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**ASSESSING CAPACITY ENHANCEMENT NEEDS FOR PUBLIC-PRIVATE-
PARTNERSHIP IN LOCAL GOVERNMENT:
A CASE OF URBAN LOCAL BODIES IN ANDHRA PRADESH, INDIA**

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**ASSESSING CAPACITY ENHANCEMENT NEEDS FOR PUBLIC-PRIVATE-
PARTNERSHIP IN LOCAL GOVERNMENT:
A CASE OF URBAN LOCAL BODIES IN ANDHRA PRADESH, INDIA**

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Introduction

1.0 Law, justice and order have been the traditional functions of the State. A 'Welfare State' has a much-expanded role ensuring its citizens public utilities like road, power and water supply. The state also provides merit goods such as education and health services that have positive externalities. Under the Constitution of India, it is the federal states that are called upon to shoulder most of these responsibilities. The Government of India has been supplementing the efforts of the State Governments in these welfare functions.

1.1 Most of these services have been traditionally provided through in-house facilities of governments, financed and managed directly by them. Public-Private-Partnership (PPP), on the other hand, is a relatively new approach under which services are delivered by the private sector (non-profit/for-profit organizations) while the responsibility for providing the service rests with the government. This arrangement requires the government to either enter into a "contract" with the private partner or pay for the services (reimburse) rendered by the private sector. Contracting prompts a new activity, especially so, when neither the public sector nor the private sector existed to provide the service.

1.2 In regard to India, it is worth mentioning that 'community support' for government programmes was sought during the First Five Year Plan for construction of irrigation canals. During the Seventh Plan, the Ministry of Rural Development set up Council for Advancement of People's Action and Rural Technology (CAPART) for implementing rural development programmes through non-profit agencies. The Ninth Five Year Plan explicitly recognized the role of NGO's/Voluntary Organizations for social development. Furthermore, the system of extending grants-in-aid to educational institutions by the Ministry of Human Resources Development (Government of India) has been a decade old practice.

1.3 Three things generally distinguish PPP from direct provision of services by governments, namely (i) a partnership based on well articulated 'contract' (ii) a long term relationship between the public and private sector (iii) flexibility and responsiveness in decision making. It is argued that PPP leads to improvement in both 'efficiency' and 'effectiveness' in service delivery. PPP, moreover, has had its origin in the general distrust of bureaucracy and the oppressiveness of state. Involvement of community, family neighborhoods and voluntary organizations under PPP is observed to have led to empowerment of citizens.

Public-Private-Partnership - The Concept

2.0 Public-Private-Partnership or PPP is a mode of implementing government programmes/schemes in partnership with the private sector. The term private in PPP encompasses all non-government agencies such as the corporate sector, voluntary organizations, self-help groups, partnership firms, individuals and community based organizations, PPP, moreover, subsumes all the objectives of the service being provided earlier by the government, and is not intended to compromise on them. Essentially, the shift in emphasis is from delivering services directly, to service management and coordination. The roles and responsibilities of the partners may vary from sector to sector. While in some schemes/projects, the private provider may have significant involvement in regard to all aspects of implementation; in others s/he may have only a minor role.

2.1 The potential benefits expected from PPP could be mentioned as below:

- Cost-effectiveness- since selection of the developer/ service provider depends on competition or some bench marking, the project is generally more cost effective than before.
- Higher Productivity- by linking payments to performance, productivity gains may be expected within the programme/project.
- Accelerated Delivery – since the contracts generally have incentive and penalty clauses vis-à-vis implementation of capital projects/programmes this leads to accelerated delivery of projects.
- Clear Customer Focus - the shift in focus from service inputs to outputs create the scope for innovation in service delivery and enhances customer satisfaction.
- Enhanced Social Service- social services to the mentally ill, disabled children and delinquents etc. require a great deal of commitment than sheer professionalism. In such cases it is Community/Voluntary Organizations (VOs) with dedicated volunteers who alone can provide the requisite relief.
- Recovery of User Charges- Innovative decisions can be taken with greater flexibility on account of decentralization. Wherever possibilities of recovering user charges exist, these can be imposed in harmony with local conditions.

2.2 Nature of Collaboration

The government may collaborate with the private developer/service provider in any one of the following ways:

- As a funding agency: providing grant/capital/asset support to the private sector engaged in provision of public service, on a contractual/non-contractual basis.
- As a buyer: buying services on a long term basis.
- As a coordinator: specifying various sectors/forums in which participation by the private sector would be welcome.

2.3 The funding pattern and collaboration between the public sector and the private sector could take any one of the following forms:

- (i) Public funding with private service delivery and private management.
- (ii) Public as well as private funding with private service delivery and private management.
- (iii) Public as well as private funding with public/private service delivery and public/private/joint management.
- (iv) Private funding with private service delivery and private management.

Categories (ii), (iii) and (iv) have a special appeal as they promise to supplement government resources through private participation.

Principles of PPP

2.4 PPP involves a long-term relationship between the public sector and the private sector. While the collaboration between the two, may take various forms like buyer-seller relationship, donor-recipient relationship, the most stable partnership is in the form of 'contract' binding on both the parties.

Local-Self Governments and PPP

3.0 PPP is a suitable method of delivering services commonly provided by local governments and are generally applicable to most components of service delivery. The types of services that could be provided through PPP will, however, vary from one local government to the other based on their needs and priorities.

3.1 Local governments may consider partnerships with the private sector when any of the following circumstances exist:

- (i) if there are opportunities to foster economic development.;
- (ii) if the involvement of a private partner would allow the service or project to be implemented sooner than if only the local government were involved;
- (iii) if the project or service provides an opportunity for innovation.
- (iv) if a private partner would enhance the quality or level of service from that which the local government could provide on its own;
- (v) if there is an opportunity for competition among prospective private partners;
- (vi) if there is support from the users of the service for the involvement of a private partner;
- (vii) if the output of the service can be measured and priced easily.
- (viii) if the cost of the service or project can be recovered through the implementation of user fees;
- (ix) if there is a track record of partnerships between local government and the private sector;
- (x) the service or project cannot be provided with the available financial resources or expertise of the local government.

3.2 While better physical infrastructure augments productivity (and lowers production costs), it is no guarantee to sustainable development in the absence of investment in human capital. After all, it is the man behind the machine who is important. The UN's Millennium Development Goals aims at (i) eradication of extreme poverty and hunger, (ii) achievement of universal primary education, (iii) promoting gender equality, (iv) reduction in child mortality (v) improvement of maternal health, (vi) combating HIV/AIDS, malaria and other diseases, (vii) ensuring environmental sustainability and (viii) developing a global partnership for development, including partnership with private sector and civil society in technological development. All these objectives are to be achieved by 2015.

3.3 Developing countries need the infrastructure and organisations, which can help them to develop infrastructure projects, manage their implementation and operation and finance them. This is more so in case of urban infrastructure development. Five recent important developments in urban services delivery can be cited here:

1. The changing role of the government in urban services delivery due to the effects of decentralisation, which resulted in a new legal framework and often in new organizations.
2. The increasing importance of public-private partnerships (PPP) in providing urban infrastructure and in improving the delivery of urban services.
3. The increasing role of the private sector finance in urban infrastructure development.
4. The necessity to reform the administrative and financial system at the municipal level, among others because of the increasing importance of the principles of good and effective governance.
5. The new role of financial intermediaries, like State level financial organizations (SLFIs), for example in the Indian situation.

3.4 From the municipal perspective, particularly those metros/cities/towns covering extensive areas, with large problems and substantial budgets, the policy environment for private sector participation is providing a shining light, a means to address the insurmountable tasks of urban management. Yet for the weaker municipal relatives the

enabling environment makes less difference. Their lack of internal capacity itself seemingly excludes them from the opportunity to improve their capacity through the development of effective public-private partnerships. Even if they had the mind for pursuing a private sector initiative and had some knowledge of the policy and capacity building context, it is unlikely that they would be able to gather private sector confidence or access the support available to formulate initiatives. Thus to make PPP an inclusive approach, it is imperative that capacity enhancement needs for different categories of municipalities be ascertained and an appropriate strategy for capacity building be formulated.

Key Issues in PPP Implementation in the Urban Sector

4.0 Before attempting to model a strategy for enhancing municipal capacity to handle PPPs, it is worthwhile to look at the following issues specific to the PPP implementation in urban sector:

- Municipal officials in developing countries are not well versed and prepared to negotiate with private partners about Public-Private Partnerships in the urban infrastructure sector.
- Different forms of Private Sector Participation all have their specificity: Management Contracts, Concessions, Lease Contracts, Service Contracts.
- More private sector involvement requires an Independent regulator, which requires knowledge of what can be regulated and how fine one can tune (regulatory economics).
- More PPPs mean more Procurement rules, Bidding and tendering processes.
- Most countries do not have a clear view on the role of Government and Private parties.
- There is no clarity regarding the social, economic and environmental aspects of PPPs.

Public-Private-Partnerships: Key Success Factors

5.0 Based on the above discussion, we can now see some of the factors that need to be in place to encourage effective public-private-partnerships.

5.1 The key to public-private partnerships for urban sector infrastructure development lies in the ability of local participants to induce and sustain a collaborative process involving a wide variety of organizations, groups and individuals in pursuit of a common goal. Abilities, in this sense, are both harnessed and developed in a virtuous cycle of personal and organizational development. But the impact of the broader context must be taken into account. There must be incentives for participation and a stable set of 'rules of the game'. Patent and property rights frequently need to be defined and enforced. The capacity and independence of the judiciary can give participants more protection against arbitrary action and predatory behavior. Efforts also need to be made to limit the impact of politicization on such arrangements. In general, the risks especially for the private sector participants need to be managed carefully.

5.2 Effective public-private partnerships need to be designed and managed to achieve two objectives. First, they must balance the need to produce both public value and private gain if they are to be sustainable. And second, they must serve a learning function which allows participants and stakeholders to build the collaborative and technical skills which the wider community needs. Such partnerships should be seen as a space and an opportunity to create new meaning and engage in collective inquiry rather than simply as a technique to use existing skills or fix old problems. Making a systemic impact may not be the immediate task but it should be seen as an indirect but essential outcome.

5.3 We now know that a critical success factor for effective public-private partnerships is improved government accountability and performance. Governments such as municipal councils must be able to understand costs and performance standards. They must be able to structure performance contracts in a way that can create both incentives for and control over the behavior of private sector firms. They must have an effective monitoring capacity. They must show sufficient stability and consistency to engender a sense of trust in outside groups

with whom they have co-producer relationships. They must operate with more accountability and transparency. And they must be ready to involve co-producers as partners rather than passive clients. In short, such arrangements mean that state agencies have to rethink not only their own role in society but also the ways in which they are organized.

5.4 Similarly, private firms must do some things differently. In the new partnerships, they have a new role in demand-making for policy change in addition to carrying out operational tasks. They frequently must form alliances and networks with other private sector organizations. They must begin to communicate more with the public and take the social impacts of their work into account. And they must develop a wider sense of their role in capacity development.

5.5 The global spread of public-private partnerships and the emerging power of information technology allows analysts and practitioners to trade insights and relevant experience. Support for this kind of networking is rapidly replacing the more conventional approaches to technical assistance.

Situation in India

6.0 Government of India, during 2004-05, as is evident from the budget, has allocated a large sum on infrastructure services, although they fall short of the requirements in terms of quantity and quality. It therefore becomes necessary in such a situation to ensure that the expenditure incurred is best utilized. Moreover, the services so provided are mostly in-house dependant on the salaried staff. Limitations of this system have often been pointed out. The World Development Report 2004 ('Making Services Work for Poor People'), thus observed, 'In random visits to 200 primary schools in India, investigators found no teaching activity in half of them at the time of visit'. PPP is an alternative to the traditional approach of providing services through in-house facilities. Community participation through supervision of schools and involvement of non-profit service agencies in providing social services is being increasingly favoured and encouraged by the governments. The different Ministries of Government of India, have now begun implementing their various schemes through PPP.

PPP in the Municipal Sector in Andhra Pradesh State

7.0 The State of Andhra Pradesh in India is one of the fastest growing and reforming States in the Country. It is the fifth largest State in the country in terms of area and contains 117 urban local bodies including 7 large corporations. Around 27.08 % of the total state population resides in the urban areas. The Government of Andhra Pradesh has initiated a host of reform measures in the urban sector. Select case studies are presented below which describe in brief the working of PPP models in the municipal sector in the State.

Outsourcing of Local Government Services: A Best Practice of PPP in Government of Andhra Pradesh, India

7.1 A key feature of municipal reforms in Andhra Pradesh has been the engagement of the private sector to carry out some basic municipal services through outsourcing agreements. On an average in 108 ULBs 31% of civic services are privatised like lifting and transporting of garbage, night sanitation, desilting of drains, maintenance of street lighting, maintenance of parks and annual exhibition, finalisation of accounts, collection of advertisement tax etc. Outsourcing of civic services has improved from 20% to 31% in 2002-03 when compared to 2001-02.

Situation before Outsourcing:

The practice of outsourcing civic services has come into force from 1998-99 on a large scale. The urban local bodies faced a lot of problems prior to outsourcing:

- There were regular complaints regarding the quality of service provided by the urban local bodies;

- Lack of discipline in the staff and poor monitoring and supervision led to poor quality of works;
- Regular work was hampered due to unnecessary interference by trade unions;
- Many times proxy workers reported for duty in place of the regular workers. The municipality was unable to take any administrative steps because of the trade unions. These proxy workers worked for 2-3 hours. Thus delivery of services was not proper and there was loss of municipal funds as value for money was seldom realised;
- Parks and play grounds presented a sorry state;
- Improper night patrolling, lack of coordination between the electrical and municipal staff, improper planning and lack of inventory led to only about 80% of the street lights functioning during the night. In smaller municipalities the situation was worse with about 30% of the lights not functioning for weeks together;
- In transportation of drinking water from the ULBs to un-served areas through water tankers, there was pilferage and mis-utilisation of funds by wrong recording of the number of trips made.

The Adopted Process for Outsourcing:

The outsourcing processes followed in the Urban Local Bodies in Andhra Pradesh are as sited below:

Use of Unit Rate System as done in Municipal Corporation of Hyderabad - The Municipal Corporation of Hyderabad has introduced the Unit Rate Contract System with a view to improving the quality of public works by private contractors. The Corporation has about 1500 registered contractors, who are eligible for tendering for municipal works. Earlier, certain groups among the contractors used to form cartels, bid low rates for as many works as possible, get works allotted to them based on lowest tender norm, create a monopoly, and resorted to malpractices like delay, pressure-building and litigation. This resulted in poor quality of work and prolonged court cases. To address the problem, the Municipal Corporation has introduced the Unit Rate system. For different types of works, open tenders are called for constituent work components. The rates quoted by contractors for each component are compared and unit rate for the same is arrived at taking the minimum amount quoted as the unit rate. Thus, if a work has components A, B, C, D, etc., the basis of work allotment under the standard tendering system and unit rate system will be as follows:

Standard Tendering System: Minimum (A+B+C+D+....) for each work

Unit Rate System: $\text{Min (A) + Min (B) + Min (C) + Min (D) + ..}$
for a standard work - to be applied to all similar works with pre-qualified or empanelled contractors selected on lottery basis or by a Committee

Under the unit rate system, contractors are allocated works in turn on lottery basis. Thus, no single contractor is in a position to monopolise as his turn returns only after all the registered contractors in the queue get a chance. Contractors executing low quality work are black-listed and are not allowed to participate in the unit rate process.

The Municipal Corporation of Hyderabad follows the Unit Rate system for the vast number of small homogeneous local works. For the small number of major works, the procedure of National Competitive Bidding is chosen. The Unit Rate system has given a blow to the monopoly and blackmailing practice of some local contractors. It has also contributed to improvements in work quality and savings by minimising the cost of notifications in newspapers.

1. Calling for open tenders through proper advertisement. In appraising tenders or bids the factors of quality, suitability, reliability and services are taken into account. The best possible bid is selected.
2. Community contracting is a novel scheme implemented by the Municipal Corporation of Hyderabad. The women's groups are the direct contractors to the Corporation and they no longer operate through middlemen. As stipulated by the scheme, the women organise themselves into a thrift and credit group, which decide on the monthly amount to be saved per family. Group savings are used to mobilise credit from banks for members to take up income generation activities and to meet family exigencies.
3. Contracting out directly to cooperative societies formed by dependents of municipal sanitary workers. Entrusting the work to the public in the area by encouraging them to take up door-to-door collection of garbage by appointing their own sanitation workers. This scheme was also started by the MCH. The municipality provides a tricycle, costing Rs.4500 (about \$100), free of cost, to a colony/group of 100-150 houses. The latter engage a rag picker for collecting the garbage from their doorsteps every day and pay him @ Rs.10 per household per month. By adopting this scheme, the people get a garbage-free locality and a poor rag picker gets gainful employment. This scheme is called Voluntary Garbage Disposal (VGD) scheme/ the civic-EXNORA. The erstwhile garbage bins from VGD colonies are removed and the collected garbage is deposited at one convenient spot by the tricycle rickshaw puller. Prompt and timely lifting of this garbage by MCH vehicles is ensured every day. Currently about 500 Resident Welfare Associations (RWAs) have adopted this scheme and are operating about 700 tricycles.

Impact of Outsourcing:

- Reduction in Establishment Expenditure: As a result of privatisation of civic services, expenditure on establishment has reduced on an average from 37.92% to 24.87% of the total expenditure;
- Quality of civic services has improved to the best satisfaction of the public in the areas privatised;
- Realisation of value for money spent;
- People's participation in administration is ensured;
- Improvement in the image of the urban local bodies;
- Effected lot of savings in the Municipal expenditure on civic services;

Year	Pay and Allowances of Municipal Staff	Total Expenditure (Rs. in Lakhs)	% of Pay and Allowances to Total Expenditure
1992-93	11225.83	29601.41	37.92%
1993-94	12905.59	36165.92	35.68%
1994-95	14511.77	40932.29	35.45%
1995-96	15815.49	43943.24	35.99%
1996-97	17543.60	52273.71	33.56%
1997-98	19064.92	62618.55	30.45%
1998-99	21968.59	75245.96	29.20%
1999-00	25563.74	97793.51	26.14%
2000-01	30739.09	97568.14	31.51%
2001-02	31407.86	117650.56	26.70%
2002-03	35045.63	140894.21	24.87%

Some of the Outstanding Practices in Outsourcing in Specific Cities in Andhra Pradesh State are as follows:

1) Privatisation of Sanitation -- the case of Municipal Corporation of Hyderabad:

The Municipal Corporation of Hyderabad is the first Corporation in the country to adopt a unique system of privatisation of sanitation called the "Unit System". Under this system, the entire area of Hyderabad is divided into uniform units for sweeping and garbage lifting purposes. Each uniform unit has a sweepable road length of 7-9 km. and garbage generation to a tune of 7-8 metric tonnes. The cost of sweeping the entire area in the unit and lifting the entire garbage is calculated by MCH based on engineering schedule of rates and the unit cost is determined. The units are allotted to different pre-qualified contractors, invited through an open notification, at the same cost, on a lottery basis. The performance measurement and monitoring systems are very strict with the provision of heavy penalties for non-performance. As of today, about 60% of garbage sweeping/lifting in the city is privatised. In the MCH sanitation contract has been assigned to 14 DWCUA Self Help Sweeping Groups. Tipper lorries have been provided to 8 Groups with bank loan assistance. Further, community sanitation has also been introduced in 299 slum areas involving the local Self Help Community based organisations where MCH has provided 840 tricycle rickshaws free of cost under Voluntary Garbage Disposal Scheme.

The outsourcing of sanitation in unit rate system is simple and has proved advantageous as compared to the conventional tender system due to the following reasons:

- (1) The possibility of some tenderers quoting very less rates, bagging the contract, forming a cartel and later not performing well is eliminated.
- (2) A healthy competition is generated among different contractors as the units are uniform, the contractual amounts are equal and specifications in the unit cost are clear.
- (3) The monitoring is scientific with both quantity and quality indicators adopted for gauging performance. The unit contractors give undertaking to follow the unit specifications and abide by the performance requirements.
- (4) Heavy penalties including termination of contract are contemplated for non-performance based on objective considerations.
- (5) Good and performing contractors who fail to obtain work on contract basis are kept on waiting list so that they can be assigned units in the event some contracts are terminated or special units are created.

In the Municipal Corporation of Hyderabad 75% of the city sanitation is privatised covering more than 31 lakh population effecting a saving of 25% on expenditure.

As a result of privatisation of civic services, expenditure on establishment has reduced on an average from 45.21% to 23.89% of total expenditure.

Year	Pay and Allowances Of Municipal Staff	Total Expenditure (Rs. In Lakhs)	% Of Pay and Allowances To Total Expenditure
1992-93	2774.00	6136.32	45.21%
1993-94	3467.86	9651.39	35.93%
1994-95	3754.70	11767.53	31.91%
1995-96	4206.38	11072.81	37.99%
1996-97	4734.67	12284.03	38.54%
1997-98	5109.88	17114.33	29.86%
1998-99	5949.16	19444.18	30.60%

Year	Pay and Allowances Of Municipal Staff	Total Expenditure (Rs. In Lakhs)	% Of Pay and Allowances To Total Expenditure
1999-00	7087.42	24603.25	28.81%
2000-01	7827.40	31324.44	24.99%
2001-02	7814.02	40478.22	19.30%
2002-03	10003.43	41868.25	23.89%

2) Zero Garbage Concept - the case of Guntur Municipal Corporation:

Guntur Municipal Corporation consists of 45.7 sq. km., with 3400 km. surface (open) drains and 1600 km. of roads. The population of Guntur Municipal Corporation as per 2001 census is 5,11,993. The city generates 350 MTs of garbage daily. Guntur Municipal Corporation is maintaining sanitation to the satisfaction of the public and through out the year, the Corporation is maintaining the city as "garbage free city".

Cleaning of roads and drains - Daily, the sweeping of all main roads, market places and extension areas is being done by 1171 private workers and thus the privatisation of sanitation is done in 60% of the area. The lanes and by-lanes are swept by 788 permanent workers and the area covered by permanent workers is only 40%. The total expenditure comes to 71.78 lakhs. Had the Corporation engaged permanent employees, the expenditure would have been to 100.81 lakhs. By privatising the sweeping and drain cleaning in 60% of the area, there is saving in expenditure by Rs.29.03 lakhs per month.

Garbage lifting - Garbage lifting is being done daily by 35 tractors. Of these 35 tractors, 34 have been engaged on contract basis, covering 97% of the work, and one municipal tractor does 3% of the work. The total expenditure per month is 9.84 lakhs. Had the Corporation engaged municipal tractors, the expenditure would have been Rs.19.60 lakhs. By privatising garbage lifting the saving in expenditure to the Corporation is Rs.9.76 lakhs per month. Thus the total saving per month to the Corporation by privatisation is Rs.38.79 lakhs.

Garbage Collection at the Doorsteps of the People - The Corporation has introduced 190 tricycles since the last one year, to collect domestic garbage in two bins, red and green. The biodegradable garbage is being collected in the Green bin and the rest of the refuse into the Red bin at the doorsteps of the public. The biodegradable garbage is utilised for vermi-composting. This activity prevents the households from throwing their solid waste on the streets and drains and prevents the overflowing of drains.

3) Bringing Life into Dead Investment – The experience of Visakhapatnam Municipal Corporation:

Visakhapatnam Municipal Corporation (VMC) has constructed 20 Kalyanmandapas (Community Halls) over the years with an average unit cost ranging between Rs.10 to Rs.20 lakhs. The state of the Kalyanmandapas showed a very dismal picture – most of them crying for want of maintenance, lack of sanitation and unhealthy conditions prevailed all over. Most of the Kalyanmandapas instead of being a source of revenue for the corporation proved to be a major drain on its scanty resources. In order to rectify this and see that the Kalyanmandapas provide material returns, VMC decided to privatise their maintenance. The corporation went for a tender-cum-open auction for all the Kalyanmandapas after setting a few conditions like-

- The daily rent for each of the halls were fixed so that the private party does not charge more and is unable to fleece the citizens.

- The tender cum open auction was conducted for a non-refundable goodwill amount wherein the highest bidder could participate through the open auction or in the closed tender and whichever gave more return to the corporation was considered.

Conditions with respect to payment of goodwill amount and earnest money deposit were also enforced. The lease period was initially fixed for three years, which can be renewed for another three years after paying 33.33% excess over the existing amount. All the incidental expenses pertaining to water supply, sanitation, electricity, repairs and maintenance were to be borne by the successful bidder.

VMC was able to lease out its Kalyanmandapas and earn non-refundable goodwill amount. The total goodwill amount of Rs.80 lakhs was collected out of 18 Kalyanmandapas leased out. Besides, VMC was also able to relieve itself of all burdens and liabilities related to the maintenance cost. The arrangement also proved beneficial to all the stakeholders particularly the citizens who will get better and well maintained Kalyanmandapas, the corporation would cover to some extent its investment and avoid further drain on its scanty resources and the private bidder would get a business opportunity.

(Rupees)

Sl. No.	Name of the Kalyanamandapam	Total Revenue Earned	Total Expenditure	Profit/ Loss per Year	Bid Amount
1	Potti Sriramulu	115000	255589	-140589	86000
2	H.G. Anglo India	66000	133560	-67560	80000
3	Sailada Pydithalli	201600	396636	-195036	580000
4	Dr. B.R. Ambedkar	121000	218994	-97994	331000
5	Dibbalapalem	16800	70857	-54057	--
6	12 th ward	18400	93913	-75513	35000
7	Bheemnagar	22000	114569	-92569	63000
8	Balbhavan	16000	96573	-80573	63000
9	Swamy Vivekananda	282000	1105786	-823786	1275000
10	Dondaparthi	18000	113341	-95341	600000
11	Parvathi	522000	842567	-320567	1515000
12	MA Kalam Azad	520000	771998	-251998	1535000
13	Venkateswara	20000	72857	-52857	90500
14	Sanjeevayya colony	20000	108769	-88769	161000
15	Bishop K.M. Das	78000	202114	-124114	400000
16	Madhava swamy	123000	312738	-189738	505000
17	Srilaxmi	1800	72573	-70773	37000
18	Gullalapalem	51000	174597	-123597	100000
19	Gudivada Appanna	56000	140035	-84035	170000
20	W Chand Hira chand	60000	1006980	-946980	105000
	Total	2328600	6305045	-3976445	7731500

4) Street Light Maintenance – the experience of Visakhapatnam Municipal Corporation:

Complaints regarding non-functioning streetlights had no end. Sometimes the non-availability of material and at some other times lethargy of staff used to be an oft-repeated excuse. The VMC had to overhaul the system of street light maintenance and undertook a comprehensive system study and improvement exercise to improve the functioning of the streetlights in the city.

The Municipal Corporation has over 25000 tube lights, about 9000 SV lamps and over 200 odd high mast lights spread all over the city. The street lights were being maintained by the electrical wing of the Municipal Corporation headed by an Executive Engineer with a Deputy

Executive Engineer, 3 Assistant Engineers, and 3 Work Inspectors supported by 100 odd electricians and helpers working at the field level. A look at the expenditure incurred to maintain the street light system brings out the following details.

Approximate yearly expenditure during 1999-2000:

01.	Cost of materials	...	Rs.90.00 lakhs
02.	Repair costs	...	Rs.50.00 lakhs
03.	Staff salaries and O and M	...	Rs.50.00 lakhs
04.	Electrical and other contingency	...	Rs.15.00 lakhs
	Total		Rs.205.00 lakhs

This indicates that approximately an amount of Rs.2 crores was spent for the maintenance of streetlights; maintenance that can only be termed shabby and poor, to say the least.

In order to come out of this it was decided to outsource the entire activity. The first task was to arrive at appropriate unit costs so that the estimated rates could be fixed and tenders called for. The unit costs were arrived at by considering the average life of the lights in their present state, discounting the vagaries of nature and street behaviour, building in the labour and contingent component in addition to the prevailing taxes.

Tenders were called asking for bids and it was agreed that the maintenance contract would be given out for a period of three years provided the party satisfies the conditions stipulated by the Municipal Corporation. It was also stipulated that payment would be made on quarterly basis after the satisfaction of the Municipal Corporation authorities. The satisfaction would be arrived at by ensuring that at least 95% of the street lights in the particular wards were burning at a given point of time when the inspection every month gets jointly carried out by the bidder and the Municipal Corporation. After receipt of the tenders, the total tender amount has come down to Rs.1 crore approx. The outsourcing of the street light maintenance has therefore yielded following advantages:

- There is an outright savings of Rs.1 crore in comparison to the present state of expenditure. This is addition to the fact that now the streetlights are functioning at an optimum level;
- Expectancy of better maintenance, better vigilance, responsibility and accountability;
- The redundant staff will get redeployed to water supply and electrical sections thereby reducing the expenditure currently incurred on contract labour;
- The Municipal Corporation's executive staff will also get freed from the administrative and managerial efforts associated in the current system;
- There are distinct working capital savings as there would be no need for maintenance of inventory and electrical stocks;
- Minimising of material pilferage and freeing of the office space used for keeping such stocks.

This experience of outsourcing of the streetlight maintenance has proved to be a trendsetter of sorts for the VMC.

5) Preparation of Accounts – The example of Rajahmundry Municipal Corporation:

Preparation of annual accounts is entrusted to private unemployed youth in this corporation. A total of 15 persons were engaged with a monthly payment of Rs.1500/- per each candidate on a contract basis. This cost around Rs.22,500/- per month and Rs.2,70,000/- per annum. If permanent employees were to be engaged, 15 Junior Assistant cadre persons were required. The average salary of an Assistant is Rs.6,000/-. This results an expenditure of Rs.10,80,000/- per annum. So the total annual saving is around 9,10,000 per annum.

On the other hand the working hours of private employees are more than that of permanent employees. This also results in greater efficiency. Also the attention of permanent employees could be diverted for redressal of public grievances of the Revenue Department.

6) Privatisation of Sanitation Work – the example of Rajahmundry Municipal Corporation:
Privatisation was introduced for sanitation works in the city. A total manpower of 971 exists to deal with the sanitation works within the city limits. Out of which 411 private persons were engaged, i.e., 42.32% of sanitation works is privatised and the permanent employees were limited to 560 only. This not only improved sanitation conditions but on the other hand resulted in lot of financial savings.

If permanent employees are engaged an average monthly salary of 5000/- has to be made available. For 560 members the total average salary required annually is 3.36 crores, whereas for private workers the annual salary is around Rs.0.73 crores. This has given a net saving of Rs.1.72 crores per annum to the corporation. The percentage of savings due to privatisation is around 40%.

Privatisation of vehicles

30 private vehicles have been engaged for sanitation work in the city. The payment for these private vehicles includes the driver’s salary, oil charges, wear and tear and also workers on that vehicle. The average payment to one vehicle is Rs.800 per day. This amounts to an annual expenditure of Rs.86.40 lakhs.

On the other hand if corporation vehicles were to be used, 30 drivers are to be appointed at an average salary of Rs.6000 per month. This would amount to Rs.21.50 lakhs annually on drivers’ salary alone. In addition oil bill @ 12 ltrs per day per vehicle costs Rs.26 lakhs. The workers’ wages comes to around Rs.72 lakhs per annum. In addition wear and tear charges, taxes, etc., will cost Rs.8.00 lakhs. This accumulated to a figure of Rs.128.00 lakhs. Without a doubt privatisation has made a significant difference. An amount of Rs.42.00 lakhs is being saved by the corporation annually.

Night sanitation

2 groups were engaged for night sanitation work with 2 tractors and 40 members. The total annual payment was Rs.8.4 lakhs. If the Corporation had to take up his work on its own, the cost of vehicles and salaries of permanent employees would amount to Rs.27.5 lakhs. Hence, there is net saving of Rs.19 lakhs.

7) Maintenance of Parks and Exhibition Grounds - the example of Kakinada Municipality:
The maintenance of three parks was privatised. Due to privatisation of Janmabhoomi Park, an annual income of Rs.1 lakh is being realised besides eliminating the financial burden of Municipality. Two other parks - Gandhi Park and Housing Board Colony Park were also privatised due to which the quality of recreation has improved tremendously.

The annual exhibition was being maintained by the municipal staff till 1996 and it was handed over to private agencies from 1997 onwards. The annual income before privatisation was only Rs.1.08 lakhs which increased to Rs.18 lakhs per annum as of now.

Main Advantages and Disadvantages of Outsourcing

Advantages	Disadvantages
Savings	Difficult to select best supplier
Access to specific expertise	Loss of control over the activity contracted out
Alleviation of constraints arising from collective agreements	Negative impact on labour relations
Improved ability to adapt to change	Irreversibility of the decision to contract out
Reduction of payroll	Difficult to monitor the contract

7.2 The case studies mentioned in the previous sections indicate the enormous scope of formulating innovative solutions to civic problems. However, in order to replicate such initiatives across all the municipal bodies and across all possible sectors, and make it sustainable over a longer period, the issue of Capacity Building for municipal functionaries and elected representatives assumes great significance. A typical agenda for a comprehensive capacity enhancement needs assessment may address the following aspects:

- (1) Identifying the knowledge, technology and skill enhancement profiles required to design, implement, support, and promote the State and Municipal Bodies urban reform agenda by all the stakeholders;
- (2) Listing the range of knowledge, technology and skill requirements which will enable Municipal staff, community organizations of the urban poor and locally elected representatives to seek, utilize and monitor investments (and projects) envisaged at the ULB level; and
- (3) Formulating a capacity enhancement strategy which best responds to the needs identified in (1) and (2) above and through which enhanced capacity to implement and sustain reforms and investments can be achieved. Such a strategy should:
 - a) comprehensively addresses all knowledge, technology and skill requirements identified above and which incorporates environmental and social safeguards;
 - b) uses appropriate adult learning mechanisms (including but not limited to: lecture-based training, on-the-job mentoring, pairing between peers, linking with issue-specific champions, structured site visits, etc.) for the full range of participants;
 - c) identifies capacity enhancement institutions within the State and in other states which could anchor specific capacity enhancement activities;
 - d) outlines a roll-out plan for all activities under the Capacity Enhancement Strategy (CES); and
 - e) offers a reasonable best estimate of resources (time and financial) likely to be required to implement the strategy.

A similar exercise was carried out in Andhra Pradesh by the Centre for Good Governance, Hyderabad.

Training Needs Assessment Study: Objectives and Activities

8.0 One key objective of the Capacity Enhancement Needs Assessment Study carried out was to assess the training needs of the potential participants at various strategic levels in the urban sector. In addition, the study aimed to elaborate on short-term and medium-term training needs of the stakeholders as well as possible training curricula.

Study Methodology & Coverage

8.1 In order to assess the training needs of the urban local bodies, a questionnaire was designed (**Appendix 1**) and circulated to all the concerned departments dealing with municipal and urban development. The questionnaire primarily was meant to gather information on the areas where capacity enhancement or upgradation is needed. It also aimed to sketch the training needs and the participant level for better results. The questionnaire was circulated and responses were received from the following:

1. Department of Municipal Administration
2. Municipal Corporation of Hyderabad
3. Six Corporations (excluding MCH)
4. Town & Country Planning Department
5. Public Health Engineering Department

The profiles of employees of these departments to be trained are depicted in Table 1.

Table 1
Urban Sector Reforms: Profile of Employees to be trained in Andhra Pradesh

Employee Category	Department	Municipal Administration Department	Municipal Corporation of Hyderabad	Town & Country Planning	Public Health Engineering
Senior level		205	60	25	30
Middle level		200	260	110	250
Junior level			1220	570	550
	Administration & Accounts	2830	-	-	-
	Revenue	940	-	-	-
	Public Health	3835	-	-	-

Source: Questionnaire Surveys with Departments

8.2 Apart from the questionnaire surveys, personal interviews and group discussions were conducted with participants at the top management, middle management and at the staff level to identify knowledge and technology gaps. As part of the study methodology, extensive consultation and interaction with various non-officials and officials listed below were carried out.

1. Elected Representatives
2. Senior Officials of MA & UD Department
3. Municipal Commissioners of all grades
4. Municipal Engineers
5. Municipal Health Officers
6. Town Planning Officers
7. Municipal Managers
8. Revenue Officers
9. Accountants
10. Sanitary Supervisors
11. Town Project Officers
12. Community Organisers
13. Faculty of Training Institutions
14. Representatives of Community Based Organisations

Based on the questionnaire survey and personal interactions with ULB functionaries at all levels, training programmes were identified under the initiative of Capacity Enhancement for Urban Sector Reforms.

8.3 The broad focus areas identified for training intervention in the context of urban sector reforms include the following topics:

- Local Governance and Urban Management
- General Management
- Functional Budgeting and Accrual System of Accounting
- Engineering & Environmental Services, including Water Supply and Sewerage
- Public Health and Sanitation

- Urban and Regional Planning
- Poverty Alleviation and Slum Upgradation
- Office Management; Estimates and Tender Procedures
- Project Management in the Urban Sector including Public-Private-Partnerships for Infrastructure Development

8.4 Key training areas that were identified for each category of officers in the Municipal Administration Department are detailed below:

a) Senior Officers

1. Personality Development
2. Management of Change
3. Combating Corruption
4. Public-Private Partnerships for Infrastructure Development
5. Community Development and Poverty Alleviation
6. Performance Management
7. Computerisation – Online Management Information System

b) Municipal Commissioners (Grade III to Selection grade)

1. Local Governance and Urban Management
2. Municipal Finances – Tax and Non-Tax Resources Mobilisation
3. Personality Development
4. Management of Change
5. Combating Corruption
6. Functional Budgeting and Accrual-based System of Accounting
7. Urban Programmes and Projects
8. Urban Planning and Development
9. Estimates and Tender Procedures
10. Urban Project Development & Appraisal
11. Public-Private Partnerships for Infrastructure Development
12. Community Development and Poverty Alleviation
13. Performance Management
14. Computer Applications – Online MIS and Online Service Delivery

c) Middle Level Officers (Managers, Revenue Officers and Accountants)

1. General Management and Revenue Management
2. Budgeting & Accrual System of Accounting
3. Municipal Finance
4. Personality Development
5. Management of Change
6. Combating Corruption
7. Performance Management

d) Junior Officers (Senior Assts. and Junior Assts. and Revenue Inspectors)

1. Office Management
2. Budgeting and Accrual System of Accounting
3. Revenue Management in ULBs
4. Citizen interface

e) Sanitary Supervisors/Sanitary Inspectors

1. Public Health and Sanitation
2. Community Contracting

- f) Community Development Staff
1. Poverty Alleviation Programmes
 2. Empowerment of Self-help Groups
 3. Participatory Planning and Appraisal

- g) Community Based Organisations
1. Poverty Alleviation Programmes
 2. Empowerment of Self-help Groups
 3. Public-Private-People Partnerships

8.5 Based on the above Study a set of activities were identified for implementation of training under the initiative of Capacity Enhancement for Urban Sector Reforms in Andhra Pradesh (Table 2).

Table 2
Capacity Enhancement for Urban Sector Reforms in Andhra Pradesh
Activities for Training

Sl. No.	Initiative
1	Formation of a full-time team consisting of dedicated members to support the implementation of Training programmes
2	Identification of Training Institutes with necessary infrastructure
3	Identification of local trainers at the District Training Centres (23 districts)
4	Canvassing the need for training to strengthen the capacity of ULBs
6	Drawing up a detailed training schedule for all the ULBs
5	Tying up with trainer institutions (the institutions at the state level as well as the district training centres)
8	Scheduling training for trainers
8	Initiate training programmes
9	Preparation of a monitoring and evaluation plan for tracking progress/ shortfall in the capacity building efforts
10	Facilitate collaboration between various trainer institutions and departments
11	Support the training institutions in preparation of appropriate training programmes
12	Undertake research on various aspects of Capacity Building
13	Preparation of a Draft Andhra Pradesh Human Resource/Training Policy
14	Update the action plan with the progress of the project

A model plan for Training Programmes/Interventions in the context of Capacity Building of Municipal Organisation is illustrated in **Appendix 2**.

Training Needs Assessment Study: Capacity Constraints in Municipal Bodies and Capacity Building

9.0 Perhaps the most critical issue that comes out in the study referred to in the earlier sections, and that can be generally stated in the context of PPP, is the marked imbalance in the capacity of the partners. This is closely linked to the perception of public managers that they are severely hampered in the existing partnership because they lack the knowledge and skills needed to create a level playing field. In order to understand the lack of municipal capacity it is necessary to disaggregate this term and consider the skills, organisational capacity and attitudes of the municipality and to distinguish between those capacity issues which are perceived and those that are likely to affect the partnership in practice.

Skills

9.1 Understanding of the external operating context for PPPs in Municipal Service Delivery: Municipal functionaries at all levels would benefit from capacity building to enhance, for instance:

- understanding of the opportunities and constraints created by the national policy context.
- understanding of PPP policy in relation to service delivery; and the municipal body's ability to feedback problems of implementation to national level policy makers.
- Strategic understanding of public-private partnerships.

Strategic Understanding of Public-Private Partnerships

9.2 The most significant capacity constraint is in the strategic understanding of public-private-partnerships. Gaps are evident in both political and administrative arms. In particular, there is a fundamental lack of understanding of risk, and of the links between risk and contract duration. There is little knowledge of contracts, of the role of PPPs as a part of urban management, or understanding of the strategic role of the private sector. In particular, there is little understanding of PPPs in the context of poverty reduction activities, and the potential role and benefits of private sector involvement in low-income areas.

Strategic Management of the Contract

9.3 Closely linked to the skill sets described above is the strategic management of the partnership arrangement. One of the primary constraints to the development of a PPP contract is the capacity of the municipal body to negotiate. The municipal management of the partnership is usually limited to day-to-day operational management. Decision-makers lack the confidence to renegotiate the contract such that it meets the redefined objectives of the municipality. This lack of capacity can be attributed to the imbalance in negotiating skills and the lack of understanding of the potential of the contract.

Financial Analysis and Planning

9.4 Another fundamental constraint is the lack of financial analysis and planning specifically in relation to municipal services. The reason for this lack of analysis of the PPP to date stems from the narrow understanding of the contract. Also, there has been no attempt to compare with international benchmarks. This constraint is one of attitude and not skill. Improved understanding of the customer base and the implications of tariff structures are essential. The formulation of a tariff structure is a specific skill that is urgently needed. Exposure to alternatives developed elsewhere would broaden understanding of options available.

Ability to Maximise the Potential Benefits for the Poor

9.5 The municipality requires support in developing links between private sector activities in the urban infrastructure sector and low-income groups. The municipal bodies do not have the inhouse knowledge to understand the role of willingness-to-pay and affordability studies (e.g. pre-paid meters are being introduced without such studies), and critically the concept of service gradation for the poor is not understood. Significant capacity building in these aspects would benefit the decision-making process.

Understanding of Legal and Contractual Aspects of Partnerships

9.6 There is limited understanding of the legal and contractual aspects of the contract. The legal jargon has proven to be a major blockage in generating understanding of key contract provisions. There is of course some debate as to what extent knowledge on legal and contractual aspects is required. A number of factors currently make it necessary to improve capacity in-house: the complexity of administering this particular contract, the marked disillusionment with the consultancy sector and the reliance on municipal staff to undertake all tasks.

Understanding Capacity Constraints and Capacity Building

9.7 It is now widely accepted in many low and middle income countries, that municipal functionaries undertake their work in a vastly different environment than in the past and training and development of staff is critical to the achieving the changes outlined in policy. The administrators are able managers but there is no doubt that they would benefit from specific training in private-public partnerships. Since this private sector approach to service delivery was introduced, there has not been any training undertaken by any official. Their lack of exposure to contract options has been limited and attitudes have developed solely in relation to the one limited contract with which they are involved. In comparison to other municipalities, researched administrative managers lack the skill of recognising skills deficiencies. This has proven to be particularly problematic, as they are the main advisers to council. The councillors are politically agile but for historical reasons have not yet had significant exposure to management practices or governance. Originating in a school of thought which was fundamentally anti-private sector, the changing policy environment and the development of skills and understanding of governance has resulted in an acknowledgement that private sector resources are needed to meet reconstruction and development targets. Exposure to the development of PPP policy and implementation would be extremely beneficial.

Organisational Constraints

9.8 Apart from the lack of exposure to PPPs and the lack of literacy in respect to partnerships in municipal service delivery, a number of other institutional and human resource issues weaken the ability of the municipal body. These include:

- Turnover of Municipal Staff
- Lack of effective engagement of councillors
- Lack of continuity in municipal engineers

Attitudes

9.9 Capacity to work effectively with the private sector is not only affected by skills and organisational constraints but by attitudes. Whether these attitudes preexisted or developed through experience, they have seriously affected the partnership. Various causes can be identified, and capacity building efforts will need to address these causes to bring about the attitudinal change necessary to work towards a partnership.

- Attitudes caused by ideological disagreement to private sector involvement in service provision
- Attitudes caused by the constraints of the Contract

Capacity Building Requirements

9.10 There has been little opportunity for municipal managers or councilors to develop pro-poor skills through focused learning activities (such as study visits to other projects or participating in the national training programme on PPPs). Greater capacity is required on the part of all executive and elected municipal officials. The municipal staff are the trustees of the municipality and need capacity building to fulfill this role. The introduction of a capacity building component within the contract (directed at both the elected and administrative wings) would ensure that the municipality has enhanced its own capacity for planning and managing private sector involvement before the end of the current contract. This will help to ensure that decision-making is informed with the knowledge of the pitfalls and benefits of different options for delivery. In addition, there is a 'perceived isolation' which can be easily rectified by establishing lines of communication between supporting agencies and the municipality.

9.11 In the above context, a number of important lessons can be drawn from practices nationally and internationally for municipal officials, policy-makers and professionals

facilitating private-public partnerships in the delivery of municipal services. Key lessons are summarised below:

- A municipality needs capacity to act as an effective partner.
- By definition, a democratically elected government will change and capacity will be lost. Support structures are necessary to provide assistance for municipalities to respond to changing circumstances be they new councils or revised objectives.
- Lack of exposure means that weak partnerships are self-perpetuating.
- Avoiding unclear provisions in the contract.
- The contract stage is the crucial stage.
- The lack of capacity at the municipal level of government makes the need for a regulator more urgent.
- Contracts need to adapt to changing objectives.
- Cost benefit analyses are crucial to informed decision-making.
- Links between policy and implementation processes are essential.

In the context of resource deficient municipalities, unsupported by a regulatory body, implementing levels of government need pro-active and ongoing advice and support. There is a need to bridge the gap between those with the capacity (policy-makers and the private sector) and those without (local government implementing bodies).

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Appendix 1
Questionnaire on Capacity Enhancement Needs Assessment Study

1. Outline the Organizational Structure of the Department.

2. Provide specific details about your department's strategy, interactions (vertical & horizontal), coordination mechanisms, group activities etc.

3. Furnish the category-wise list of employees.

Sl. No.	Designation	Number of Employees	Job Description
1			
2			
3			
4			
5			
6			
7			
8			
9			

4. Mention the areas where training is required for the employees in the department

Sl. No.	Levels	Training needed	Type of Training
1			
2			
3			
4			
5			
6			
7			
8			
9			

5. Mention the existing level of skills of officers and staff.

Sl. No.	Designation of the officer/ staff	Existing Level of Training
1		
2		
3		
4		
5		

6		
7		
8		
9		

6. Mention the level of skills required for enhanced performance by the officers and staff.

Sl. No.	Designation of the officer/ staff	Level of Skill Required
1		
2		
3		
4		
5		
6		
7		
8		
9		

7. List out the Performance Indicators for the Department

Sl. No.	State Level/ District Level /Functionary Level	Name of the Performance Indicator
1		
2		
3		
4		
5		
6		
7		
8		
9		

8. Carry out a SWOT (Strengths, Weakness, Opportunities, Threats) analysis of the department

1. 2. 3. 4.	Strengths	1. 2. 3. 4.	Weakness
1. 2. 3. 4.	Opportunities	1. 2. 3. 4.	Threats

Appendix 2
Capacity Building of Municipal Organisation: Training Programmes/Interventions



