HIGH-LEVEL SUMMARY TECHNICAL ASSISTANCE REPORT

INDIA – STATE OF ODISHA
Public Investment Management Assessment – PIMA and Climate PIMA

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High-Level Summary Technical Assistance Report
Fiscal Affairs Department

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The *High-Level Summary Technical Assistance Report* series provides high-level summaries of the assistance provided to IMF capacity development recipients, describing the high-level objectives, findings, and recommendations.

ABSTRACT: An IMF team found that the State of Odisha had an overall public investment management (PIM) system that compared well with other emerging market economies, reflecting in particular strong institutions at the execution stage, which have helped the State increase significantly its public investment effort over the last few years. The State also displays some encouraging practices in terms of climate-sensitive PIM. However, several challenges persist and have to do mostly with the first stage (planning, appraisal) and the second stage (maintenance, selection of projects) of the PIM cycle. The team has identified five high-priority recommendations that could improve PIM processes and support the effective implementation of the Government of Odisha's investment policy and development agenda, including to increase resilience against climate change.

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Background

At the request of the Finance Department (FD) of the Indian State of Odisha, a team from the IMF's Fiscal Affairs Department (FAD) and the South Asia Regional Training and Technical Assistance Center (SARTTAC) led a hybrid mission over May 13-24, 2024 to conduct a Public Investment Management Assessment (PIMA) and Climate-PIMA assessment. This mission took place as part of the third phase of the FAD/SARTTAC Public Financial Management (PFM) reform project approved by the Union Ministry of Finance (Department of Economic Affairs).

Summary of Findings

The State of Odisha has made important strides to improve its PIM system, notably with respect to institutions relative to the execution of public investment. Overall results of the assessment are captured in **Figure 1**. Odisha has been able to step up its public investment effort considerably, while maintaining strong budget execution rates (above 85 percent). Odisha achieves at least medium scores for 4 out of the 5 institutions in the execution phase. Other strengths reside in fiscal rules and budgeting institutions, where Odisha could make good progress with SARTTAC technical assistance, in particular for medium-term budgeting. All these achievements were underpinned by a well-developed set of IT (information technology) systems and by efforts to increase staff capacity. Whilst Odisha relied a lot on external consultants and know-how to accommodate the rise in its investment effort, the State is keen to develop home-grown competence, notably in the engineering services of line departments, taking advantage of a strong technical formation and training apparatus.

Figure 1. Odisha PIMA Scores
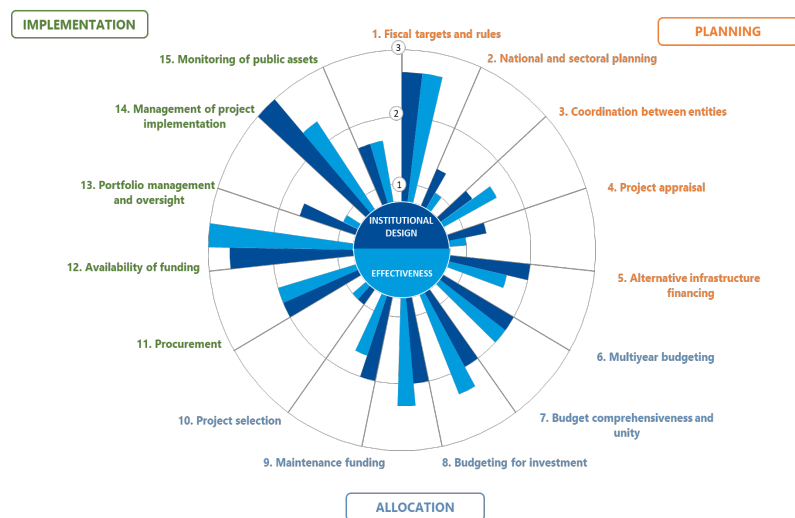
Source: IMF staff

Main challenges pertain to the first two stages of the PIM cycle – planning and (to a lesser extent) allocation of public investment. Odisha does not have clearly defined strategies at the State and sectoral levels which could help frame the public investment effort over the medium-term. Appraisal of

projects follows a methodology that is broad in scope but lacks depth of analysis, leading in practice to relatively shallow ex ante evaluations. There is no well-established process for prioritization and selection of investment projects – the appraisal process also serves selection purposes, with all appraised projects effectively budgeted and no pipeline of pre-appraised projects to choose from. This undermines allocative efficiency as there is no real "competition" between appraised projects prepared by different departments to decide where to allocate resources. Maintenance still suffers from weaknesses, with a routine maintenance effort that does not seem to be aligned with the needs of a partly aging infrastructure stock.

Climate change and natural hazards are already impacting Odisha's public infrastructure and future projections suggest even greater risks. Odisha is already the Indian State most exposed to cyclones and climate change is expected to result in an increased frequency and intensity of heatwaves, erosion or landslides, with a major impact on infrastructure.

The C-PIMA identifies emerging and promising practices (Figure 2), while challenges closely reflect those arising from the PIMA evaluation. Odisha's State Action Plan on Climate Change (SAPCC) provides a clear framework for climate action and climate-related expenditures are tracked in an annual "Climate Budget" for sectors flagged in the SAPCC. Awareness of exposure to disasters has led to adoption of resilient building and planning standards and to the creation of a well-established disaster management mechanism, including ex ante financing mechanisms. Work is ongoing on resiliency of infrastructure, notably with the support of the Coalition for Disaster Resilient Infrastructure (CDRI).

Remaining challenges have to do mostly with evaluation and selection of projects, which includes climate-related factors only to a limited extent, and with maintenance and asset management.

Figure 2. State of Odisha C-PIMA Scores
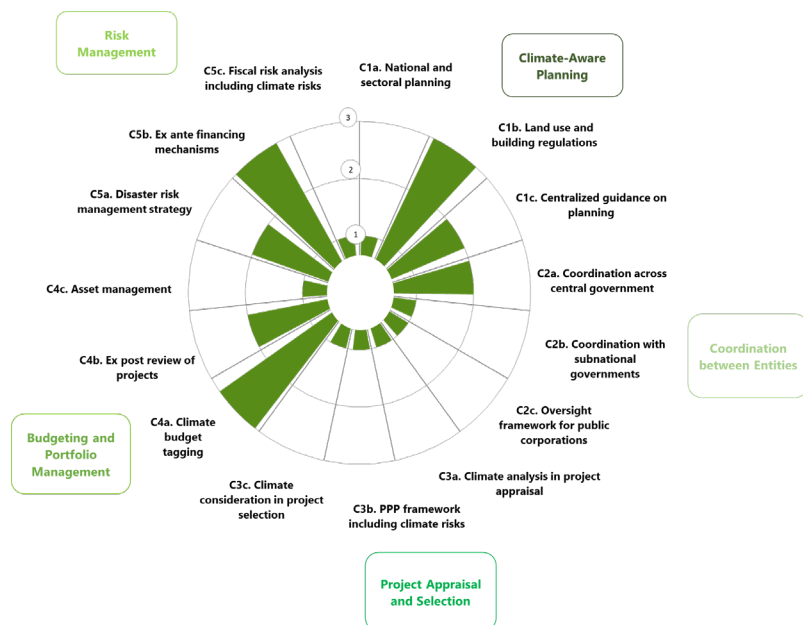
Source: IMF staff

Summary of Recommendations

The PIMA team has identified five high-priority recommendations that could improve PIM processes:

- Develop structured Statewide and sectoral strategies including the integration of climate change.
- Strengthen methodologies and approaches for the appraisal of investment projects, including in terms of adaptation and mitigation of climate change.
- Develop a structured project selection and prioritization process, taking into consideration climate change aspects.
- Improve budget documentation on public investment, notably by including total project costs.
- Strengthen maintenance planning and asset management, including climate-related considerations.