistance Plan (primarily, Objective 1) and

project objectives in Madhya Pradesh (Objective 3), and complements DFID's other projects in the state.

2.2.6 The project builds on the ADB-supported Public Resource Management Programme (PRMP), which ended in 2004. PRMP focused on fiscal consolidation (rationalising tax administration, reviewing budget subsidies and computerising district treasury operations); on public enterprise reforms (closing PSEs); and promoting private sector participation in key sectors (such as framing and implementing the State Road Policy). At present, there is no externally funded project supporting PEM improvement in the state.

Approach

2.2.7 The project approach centres on building on, broadening and accelerating progress made by GoMP in recent years. GoMP's work on fiscal consolidation, its adoption of a medium-term approach to fiscal programming, and its strong legal framework for fiscal management, offers a sound rationale for moving to the next stage of establishing systems for better performance management (consistent with 'A Platform Approach to Improving Public Financial Management', DFID, 2005).

2.2.8 To ensure ownership and leadership by the Government, project activities have been identified and prioritised in detailed discussion with GoMP officials in Finance, Planning and other line departments, as well as with key CSOs.

2.2.9 A Project Steering Committee, chaired by the GoMP Chief Secretary, will steer the project, provide oversight, and ensure co-ordination between Finance, Planning and line departments. A Project Management Committee, headed by the Principal Secretary, Finance, will be responsible for overall implementation and for ensuring that improvements in M&E systems and in PEM move in tandem.

2.2.10 Participation by civil society in decision-making processes – with representation by CSOs on the PMPSU Governing Board – will provide the 'demand push' for better performance management.

2.2.11 Drawing lessons from the experiences of similar projects, that projects aiming to promote institutional change should retain flexibility in design, the project design allows for taking up new priorities that may emerge during implementation, alongside those activities already identified,

2.2.12 The project approach recognises the importance placed on decentralised planning both by national and state governments: decentralised plans are mandatory before the Gol's Planning Commission will approve State plans, and GoMP allocates more than 35% of its State plan outlay to districts. Stronger state-level systems and institutions for budgeting and policy making will support decentralised planning processes by providing districts with better analyses of poverty, and of the impacts of projects and schemes, enabling more informed choices to be made at district level. More and better disaggregated analysis of poverty estimates and development needs will support the prioritisation of resources to poorer regions and socio-economic groups.

2.2.13 Building capacity at all levels and across departments has been identified as key if project success is to be achieved, and then sustained. Early external technical support, including learning from best practice elsewhere, will be followed by transferring capacity within Government to enable it to drive the project. Capacity

building mechanisms will include external training, exposure visits, mentoring of key staff and introducing specialised skills into existing structures.

Economic Appraisal

2.2.14 Improving the capability of GoMP to prepare more robust fiscal plans over the medium term will strengthen the reliability of revenue and expenditure forecasting, leading to more realistic resource allocations over the medium term. Together with better analysis of the impacts of policies and programmes, departments will be able to make better-informed spending decisions.

2.2.15 To help GoMP allocate public resources more effectively, the project will introduce analytical techniques to support the appraisal of public expenditure decisions, determining the underlying rationale for public intervention, the relative costs and benefits of different interventions, and the distributional impacts of public spending. Better financial procedures, stronger government procurement systems and greater use of public-private partnerships will improve spending efficiency.

2.2.16 The potential sustainability of project outputs is assessed as high, given the alignment with GoMP policies and GoMP's involvement in project design. The systems and structures envisaged will be good use of partners' funds and represent value for money for DFID.

2.2.17 This project alone will not create sufficient fiscal space to address Madhya Pradesh's severe poverty and human development needs. In support, and to create equitable and sustainable growth, GoMP recognises the need to work concurrently towards creating a favourable investment climate, increase investment in infrastructure, such as roads and irrigation (which it has started doing), address labour laws, etc.

Social Appraisal

2.2.18 To promote poverty reduction and human development through closer links between GoMP strategies and policies, and public expenditure:

- PMPSU will undertake detailed assessments of the multi-dimensional nature of poverty and social development in the State, co-ordinating efforts by several agencies engaged in data collection;
- The demand for pro-poor performance will be strengthened through systems to share analyses of poverty and project impacts across and outside Government, reinforced by the MTEF process, with gender-responsive budgeting to affect the design of policies, projects and spending decisions;
- Enabling civil society to participate in poverty reduction and human development strategy discussions will give voice to the poor in government decision-making and strengthen State accountability to the poor;
- Poverty and policy analysis data, used to support MTEF-linked performance-based budgeting in selected departments, will support better prioritisation of resources towards achieving poverty reduction and equitable human development outcomes;

- Transition from input-based to output/outcome-focused budgeting will help reduce 'clientelism' and promote transparency, responsiveness to a wider range of social groups, particularly the poor and other socially excluded groups.

2.2.19 Quality technical analysis has the potential to influence resource allocations, but doing so is an inherently political process; the challenge of aligning political will in favour of pro-poor allocations will remain. A second challenge is to strengthen civil society to engage more meaningfully with Government at all levels within the State on poverty, social exclusion and public expenditure policies. These aspects will be addressed during implementation.

2.2.20 This project seeks to accelerate reductions in poverty and social exclusion in Madhya Pradesh, and to make those reductions sustainable. In doing so, it will especially benefit the poor and marginalised, and also the wider public, who will benefit from improvements in the quantity and quality of public service delivery.

Institutional Appraisal

2.2.21 The policy context in which this project has been conceived and will be delivered is a favourable one, at State and national level. GoMP's FRBMA seeks to ensure fiscal prudence and improve fiscal consolidation, and the State Government is publicly committed to make government spending more efficient and effective. Central policies are also favourable: the Ministry of Finance is laying increased emphasis on fiscal stability, with fund flows from the Finance Commission linked to reductions in budget deficits.

2.2.22 Governments at national and state level have taken steps to improve the effectiveness of public expenditure. The GoI has introduced outcome and gender budgets at the national level, a lead being followed in Madhya Pradesh. Central projects, such as the DFID-supported Sarva Shiksha Abhiyan and Reproductive & Child Health II are introducing a culture of medium-term expenditure planning linked to policy goals. DFID is also supporting GoMP in preparing a sector strategy and MTEF for health, with a view to future health sector support from DFID. The project therefore complements and strengthens GoMP efforts to improve their management of public expenditure to achieve better outcomes.

2.2.23 Developing the capacity to produce and hold to performance-based budgets across departments is a key project component:

- At the institutional level, MTEFs will enable departments to develop long-term vision, strategies and goals, and base spending decisions on performance.
- At the organisational level, the Performance Improvement Unit (PIU) in the Finance Department and PMPSU in Planning Department will help fill gaps in capacity to achieve better financial management and poverty monitoring and policy analysis.
- At the individual level, the project will support training and skill upgrading for key staff in Finance, Planning and selected line departments, building capacity and helping to ensure that project benefits are sustained.

2.2.24 Beyond the project, the wider cultural challenge of creating incentives for line departments to assess their own performance more rigorously will remain. The project will therefore require strong steer and drive from senior management, at least initially. The Project Steering Committee, headed by the Chief Secretary, will play a key role in motivating line departments, co-ordinating efforts across departments, and overcoming resistance to change.

Political Appraisal

2.2.25 PEM reforms have featured high on the agenda of national and state governments for some time, with FRBMAs enacted by Gol and several other states, and Finance Commission recommendations linking centre-to-state fund transfers to reduced budget deficits, as forceful drivers for change. There is thus widespread political support for PEM improvements that lead to fiscal stability.

2.2.26 GoMP has already shown a commitment to PSE reform and improving government procurement efficiency through e-tendering and e-procurement. That commitment to greater transparency and efficiency has been publicly re-stated at the highest level in government.

2.2.27 However, while the project will strengthen the capacity of government machinery to re-prioritise resource allocations based on high-quality technical analysis, the political will to do so is only likely to develop slowly. The movement towards performance-based budgeting will therefore need to be carefully sequenced, and the Project will need to produce some 'quick wins' to sustain political buy-in.

Environmental Appraisal

2.2.28 The project has no direct environmental impact, but takes into account issues around the protection, conservation and regeneration of natural resources.

2.2.29 Analysis of the links between poverty, human development and the environment provided by PMPSU will enable environmental impacts to be more clearly identified. As a result, policy makers will be enabled to promote greater coherence between policies and programmes addressing poverty reduction, social development and security, and environmental management, to achieve sustainable development.

2.2.30 Introducing MTEFs and poverty and human development monitoring mechanisms provides an opportunity to take into account key environment indicators affecting the development of different regions and communities.

2.3 Lessons and Evaluation

Key lessons from similar projects implemented with the support of DFID and other donors in India (Orissa and Andhra Pradesh) and elsewhere that have been incorporated into project design, include:

- Organising the PMPSU as a society within the Planning Board, in preference to a departmental structure, will give the Unit the flexibility

needed for its work, while supporting acceptance and implementation of its findings.

- Since the role of poverty monitoring is affected by policy making and public expenditure management institutions, this project combines poverty monitoring and policy support with PEM improvements.
- The use of oversight structures (here, the Steering and Management Committees) are vital for ensuring that the project has access to and guidance from the highest levels of government.
- Ownership and value for money are improved if partners can choose who they want to advise them, and ensures that consultants are more responsive to partners (in this case, GoMP) as client and end user.
- Projects promoting institutional change need to retain flexibility during implementation.

3. Implementation

3.1. Management arrangements

3.1.1 The project will operate under the general oversight of a Project Steering Committee (PSC), chaired by the Chief Secretary. Its members will include the Principal Secretaries of Finance, Planning and PSE, and departments where MTEFs will be prepared or M&E improved. It is anticipated that the PSC will meet every six months.

3.1.2 The PSC will be supported by a Project Management Committee (PMC), chaired by the Principal Secretary, Finance and including representatives of Planning and line departments, and DFID. The PMC will be responsible for overall implementation of the project, and will approve six-monthly work plans and review progress on a quarterly basis. For the Poverty Monitoring and Policy Support Unit (PMPSU), the PMC will primarily review financial progress and ensure that PMPSU work helps drive PEM improvements.

3.1.3 Three interdepartmental task forces, reporting to the PMC, will be responsible for implementation of the outputs relating to Public Expenditure Management, PSE reforms and procurement systems improvement (see Technical Note, **Annex 1**).

3.1.4 The poverty monitoring and M&E improvements will be implemented by PMPSU with the Unit organised as a registered society under the administrative control of the Planning Board. Administrative and financial decisions, including approving the Unit's work plan, will be taken by a Governing Board, headed by the Vice-Chairman of the Planning Board, and with representation from other departments, civil society, academic / research organisations and Panchayati Raj Institutions. The Unit will be headed by the Member-Secretary, Planning Board, who will be aided by subject experts in development economics, social development, M&E, and statistics and survey methods. Details of how the Unit will function are in the Technical Note (**Annex 1**).

3.1.5 GoMP may establish additional task forces as required, and delegate appropriate financial and administrative powers to the PMC and/or the task forces to facilitate project implementation.

3.1.6 The Secretary and Commissioner, Institutional Finance will be the nodal officer for the project, responsible for day-to-day management and co-ordination.

3.1.7 A full organisation chart is shown as **Annex 3**.

3.2 Timing

3.2.1 The project will run for 39 months, including an inception phase of three months. Subject to approvals by Gol and DFID, the project will begin in January 2007. During the inception phase, a priority action plan will be agreed in consultation with GoMP, to include initiating project structures and systems, and recruiting consultants and staff.

3.3. Funding

3.3.1 To implement the project, DFID will provide up to £3.7 million as a grant, comprising £3.25 million for Financial Assistance (FA) and £0.45 million for Technical Assistance (TA). FA will support the procurement of consultancies, the provision of training and expenses on staff (experts hired on contract) and operations of PMPSU and PIU. TA will be used for capacity building, cross-learning activities and project reviews. An indicative breakdown of costs is attached (**Annex 2**).

3.3.2 FA will be routed through the GoMP Finance Department. DFID will reimburse FA following the submission of quarterly expenditure claims by the GoMP's Finance Department, through Gol, in accordance with standard agreed procedures. TA will be contracted by DFID, and DFID will therefore reimburse the consultants on the basis of satisfactory achievement of agreed milestones.

3.4. Contracting and Procurement

3.4.1 Technical support under both the FA and TA components will be sourced from mainly national consultants, with minimal international inputs as required. The project Management Committee, reporting to the Principal Secretary Finance will coordinate all consultancy inputs. Consultant will be jointly selected by GoMP and DFID, and their work will be jointly monitored through work plans and periodic reviews.

3.4.2 The project will primarily involve procurement of consultancy services and equipment / office services for PMPSU. All procurement under FA is untied, and will follow standard GoMP procedures modelled on those for DFID in procuring consultancy services, with due regard to technical and financial evaluation for the selection of consultants. Details of the procedure will be agreed in advance of the Exchange of Letters between DFID and Gol. Terms of Reference for consultancies will be agreed with DFID, which will be represented on the committees for the technical evaluation of proposals.

3.4.3 Procurement of goods and services under TA will follow standard DFID procedures and will be guided by DFID's Contract Unit. DFID India's Project Officer and Lead Adviser will participate in this exercise jointly with GoMP.

3.5. Accounting / Audit

3.5.1 GoMP will account for all FA through normal GoMP mechanisms, and will provide an annual audited statement, not later than nine months after the end of financial year, on the basis of an audit of project expenditure by an external independent auditor. Accounts will be also audited by the Controller and Auditor General of India (C&AG), and his report sent to DFID.

3.6. Monitoring and Reporting

3.6.1 Project progress will be monitored quarterly by PMC and DFID against agreed work plans; on a six-monthly basis by the PSC; and annually through a joint GoMP/DFID Output to Purpose Review, in line with standard DFID requirements, supplemented by a mid-term review and evaluation as an opportunity for mid-course corrections to project design or components. Further independent reviews of progress may be commissioned as agreed between GoMP and DFID.

4. Risks

4.1 This is a MEDIUM risk project, but one that has the potential to deliver high gains in terms of improving the ability of GoMP to address effectively the challenges of poverty reduction and human development. Given the nature of the project, the risk of corruption is low. The main risks are as follows:

Impact / Probability	HIGH	MEDIUM	LOW
HIGH			
MEDIUM	A	B, C, D	E, G
LOW		F	

Risk A: Political support for reprioritising public spending based on performance data and emerging analysis is critical for long-term success and project sustainability. 'Quick wins', national level support, fiscal incentives, and evidence of poverty impacts will help to reinforce political commitment.

Risk B: Lack of internal (GoMP) and external (public) demand for performance may lessen motivation for departmental reform. Institutional arrangements of Chief Secretary leadership, and high-level oversight by the Finance and Planning Departments, will help ensure buy-in and drive the process. Civil society participation, although limited, will be built into the poverty monitoring.

Risk C: Insufficient capacity to manage improvements and co-ordinate efforts across departments could undermine effective project delivery. Sustained consultancy and

technical expert support, and a strong focus on capacity building have been designed to sustain the improvements.

Risk D: External fiscal shocks, including forthcoming Pay Commission proposals on salary increase, may affect fiscal planning and hence project outcomes. However, strong fiscal incentives to achieve the FRBMA targets remain, and preparation of the state-level MTFE will enable government to manage these contingencies better.

Risk E: Lack of continuity of key officials could affect the momentum and pace of project improvements. The project will work with large number of stakeholders to ensure a broad based support to mitigate this risk.

Risk F: The risk of limited acceptability and ownership by line departments of PMPSU poverty analyses and recommendation is low. The institutional positioning of the PMPSU as a technical support unit within the Planning Department, with line departments represented on its Governing Board, is designed to ensure active participation, and a coordinated and comprehensive uptake of poverty approaches.

Risk G: Delays to the timetable for final legal closure of PSEs due to external factors, such as lengthy court processes, will not significantly affect the project purpose. Strengthened capacity will enable GoMP to manage closure processes regardless of whether they occur within the project period or not.

5. Conditionality

5.1 There are no specific policy conditions on DFID's funding for SPMG. DFID will be an active partner, maintaining dialogue with GoMP to ensure that project is implemented as planned.

5.2 The logical framework details project performance indicators agreed with GoMP following wide consultation that has included civil society. Process milestones will be developed during the inception phase, and project progress reviewed against these milestones and logframe indicators.