

## Transparency and Accountability in Municipal Governance: Role of Institution Development, Performance Management and Citizen Charters

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### 1. Effective Municipal Governance

1.1 The effectiveness of municipal governance depends on a wide range of factors: political, social and economic. It also depends upon the skills and motivations of its political leaders, officers, staff and other stakeholders. But structures, processes and resource bases are themselves factors contributing to effectiveness. "The performance of a car owes much both to its driver and to the driving conditions - the state of the road, the traffic, the weather - but its innate characteristics, engine power, road holding, fuel efficiency, etc., constitute a third party to the equation. Just so the institutional characteristics of urban government play a part in determining its effectiveness, along with the people who run it and the environment within which it operates" [Davey (1993)]. Thus, the key factors affecting municipal performance would include: the innate strength of municipal institutions, the relationship of municipalities with other institutions: para-statal, State Government, civil society organisations, etc., inter-institution operational conditions and factors and the effectiveness of the municipal leaders and staff.

1.2 In the above background the critical areas that need to be addressed in order to promote effective municipal governance with transparency and accountability as its hallmarks are as follows:

Institutional Framework: Constitutions, laws, byelaws, rules, regulations, power sharing and reporting relations between formal and informal institutions or organisations;

Organisation Building: Strategy – mission, vision and shared goals, Structure - roles and responsibilities, authorities, coordination and convergence mechanisms, Systems – planning, decision-making, budgeting, information management, accountability and quality control systems, Skills, Style – allocation of leadership attention to key priorities and Staffing – recruitment, promotion, performance development and appraisal, career planning, etc.

Human Resource Development: Development of quality personnel, upgradation of knowledge and skills, designing incentives and disincentives, facilitating orientation and attitude changes, motivation, etc.

1.3 Municipal governance is much broader than what municipal governments do. Cities are increasingly becoming multi-governmental and the effective management of cities requires multi-pronged partnerships and the involvement of many stakeholders. The key stakeholders in the urban context include: municipal elected officials and non-officials, Council and Committees, employees and their trade unions, para-statal, Government departments, ratepayers' associations, resident welfare groups, Chamber of Commerce, business associations, NGOs, CBOs, neighbourhood committees, self-help groups, professional organisations, the media and the like. Thus effectiveness of municipal governance depends on how the interactions between various stakeholders are managed to

produce the desired goals of providing civic infrastructure and services to the citizens in a transparent and accountable manner.

1.4 Administrators and researchers in municipal government generally address the issues of good governance in cities and towns in terms of building good institutions and enhancement of capabilities of municipal non-officials and officials. The issues of internal organisation of municipalities and their external operational environments as they relate to citizens are generally neglected. This paper addresses the role of three key factors: 'good institution', 'good organisation' and 'good government' in the shaping of effective municipal governance. We do not go into the issues of human resource capacity building as the same has been discussed in many forums and there are many research works undertaken on the subject.

## **2. Institutional Development Issues**

2.1 An organisation or a group of organisations becomes an institution when it reaches out to the wider society, beyond its organisational structure. Institutional development emphasises the context, the pattern of formal and informal organisations, networks, cultures, social structure and other factors that affect organisational behaviour and sustainable development. It aims at changing rules, norms and values of organisations so as to enable them to improve the structures of relationships between different stakeholders for the benefit of the society as a whole. The aspects of institutional development have been addressed in research literature with four broad approaches as follows:

### Organisational Re-engineering

2.2 Organisational re-engineering emphasises the concepts and techniques of management analysis and organisational development. It focuses on what an organisation 'has' (organisational resources including structure, job descriptions, personnel skills, operating costs and information systems) and what an organisation 'does' (its performance or how an organisation undertakes strategic planning, financial management, service delivery, staffing and personnel policies, maintenance, auditing, procurement, stakeholder management, etc.). Thus the re-engineering approach deals more with the 'nuts and bolts' of an organisation's internal functioning. It gives particular importance to the improvement of administrative procedures and techniques on the performance of organisations. It pays less attention to bureaucratic politics and the 'softer' aspects of management such as organisational culture and motivation.

### Good Governance Perspective

2.3 In contrast to the 'supply' side perspective of organisational re-engineering, the good governance approach gives more importance to the 'demand' side, i.e., the idea that political pluralism, participation, greater transparency, accountability, legitimacy and honesty in public affairs can combine to allow stakeholders, client groups and beneficiaries to demand performance from public organisations. Institutional growth is thus seen as depending to a large degree on bargaining, mediation and consensus-building among interest groups, bureaucrats and political leaders. Good governance is central to creating and sustaining a supportive and enabling institutional environment. The good governance perspective looks at the development of a broad range of non-state actors including NGOs, the media and community groups. It also gives more attention to the impact of the legal system.

### New Institutional Economics

2.4 This new institutional economics approach looks much more at the role and motivation of individuals both inside the organisation and outside. It is built on the assumptions that (a) incentives are important to institutional performance, (b) information is crucial in determining the organizational behaviour of individuals, (c) transparency of information and the access to performance data by people is critical as this can determine

their 'exit, voice or loyalty', and (d) projects and programmes can be regarded as a set of contracts or agreements linking principals and agents. Institutional economics thus sees institutional development as the outcome of the activities of multiple actors with different interests working in long-term complex interdependent relationships and facing uncertain processes, incentives, sanctions and risk. Institutions are seen as the 'rules of the game'. The institutional approach argues that there is little point in putting in place elaborate human resource and personnel systems if the members of the staff do not have incentives to improve performance.

#### Capacity Development (C-D)

2.5 The fourth approach, loosely termed 'capacity building' or 'capacity development (C-D)', is a synthesis of the managerial-political-economic approaches. In common with the governance approach, it represents a more 'macro' institutional approach compared to the 'micro' approach of organisation re-engineering. It focuses on building the capable 'state' (as opposed to capable 'government') and looks at the enhancement and development of broad functions of public management such as policy formulation or public sector reform. The C-D perspective deals more with 'whole systems-in-action' and can be considered the most appropriate in the urban context. The development of urban institutions needs a multi-pronged approach that addresses legal-institutional framework, organisational structure, rules and procedures, incentives and disincentives facing stake-holders and issues of human resource development and management.

2.6 The C-D approach emphasises the need to address the following for improving municipal effectiveness: (1) institution of systemic capacity through implementation of the Constitutional provisions – clearly defining functions, finances and the framework for responsive service delivery for local government institutions; (2) enabling framework for operationalising the institutions and making them function effectively, e.g., by establishing procedures, balancing political and executive power and instituting co-ordination, convergence and accountability mechanisms; (3) establishment of checks and balances: ensuring that municipal institutions and officials are faced with appropriate incentives to deliver results; (4) technological and procedural capacity building: adoption of appropriate technology for the production and distribution of services and procedures to facilitate efficiency, effectiveness and accountability; and (5) upgradation of manpower for improving planning, production and delivery of services and infrastructure.

### **3. Building Key Urban Institutions**

3.1 The Constitution (74th Amendment) Act, 1992 mandates an institutional framework for the efficient provision of urban civic services. This framework consists of a number of institutions: (i) State Election Commission; (ii) Municipalities - Municipal Corporations, Municipalities and Nagar Panchayats; (iii) Wards Committees and other Committees; (iv) State Finance Commission; (v) District Planning Committee; and (vi) Metropolitan Planning Committee. The mandates of these institutions are as follows:

- State Election Commission to superintend, direct and control the preparation of electoral rolls and conduct all elections to the local bodies;
- Municipalities to function as 'institutions of self-government', preparing 'plans for economic development and social justice' and performing assigned functions;
- Wards Committees and other Committees to carry out the responsibilities conferred upon them and take power to the people;
- State Finance Commission to review the financial position of the rural and urban local bodies and make recommendations to the Governor regarding the devolution of state resources to them and the 'measures' they need to improve their financial position;

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- District Planning Committees to 'consolidate' the plans prepared by the Panchayats and the Municipalities in the district and to prepare a draft development plan for the district as a whole;
- Metropolitan Planning Committees to prepare a draft development plan for the metropolitan area as a whole.

In addition to the above institutions, the Constitution (74<sup>th</sup> Amendment) Act prescribes a critical role for the State Government to create a conducive legal environment, guide the municipal reforms process and enable the above institutions to function effectively.

3.2 While the 74th Amendment Act aims at ushering in strong grassroots level democracy through the establishment of key institutions, it leaves the issues of their empowerment and operationalisation to the wisdom of state governments. In fact, even in the matters such as the establishment of District and Metropolitan Planning Committees, the 74th Amendment does not prescribe any time limit. This is presumably due to the fact that under the country's Constitution, India is a Union of States and it is under the state laws that the municipalities are constituted.

3.3 Institutional development and performance need to address the aspects of establishment of the institutions mandated by the Constitution, clarifying their roles vis-à-vis other institutions and taking measures to enable them to function effectively. Thus there are two distinct issues: creating the right institutions and making these institutions do the right things. Particularly, the functional domain of these institutions, their finances, internal organisational and operating procedures must be clearly defined. There should also be a transparent system of checks and balances to ensure that these institutions are accountable to the 'people' to whom they owe their existence.

3.4 Some pertinent questions that need to be answered in the context of performance of urban institutions are as follows:

- (1) What is the appropriate role for government? For departments? For civic organisations? For para-statal? For private sector?
- (2) What key functions need to be performed and by whom? And for whom?
- (3) How are these functions to be financed? How to match finances with functions?
- (4) What conditions need to be changed or strengthened to assist in the achievement of key development and organisational objectives?
- (5) How are policy, planning and implementation decisions made and by whom?
- (6) How are relations between different levels of Government and institutions to be defined?
- (7) How is institutional performance to be managed and promoted?

A good way to address these questions is with reference to known principles and best practices while taking into account the contextual factors that are likely to affect institutional performance.

### The Role of Municipalities

3.5 A key aspect in designing an efficient system of service delivery is to define a clear role for the municipalities. Many of the municipal services are in the nature of publicly provided private goods. The pervasive inability of municipalities to finance and manage the

large volume of municipal tasks makes out a case for privatisation and public-private partnerships where possible. Privatisation is seen to yield significant benefits when: -

- the consumers can be charged;
- there are no obstacles to private entry due to factors such as of investment, etc., in the operation of parallel services offering competition;
- private enterprise is sufficiently mature to offer genuine competition for supply;
- urban government has the capacity to regulate the private sector, enforce contract fulfilment and substitute services when contractors fail completely.

The choice of provision of services by public authorities can be advocated under the following conditions:

- recovering costs from the consumer is not possible because the service is of collective benefit and the amount of individual consumption cannot be measured (e.g., environmental health);
- individual consumption can be measured, but the service involves an element of collective rather than personal benefit, for which the consumers would be unwilling to pay;
- imposing full costs on the consumer would prevent equitable access to a service which all income groups should enjoy or the degree of collective benefit requires at least parallel provision (e.g., education, health care, domestic refuse collection and disposal);
- efficient and comprehensive private provision under monopoly conditions cannot be guaranteed (e.g., this might apply to water supply and sewerage);
- private enterprise simply fails to provide a service of major public interest, normally because investment costs are too high in relation to the likely risks or rates of return.

3.6 It is important to distinguish between 'provision' and 'production' of municipal services. Provision refers to the decision on the quantity and quality of a service and ensuring that it is financed and executed. Production describes the deployment and management of staff and other resources to deliver it. While municipalities may provide the services, it is not necessary that they should themselves produce. The following institutional arrangements for production are possible:

- the public sector (with or without contracting out production to a private organisation);
- the public and private sectors in parallel;
- the public and private sectors in partnership;
- the private sector under public supervision through franchise monopolies or regulated competition;
- the private sector (including self-help) without public regulation.

Institutional capacity building requires clarity regarding what functions are to be provided and what functions are to be produced by the Municipalities and in what manner. Experience with outsourcing of sanitation, street lighting operations and collection of advertisement fees in Andhra Pradesh suggests that it is more economical as well as beneficial to outsource certain municipal services rather than produce the same through municipal bureaucracy.

#### Assignment of Municipal Functions

3.7 The Twelfth Schedule of the Constitution of India indicates a list of 18 legitimate municipal functions. However, a comparison of the municipal legislations of different states reveal that there exist wide variations in the perception of state governments regarding the assignment of non-traditional municipal functions listed in the Schedule such as (a) planning

for economic and social development, (b) fire services, (c) urban forestry, protection of the environment and promotion of ecological aspects, (d) safeguarding the interests of weaker sections of society, including the physically handicapped and the mentally retarded, (e) promotion of cultural and aesthetic aspects, (f) slum improvement and upgradation and (g) urban poverty alleviation. Moreover, some municipal acts have provided for 'obligatory' and 'discretionary' municipal functions and functions 'as may be assigned' by the concerned state governments from time to time. This lack of clarity is not desirable.

3.8 International best practices as well as the theory of fiscal federalism suggest that public sector activities should, to the extent possible, be performed by the lowest level of government. As Oates (1972) observes: 'Each public service should be provided by the jurisdiction having control over the minimum geographical area that would internalise benefits and costs of such provision'. This rule, known as the subsidiarity principle, facilitates the efficient mobilisation and allocation of resources through the use of local knowledge, administrative effectiveness, financial autonomy and accountability. If we follow the subsidiarity principle, which is accepted by many countries, the functions of urban forestry, protection of the environment and promotion of ecological aspects, safeguarding the interests of weaker sections of society, including the physically handicapped and the mentally retarded and promotion of cultural and aesthetic aspects, poverty alleviation and slum upgradation need to be devolved on the urban local bodies.

#### Local Planning Functions

3.9 As regards planning for economic and social development, under the current planning approach the State Plan does not include the plans of cities and towns. However, given the increasing urbanisation and concentration of population in cities and towns and the role that cities play in contributing to Gross Domestic Product, there is a need to incorporate the development plans of urban local bodies into the State and National Five Year Plans. The function of urban planning, including town planning, is also recognised as a legitimate municipal function by the 74<sup>th</sup> Amendment Act. The Act also prescribes for the constitution of District and Metropolitan Planning Committees for formulating the District and Metropolitan Development Plans, respectively in a participatory manner. Such plans are required to give due consideration to:

- matters of common interest between the panchayats and municipalities, including spatial planning;
- sharing of water and other physical and natural resources;
- integrated development of infrastructure and environmental conservation;
- extent and type of available resources, whether financial or otherwise;

The District and Metropolitan Development Plans aim at the integration of rural and urban development planning along with spatial and sectoral planning. These Plans are to emphasise the need for realistic planning for the sustainable development of human settlements. The district and metropolitan planning frameworks need to be established.

3.10 Currently the cities in India follow a long planning process, concentrated mostly on land use, zoning and detailing aspects. Often the meticulously prepared land use Master Plans lose their sanctity due to ad hoc and discretionary changes in the land use, zoning and building restrictions. The entire process of implementation of Master Plans needs to be reviewed and made transparent. Moreover, these land use plans will have to be translated into Development Plans. A study by the Town & Country Planning Organisation, Government of India suggests that cities and towns, metropolitan areas and districts prepare Long-term (20-25 years) Perspective Plans, Medium-term (5-years) Development Plans (synchronous with the National Five Year Plans) and Annual Action Plans.

### Matching Functions and Finances

3.11 The assignment of functions is only the first step towards building a good municipal governance system. The second step is to ensure that the assigned functions are matched by adequate sources of finance. Bahl and Linn (1992) provide some general principles for identifying the revenue sources appropriate to financing particular types of municipal expenditures:

- (1) Where the benefits of public services are measurable and accrue to readily identified individuals in a jurisdiction, user charges are the appropriate financing instruments;
- (2) Local public services such as administration, traffic control, street lighting and security, which are services to the general public in the sense that identification of beneficiaries and measurement of benefits and costs to individuals is difficult, are most appropriately financed by taxes on local residents;
- (3) The cost of services for which significant spillovers to neighbouring jurisdictions occur e.g., health, education and welfare, should be financed by substantial state or national inter-governmental transfers;
- (4) Borrowing is an appropriate source to finance capital outlays on infrastructure services particularly, public utilities and roads.

### Assignment of Municipal Taxes

3.12 Using the criteria of equity (consistency of revenue sources with expenditure needs) and efficiency (minimising resource cost) Musgrave (1984) suggests the following broad principles of tax assignment in a federal structure of government:

- (1) Taxes suitable for economic stabilisation should be central;
- (2) Progressive redistributive taxes should be assigned to central governments;
- (3) Tax bases distributed highly unequally between jurisdictions should be centralised;
- (4) Taxes on mobile factors of production are best handled centrally;
- (5) Residence-based taxes such as tax on sale of consumption goods to consumers and excises are suited for states;
- (6) Taxes on completely immobile factors of production are best suited for local levels;
- (7) Taxes of lower levels of government should be cyclically stable;
- (8) Benefit taxes and user charges are to be used appropriately at all levels;
- (9) Resource taxes and value-added tax (VAT) are appropriate for sharing between governments.

In terms of the Congruence Principle of public finance the less mobile and the stronger the spatial concentration of a tax base the lower the level of government to which those taxes should be assigned.

3.13 Known principles and best practices of local public finance point to the following desirable characteristics of a municipal tax:

- (1) **Immobility:** The tax base should be immobile to allow the local authority some freedom to vary the tax rates without eroding the tax base;
- (2) **Adequacy:** The tax yield should be adequate to meet essential local needs;
- (3) **Buoyancy:** The tax base must be sufficiently buoyant, i.e., expand in response to such forces as inflation, increase in population and economic growth;
- (4) **Stability:** The tax yield should be stable and predictable and it should not be susceptible to cyclical fluctuations;
- (5) **Equity:** The tax should be perceived to be reasonably fair (in terms of progressivity) by tax-payers;

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- (6) Administrative Ease: The tax should be easy to administer efficiently (at minimum resource costs) and effectively;
- (7) Non-exportability: It should not be possible to export much, if any, of the tax burden to non-residents;
- (8) Visibility: The tax base should be visible, to ensure accountability on part of the municipal government.

For growing cities, buoyancy is the critical dimension of municipal finance and other considerations can be regarded as secondary.

3.14 Research on assignment of finances to the municipalities in the context of the Constitution (74th Amendment) Act suggests that the following sources may be appropriate for devolution to urban local bodies in India:

- (1) Property Tax including Vacant Land Tax
- (2) Advertisement Tax;
- (3) Entertainment Tax;
- (4) Profession Tax;
- (5) Stamp Duty (or a share of it);
- (6) A 'major' tax in lieu of the abolished Octroi or a formula-based share in some high-yielding and buoyant state taxes or in general state revenues;
- (7) Business Licensing Fees;
- (8) Planning/Development Fees (on developments in excess of the Floor Area Ratio prescribed in the City/Town Development Plans).

### Property Tax System Reforms

3.15 It is widely accepted that property taxes can provide the municipal governments an access to a broad and expanding base while promoting efficiency through the linking of provision of municipal services closely to their financing. They are indirect user charges for civic services whose benefits are collective and not confined to identifiable individuals. Experience with property tax reforms in India suggests that there are several problems that need to be addressed simultaneously. These include: (1) simplification of tax laws, (2) coverage of tax net, (3) valuation accuracy, (4) collection efficiency, (5) rate setting, (6) administrative incentives and (7) policy and institutional reforms. The Self Assessment scheme introduced by the Municipal Corporation of Hyderabad in 1999 provides a good example of property tax reforms on account of which the Corporation's revenues went up from Rs. 48 crores to Rs.130 crores in two years while the effective tax rate was reduced by two-thirds.

3.16 The Self-Assessment Scheme of Hyderabad takes advantage of the existing legal provisions under the Hyderabad Municipal Corporation Act, 1955. Section 213 of the Hyderabad Municipal Corporation Act, 1955 stipulates:

"Commissioner may call for information or returns from owner or occupier or enter and inspect assessable premises:-

- (1) To enable the determination of rateable value of any building or land and the person primarily liable for the payment of any property tax leviable in respect thereof the Commissioner may require the owner or occupier of such building or land, or of any portion thereof, to furnish him, within such reasonable period as the Commissioner specifies in his behalf, with information or with a written return signed by such owner or occupier-

- (a) as to the name and place of abode of the owner or occupier, or of both the owner and occupier of such building or land; and

(b) as to the dimensions of such building or land, or of portion thereof, and rent, if any, obtained for such building, or land, or any portion thereof.

(2) Every owner or occupier on whom any such requisition is made shall be bound to comply with the same and to give true information or to make a true return to the best of his knowledge or belief.

(3) The Commissioner may also for the purposes aforesaid make an inspection of any such building or land”.

3.17 While calling for mandatory information under Section 213, the tax-payers were given the opportunity of calculating their own tax under the Self-Assessment Scheme, keeping in view the relevant legal provisions. One month’s honest rent in the event a property is let out was considered the benchmark for accepting tax returns although the legally stipulated rate could be up to rent for 3 months. Every property tax-payer was assigned a property tax identification number (PTIN). The tax records were classified and fully computerised. Correction in the historical tax inequity was the source of mobilisation of a significant portion of property tax in spite of the low tax rate. Simple tax payer-friendly process, lack of discretion on the part of bill collectors and tax inspectors, tax-service linkage, tax education, involvement of resident welfare associations in both service provision and tax payment, scientific classification of properties and computerisation of tax records were the other contributing factors.

#### User Charges and Benefit Taxes

3.18 When beneficiaries are identifiable and benefits can be measured, user charges are the first best instruments of financing public services. They promote efficiency by providing information on demand to the providers of public service and also ensure that what the public sector supplies is valued (at the margin) by citizens. They act as instruments to ensure the accountability of public functionaries. In the case of 'collective' services where beneficiaries are not identifiable or services are not measurable and levying user charge is not possible, benefit taxes are the appropriate instruments of financing. When clear linkages exist between the taxes levied and the expenditures financed, earmarked benefit taxes constitute indirect user charges or surrogate prices for services [Buchanan (1963)]. Earmarking then facilitates the rational choice by tax payers.

3.19 The theory of public finance suggests the following guiding principles for levying user charges and benefit taxes:

- (1) Wherever possible, user charges may be levied for the services provided as the first resort;
- (2) For achieving efficiency, user charges should be levied on the direct recipients of benefits;
- (3) The poor may be subsidised directly if needed, rather than through reduced prices and distortions in the entire market for services;
- (4) Where charging is impracticable, specific benefit taxes should be levied on local residents;
- (5) Inter-governmental transfers may be used to finance services only if user charges and benefit taxes are not adequate;

There is a lot of scope for improving municipal finances in India through user charges and benefit taxes.

#### Inter-Governmental Transfers

3.20 Appropriately designed inter-governmental transfers can play an important role in promoting effective municipal service delivery. They bridge the fiscal gap between rich and

poor municipalities and act as instruments to direct municipal resources to desired directions—Infrastructure building, in particular. Municipal activities are unlikely to provide efficiency unless financial accountability is clearly established. Municipal governments can be made accountable to the higher levels of government for expenditures financed out of inter-governmental transfers.

3.21 The theory of public finance suggests the following principles for the designing of inter-governmental transfers:

- (1) The quantum and frequency of inter-governmental transfers must be predictable;
- (2) They must be transparent through explicit and identifiable entries in government budgets;
- (3) They must imply a hard budget constraint for the municipalities and there should be no soft options at the margin;
- (4) They must be predetermined rather than being open-ended;
- (5) They must have in-built incentives/penalties for promoting local resource mobilisation and performance.

3.22 Keeping in view the above principles a good system of inter-governmental transfers could be designed on the following lines:

- (1) An annual distributional pool may be created at the state level consisting of a predetermined percentage of sales tax, other shared taxes or general state revenues;
- (2) The formula for the distribution of funds out of the pool may take into account both the need and fiscal capacity of municipal bodies;
- (3) The following could be the break-up of grants to be given out of this pool:
  - (a) Specific transfers:
    - (i) Per capita health grant to meet the primary health care costs based on stipulated state standards;
    - (ii) Per capita education grant to meet the primary education expenditures based on predetermined state norms;
    - (iii) General per capita grant for discharging other designated functions of state government;
    - (iv) Slum upgradation grant (on a per capita basis).  
(slum upgradation activities may include: widening and paving of pathways, street lighting, drinking water supply, sewerage, drainage works, community baths and toilets, etc.)

(b) Municipal Equalisation Fund

The Equalisation Fund may be designed to take care of the fiscal disparities between the municipalities on account of various factors. The formal distribution of municipal equalisation funds may be based on a composite index linked to both the fiscal needs and capacities of municipalities.

(c) Municipal Development (Capital) Fund

This Fund may consist of grants to a state nodal agency such as Urban Infrastructure Finance Corporation or a Municipal Urban Development Fund which could use the funds as base capital or equity to 'leverage' market funds. This institution can assist municipalities in the development of financially viable infrastructure projects and provide loans for implementing them. These projects may be based on long-range Municipal Development Plans and linked to full cost recovery and municipal revenue reforms.

### Financing Municipal Capital Works

3.23 The capital needs of cities on account of backlog, current and growth needs are enormous. In view of the massive demands on urban infrastructure, there is a need to explore alternative institutional innovations for mobilising resources to build civic infrastructure. Although the institutional and funding arrangements in different countries vary a great deal in structure and operations (e.g., cooperatives, limited companies, rediscount facilities, etc.), certain fundamental principles underlie the approaches adopted. When capital markets are underdeveloped or shallow, the smaller local bodies cannot have easy access to market funds. Larger and viable institutions which can pool risks and borrow with ease and at a lower cost can approach the capital market, national level financial intermediaries and bilateral and multilateral lending institutions on behalf of these smaller entities. They can also assist municipalities in project formulation, preparation of capital development plans and projects and designing of suitable cost recovery instruments.

3.24 Recognising the need for financial intermediation, the Government of Tamil Nadu established the Municipal Development Fund. This Fund, which operated successfully for years, has been translated into a Trust Fund-Asset Management Company set up with the involvement of private sector infrastructure financing agencies. The Karnataka Government has also established the Karnataka Urban Infrastructure Development Finance Corporation. These types of financial intermediaries, if properly designed, could achieve the following objectives:

- (1) Facilitate the supply of capital to local authorities for infrastructure projects at a reasonable cost;
- (2) Assist small and medium sized towns to provide adequate urban services by providing them long-term finance;
- (3) Help in costing of services and streamlining the financial and accounting systems so as to enable them to approach external funding sources;
- (4) Promote full cost recovery and internal resource mobilisation, and improve financial management;
- (5) Identify and assist in the development of projects with a good potential for tapping market funds;
- (6) Promote joint sector financing of urban infrastructure by participating in both public and private sector projects;
- (7) Eventually issue infrastructure bonds on behalf of the municipalities.

### Issue of Municipal Bonds

3.25 Borrowing is an appropriate instrument to finance capital works whose benefits spread over generations. Accessing the debt market requires action to remove restrictions to borrowing powers by municipalities, municipal intermediaries and urban infrastructure financing institutions, improve cost recovery and resource mobilisation, development of municipal bonds market and creation of credit enhancement mechanisms. Municipal bonds are of recent origin in India although the system is well established in many developed countries including the United States. During 1997-2002, eight municipal corporations in the country have raised funds from the market through the issuance of municipal bonds. Table 1 shows the salient features of these bonds.

3.26 The tax-free City Development Bond issued by the Municipal Corporation of Hyderabad to the tune of Rs.82.5 crores during March 2002 is based on a sound theory of city development practiced in many developed countries in the past. The bond issue was assigned CRISIL rating AA+(SO) and ICRA rating LAA+(SO). The bond proceeds are dedicated to the financing of development projects of regional and city-wide importance including traffic and transportation projects to decongest the city—road widening, junction improvement, development of parallel roads, slip roads and link roads, signalisation of

intersections, construction of road over-bridges, road under-bridges, etc., storm-water drainage, sewerage and solid waste management, modern lighting and slum upgradation, etc. Hyderabad City Development Bond is by far the best-rated municipal bond in the country. The bond presumes that the development of regional or city-wide infrastructure will capitalise into land values and other tax bases and that if we tap the tax increment and escrow the same to service the bonds, the entire process of city development can be self-financing.

3.27 The development of a full-fledged municipal bonds market in India would require a number of key initiatives by the Central and State Governments. The following are some suggestions which would serve to position municipal bonds favourably with commercial investors.

- (1) The bonds issued by the municipalities and other agencies for infrastructure projects should be exempt from income tax.
- (2) Municipal bonds may be regarded as eligible securities for the purpose of investment by public trusts, banks (SLR status) and public sector units. The Government of India may regard municipal bonds as eligible instruments for money and treasury markets.
- (3) Municipal obligations to Central and State Governments may be made subordinate to the bondholder servicing obligations.
- (4) The Government of India may formulate and administer a bond assurance programme that serves to extend tenor, generate liquidity and provide a mechanism to equate risks across municipal bond issues.

**Table 1  
Issuance of Municipal Bonds in India**

Year	Municipal Corporation	Amount (in Rs. Crores)	Bond Tenor (Years)	Interest Payable Per Annum (%)	With State Guarantee or No State Guarantee	Rating
December 1997	Bangalore	100	7	13.00%	SG	CRISIL A (SO)
January 1998	Ahmedabad	100	7	14.00%	NSG	CRISIL AA (SO)
May 1999	Nashik	100	7	14.75%	NSG	CRISIL AA (SO)
September 1999	Ludhiana	10		13.5% - 14.00%	NSG	ICRA LAA - (SO)
November 2000	Nagpur	50	7	13.00%	NSG	ICRA LAA - (SO)
April 2001	Madurai	30	15	12.25%	NSG	ICRA LA + (SO)
July 2001	Indore	10	7	11.50%	SG	
March 2002	Ahmedabad	100	10	9.00%	NSG	CRISIL AA (SO)
March 2002	Hyderabad	82.50	7	8.50%	NSG	CRISIL AA + (SO) ICRA LAA+(SO)

(5) Municipalities may be allowed to issue municipal bonds on the basis of credit rating by independent agencies such as CRISIL, ICRA and CARE. As these bonds are not likely to be guaranteed by State Governments, the debts should not form a part of the allocations made by the Reserve Bank of India under its public debt account. The issue of municipal bonds may, therefore, be governed by specific guidelines to be formulated by the Security Exchange Board of India (SEBI).

(6) The borrowing powers of municipalities and infrastructure agencies in the country are limited at present on account of restrictions under municipal and other laws. Such restrictions may be removed.

(7) Municipalities should be allowed to establish escrow accounts in order to provide transparent appropriation mechanisms to investors. Escrow accounts are special accounts in which revenue streams for debt-servicing are collected and only after meeting the debt-servicing requirements does the bond issuer have a lien on the account.

#### Credit Enhancement Mechanisms

3.28 Credit enhancement mechanisms enable the issuer of debt to obtain a higher credit quality than would have been possible on a stand-alone basis. Superior credit rating in the case of a debt instrument benefits the issuer in terms of lower interest rates and easier marketability due to high safety of the instruments. The credit quality of municipal bonds can be enhanced by the following mechanisms:

(1) Some clearly identified sources of revenues of a municipal body can be captured in an escrow account. This account can act as collateral for bond-servicing and also meet the debt-servicing obligations directly at the direction of the trustees of the bonds.

(2) The State Government can provide security by pledging to meet debt obligations in case of the inability of the municipal borrower to meet them. State-municipal transfers in the form of shared taxes and grants constitute a major source of municipal finance in many States. An agreement between the State Government and the bond-issuing municipality which stipulates that the annual transfers could be captured in an escrow account on a pre-determined schedule for debt servicing and act as a collateral to municipal bond issue may be worked out.

(3) A portion of the funds raised through bond issue can be kept in an escrow account or invested in marketable securities and provide credit-cum-liquidity support to the instrument. Similarly, the amounts kept in the sinking fund could be invested in liquid securities and earn interest which could cover part of the debt-servicing obligations.

(4) The escrow accounts should be monitored by an independent trustee of the bonds and any shortfalls should be compensated by the State Government.

(5) Project revenues may be suitably earmarked for the purpose of bond-servicing in addition to general obligation.

#### Budgeting, Accounting and Auditing Reforms

3.29 Budgeting practices in most municipalities suffer from the following drawbacks:

- (1) Budget heads or categorizations are not fully useful for expenditure planning and control;
- (2) Budget formats do not focus on the goals and programmes as a result of which it is not possible to hold the various municipal heads of departments accountable for their functions;

## CENTRE FOR GOOD GOVERNANCE

- (3) Feedback mechanisms from operational to decision-making levels and accountability mechanisms are generally weak;
- (4) There is no integration between budgeting, accounting and management functions;
- (5) The distinction between recurrent and capital expenditures is often not clear.

There is a need to reform the budgeting process in municipalities so that the budget is made to play the following roles effectively:

- (1) A policy-making role in allocating resources between various categories of infrastructure and services;
- (2) A management role in allocating resources to particular agencies/departments and estimating the inputs - personnel, equipment required to achieve specific outputs;
- (3) A control role in giving authority to local officials to collect and spend money and in prescribing who can spend how much and on what.

3.30 Typically, all capital transactions of municipalities are booked under a separate head called 'Extraordinary and Debt'. This is not desirable. There is a need for separation of Revenue from Capital accounts on account of the following reasons:

- (1) It will assist in the integration of infrastructure planning and financing;
- (2) It will facilitate the development of institutional finance for infrastructure;
- (3) The economic and accounting basis for the formulation and levy charges will improve;
- (4) The financial discipline of municipalities will greatly improve, move to a more rational system where capital creation is commensurate with the income necessary to operate and maintain the investments.

Further municipal budgets classify all types of public works into one category. This classification mixes functions like roads which are amenable to tax-financing with functions such as water supply which are eminently suitable for user charges. There is a need to re-orient the municipal budgets so that they can facilitate financial planning and accountability.

3.31 Most municipalities follow a system of cash-based accounting as against accrual-based accounting used by the private sector. Under cash-based accounting, receipts and payments are posted as and when cash is received or paid. This often leads to serious off-budget/book liabilities being incurred but not recorded. In the case of accrual-based accounting, the financial effects of transactions are recognised in the period in which they occur, irrespective of whether the cash is received or paid. This enables transactions to be reported in the financial statements for the relevant period. Municipal accounts adopt the cash-based system on the ground that the primary objective of accounting is to maintain budgetary control over activities. However, it is being widely recognised that a combination of cash and accrual-based accounting may be more appropriate for municipalities. Under this Modified Accrual basis, revenue is recorded only when cash is received, while expenses and related liabilities are recorded when incurred.

3.32 Regarding auditing of municipal accounts, in most states they are audited by the Local Fund Audit Department. Sometimes these audits do not take place for years and the extent to which auditors are unbiased is itself questionable. There is a need to upgrade the audit standards in respect of municipalities to the levels fixed by the Accountant General with the involvement of chartered accountants.

#### Application & Upgradation of Technology

3.33 Technology plays a crucial role in minimising the need for staff, cutting costs and enhancing the satisfaction of clients. Application of remote sensing, satellite imagery, Geographic Information System (GIS) and computerisation of basic records and processes can greatly improve the planning capabilities at the municipal, metropolitan and district levels. Computerisation of property tax and water charge information coupled with scientific door numbering and billing can raise the efficiency of revenue collection substantially. This is amply proved by the recent municipal reforms in Hyderabad. Appropriate technology in areas such as garbage collection and disposal, leak detection and repairs in water mains, cleaning of sewer lines, street sweeping, road maintenance, etc., can greatly enhance municipal efficiency.

3.34 With increased emphasis on e-governance, information technology is playing an important role in reforming the cumbersome government processes. Under the e-Seva project in Andhra Pradesh a spectrum of more than 40 citizen-friendly services are provided through a chain of computerised Integrated Citizen Service Centres. On-line transaction processing facilities are available to citizens including payment of utility bills such as electricity bills, water and sewerage charges, property tax, trade licensing fee, telephone bills, issue of certificates such as birth and death, issue of permits and licenses such as learner's license, driving license, etc. In Municipal Corporation of Visakhapatnam, the Saukaryam project provides the citizens with facilities of online payment of taxes, registration of births and deaths, registration and knowing the status of building applications, complaints and grievances disposal and essential civic information. The project has three modules: bank network, internet and City Civic Centre. Under the e-Hyderabad project, the Municipal Corporation of Hyderabad is delivering citizen services on multiple platforms. These services, available on 24X7 basis at Citizen Service Centres, Corporation offices, banks and web portal, include birth and death certificates, trade license, property tax, advertisement fee and market rent payment, civic works information, house numbering, suppliers and contractors payments, etc. These projects are instrumental in creating a new municipal culture of citizen-friendly service provision. It is essential to build e-capabilities of municipal governments to simplify corruption-prone municipal processes and improve their functioning.

#### Reforms in Rules & Procedures

3.35 Municipal laws and regulations often prescribe cumbersome and lengthy procedures that lead to red tapism, delays and corruption. The procedures dealing with building and layout approval, birth and death certificates, water tap connection, property tax assessment, levy and collection, business licensing, etc., need to be greatly simplified. For example, if the requirements of front, back and side setbacks and open spaces for buildings in different locations and restrictions on building heights can be widely publicised in writing, self-approval of building plans - subject to stiff penalty for wilful violations - could be a possibility. Similarly, simplification of property tax assessment procedures can be achieved by a self-assessment of property tax scheme. If municipalities are required to provide SMART (simple, moral, accountable, responsive and transparent) government, the corruption-prone and complicated procedures need to be reformed.

#### Instituting Accountability Mechanisms

3.36 The clear assignment of municipal functions and finances, including the design of inter-governmental transfers and user charges, are essential requirements for improving the service delivery system. But they are by no means sufficient. To foster responsive and responsible municipal government, the development of a system of public accountability - to the higher levels of government and the electorate - is necessary. Municipal public accountability requires the following:

- (1) Every municipal act or action is transparent - open to law, regulation prudent judgment and scrutiny;

- (2) All participants in the decision-making process are responsible for the consequences of their actions;
- (3) Every act or action is subject to independent, professional, unbiased review (audit), and the outcomes of such a review are available to all concerned.

Municipal public accountability is a product of interactions between three groups of stakeholders. The public are the stakeholders interested in the public service, providers being accountable to them for the benefits they want most. Political leaders and the bureaucratic supervisors of service providers are the stakeholders who would like the latter to be accountable to them for a mix of public policy and possibly private interest. Service providers themselves constitute a third category of stakeholders who may have an agenda different from those of the first two. The public accountability system that finally emerges in practice depends on the relative bargaining strengths of the stakeholder groups involved. To ensure effective accountability, it is important that the rules for interface between the various groups of stakeholders are spelt out transparently without any ambiguity.

3.37 Municipal accountability is two-way - upward accountability to the state government and downward accountability to the people. The state governments usually control the activities of municipalities through the following channels

- (1) power to dissolve Municipal Councils;
- (2) approval of staff strength, deputation and transfer of top level management staff;
- (3) approval of budgets, taxes, fees, charges, rates, etc.;
- (4) approval of municipal land use/development plans;
- (5) provision of inter-governmental transfers, including funds for infrastructure development;
- (6) restrictions on municipal borrowing and guaranteeing the same when permitted;
- (7) audit;
- (8) reserved power to take over administration of particular services.

The goal of municipal autonomy requires that the areas of state control are minimised and clearly defined by law. Arbitrary exercise of power by the state government will be against the spirits of decentralisation and local initiative.

3.38 Accountability to the general public can be ensured through the decentralisation of responsibilities for day-to-day operation and resource use, transparent, simple and easily understandable service delivery processes, enforcement of accountability standards, public hearings, dissemination of regularly updated information to the public freely, frequent interaction with citizen groups, NGOs, CBOs, etc., and vigilance by 'watchdog' groups. The elected Municipal Council and Wards Committee meetings could act as platforms for the discussion of Citizens' Report Cards. The municipal bureaucracy must be made accountable to the elected representatives, though they need to enjoy operational autonomy in their day-to-day functioning. The role of the Municipal Councils, Mayors/Chairpersons and Municipal Managers need to be clearly defined under law. The legislative role of the Councils consists of budgets, taxation, borrowing, planning and policies. The executive power consists of operation of services, preparation of budgets, authorisation of expenditures, appointment and control of staff, enforcement of regulations, etc. It is important that the boundaries of these powers are clearly demarcated. Further, there should be a balance between the political and executive authorities, each supporting the other while at the same time acting as a check and balance on the other.

#### **4. Developing Municipal Organisation**

4.1 A number of management scholars and practitioners have examined what makes an organisation effective [see Ramnarayan (2003)]. Some researchers have taken the 'goal approach'. For example, they have concerned themselves with whether the results

produced by the organisation or the organisational outputs match the expectations of the stakeholders. For example, to judge the effectiveness of organisations, these studies have utilised a range of performance indicators, which may include:

- Timely service delivery
- Quality of services
- Financial performance of the agency
- Work efficiency
- Resource conservation
- Development and satisfaction of employees, etc.

4.2 Management writers on culture and organisational excellence have tended to focus on the 'internal process' approach. Certain key indicators of an effective organisation as seen from an internal process approach are:

- Strong culture and positive work climate
- Team spirit, group loyalty, and team work
- Confidence, trust, and communication between higher and lower levels of the organisation
- Decision-making near sources of information, regardless of where those sources are on the organisation chart
- Undistorted horizontal and vertical communication; free and open sharing of relevant facts and feelings
- Rewards to people for performance, growth and development of subordinates, and for creating an effective working group
- In the interactions between key functionaries, differences and conflicts over priorities, approaches and decisions are resolved in the larger interest of the organisation.

4.3 Writers on 'organisation design' have argued that effective organisation must manage the interplay of certain basic forces. They list the effectiveness criteria as follows:

- Direction – Shared mission, vision and goals of the organisation that provide a clear direction and aligns efforts and energies of organisational members
- Efficiency – Minimizing costs, increasing benefits and providing greater value, say through rationalisation or standardisation
- Proficiency – Tasks carried out with high levels of knowledge and skills by well trained professionals in a culture of excellence
- Innovation – Constant effort at making improvements, developing new services to adapt to changing stakeholder needs and expectations
- Focus – Work units developing specialised insights by concentrating on specific services/ customer segments/ work areas
- Cooperation – Harmony and feelings of togetherness among diverse members of the organisation to achieve common purpose

4.4 There have been more recent studies, which have looked at visionary companies that have tried to control their own destiny. These studies have added insights on contributors to 'organisation excellence'. The major ideas on effectiveness from this perspective can be organised into the following four categories:

- Strategic Orientation – Close to customer, fast response, clear goals and focus
- Leadership Orientation – Commitment to vision, bias towards action, foundation of core values
- Organisation Design – Simple form, lean staff, decentralization to increase feelings of ownership, measurement systems track not only financial performance and operating

efficiency, but also 'soft' areas like customer satisfaction, employee development, innovation/ change, and community/ environmental issues

- Culture – Climate of trust that facilitates collaboration, productivity through people, and taking long term view and perspective in key decisions

4.5 The different studies on the subject of organisation effectiveness, such as those discussed above are built on the foundation of organisation theory. What are the dimensions of an organisation? A number of scholars have looked at this question. A research group from McKinsey & Company, which also examined this issue, concluded that 'structure is not organisation'. In other words, organisation is more than the formal organisation chart, job descriptions or role responsibilities, and decentralisation of formal authority. To enhance the effectiveness of an organisation, we cannot merely look at the option of structural reorganisation, but to a larger framework that includes structure and several related factors.

#### Dimensions of an Effective Organisation

4.6 Six inter-related factors can be singled out with a view to building an effective organisation. These include:

1. Clear Shared Purpose
2. Organisation Structure
3. Systems & Processes
4. Leadership Orientation
5. Culture & Shared Values and
6. Building Skills & Motivation for Effective Performance.

All these variables are interrelated. No organisational change effort can afford to ignore this aspect of interconnectedness. Just as a logistics bottleneck can cripple a military strategy, inadequate systems or poorly trained people can cause the failure of the best-laid plans. In Appendix 1 [based on Ramnarayan (2003)], these dimensions are examined in some detail.

#### Improving Municipal Organisation

4.7 In the light of the above discussions, structural solutions alone cannot rectify the deficiencies of urban government. Improving urban management is also a matter of process, of the way decisions are made within the organisation. Improving municipal organisations needs greater focus on the core tasks and priorities to enhance their capabilities. An agenda for enhancing organisational capacity of municipal governments would include the following:

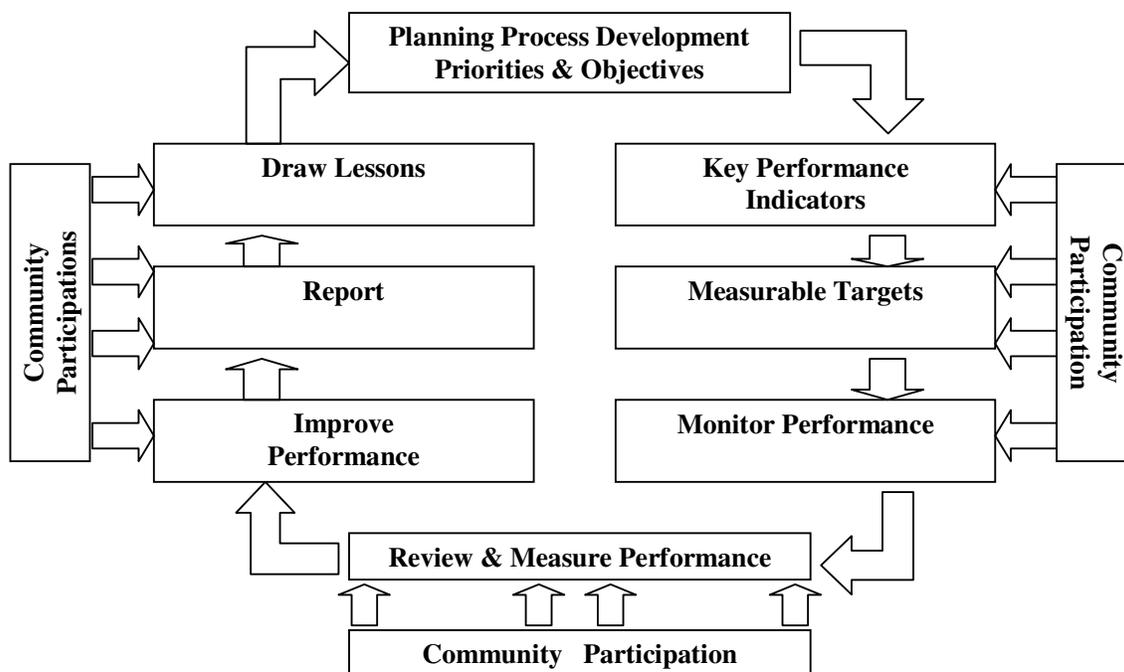
- 1) Clarity of vision, objectives and commitment to address the overall challenges of urban sector at the highest authority levels;
- 2) Strong business culture enhances chances of efficiency. A combination of business oriented culture and strong administrative leadership provides greater focus and clarifies accountability and capacity to take view of urban needs;
- 3) Location of authority vital issue. Decision making powers in the case of municipal organisation is highly fragmented, for improving efficiency of the municipal organisation there is a need for decentralisation of authority and a greater decision making capability at the grassroots levels.
- 4) Financial management of a large public agency like a municipal organisation deserves integrated direction by managers with a professional training and commitment. Financial viability based on vigorous exploitation of the local revenue base and sound financial management;

- 7) Improving technical competence in the choice, design and execution of investment in infrastructure, and in its operation and maintenance;
- 8) Improving human resources through training, process consultation, action research methods and role workshops;
- 9) Improving responsiveness to the needs arising from urban growth, with the ability to plan the development of the city and its services ahead of, or at least in pace with demand;
- 10) Sensitivity to the needs of the urban poor, and a weighting of public interventions to promote their access to shelter, basic services and employment; and
- 11) Concern for environmental protection, through public service provision and regulation of the private sector.

**5. Performance Management System**

5.1 The Government of Andhra Pradesh has been focusing on performance management as a key instrument for improving the delivery of services and infrastructure to the people. Performance management is a strategic approach, which equips leaders, managers, workers and stakeholders at different levels with a set of tools and techniques to regularly plan, continuously monitor, periodically measure and review performance of organisations, territorial jurisdictions and functionaries in terms of indicators and targets for economy, efficiency, effectiveness and impact. The performance management system model adopted by the state is depicted in Table 3.

**Table 3  
Performance Management System**



5.2 The performance management system links development goals, policies, priorities, plans, programmes, projects, budgets, action plans and performance towards achieving the desired objectives. The system involves performance indicators, performance monitoring, performance measurement, performance-based evaluation, performance-based review and

evidence-based policy-making. Performance monitoring is a continuous process of collecting and analysing data to compare how well a project, programme, or policy is being implemented with reference to expected results. It is an ongoing process to assess whether targets are met and broader development objectives are achieved. Performance measurement refers to analysis and measurement of results in terms of performance indicators and targets. Performance-based evaluation is an assessment, as systematic and objective as possible, of a planned, ongoing, or completed intervention. The aim of evaluation is to determine the relevance of objectives, economy (minimising cost of obtaining resources), efficiency (using resources efficiently), effectiveness (achieving the desired socio-economic impacts), and sustainability so as to incorporate lessons learnt into the decision-making process. Performance-based review involves periodic review to identify broad trends and assess the likelihood of outcomes being achieved – whether the programmers or projects are “on track”. It aims at effecting correction mechanisms to ensure that programmes or projects do not deviate from the central goals and objectives for which they were created.

5.3 The strategic objectives behind performance management are:

- To create a performance culture and ethos across public service in terms of “shared” values, “outcome” orientation and “best” practices;
- To promote accountability of employees and organisations in using resources and ensuring that implementation objectives are met;
- To empower citizens to generate pressure for change and transformation;
- To guide capacity building development for better governance;
- To contribute to overall development agenda.

The performance management cycle involves policy-making, planning and budgeting leading to programme implementation followed by assessment and feedback and then going to the policy-making.

#### Performance Tracking

5.4 The performance management, monitoring and evaluation experiment undertaken by Andhra Pradesh is based on a performance tracking system which envisages the participation of all stakeholders at all stages, starting from and ultimately feeding into the planning and performance budgeting processes. The entire process begins with the identification of the input-output-outcome linkages. The most important and challenging tasks are the selection of performance indicators, setting measurable targets and monitoring and evaluating performance by the use of composite criteria.

#### Key Performance Indicators

5.5 Key Performance indicators are measurable factors of extreme importance to any organisation in achieving its strategic goals, objectives, vision and values. These indicators are required to be designed carefully so as to be in a position to:

- Indicate the progress made towards the goal
- Provide a common framework for gathering data for measurement and reporting
- Capture complex concepts in simple terms
- Enable review of goals, objectives and policies
- Focus the organisation on strategic areas
- Provide feedback to organisation and staff

Ideally the selection of performance indicators should be based on the criteria of CREAM:

- Clear: Precise and unambiguous
- Relevant: Appropriate to the set goal
- Economic: Available or computable with reasonable cost
- Adequate: Provides sufficient basis to assess performance
- Measurable: Quantifiable

5.6 Performance-related indicators can be classified into (1) input indicators: measures of economy (related to unit cost) and efficiency (related to resource use: time, money or number of people), 2) output indicators: measures of effectiveness (related to programme activities and processes) and 3) outcome indicators: measures of quality (related to set standards) as well as impact (related to achievement of overall objectives) that allow us to check whether our development strategies and policies are working. Indicators can be simple or composite. A composite indicator is a set of different indicators rolled into one index by developing a mathematical relationship between them, e.g., human development index, which takes into account three basic elements: life expectancy, educational attainment (adult literacy combined with primary, secondary and tertiary enrolment) and real gross domestic product per capita. Often baseline indicators are computed to represent status quo or current situation with reference to which performance is measured.

#### Municipal Performance Indicators

5.7 The Government of Andhra Pradesh has been applying the Performance Indicator system to all Departments including the Municipal Administration and Urban Development Department. Information on the following indicators is being reported by the municipalities every month:

**Table 4**  
**Andhra Pradesh: Performance Indicators of Municipalities**

Sl. No	Outcome Indicators (Goal)	Sl. No.	Performance Indicators	Units
1	Effective Mobilisation of Financial Resources	1	Finalisation of Accounts	No. of Acct. Years
		2	Tax & Non Tax Collection	Rs. in Lakhs
		3	Establishment Expenditure as Ratio of Revenue Receipts	Rs. in Lakhs
2	Providing Clean & Safe Environmental Condition through Effective Service Delivery	1	Street Lighting	Numbers
		2	Urban Water Supply (Quantity of Water Supply)	MLD
		3	Urban Water Supply (Leakages Arrested)	Numbers
		4	Solid Waste Disposal	MTs
3	Providing adequate Civic Infrastructure	1	Roads Upgraded	Kms
		2	New Drains Provided	Kms
4	Providing adequate Greenery	1	Tree Plantation	Numbers
5	Effective Water Conservation	1	Neeru - Meeru	Lakh Cu.M.
6	Accountability to the Public	1	Implementation of Citizens' Charter (Complaints redressed against received)	Numbers
		2	e-Seva Centers Constructed against target	% of Construction
7	Poverty Alleviation	1	Swarna Jayanti Shahri Rozgar Yojana (SJSRY)	Rs. in Lakhs
		2	National Slum Development Scheme (NSDP)	Rs. in Lakhs
		3	Integrated Low Cost Sanitation (ILCS)	No. of Units

Process Indicators

5.8 Process indicators are measures which indicate the processes adopted to make an organisation run its activities. As regards the Government of Andhra Pradesh, the process indicators adopted for the municipalities include the following:

**Table 5  
Andhra Pradesh: Process Indicators of Municipalities**

Group	Process Indicators (Per Month)
Tours, Inspections and Reviews	Days toured, Office inspections undertaken, Surprise inspections undertaken, Routine inspections undertaken
File Disposal	File disposal – Disposal of files of Public Importance, Court matters, Service matters, Other
Action on Important Matters	Disposal of action taken in Vigilance cases, ACB cases Commission of enquiry cases, Departmental enquiry cases, Audit reports/paras, Chief Minister’s announcements, Chief Minister’s Office references, Adverse media reports.

Fixing Measurable Targets

5.9 Performance target equals the baseline indicator level plus the desired level of improvement. To set meaningful targets, departments are required to identify their short-term and long-term objectives and align them with the Vision 2020 goals. This involves a collective effort by the policy makers as well as implementation teams in terms of resource planning and prioritising government programmes, schemes and services. Targets are fixed based on discussions and bottom-up feedbacks at various levels of hierarchy beginning at the secretariat and drilling down to the district, mandal and village levels. The Andhra Pradesh Government has adopted the ‘SMART’ criteria for setting targets:

- S: Specific
- M: Measurable
- A: Attainable
- R: Realistic
- T: Time-bound

For each function, each functionary and each territorial jurisdiction, annual, quarterly and monthly physical and financial targets are set. The departments have been directed by the Government to study the levels of indicators for five best states and benchmark with the best.

Monitoring Performance

5.10 Performance monitoring mechanism involves the monitoring of implementation of programmes and projects as well as monitoring of results. Implementation monitoring involves three stages – input, activity and output. Performance monitoring focuses on the outcomes and their impact. A sound monitoring mechanism:

- Needs ownership, management, maintenance and credibility;
- Assesses performance needs at the project, programme and policy levels;
- Enables movement of performance information both horizontally and vertically in the organisation;
- Identifies demand for performance information at each level; and
- Has clarity in responsibilities at each level: who, what, when, how, to whom, etc., in data collection, measurement, reporting, etc.

The Government of Andhra Pradesh undertakes both implementation as well as results monitoring every month. Three broad monitoring parameters that are adopted include:

- Economy: minimising cost of securing inputs
- Efficiency: using resources efficiently

Effectiveness: achieving the desired social impacts

#### Measuring Performance

5.11 The Government has adopted the 4-F model for tracking and measuring performance: function, functionary, finance and field. Performance achievements are reported by every department every month to the Planning Department which is assisted by the Centre for Good Governance for critical analysis and evaluation. Information is collected in seven formats designed by the Centre for Good Governance. These enable monthly and cumulative tracking of performance and process indicators. Measurement of performance is done deploying the Hexagon Model. This model tracks:

- Where a department or functionary is in a month compared to earlier months – starting from April;
- To what extent a functionary has achieved his annual target;
- How does he compare with the achievement for the corresponding period of last year;
- How far he is from the Vision 2020 or forward target;
- How far he is from the benchmark, fixed, if any; and
- How does he compare with his colleagues of the same level or designation.

#### Grading of Performance

5.12 All departments, jurisdictions and functionaries are graded every month according to the percentage of cumulative target achieved. The criteria for grading adopted by the Government based on the suggestion of the Centre for Good Governance are as follows:

##### **Grading Criteria: Non-revenue earning departments**

% of target achieved	Grade (score)
≥ 100%	A (4 points)
90-100%	B (3 points)
75-90%	C (2 points)
< 75%	D (1 point)

##### **Grading Criteria: Revenue earning departments**

% of target achieved	Grade (score)
≥ 100%	A (4 points)
95-100%	B (3 points)
90-95%	C (2 points)
< 90%	D (1 point)

#### Performance Reviews

5.13 A thorough review of performance of all departments, public sector undertakings and institutions is held by the Chief Minister and Ministers every month, leading to tracking of progress and recommendations for performance improvement. Reports on action taken for performance improvement (ATPI) by the respective departments /functionaries are reviewed in such meetings. Every quarter conferences of Heads of Departments and Collectors of districts are held at Hyderabad, which are attended by the Chief Minister, all Ministers, all Secretaries and the print and electronic media. These open meetings act as pressure mechanisms to drive performance at various levels. The Government is contemplating a system of performance-based incentives and disincentives.

#### Online Performance Tracking System (OLPTS)

5.14 The Centre for Good Governance in Andhra Pradesh has developed a unique Online Performance Tracking System (OLPTS). This provides a robust computer package to

measure and grade performance and to generate a number of reports. This tool can be easily applied to both public and private sectors. The Centre is contemplating to patent the product, which is based on months of brain-storming and hard work. The OLPTS provides an integrated performance information management and feedback system. The tool is being extended from departments to districts and mandal levels. It will eventually be the backbone of the entire performance evaluation exercise that the state undertakes. It has the following significant features:

- Tracking and grading of performance at different levels;
- Integration and linkages with external assessment – media perception, peoples' feedback, Call Centre, fulfillment of service standards, etc.;
- Performance evaluation using some or all aspects of the Hexagon Model;
- Comparing performance of various indicators, jurisdictions and functionaries to the last mile; and
- Support system for different predictive models to track and improve governance.

5.15 OLPTS basically comprises of performance information fed into the system by the respective departments/jurisdictions and a host of reports that are generated for purposes of evaluation, review and feedback. A few of them include reports on:

- Monthly targets and achievement with respect to performance indicators, departments, department groups, territorial jurisdictions, functionaries, institutions, etc.;
- Score and grade reports for performance indicators, departments, department groups, territorial jurisdictions, functionaries, etc.;
- Financial targets and achievements;
- Competitiveness assessment of jurisdictions and functionaries;
- Trends of all indicators and their differentials;
- Exception reports on deviations from expectations;
- Process Indicators;
- Best and Worst Achievers list;
- Best Practice links;
- Links with external evaluations (like ratings based on peoples' feedback, media perception index, etc.);

These reports then form an important part of the overall information set that serves as the information hub for the policy framework for performance management.

5.16 The OLPTS as applied to the Municipalities generates information every month which is used to gauge the performance of municipalities. The picture generated at the time of Annual Performance Review held by the Government of Andhra Pradesh in June, 2003 is shown in Table 6. These figures are based on the figures for individual municipalities cumulated to the state level.

#### Performance Feedbacks

5.17 A performance feedback mechanism is like exchanging 'GIFTS':

- G: Goes both ways – a two-way exchange between the appraiser and the appraisee
- I: Initiative by the person implementing programmes or making policies, who sees the need for gathering feedback
- F: Frequent
- T: Timely
- S: Specific – feedback based mainly on observed behaviour, facts and inferences and not on subjective parameters

**Table 6**  
**Annual Performance Review of Municipalities & Municipal Corporations**

Indicator	Annual Target	Annual Achievement	% Of Annual Target Achieved	Grade
<b>A. Financial Management</b>				
a) Tax & Non Tax Collection (Rs In Lakhs)	95943.33	94349.77	98.34%	B
b) Establishment Cost as Ratio of Total Revenues (Rs in Lakhs)	Revenue Receipts 141469	Estt.Exp. 37782	26.70%	B
c) Finalization of Accounts (No. of years completed)	636	260	40.86%	D
<b>B. Service Delivery</b>				
a) Street Lighting (Avg. No of Lights Glowing Per Day)	596834	540804	90.61%	B
b) Urban Water Supply (Quantity of Water Supply in Million Litres per Day)	1304.62	1189.69	91.19%	B
c) Urban Water Supply (Water Supply Leakages Arrested in Nos.)	68177	61778	90.61%	B
d) Solid Waste Disposal in Metric Tonnes	3612512	3452489	95.57%	B
<b>C. Upgradation of Infrastructure</b>				
a) Roads Upgraded (In Kms)	345.78	897.52	259.59%	A
b) New Drains Provided (In Kms)	276.42	569.95	206.19%	A
<b>D. Environment &amp; Conservation</b>				
a) Tree Plantation in Nos.	2038600	1701785	83.43%	C
b) Water Conservation (Neeru-Meeru) (In Lakh Cubic Metres)	13.24	12.29	92.88%	B
<b>E. Poverty Alleviation Programmess</b>				
a) National Slum Development Policy (NSDP) (Rs. in Lakhs)	3575	3881.31	108.57%	A
b) Integrated Low Cost Sanitation (ILCS) (Units)	82563	20704	25.08%	D
c) Swarna Jayanti Shahari Rojgar Yojana (SJSRY)(Rs in Lakhs)	2458.85	1914.22	77.85%	C
<b>F. Citizen Focus</b>				
a) Citizen's Charter (Numbers)	321810	302224	94.00%	B
b) e-Seva Centers Constructed (% of Construction)	237	142.81	60.26%	D
<b>G. Computerization of Records (%)</b>				
Taken up a HOD Level	40	40	100%	A

Source: Online Performance Tracking System, Centre for Good Governance, Hyderabad

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5.18 The Government of Andhra Pradesh has established a system of managing governance through feedback from multiple channels collected at different intervals. These include:

People:	Monthly survey by an independent agency
Target Groups:	Evaluation through planning/concerned departments
Programme Evaluation:	By the Planning and other departments
Services:	“Report Card” studies by independent agencies
Employees:	Feedback during training programmes
Focus Groups:	Special studies or interviews.

Every month the government conducts survey on peoples’ feedback on the following in municipalities: Ration Shops; Bus Services; Roads; Schools; Health Care Facilities; Power Supply; Street Lighting; Drainage Facilities; Garbage Disposal; Traffic Regulation; Maintenance of Law and Order; Parks and Town Beautification; E-Seva Centres; and Rythu Bazaars.

### **Towards Citizen Governance**

6.1 Citizen Governance focuses on people as the centre of all governmental activities. Under **Vision 2020**, the Andhra Pradesh Government has adopted such an approach. It has resolved to quickly transform its role from that of controller of the economy to a facilitator and promoter of economic growth and also become a SMART (Simple, Moral, Accountable, Responsive and Transparent) Government by improving transparency and accountability at all levels and ensuring effective and responsive services to the people. The SMART agenda is divided into the following streams by the Centre for Good Governance, Hyderabad:

#### A. Simplifying Government

- identification of the benefits to citizens of simplified Government processes through implementation of e-Governance;
- implementation of re-engineered business processes to simplify procedures in critical Government business areas;
- identification of options for tackling issues relating to handling of Government judicial processes and agreement on the ways forward; and
- simplification through process redesign of back office processes especially following computerisation;

#### B. Moral Government - Human Resource Management

- to identify the key issues leading to ineffective human resource management across all parts of the public service and to develop options to address these issues;
- to develop an action plan setting out the implementation of the agreed options and to support implementation of the action plan and embedding new structures and approaches to human resources management; and
- to undertake specific reviews of policies and procedures as set out in the action plan.

#### C. Accountable Government

- to improve the quality and timeliness of delivery of services and to develop a flexible result- focused performance culture across the public service through systems which effectively monitor and measure performance;

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- to develop and implement an approach to performance indicators that help municipal officials better to manage service delivery;
- to codify approaches and best practices in bringing about greater focus on results in municipal government;
- to identify good practice and areas for improvement in the Citizen's Charter initiative and to take forward implementation of improvements in key areas;
- to increase the focus on social impact and poverty monitoring across local government;
- developing and improving the Citizen's Charter programme; and
- development of an action plan for incorporating social audit and impact evaluation into the performance monitoring process.

### D. Responsive Government - Citizen-focused Services

- to ensure that the people have a strong voice in the governance, through embedding participatory mechanisms into planning and monitoring of service delivery, enhancing decentralisation and ensuring inclusiveness of the poor and disadvantaged;
- to identify and codify good practice in wider participatory processes at the cutting edge level and to identify areas for improvement of procedures, systems and structures;
- to implement a number of pilot projects to take forward agreed approaches to increase effective participation;
- to provide agreed support to enable decisions on decentralisation to be embedded and to operate effectively;
- to take forward decentralisation, supporting agreed action plans for implementing Government decisions on decentralisation;
- to identify means to develop and improve participatory approaches in policy making, planning, resource allocation and monitoring;
- to review existing participatory approaches to identify good practice and to clarify roles and responsibilities at various levels and development of proposals for change; and
- to review the links between self help and other participatory groups at the local level and the municipality, to identify the most effective ways of work to ensure effective links but to respect operational autonomy and to support delivery to the poor.

### E. Transparent Government - Financial Management

- to improve planning, resource allocation, monitoring, management and accounting systems and access to information so that accountability is clear, spending is transparent and public expenditure is more effectively controlled;

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- to increase transparency and accountability through identifying and implementing a range of agreed improvements to audit functions;
- to identify institutional strengthening needs of financial functions in local bodies and undertake capacity building and system development activities which will produce a demonstrated increase in transparency and reduction of misallocations; and
- to increase transparency through establishing clear procurement policies across Government and municipalities.

### F. Policy and Performance

- to enhance policy making capability and to improve the performance of the key parts of the public service which contribute significantly to social and economic development;
- to undertake strategic review of municipal administration to assist officials to clarify the strategic objectives and scope in the context of Government policy priorities and to identify how performance can be improved to achieve the objectives efficiently and effectively;
- to support implementation action plans springing from the review;
- to develop and implement performance MIS and tracking systems across the Government and Municipalities; and
- to enable the municipalities to perform the role of a facilitator of economic growth in the changing scenario of globalisation and competition.

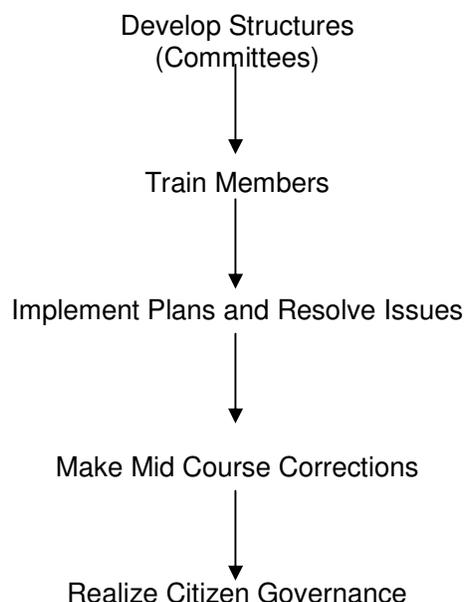
The SMART government agenda suggests a transformation of civic government into a citizen governance mode.

#### Structure of Citizen Governance

6.2 Citizen governance, as the term suggests, means involving the citizens wholly or partially in the decision-making activities of the government. This could be done in a number of ways,

- Involving citizens in the process of governance through citizen committees and citizen boards;
- Enhancing citizens' understanding, knowledge and ability to analyse and appreciate policy level issues;
- Encouraging participation of citizens in closed forums as well as open forums;
- Providing the citizens access to information;
- Facilitating participation in deliberations and considering citizens' suggestions as valuable.

6.3 The framework for citizen governance would involve the formation of Standing Committees on Citizen Governance which would contribute to policy, progress and review and broad implementation strategy. The steps would be as follows:



Process of Citizen Governance

6.4 The various steps involved in citizen governance are as follows:

- A. Community Profiling
  - B. Preparing the Ground
  - C. Field Work
  - D. Reporting
  - E. Action
- 
- A. Community Profiling
    - 1. Needs Assessment for Policy Planning
    - 2. Community Consultation
    - 3. Social Audit
    - 4. Community Resources
  - B. Preparing the Ground
    - 1. Initial Planning
    - 2. Making Contacts
    - 3. Identifying Resources
    - 4. Engaging Consultants or Researchers
    - 5. Developing a Management Structure
  - C. Field Work
    - 1. Information Gathering Tools
    - 2. Training of Staff involved in data collection
    - 3. Recording Information
    - 4. Analysing Information
  - D. Reporting
    - 1. Preparing a Field Report
  - E. Action
    - 1. Consultation over Key Issues, Priorities, Action to be taken
    - 2. Draft Action Plan
    - 3. Consultation over Draft Plan

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4. Production of Action Plan
5. Dissemination of Action Plan
6. Implementation
7. Monitoring and Evaluation

### Principles of Citizen Governance

6.5 The following are the broad principles of citizen governance.

1. Humanise: Frame issues in humane terms
2. Collaborate: Encourage citizen participation
3. Strategise: Use citizen experience and perspectives to evaluate the delivery of public services, encourage citizen feedback.
4. Organise: Make space for citizen groups, welcome results of collective efforts by citizen groups.

The purposes/dimensions of citizen participation are:

1. To be heard in meaningful way, to be treated as if their opinions and information mattered;
2. To influence problem definition as well as proposed policies;
3. To work with administrators and policy-makers to find solutions to public problems;
4. To have an equal voice in the policy process;
5. To allocate resources to support citizen participation efforts;
6. To reward administrators for working with citizens;
7. To create on-going project teams of citizens and administrators.

### The Role of Citizen's Charters

6.6 Citizens' Charters enable capacity building and serve as effective tools for transparency and enhancing accountability in the Urban Local Bodies. In order to improve systems all the Municipalities and Municipal Corporations have announced charters. There is an urgent need for enhancing service delivery capabilities for effective implementation of these charters.

### Why have a Citizen's Charter?

6.7 A Citizen's Charter is the expression of an understanding between the citizen and the public service providers about the quantity and quality of services citizens receive in exchange for their taxes. It is essentially about the rights of the public and the obligations of the public servants. As public services are funded by citizens, either directly or indirectly through taxes, they have the right to expect a particular quality of service that is responsive to their needs and is provided efficiently at a reasonable cost. The Citizen's Charter is a written, voluntary declaration by service providers about their service standards, choice, accessibility, non-discrimination, transparency and accountability. It should be in accord with the expectations of citizens. Therefore, it is a useful way of defining with users and others what service should be and what standards to expect. A further rationale for the Charters is to help change the mindset of the public official from someone with power over the public to someone with a care of duty in spending the public's taxes and in providing them with necessary services.

6.8 Appendix 2 provides some guidelines to promote citizen governance through the implementation of citizen's charters.

## **7. Conclusion**

7.1 In the light of the discussions in this paper, the key agenda for enhancing the effectiveness of municipal governance would include: (1) building effective and responsive

municipal institutions; (2) developing responsible municipal organisation capable of delivering civic services and infrastructure efficiently; and (3) improving accountability through mechanisms of citizen governance such as the establishment and enforcement of citizen's charters.

7.2 An agenda for institutional development for effective municipal governance would include the following:

- Enactment of modern municipal legislation aimed at enabling the municipalities to function as institutions of self-government and implement plans for economic development and social empowerment;
- Keeping the municipal functions clear and simple so as not to demand highly specialised administration and skill and ensuring that those functions which greatly spillover beyond municipal jurisdictions are not assigned to municipalities;
- Distinguishing between 'production' and 'provision' of public services and creating an enabling framework for public-private partnerships, privatisation and out-sourcing, where beneficial and feasible;
- Following the broad (Bahl-Linn) principles of assignment of revenues (taxes, user charges, fees, shared revenues, grants-in-aid, borrowings, etc.) to balance municipal responsibilities with finances;
- Matching the benefit areas with the financing areas as far as possible and avoiding assignment of taxes which can be easily exported to non-municipal areas;
- Most municipal functions being essential, adopting tax buoyancy and adequacy as the key criteria for choosing municipal taxes and providing fiscal autonomy to the municipalities to the extent possible;
- Allowing the municipalities to fix their own tax rates; lower and upper limits, if any, may be prescribed 'by law';
- Simplifying property tax system and providing for maintenance of property tax base adequately through indexing and regular valuation supported by appropriate legal safeguards;
- Fixing user charge for a service to equate the cost of its provision at the margin as far as possible;
- Addressing the objectives of equity and concern for the poor through subsidies targeted at the beneficiaries and not the services;
- Using specific benefit taxes and user charges for the provision of 'earmarked' services (water supply in particular);
- Adopting "users pay", "beneficiaries pay" and "polluters pay" principles; fiscal instruments to address both direct and indirect beneficiaries.

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- Making inter-governmental transfers including shares in state taxes and grants-in-aid formula based, not amenable to negotiation;
- Incorporating measures of optimal exploitation of 'own' taxes into the formula for transfer of funds from the central/state governments to the municipalities;
- Providing a system of addressing the vertical fiscal gap of municipalities by ensuring better matching between revenue sources and expenditure responsibilities and the horizontal fiscal gap, by a suitably designed grants-in-aid system;
- Adopting borrowing and user finance as the primary sources of capital funding in municipalities;
- Establishing state level financial intermediary and endowing it with appropriate capabilities with a view to promoting market access to the municipalities for financing of infrastructure;
- Developing service standards and unit costs for use in planning, programming, budgeting, and performance appraisal;
- Reforming budgeting, accounting and auditing procedures so as to promote accountability on the part of municipal officials and decentralise budget management to operational levels;
- Enabling preparation of city perspective, development and action plans, capital investment plan and budget and making a clear distinction between capital and revenue budgets;
- Developing a transparent two-way system of municipal accountability to the public and the higher levels of government through laws and regulations;
- Developing laws and guidelines on information gathering, dissemination, budgeting, accounting, financial reporting, contracts, dispute settlement, design of user charges and grants, audit evaluation, etc., to fully inform the public about the consequences of municipal decisions;
- Enabling the public to have free information and full knowledge of the role of the service providers, the cost of the services, the sources of their financing and the distribution of responsibilities, keeping in view the Freedom of Information Act;
- Empowering the community, neighbourhood groups and community development societies to undertake the implementation of urban poverty alleviation and environmental conservation programmes with the municipalities acting as facilitators;
- Defining state-municipal relationships clearly without ambiguity and providing for state intervention in municipal affairs only in exceptional cases.

7.3 An agenda for developing internal organisational capacity of municipal governments would include the following:

- Clarity of vision, objectives and commitment to address the overall challenges of urban sector at the highest authority levels;
- Strong business culture enhances chances of efficiency. A combination of business oriented culture and strong administrative leadership provides greater focus and clarifies accountability and capacity to take view of urban needs;

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- Location of authority vital issue. Decision making powers in the case municipal organisation is highly fragmented, for improving efficiency of the municipal organisation there is a need for decentralisation of authority and a greater decision making capability at the grassroots levels.
- Financial management of a large public agency like a municipal organisation deserves integrated direction by managers with a professional training and commitment. Financial viability based on vigorous exploitation of the local revenue base and sound financial management;
- Improving technical competence in the choice, design and execution of investment in infrastructure, and in its operation and maintenance;
- Improving human resources through training, process consultation, action research methods and role workshops;
- Improving responsiveness to the needs arising from urban growth, with the ability to plan the development of the city and its services ahead of, or at least in pace with demand;
- Sensitivity to the needs of the urban poor, and a weighting of public interventions to promote their access to shelter, basic services and employment; and
- Concern for environmental protection, through public service provision and regulation of the private sector.

7.4 An agenda for capacity building for citizen governance will include: preparation and implementation of Citizen Charters for all urban institutions, including municipalities, institution of participatory and transparent service delivery processes, developing and implementing an anti-corruption strategy, improving citizen interface by simplifying complicated citizen-involving processes, implementing Freedom of Information Act and instituting an effective grievances/complaints tracking and redressal system linked to a Call Centre arrangement.

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## Appendix 1 Building an Effective Organisation: Key Issues

### Clear Shared Purpose

1. This refers to what an organisation plans in response to or in anticipation of changes in its external environment/context. For example, what does the organisation want to do to respond to the needs/expectations of citizens and other stakeholders? Goals or purpose is the way the organisation plans to create unique value. The goals or purpose must be clear – people must agree on priorities. There must also be goal agreement among people. In an effective organisation, the goals or purpose must be characterised by the following:

- They must be the ones that the citizens, larger society or other stakeholders value. There must be congruence between the purposes and the stakeholder expectations and aspirations.
- They must be well articulated in the formal system for both the employees and citizens.
- People must understand, support and feel committed to the organisation purpose.
- Goals must be set with appropriate consultations, and open, free and frank sharing of information and views.
- Documents that list the purposes should focus more on substance than format. Emphasis should be on environmental realities and rational investment of valuable resources for sustainable development. The goals must contribute to the long term interests and viability of the organisation and the larger society.

### Organisation Structure:

2. As the work of an organisation is too large to be done by a single individual or group, structure divides tasks and then provides coordination. For purpose of achieving organisational purpose, specialisation is required, and structure provides the basis for specialisation. But as specialisation creates organisational boundaries that block communication and information flow, structure provides coordination, so that the interdependent parts work together effectively. As the organisation becomes larger and more complex, the number of interactions required to make things work increases dramatically. Decentralisation is, therefore required in the structure to cope with the challenges posed by size and complexity. At the same time, there are some aspects that may have to remain centralised to ensure coherent approach on certain aspects, such as regulation, technology, union relations, etc.

3. An effective organisation structure is characterised by the following:

- The actual functioning of the organisation is as per what has been prescribed. In other words, work is actually done and results achieved in line with what has been visualised in the structure.
- Delegation of authority/power is such that organisational members are able to make effective contributions.
- The structure is flat – there are no unnecessary layers of hierarchy that create hurdles to effective communication and decision making. A flat structure also contributes to greater feelings of autonomy and empowerment at operational levels.
- There are effective formal linking mechanisms. Links are the bridges connecting different functions/levels/groups to encourage collaboration and facilitate problem solving. These may include: teams, committees, task forces, which work on common opportunities or problems, and formal meetings to share information and ideas.
- Coordination is achieved through a variety of mechanisms. There is emphasis on team work, cooperation, sensitivity to other party's interests, fairness, sharing of each other's commitments, problems, and constraints, and careful planning to minimise future conflicts. Conflicts are resolved as far down the hierarchy as possible through

face to face meetings, and keeping in view the larger interests and goals of the organisation.

- To maintain flexibility, the organisation uses temporary structures to accomplish strategic tasks. For example, there may be decision making committees or task forces that work effectively to perform special tasks.
- Contracting out of non-core activities to enhance efficiencies, reduce costs, and make the organisation leaner.

#### Systems and Processes

4. While structure provides the framework or skeleton for organisational excellence, the systems and processes represent the muscle and organs. They are the critically important tools for doing work, moving information, making decisions, and implementing change. Excellent organisations pay extraordinary attention to work flows, policies, and operating procedures. For most employees, the systems and processes are a visible manifestation of what the leadership really cares about and how the organisation should be run. The formal and informal procedures that make an organisation function include: intelligence gathering and planning systems, budgeting systems, control systems, management information systems, performance measurement and development systems, training systems, reward systems, etc. We may keep the following criteria in mind for enhancing the effectiveness of systems:

- The systems should not only be oriented inwards to enhance efficiency, but also outward to increase responsiveness.
- The systems must work with reliable data on important aspects to increase the quality of decision making.
- Systems must contribute to careful data-based analysis.
- Systems must contribute to systematic performance reviews. Reviews should be used for discussing problems, sharing constraints and initiating appropriate mid-course corrective actions.
- The reward systems should look not only at the explicit rewards, but also at implicit rewards. We must examine whether people really value the rewards, and see them as linked to performance.
- The systems must be used in practice primarily for the intended purpose, and must not degenerate into empty rituals.
- There must be periodic audits of different systems to ensure that they continue to address the key challenges and concerns of the organisation.

#### Leadership Orientation

5. Experiences of successful organisations clearly show that previous ways of managing people are being radically transformed. Leaders are increasingly required to exhibit traits like empowering, listening, passion, energy, and the capacity to energise others. From an earlier orientation that was more focused on formal structure, control, short-term view, and acceptance of status quo, there is move to an orientation that focuses on people, inspires trust, has a long range perspective, and challenges the status quo.

6. Leadership orientation can be gauged from the patterns of actions of key leaders – for example, how they spend time, what signals they give of what is important, how much time and attention they actually spend on pursuing key priorities. Effective leadership orientation is manifested in the following:

- Leaders spend time to define the purposes well and embody the purpose in different projects and programmes.
- They protect the institutional integrity and order internal conflicts.
- They uphold the positive values of transparency, trust, external orientation, environmental scanning, experimentation, continuous improvement, service orientation, etc.

- They exhibit a bias towards action.
- Their actions are based on the foundation of core values.

#### Culture and Shared Values

7. Effective organisations create a positive culture built on a strong foundation of basic shared values. A well-defined, communicated and institutionalised set of core values establishes an ethical compass. These are fundamental ideas around which the organisation is built. Culture must be consistent with the organisational purpose and the environment. They are shaped by value based leadership. Progressive organisations communicate important values to employees to enhance organisational effectiveness. They use formal systems of the organisation to implement desired cultural values. The systems may include code of ethics, mission statement, training in ethical decision making, etc. Effective practices in this area include the following:

- A culture of dialogue and communication is institutionalised. Culture should value openness to multiple perspectives.
- There must be a spirit of achieving the best possible results within the given parameters.
- There must be support for risk taking, and willingness to try out new ideas.
- There must be transparency, trust and search for constant innovation.
- People must display integrity, and keep the interests of citizens always in mind.
- They must display responsiveness and cooperativeness in their dealings.
- These values must be reinforced through employee induction, training, leadership example, and other formal systems.

#### Building Skills and Motivation for Effective Performance

8. In a dynamic environment, an organisation must constantly upgrade its capability to manage the future. It must add new capabilities, new skills to take on new challenges. It must weed out the old skills (and their supporting systems and structures) to ensure that important new skills can take roots and grow. A number of initiatives can be taken to build skills and motivation for dealing with future challenges:

- The organisation must have well established processes for recruiting, developing, assessing, rewarding and promoting people.
- It must recruit professionals with appropriate qualifications and skills at key levels.
- There must be emphasis on building expertise at all levels.
- People must be moved rapidly to positions of real responsibilities. They must have assigned mentors and access to developmental opportunities.
- Roles should not be narrowly defined. Organisational members should have autonomy and have opportunities to exhibit creativity.
- The organisation should carefully induct newcomers and manage their careers.
- There should be thoughtful attempts to shape the basic values of the management cadre.
- The organisation should reward performance, innovations and contributions.
- Growth of key employees should be planned. The organisation should have a formal programme for fostering the process of developing organisational members.
- The organisational systems, processes, teamwork and leadership should be constantly upgraded through a variety of organisational development interventions.

#### Learning Organisation

9. There has been a great deal of interest in OD in the recent past on learning organisations. A learning organisation is an organisation skilled at creating, acquiring, and

transferring knowledge, and at modifying its behaviour to reflect new knowledge and skills. Learning organisations are those that constantly regenerate themselves in terms of capacity for meeting the demands of the context in which they are operating. As an institution operates in a dynamic environment, capacity building can be seen as a continuous process and by developing several processes and approaches institutions generate the ability to constantly rejuvenate themselves. The three aspects involved in a learning organisations are:

- Creating a shared sense of purpose by evolving a well-articulated change agenda that is also owned at all levels of an organisation;
- Generating a supportive environment for change by overcoming the tendencies towards excessive compartmentalisation, centralisation and bureaucratisation;
- Developing external and change orientation, influencing people's perceptions of the situation, elevating aspirations and expectations, and actualising potential by motivating people.

10. Learning organisations are skilled at five main activities:

- Systematic problem solving
- Experimentation with new approaches
- Learning from their own experience and past history
- Learning from the experiences and best practices of others, and
- Transferring knowledge quickly and efficiently through out the organisation.

By creating systems and processes that support these activities and integrate them into the fabric of daily operations, organisations can manage their learning effectively. Organisations must review their successes and failures, assess them systematically, and record the lessons in a form that employees find open and accessible. Organisations also need to learn from others. All learning does not come from reflection and self-analysis; sometimes the most powerful insights come from looking outside one's immediate environment to gain a new perspective. Organisations also need to transfer knowledge at all levels in order to be effective. For learning to be more than a local affair, knowledge must spread quickly and efficiently throughout the organisation. Ideas carry maximum impact when they are shared broadly rather than held in few hands. A variety of mechanisms spur this process, including written, oral, and visual reports, site visits and tours, personnel rotations programs, education and training programs, and standardisation programmes. Each one of the methods has distinctive strengths and weaknesses.

11. Thus certain cultural elements are built in the institutions, a culture that is willing to raise questions, a culture which is able to resolve conflicts constructively, and a culture which is able to have periodic audits of the key processes.

Source: Centre for Good Governance, Hyderabad

## **Appendix 2 Developing and Implementing Citizen's Charters**

### Components of a Citizen's Charter

1. There are five broad components to a Citizen's Charter as follows:

- Agreed and published standards for service delivery;
- Openness and information about service delivery;
- Choice for the citizen and consultation with users about service levels and quality;
- Courtesy and helpfulness in service delivery; and
- Provision of redress when services are not delivered to the published standards.

### Standards

2. The Charter should lay out explicit standards of service and publish them so that users understand what they can reasonably expect for each service. Standards should be SMART, or TRAMS, that is:

- Time bound
- Relevant
- Accurate
- Measurable
- Specific

Standards must be relevant both to the users and the service providers. They must relate to areas which are critical for the user. They should also be monitored periodically. Actual performance against standards must be published and independently validated. Standards should be specific and measurable

### Information and Openness

3. A key attribute of good service is that it should provide concise information to the users at the right time and at the right place. Full and accurate information should be published in plain language in the Charter about service levels and service quality to be expected and about who is in charge in case the service does not deliver to that standard. Publication of handbooks, guides, posters and providing information on websites are some of the ways of providing information.

### Choice and Consultation

4. The Charter should provide choice of services to users wherever practicable. There should be regular and systematic consultation with the users of the service. Users' views about services and their priorities for improving them should be taken into account in finalising standards. Service providers should frequently interact with citizens and stakeholders both through formal and informal channels.

### Citizen's Rights and Responsibilities

5. Citizen's rights should be balanced by their responsibilities. The Citizen's Charter should reflect this and seek citizens' involvement and co-operation in identifying these responsibilities set out in the Charter. For example, the Charter might set out that a given service can be provided within a certain timeframe, but only if the citizen cooperates with the officials concerned, for example, by providing the right information for a licence application.

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### Courtesy and Helpfulness

6. The Charter should help embed a culture of courteous and helpful service from public servants who should wear name badges. The expectation should be that services are available equally to all who are entitled to them and are run to suit their convenience. Government departments should provide courteous and helpful service to the citizens without discrimination. 'May I help you' counters should be available at all offices to the citizens to help them understand the procedures and what is expected of them. These should cater to disadvantaged groups and minorities in particular.

Courtesy is evidenced by :	Good Service is evidenced by :
Welcoming citizens visiting the Government offices.	Doing what is needed.
Receiving citizens with a smile.	Assisting and giving advice.
Apologising for delayed attention and saying sorry if you are unable to help.	Providing information and solving problems.
Expressing thanks.	Referring the citizen to a superior, if unable to provide the right information to him/her.

### Grievance Redressal and Complaints Handling

7. Service providers should welcome complaints as a means of getting feedback in order to improve services. If things go wrong, an apology, a full explanation and a swift remedy should be offered. Redressal systems should be quick, consistent, simple, and focussed on the individual. There is a strong link between the provision of good quality service and dealing well with complaints. This relationship is based on two main elements. Firstly, by facilitating and responding to complaints, the causes for complaint can be reduced. Any organisation that aims to provide good quality service must understand clearly when and where it is failing. The information generated by complaints assists the organisation to put matters right for the customer. Secondly, being able to identify 'trends' in complaints helps the organisation to resolve systemic and recurring problems for the benefit of all its customers.

### Developing and Implementing the Charter

8. The critical success factor in the entire Charter initiative is developing close relationships with stakeholders throughout the cycle of the charter, from inception and development of standards to raising awareness, to monitoring and reviewing, and determining appropriate compensation for redressal of grievances.

### Prerequisites for Developing a Citizen's Charter

9. There are many features within and outside an organisation which can improve its success.

#### Internal characteristics include:

- The organisational culture. It must be a culture that welcomes feedback, criticism and citizen interaction. That is, it should be an open, honest and flexible culture, where staff are confident to admit mistakes and are encouraged by their managers and where managers allow people to learn from mistakes. The culture must embrace the Customer and this must be central to government/organisational philosophy;
- Active involvement and sponsorship from senior management in favour of the Charter initiative;
- Performance measurements and feedback systems should be clearly laid out; and

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- A sense of duty and civility among officials to equip them with the means of implementing the Charter.

External factors that can help the Charter to have a significant impact include:

- A strong civil society movement such as consumer and citizen groups;
- Active involvement and sponsorship from political leadership in favour of the Charter initiative; and
- Legislative changes in relevant areas if required.

How to develop the Charter?

10. Before undertaking a Citizen's Charter initiative, an organisation must be prepared to take on a major project. It must ensure it is clear about why it is developing a charter and establish the prerequisites for implementation. The organisation should start by answering the following questions:

- Do we need a Charter?
- What is the objective and the scope of a Charter for our organisation?
- Are we clear about who our stakeholders are and how to get them engaged in the Charter initiative with a sense of ownership to it?
- How should we involve staff and take into account their views on what the Charter should cover?
- How do we establish service standards and how do we relate those standards to existing performance criteria of the organisation?
- What institutional infrastructure and governance arrangements are required to develop the Charter and are they in place? and
- What are the resource implications of developing a charter – in terms of time and money (including to what extent can we afford to pay compensation to citizens in case of failure to deliver and how will we provide it)?

Formats and Designs

11. The format and design of the Charter will influence the attitude of the public to the Charter initiative as it will probably establish their first impression of it. The presentation of the Charter should make people want to use it and make it easy for them to do so. Therefore, some key points in the Charter design are as follows:

- Keep the Charter short and punchy;
- Use plain language, avoiding legalese and jargon;
- Produce the Charter in different languages so that all your citizens can understand - and advertise this to them;
- Use a common typeface throughout and just one font in each block of text; and
- Make the Charter attractive but not too glossy – the front cover should draw people in but they should not be asking questions about how much of their money has been spent on producing the document.

Identifying and engaging with Stakeholders

12. This is one of the most important aspects of developing and implementing a Charter. Without it the Charter is just a statement of intent rather than a live, meaningful – if voluntary – contract between the state and the citizen. This is a time-consuming and costly exercise

and should be carefully planned. A stakeholder is someone who has a stake or interest – direct or indirect - in the service being delivered, that is anyone who benefits from or has a direct interest in the service. There is likely to be a wide range of stakeholders:

- Users – the citizen representatives of the users, user groups, citizen advocacy groups, consumer organisations, parents (in the case of schools), politicians, users themselves and past and potential users;
- Employees and employee representatives – who are involved in delivering the standards set out in the Charter; and
- Suppliers – those involved in providing parts of the service, e.g., the stamped paper for certificates, the engineers involved in providing service.

Once the stakeholders are identified, the next step is to institutionalise links with them and bring them in to the organisation. If there is a Nodal Officer in the organisation in charge of the Charter, that person should be responsible for devising a 'stakeholder engagement plan'. You should meet with them at least twice during the period of developing the charter, firstly to ask their views on what should be included, and secondly to show them the charter that has been developed as a result of their views. You should engage them periodically thereafter, especially at the time of review of the charter, which should take place annually. Make sure you meet them during or soon after the busiest period of your work so that they are commenting on the service at its most stretched. Keep the agenda open so that citizens feel they have been consulted and listened to.

#### Establishing Service Standards

13. Service standards are effectively the backbone of the charter. It is therefore extremely important that they are developed properly according to the following guidelines:

- They must be developed in consultation with citizens, otherwise the standards set may not relate to aspects of service that citizens prioritise, or they may be set either too low or too high;
- They must be developed in collaboration with planning and performance departments so that other performance indicators are aligned with service standards published in the Charter; and
- Standards must conform to TRAMS, that is, they must be Time bound, Realistic, Achievable, Measurable and Specific. If not, the citizen will become cynical about the Charter. For example, the standards should not say that officers will 'do their utmost,' a statement that is neither specific nor measurable.

#### Establishing Institutional Structure

14. It is important to have a recognised focal point of responsibility within a department for the Charter. An internal committee or taskforce will help the department identify and develop a plan to engage with stakeholders. Having public relations functions will help raise awareness of the charter. Likewise, some kind of publications facility or credit line with publisher will ensure that there are plenty of copies of the Charter.

#### How to Implement the Charter?

12. There are five broad areas involved in implementing the Charter. They are:

- Generating awareness of the charter;
- Establishing Citizen friendly devices to bring the Charter to life and win citizen confidence;
- Establishing a complaints handling system;

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- Establishing feedback mechanisms; and
- Evaluating and reviewing the Charter.

### How to Generate Awareness of Citizen's Charters?

13. Generating awareness of the Charter is related to the critical success factor of the Charter discussed above, namely that of developing a dialogue with citizens about their needs and expectations of public service. Regular dialogue with citizens' advocacy groups and Community-based Organisations (such as user groups) and directly with citizens will generate awareness effectively and cheaply as these groups have their own internal communication networks. Other easy ways of generating awareness include simple details like ensuring that copies of the Charter are widely available and are distributed at helpdesks and in offices with a public interface. Similarly, exhibiting Charter standards in offices on the walls can put no citizen in any doubt about the Charter's existence. A formal process of review of the level of awareness should be undertaken through occasional surveys about the Charter. This should lead to a review of strategies used to raise awareness of the Charters and selection according to the needs profile of the users. These might include:

- The visual: films, TV, street plays, posters;
- Open house meetings and face to face discussions;
- Audio messages: Radio, public announcements; and
- Electronic: Touch screen kiosks and websites.

### How to Establish Citizen-friendly Devices to Bring the Charter to Life and Win Citizen Confidence?

14. If the development stage of the Charter has been sensibly executed, the implementation phase will be straightforward. This also requires putting people first in all policy making, procedure reviews, cost benefit analysis, etc. Some additional, practical means of making the citizen feel involved and important in the delivery of service are as follows:

- May I help you counters;
- Biannual customer needs analysis in collaboration with user groups;
- Citizen Information Centre;
- Direct Helpline;
- Publication of Handbooks and Guides on the service provided and the citizen's obligations and information they need to provide;
- One-stop-shops where citizens can do all their transactions in one place; and
- Direct engagement with the customer, for example, telephoning or writing to them to seek their suggestions; and inviting them to your office to show them around.

### How to Introduce Effective Complaint Management?

15. The basic steps are

- Direct engagement with the customer, for example, telephoning or writing to them;
- Designate a location in the office to receive complaints and make it accessible and visible to customers;
- Acknowledge complaints:
  - Personalise the response
  - Talk to customer if possible.

- Use letters;
- One-stop-shops where citizens can do all their transactions in one place;
- Develop a system for record-keeping;
- Process, record, investigate and analyse complaints;
- Keep the customer informed of the progress; and
- Periodically analyse the complaints in aggregate to identify trends.

#### How to Get Feedback?

16. One of the most important prerequisites for getting feedback is to make it easy for the citizen to provide it. This includes, among other things, ensuring that accountable officials are available to see the citizens at the times specified. The different routes for feedback should include a mixture of the following:

- Over-the-counter at the service outlets;
- By toll-free telephone number;
- Through regular post, e-mail, fax and telephone;
- Via community and consumer organisations;
- Consultative committees; and
- Through periodic written surveys.

#### How to Evaluate, Monitor and Review?

17. It is critically important that the evaluation system for performance against Citizen Charter standards is congruent with the department's broader performance information system. That is, the standards in the charter should not be different from those of individual officials as per their job description or as set out in their departmental indicators. Other forms of evaluation, such as exit polls for user groups and use of surveys and feedback forms give a good indication of the quality of services. Evaluation should take place regularly, ideally quarterly. This should be IT-enabled so that data can be analysed in real-time and reports generated automatically on service failure against the Charter standards.

18. Self-assessment should be practiced with staff to assess how well they think they are delivering services. This can be compared against feedback from customers. External feedback can take a variety of forms:

- Face to face feedback with users visiting the office;
- Feedback forms provided to users at the counter;
- Using the services of voluntary organisations (for example, research organisations, consumer activists, universities, colleges, etc.);
- Newspaper columns – as per Delhi press which allows a service provider to conduct a free survey for a month on citizen's feedback on the service; and
- Charter Mark system – a formal way for the government to provide feedback through competitive benchmarking of the Charter with those of other organisations.