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CENTRE FOR GOOD GOVERNANCE
Knowledge • Technology • People

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About CGG

The Centre for Good Governance (CGG) was established by the Government of Andhra Pradesh (GoAP) in October 2001, to help it achieve its goal of transforming government in accordance with Vision 2020. CGG coordinates and supports the designing and implementation of GoAP's Governance Reform Programme and undertakes action research, provides professional advice to, and conducts change management programmes for government departments and agencies to help them implement their reform agenda successfully. The Centre works closely with policy makers like ministers, officials, experts and other stakeholders, especially citizens, to promote Simple, Moral, Accountable, Responsive and Transparent (SMART) government.

CGG aims to be a world-class institution to guide governance reforms in Andhra Pradesh, other states in India, and the developing world by bringing together knowledge, technology and people.

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Introduction

Hyderabad is the capital of the State of Andhra Pradesh in India. It comprises of two sub-cities, i.e., Hyderabad and Secunderabad, which are together known as the Twin Cities. In the process of transition to a vibrant international metropolis, Hyderabad is fast emerging as a centre of commerce, education, bio-medical research and information technology—an ultramodern "knowledge" hub in the country. The fifth largest urban habitation in India in 2001 with a population of about 5.8 million, Hyderabad has been one of the fast-growing urban agglomerations in the country. Hyderabad City, which is a part of Hyderabad UA, has a population of about 3.7 million. The Municipal Corporation of Hyderabad (MCH), constituted under the Hyderabad Municipal Corporation Act, 1955 is the statutory civic body entrusted with civic affairs in the Twin Cities.

During the recent past, Hyderabad has undertaken a series of strategic reforms with the objective of improving civic governance and providing infrastructure and basic amenities to its citizens. These reforms have enabled the city to bag the Clean City Award at the national level for 3 consecutive years – a unique distinction for any city in the country. The city has also been able to receive a very high rating for its proposed Municipal Bond issue of Rs.1000 million (Rs.100 crores): AA+(SO) from CRISIL and LAA+(SO) from ICRA. Among the several measures of municipal reforms, the city has undertaken steps to revamp its system of property tax to make it simple and a buoyant source of municipal revenues.

Vision 2020

Vision 2020, the forward-thinking reform plans document prepared by the State, envisages that Andhra Pradesh would become the foremost State in the country in terms of growth, equity and quality of life by 2020. **Vision 2020** enumerates the potential and resources of the State and recognises the opportunities opened up by the liberalisation and globalisation processes and the information revolution. It also identifies select growth engines to 'leverage' the strengths and advantages in various sectors and regions. Drawing upon best practices from within and outside the country, the document outlines the development profile of the State in the first two decades of the 21st Century. It advocates a strategy of leapfrogging growth with equity and sustainable improvements in the living standards of all sections of the people. It identifies growth engines based on an evaluation of potential to build on accumulated strength, to make a significant impact, and to exploit opportunities created by global trends.

In line with this vision, the Mission of the State of Andhra Pradesh is to:

- Eradicate poverty and take care of the old, infirm and genuinely needy;
- Enable people to learn, earn and lead healthy and productive lives;
- Promote small families for a healthy and wealthy society;

- Give children a happy childhood and every opportunity to achieve their full potential;
- Empower and support women and girls to fulfil their roles as equal partners with men;
- Create resources that the people need, such as capital and infrastructure, to transform their own future;
- Enable farmers, entrepreneurs and professionals to make agriculture flourish and build thriving industries and services business;
- Embrace innovation and the latest know-how to grow crops, produce goods and provide high quality services;
- Safeguard environment and make cities and villages clean, green and safe to live in;
- Make government simple, transparent, accountable and responsive;
- Ensure that people continue to have a strong voice and role in governance.

Vision 2020 emphasises the need for the State to transform itself and quickly adopt a new role from being primarily a controller of the economy to a facilitator and a catalyst of growth. The envisaged role of the Government includes:

- Providing specialised infrastructure;
- Deregulating or creating regulation that fosters investment and facilitates business;
- Accelerating the development of skills; and
- Conducting focused and effective promotion to market the opportunities that Andhra Pradesh has to offer to investors.

The agenda set by the State for growth-oriented and people-oriented governance include:

- Refocusing Government priorities and shifting spending from unproductive areas towards achieving high priority developmental goals;
- Decentralising governance and making it participatory with the involvement of the people;
- Introducing 'electronic government', i.e., using IT-based services to de-mystify procedures and improving Citizen-Government interface;
- Becoming a SMART (Simple, Moral, Accountable, Responsive and Transparent) Government by improving transparency and accountability at all levels and ensuring effective and responsive services;
- Building the administration's capabilities, strengthening policy-making and improving performance; and
- Taking a lead role in persuading the Central Government and initiating regulatory and other reforms.

Vision 2020 envisages that by 2020, the State will have well-planned, economically productive, socially just, environmentally sustainable, culturally vibrant, friendly and safe cities and towns. It is stipulated that the State will play a pivotal role to:

- Ensure balanced urban development by promoting alternative urban centres as counter magnets;

- Anticipate and provide for urban infrastructure requirements through comprehensive, integrated planning;
- Operate municipal services on a competitive basis to provide adequate, high quality services at affordable costs;
- Develop urban services and infrastructure by involving the private sector and fostering public-private partnerships;
- Ensure that local services are run through local management and control; and
- Mitigate urban problems by providing shelter and basic services for all.

The proposed urban reforms in **Vision 2020** calls for a management approach to urban growth so as to have clean, green, comfortable, safe and livable cities. This is to be achieved through an integrated approach that blends urban development and infrastructure planning, sound fiscal policy and systems to manage and deliver urban services effectively. It is envisaged that the State will focus on creation of basic infrastructure, environmental conservation and management, and provision of quality services such as water supply, sanitation, waste management, street lighting, housing and public transport to all. Participatory, responsive and people-oriented civic governance will be promoted.

The Vision for Hyderabad City is to make it a productive, "knowledge" city, a planned, clean and green city, a garden city, and a cultured and caring society with concern for equity. It is envisaged that the City will emerge as the medical and health, education and information technology capital of the country and an international transit hub. Hyderabad will also be a well-managed and responsive city with efficient and accountable delivery of civic services to all residents including the poor. In consonance with the City Vision and the historic Constitution (74th Amendment) Act, 1992, the Municipal Corporation of Hyderabad has initiated several reforms in the recent past.

Constitution (74th Amendment) Act, 1992
The 74th Amendment to the Constitution of India, enacted in 1992, marks the beginning of a historic reform to decentralise power to the people. It provides a constitutional form to the structure and mandate of urban local bodies to enable them to function as effective institutions of self-government. The Constitution (74th Amendment) Act provides for three types of municipal bodies: Nagar Panchayats for transitional areas (in transition from rural to urban), Municipal Councils for smaller towns, and Municipal Corporations for larger urban areas (Article 243Q). As regards the functional domain of these local bodies, the Act inserted the Twelfth Schedule (Article 243W) to the Constitution of India providing an illustrative list of municipal functions. These functions include:

- Urban planning including town planning;
- Regulation of land-use and construction of buildings;
- Planning for economic and social development;
- Roads and bridges;
- Water supply for domestic, industrial and commercial purposes;
- Public health, sanitation, conservancy and solid waste management;
- Fire services;
- Urban forestry, protection of the environment and promotion of ecological aspects;

- Safeguarding the interests of weaker sections of society, including the handicapped and the mentally retarded;
- Slum improvement and upgradation;
- Urban poverty alleviation;
- Provision of urban amenities and facilities such as parks, gardens, playgrounds;
- Promotion of cultural, educational and aesthetic aspects;
- Burials and burial grounds; cremations, cremation ghats/grounds and electric crematoria;
- Cattle pounds; prevention of cruelty to animals;
- Vital statistics including registration of births and deaths;
- Public amenities including street lighting, parking lots, bus stops and public conveniences;
- Regulation of slaughter houses and tanneries.

To strengthen the urban local bodies with adequate sources of revenues, the Constitution (74th Amendment) Act, 1992 inserted Article 243X, which provides that a State Legislature may, by law,

a. Authorise a Municipality to levy, collect and appropriate such taxes, duties, tolls and fees in accordance with such procedure and subject to such limit;
b. Assign to a Municipality such taxes, duties, tolls and fees levied and collected by the State Government for such purposes and subject to such conditions and limits;
c. Provide for making such grants-in-aid to the Municipalities from the Consolidated Fund of the State; and
d. Provide for the constitution of such Funds for crediting all monies received, respectively, by or on behalf of the Municipalities and also for the withdrawal of such monies therefrom, as may be prescribed by law.

Through Article 243Y, the 74th Amendment Act made it is mandatory for the constitution of State Finance Commissions to review:

a. The principles which should govern –

    1 The distribution between the State and the Municipalities of the net proceeds of the taxes, duties, tolls and fees leviable by the State, which may be divided between them and the allocation between the Municipalities at all levels of their respective shares of such proceeds;

    2 The determination of the taxes, duties, tolls and fees which may be assigned to, or appropriated by the Municipalities; and

    3 The grants-in-aid to the Municipalities from the Consolidated Fund of the State.

b. The measures needed to improve the financial position of the Municipalities; and
c. Any other matter referred to the Finance Commission by the Governor in the interest of sound finance of the Municipalities.

Defining the functional domain of urban local bodies is the starting point for municipal reforms. Only after a clear delineation of the responsibilities of municipal government vis-a-vis other governments is achieved can any meaningful decision be taken regarding how to finance them. The areas of financial reforms include the devolution of tax and

non-tax revenue sources, including user charges, sharing of State revenues, grants-in-aid, borrowing, etc., and effective tapping of the revenue sources assigned. The Constitution (74th Amendment) Act 1992 provides broad directions for taking up municipal reforms.

Municipal Fiscal Problem

Many Municipalities all over the world suffer from the problems of scarcity of municipal revenues to discharge their obligatory functions. An analytical approach to study the municipal fiscal problem is to consider the following simplistic expressions that broadly apply to individual as well as total municipal services:

Required Expenditures	=	Unit Cost X Quantity of Service required to be provided per capita as per adopted Norms X Population
Municipal Revenues	=	Own Taxes + User Charges and Fees + Transfers (Shared or Assigned Revenues & Grants) + Loans
Own Taxes	=	Collection Rate X Legal Tax Rate X Base-to-Income Ratio X Per Capita Income X Population
Legal Tax Rate	=	Legal Liability of Tax/Base of Tax
User Charges	=	Unit User Charge for Service X Quantity of Service provided per capita X Population
Shared Revenues	=	Rate of Sharing X State Taxes
Grants	=	Per capita Grant available X Population
Municipal Fiscal Gap	=	Required Expenditure - Municipal Revenues

Budget deficit is the difference between budgeted expenditures and budgeted revenues. The ratio, 'actual revenues : potential revenues' represents the municipal collection efficiency. A measure of municipal autonomy can be defined as, 'municipal 'own' revenues : total municipal expenditures'. A measure of inter-governmental control is, 'total municipal revenues : total government expenditures' (in case of India, the appropriate denominator is Municipal + State expenditures).

As may be seen from the above analytical framework, the expenditures required to be met by a municipality depend on service cost, service norm and population parameters. This applies to all categories of services. Revenues raised depend on the size of revenue base, extent of access to the base, the rates and the collection efficiency. This is true for all collectible resources. The municipal fiscal gap can be redressed in the following broad ways:

    a. Reducing municipal responsibilities;
    b. Scaling down municipal service norms;
    c. Cutting costs and unnecessary expenditures;
    d. Enhancing municipal power to raise revenues;
    e. Increasing transfers from higher levels of government; and/or
    f. Stepping up local effort to raise revenues.

Reforms to correct the municipal fiscal gap will need to address all or some of these factors. Revenues from a tax source can be enhanced by several measures as can be seen from the following formula:

$$T = r \ X \ t \ X \ (B - L)$$

Where T = Total Tax Collection, r = Collection Efficiency or the Collection Rate, t = Tax Rate, B = Potential Tax Base and L = Leakages that are part of Tax Base, which have not been brought to Tax Net. The above formula applies to all Taxes including Property Tax.

Municipal Tax Reforms

Municipal tax reforms are complex and depend on a number of factors, most of which are specific to the situations existing in the Municipalities concerned. However, some general lessons can be drawn from tax reforms in developed and developing countries. These include:

  a. There is no optimal tax structure. What is optimal from the point of view of one level of government may be sub-optimal for the other levels. However, useful principles can guide tax reforms in a given situation.
  b. Broadening the tax base or tax net should be given a high priority so as to avoid reliance on relatively high tax rates.
  c. Tax preferences and exemptions in order to promote specific economic and social objectives - the so-called tax expenditures - need to be eliminated or reduced.
  d. Tax rates should be moderate to ensure better tax compliance and to prevent tax evasion.
  e. A systematic view of taxes and their institutional and political contexts is important.
  f. Reforms in the tax structure and tax administration should go together.
  g. Involvement in and ownership of tax reforms by the public in general and taxpayers in particular are essential for the success of tax reforms.

Assignment of Revenues

The public finance literature provides some desirable principles to guide the assignment of revenue sources between different levels of government in a federal structure. The Congruence Principle suggests that the less mobile a tax base and the stronger the spatial concentration of the tax base and ownership, the lower the level of government to which those taxes should be assigned. Using the criteria of equity (consistency of revenue sources with expenditure needs) and efficiency (minimising resource costs), Musgrave (1984) suggests the following broad principles of revenue assignment:

  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 sales of consumption goods to consumers or excises are suited to 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 so that during downswings of the trade cycle the provision of services to the citizens can be maintained;
  8. Benefit taxes and user charges are to be used appropriately at all levels and linked to services;
  9. Resource taxes are appropriate for sharing between governments.

Choice of Municipal Taxes

Strictly speaking, a 'municipal' tax is one on which the municipal governments have full control in terms of the determination of tax rate, assessment, collection, and appropriation of tax proceeds. The choice of municipal taxes depends on a number of factors, the most fundamental being their suitability to meet the civic obligations. The municipal governments provide many essential services which cannot wait till the revenue ends are tied up. Hence, the municipal taxes should be such that they ensure the smooth discharge of the core municipal functions. The local public finance literature provides the following guidelines for the choice of municipal taxes:

1. The tax base should be immobile, to allow the local authorities some freedom to vary the tax rates without the tax base vanishing;
2. The tax yield should be adequate to meet local needs and be sufficiently buoyant (i.e., expand, at least, as fast as expenditures over a period of time);
3. The tax yield should be stable and predictable and it should not be susceptible to cyclical fluctuations;
4. The tax should be perceived to be reasonably fair (in terms of progressivity) by taxpayers;
5. The tax should be easy to administer efficiently (at minimum resource costs) and effectively;
6. It should not be possible to export much, if any, of the tax burden to non residents;
7. The tax base should be visible, to ensure accountability on the part of the municipal government.

Table 1 [based on Bird (1994)] compares the major types of taxes in terms of the above criteria to facilitate the choice of a municipal tax. It may be noted that there is no perfect municipal tax. Moreover, the ideal taxes from the point of view of municipal and higher levels of government are not necessarily compatible. The criteria described in Table 1 can, however, be useful as screening devices.

Table 1
Suitability in terms of Criteria for a Municipal Tax

	Property Tax	Income Tax	Sales Tax	Business Tax
Immobility	+	-	-	-
Adequacy	-	+	+	?
Buoyancy	-	+	+	+
Stability	+	-	-	-
Non-Exportability	+/-	+/-	+	-
Visibility	+	+	+	-
Fairness	+	+	?	-
Acceptability	-	-	?	+
Administrative Ease	?	+	?	+

Source: Bird (1994)

(A '+' means that the tax is good, a '-' that it is bad, and a '?' that it is indeterminate. A '+/-' means that the tax is good to the extent it falls on residents and bad to the extent it

falls on non residents. It may be noted that the table may not fully apply to the Indian situation.)

Property Tax Reforms
In terms of the desirable criteria for choice of municipal tax, property taxes, being taxes on immobile land and buildings, are ideally suited for assignment to and administration by the Municipalities. Further they belong to the class of general benefit taxes. They are indirect user charges for municipal services whose benefits are collective and not confined to identifiable individuals. Sometimes, property taxes are decomposed into components such as water tax, drainage tax, conservancy tax, lighting tax, fire tax, street tax, and general tax. For example, the Greater Mumbai Municipal Corporation levies the following types of property taxes: (i) General tax, (ii) Fire tax, (iii) Water tax, (iv) Water benefit tax, (v) Sewerage tax, (vi) Sewerage benefit tax, (vii) Education cess, (viii) Street
tax, and (ix) Tree cess. The Municipal Corporation of Hyderabad collects property tax under the following components: (a) General Tax, (b) Conservancy Tax, (c) Drainage Tax, (d) Lighting Tax and (e) Library Cess. When property taxes collected under various components are linked to or earmarked for the services for which they are collected, they serve as indirect market prices of those services.

Starting with a seminal article by the Nobel Laureate, James Buchanan (1963), a number of research papers have viewed 'earmarking' as a 'first best' operational way of dealing with the fundamental normative problem of public economics: how to provide public services that match people's preferences [Buchanan (1967), Goetz (1968), Brennan and Buchanan (1980) and Oakland (1985, 1989)]. To quote Musgrave (1992), "The principle of earmarking applies in its full sense of linking tax and expenditure determination for each program." Earmarking aims at the introduction of market prices into the budgetary process. The strongest economic case for earmarking exists where there are clear benefit linkages between the taxes or charges levied and the expenditures financed. Earmarked taxes constitute indirect forms of user charges or prices for services. Through the linking of user charges and specific benefit taxes to certain public services, earmarking facilitates a rational choice by taxpayers. 'Earmarking' tries to introduce a system of accountability in the public service delivery through surrogate market prices for public services.

Theoretically, the effectiveness of earmarking depends on the following three conditions:

a. Expenditure specificity, i.e., the expenditures to be financed by earmarked revenues are well-defined and specific, in the sense that, taxpayers can identify their obvious benefits;
b. Tight earmarking, i.e., the linkage between earmarked revenues and expenditures is tight at the margin. When the amount earmarked is substantially less than the amount spent on the designated functions, earmarking will have no effect on the margin and will be meaningless.
c. Strong benefit linkage, i.e., revenues are in the form of direct user charges such as payments for use and indirect user charges such as specific benefit taxes.

When earmarked revenues fully or substantially finance specific public expenditures and the taxpayers perceive a clear benefit linkage between the expenditures and services

(e.g., drainage tax being spent on drainage maintenance), they act as market prices for these services. Viewed in this perspective, direct user charges and indirect benefit taxes offer the most logical and potential cases for earmarking.

In spite of the fact that property taxes are "ideal" local taxes in terms of the Congruence Principle and their benefit linkages, because of problems in tax administration and non-earmarking of revenues, empirically, property taxes are seen to suffer from lack of adequacy, buoyancy and acceptability. They are also frequently subject to administrative difficulties including court litigations. Heavy reliance on property taxes is seen to lead to heavy dependence on inter-governmental grants. Residential property taxes are politically unpopular owing to their high visibility and not being related to the current incomes of the taxpayers. In fact, in many cities in India, property tax-payers are property-rich but cash-poor. There may be a case for placing limits on non-residential property tax rates on the ground that such taxes are 'exported' to consumers. However, both the benefit and ability-to-pay principles of taxation justify their levy by local bodies.

Property taxes in India suffer from the same problems as prevalent in most of the developing countries. However, there is no doubt that their yield can be considerably improved through suitable reforms. The discussions regarding 'earmarking' would suggest that the decomposition of the generic property taxes into specific service taxes such as scavenging tax, water tax, drainage tax, lighting tax, fire tax, etc., would be a desirable line of reform. International experiences also indicate that vacant land tax, which is grossly under-exploited in India, can be a major source of municipal revenues. In many countries, especially in Latin America, vacant land is taxed at a rate higher than that for built-up property. This is driven by the desire to curb speculation in land and promote housing. A tax rate of 1 to 2% on the capital value of vacant land appears to be the normal practice in Latin American countries.

Public finance theory and empirical experience suggest that simplification of property tax and involvement of the tax-payers in the fixation of tax and the provision of services go a long way in improving the yield from the tax. Some of the lessons from property tax reforms carried out by cities include the following:

a. The tax system must be simple and easily understandable to the public;
b. Fixation of tax should not be arbitrary; the tax rate must be linked to the tax base by a formulae pre-determined by law and not subject to the discretion of any bureaucrat;
c. The tax rate should be reasonably low so that compliance would be high;
d. The tax system should not only be fair, but also be perceived to be fair by the taxpayers;
e. The system of levy and collection should be transparent and not prone to manipulation for graft or corruption;
f. The taxpayers should be involved in the decisions regarding tax reforms; tax education is critically important for the success of property tax reforms;
g. The taxpayers need to be made aware that what they pay translate into services; visibility in the provision of services in the tax-paying areas enhances the willingness to pay; and
h. Tax reforms should be well-timed and not be unnecessarily linked to time-consuming processes as opportune times do not last long.

Self-Assessment of Property Tax: Hyderabad

Keeping in view the lessons from successful tax reform exercises elsewhere, the Municipal Corporation of Hyderabad (MCH) introduced the scheme of Self-Assessment of Property Tax during 1999-2000. General revision of property tax as contemplated under the Hyderabad Municipal Corporation Act, 1955 was not done in various Tax Circles of the Municipal Corporation of Hyderabad for the past few decades on account of several reasons:

Circle	Period for which tax was not revised (in years)
Circle 1	19
Circle 2	19
Circle 3	23
Circle 4	21
Circle 5	21
Circle 6	17
Circle 7	20

Non-revision of tax for a long time had made the property tax system in Hyderabad became iniquitous, with large vertical and horizontal imbalances. The property owners continued to pay taxes levied decades ago, causing heavy financial loss to the Corporation. The total number of assessments in the Twin Cities was only about 410,000 in 1998-1999 with total current demand of about Rs. 490 million as against an estimated number of about 600,000 taxpayers.

Attempts made earlier to rationalise and improve the property tax base in Hyderabad were caught in legal problems. Slab rates of tax per square foot of plinth area were fixed during 1992-93 for broad types of properties located in different zones and devoted to different uses. But the scheme could not be implemented for 7 years due to ongoing litigation. After the court case was over, it was thought that the earlier litigation on the slab rates was fixed, but the possibilities of new litigation on case by case basis could not be ruled out. Fears of prolonged litigation and the locking up of potential taxes left the Corporation with no alternative but to go in for the scheme of Self-Assessment of Property Tax by tax-payers.

Amendments to law take time and go into debates and litigations. Keeping this fact in mind, the Self-Assessment of Property Tax scheme was introduced by the Hyderabad Municipal Corporation during 1999-2000, taking 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."

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.

Self-Assessment: Rationale
The objectives behind the introduction of Self-Assessment of Property Tax scheme are:
- To ensure complete transparency and openness in the levy and collection of Property Tax and to enable citizens/tax-payers to understand the basis of taxation so as to calculate the tax by themselves;
- To build a computerised property tax database with each property in the Twin Cities being assigned a unique Property Tax Identification Number (PTIN) so as to eliminate discretion in the levy and collection of tax, minimise inconvenience to the public, prevent any complaints of harassment and raise resources for city development;
- To promote equity in tax payment (similar properties devoted to similar use in same or similar areas with similar rent-earning capacity to pay similar taxes);
- To link services with tax payment so that tax-payers get value for money (quality services) and also feel proud of contributing their mite to the development of their own City and also assisting their fellow citizens, living in slums and poor localities, to gain access to basic minimum services;
- To minimise prolonged disputes between tax-payers and MCH running into years and to establish a healthy relationship between MCH and Tax-payers/ Resident Welfare Associations.

Filing Requirement
The Self-Assessment Scheme required the filing of Self-Assessment Form/Return by all property owners/occupiers (owners/tenants/lessees, etc.) in the prescribed form--

- Whose properties were assessed by MCH before 1.4.1991 (Date of 1991 Census);
- Whose properties were assessed after 1.4.1991, but who feel that they are not paying adequately given the legal provisions;
- Whose building/property has not been fully assessed (some part of Plinth Area yet to be assessed);

- Who have completed their buildings in the recent or distant past but who have not informed MCH regarding the same as required under Section 210 of the HMC Act, 1955 and/or who have not applied for assessment;
- Who have made additions or alterations to their buildings or have reconstructed their buildings fully or partly but have not applied to MCH for assessment/ reassessment of added/altered/reconstructed portions;
- Who have fully or partly converted their buildings from residential into non-residential use (commercial/institutional/industrial, etc.) after last assessment but have not applied for assessment/reassessment of converted portions; and
- Who have been exempted from payment of tax in the past. The filing of return is necessary to enable MCH to renew the exemption granted (to the extent of what is legally permissible).

The notification issued in newspapers to introduce the Self-Assessment Scheme and the Form prescribed for filing of Self-Assessment is appended to this paper. The restriction to the scope of self-assessment being limited to 1.4.1991 was based on the principle that tax reforms must be incremental so that one tackles the defaulters in a phased manner.

The Self-Assessment Scheme prescribed the following list of individuals who could file self-assessment of property tax returns as follows:

(1)	In case of Owner-occupied individual building/flat	: By the Owner
(2)	In case of Rented building/flat	: By the Owner and/or Tenant/Occupier
(3)	In case of Company	: By the Secretary
(4)	In the case of Partnership Firm	: By the Managing Partner
(5)	In the case of Public Body (Corporation or Society)	: By the Secretary or Principal Officer
(6)	In any Other Case	: By the Owner and/or Person who has taken the Premises on Rent.

The above prescriptions take into account Section 204 of the Hyderabad Municipal Corporation Act, 1955 which stipulates:

"Primary responsibility for property taxes on whom to rest:-

(1)   Property taxes shall be leviable primarily from the actual occupier of the premises upon which the said taxes are assessed if such occupier holds the said premises immediately from the Government or from the Corporation.
(2)   Otherwise the said taxes shall be primarily leviable as follows, namely:-
(a)   if the premises are let, from the lessor;
(b)   if the premises are sub-let, from the superior lessor; and
(c)   if the premises are unlet, from the person in whom the right to let the same vests.
(3)   But if any land has been let for any term exceeding one year to a tenant, and such tenant has build upon the land, the property taxes assessed upon the said land and upon the building erected thereon shall be primarily

leviable from the said tenant or his legal representative, whether the premises be in the occupation of the said tenant or of his legal representative, or of sub-tenant".

Benchmarks for Acceptance

Under the Hyderabad Municipal Corporation Act, the taxpayer is required to pay three and half months' rental value as tax. However, in practice, citizens have been paying less than a month's rent in a large number of cases and there have been thousands of court cases when attempts were made to increase tax. Accordingly, under the Self-Assessment Scheme, no stipulation was made by the Corporation as to at what rates tax-payers should file returns. However, meetings with resident welfare associations were facilitated by the Municipal Corporation. The resident welfare associations were educated regarding the legal provisions and were also informed that ignorance of law is no excuse while ignorance of fact can be excused. The Corporation facilitated the process of formation of groups of resident welfare associations into federations and a proposal was mooted to form a confederation of resident welfare associations for the city as a whole. One of the resident welfare associations, namely, Resident Welfare Association of Madhuranagar came with suggestions regarding benchmarks for acceptance of tax returns during 1999-2000. The Association resolved that properties could broadly be divided into three categories: (a) high rent areas, (b) middle rent areas and (c) low rent areas. The benchmark Monthly Rental Values for acceptance of tax returns for the above categories were adopted by the Association at Rs.1/-, 0.60 Paise and 0.40 Paise respectively. These rates were accepted by many Resident Welfare Associations. Instead of the Municipal Corporation of Hyderabad formally declaring these rates, the facts of resident welfare associations adopting these rates were published in print and electronic media and newspapers. Once the MRVs were published, other resident welfare associations adopted the rates and filed self-assessment returns.

The only moot point in the fixation of three slab rates was whether a property owner, who/which is supposed to adopt a higher slab, escapes with a lower one. However, this was not a matter of great concern as tax-payers have been paying at so low rates and taking recourse to law suits so frequently that MCH wanted to ensure that reforms take place in stages and that initial efforts do not bounce back. Successful experiences of tax reforms suggest that major reforms need to be incremental. Accordingly, MCH was content with the position that at least one month's honest rent would accrue as tax and that there is adequate temptation for tax-payers to file returns without taking the risk of being caught and being subject to regular process of valuation with the risk of paying 3½ months' rent as tax. MCH did not accept the systems of slab rates adopted by Corporations like Patna, Bangalore and Chennai as slab rates are averages and averages are affected by extreme items. Averages are representative only when the data is homogeneous. Thus, in case of residential properties, slab rates could be adopted but for heterogeneous properties such as those belonging to commercial and institutional categories, averages have the tendency of under-taxing the properties at the upper end of the real estate market and over-taxing those at the lower rung. Thus fixing slab rates with a mix of heterogeneous commercial properties turns out to be regressive. Moreover, for most commercial properties rental data are now available. Especially in Hyderabad, all rental deeds need to be compulsorily registered for the purpose of payment of stamp duty. Thus, when market information is available, there is no need for approximation by a round-

about and regressive method in the name of eliminating discretion on the part of tax assessors.

Verification of Returns

The Self-Assessment Notification informed citizens that MCH will take up random verification of Self-Assessment Forms as in the case of Income Tax Assessment. However, during 1999-2000, MCH proposed to undertake field verification of about 25% of the Returns filed by Residential Property Owners/Occupiers. Those properties concealing measurements and/or rent and adopting unbelievably low Tax Rate per Square Feet in their Returns will be taken up for detailed field verification and assessment following the legal process. Further, those property owners/occupiers who do not file the returns by the date fixed will be dealt with in accordance with the penal provisions of the HMC Act, 1955 and other Acts.

Tax Education Campaign

Tax education is very important for the success of tax reforms. Accordingly, the Municipal Corporation of Hyderabad resorted to systematic publicity campaigns, covering the following aspects:

Municipal Act Provisions

It was made clear that it is mandatory under Section 213 of the HMC Act to furnish property and rent information. Once such information was filed, it was only a clerical effort to arrive at the tax payable. However, by not indicating taxes in the Self-Assessment returns, the taxpayer was loosing a golden opportunity of paying a lower tax and also taking the risk of being harassed by assessors through the cumbersome process prescribed under the law. The following Sections of law were listed out:

Section 197:	MCH to levy property tax on lands and buildings.
Section 198:	MCH to fix or alter the rate of taxation.
Section 199:	MCH to levy tax up to 30% of the Annual Rental Value (ARV) of the building (ARV = 12 X MRV. MRV is the Monthly Rent expected if the property is let out under normal market conditions)
Section 204:	The primary responsibility for levy and payment of property tax is the actual occupier (it could be the owner or tenant or lessee).
Section 212:	Vacant land tax shall be levied at 1% of the capital value of land.
Section 213:	The Commissioner may call for information or returns from owner or occupier of any property or enter and inspect assessable premises.
Section 217:	When the name of the person liable (occupier) for property tax is not ascertainable, the tax may be levied on 'the holder' of the property. If the person in occupation refuses to give details of ownership, he himself would be liable for payment of property tax.
Section 220:	Where a building is constructed, or re-constructed, or some structures are raised unauthorisedly, property tax on the same

shall be levied with a penalty of 10% on the property tax till such unauthorised building is demolished or regularised.

Section 238:   The Corporation can collect Property Tax arrears under the provisions of the Revenue Recovery Act.

Section 264:   Property tax is payable in advance in April and October of every year.

Section 269:   When a person liable for property tax does not pay the same in time, the Corporation shall collect the same with an interest of 2% per month or the Corporation may disconnect the essential services or confiscate the movable articles of the defaulter of property tax.

Section 455:   Every person shall within One Month after completion of the building deliver a notice to the Commissioner in writing and obtain permission to occupy the building.

Low Property Tax Rates
It was brought to the notice of the taxpayers that the property taxes paid by citizens for similar properties in cities like Bangalore, Chennai, Ahemedabad, etc., were far higher and MCH intended to keep tax rates low and concentrated attention on compliance and correction of inequities prevailing in the tax system. The benchmark of one month's honest rent as tax is the lowest in the country among large Municipal Corporations.

City Development Plan
The development plan for Hyderabad to make it a "Clean City", a "Green City", a "Knowledge City", a "Hitech City", a "Liveable City" and a "Model City", an "Exemplary City" was widely publicised. It was highlighted that MCH planned widening of 100 roads, development of 100 link roads, installation of 80 traffic signals, 35 stretches of modern lighting, development of all major drains, development of more than 500 open spaces, complete modernisation of Solid Waste Management, etc. Citizens' support was solicited for a simple, transparent, honest and hassle-free way for contributing to the development of the city and for a Fair System of taxation based on procedures similar to that adopted for Income Tax. The Corporation's slogan was "MCH trusts you for the future of your city and your children."

Tax-Service Linkages
During the year of self-assessment, resident welfare associations were informed that it was the Corporation's policy that in a middle income locality, all the taxes collected would be spent on works of the choice of the resident welfare association provided the residents file tax returns in bulk. For low income areas, the property owners could expect expenditure on works to the tune of two or three times the taxes paid. The tax-payers of rich localities were lured by the assurance that part of the taxes collected would be spent on the services of their choice in their localities and the remaining on general city development works and slum upgradation that enhance their land values and house rentals. Those colonies which filed Self-Assessment Returns in bulk were sanctioned works of their choice and works were started to give the impression that the tax paid translated into services.

Tax-Turnover Linkages

The taxpayers were informed through newspapers that better civic infrastructure and services are certainly important for better business opportunities and profits. With the development of Hyderabad, land values and business turnovers in the city have gone up phenomenally. For example, the turnover of Appolo Hospital at Jubilee Hills in Hyderabad, which revolutionised healthcare delivery system in the country, increased from Rs.5.00 crores in 1989 to Rs.49 crores in 1998-99.

Falling Value of Rupee

Again and again, the taxpayers were informed through the press how the value of money was falling, how a rupee required for providing service 20 years back has become equivalent to 25 paise and how the costs of civic infrastructure and services are increasing enormously. It was highlighted that Rs.100 deposited in State Bank of Hyderabad with 12% interest per annum would have yielded the following amounts over time:

After 5 Years	Rs.180.61
After 10 Years	Rs.326.20
After 15 Years	Rs.589.16
After 20 Years	Rs.1064.08

Thus, the services provided by MCH with Rs.100 paid as Property Tax in 1980 cannot be provided by Rs.1000 paid in 2000. Further service provision requires money and cannot be created out of vacuum.

Important Tax-payers

Early efforts at obtaining Self-Assessment Returns were made by roping in all major property holders, including bureaucrats, politicians and important citizens. The list of model taxpayers was published and it was threatened in the newspapers that the names of those who are professional litigants and who have been habitually evading taxes would be published in newspapers. This had a remarkable effect on the filing of returns.

Computerisation of Records

All the Self-Assessment returns along with unique PTIN (Property Tax Identification Number) were fed into computers and the rates adopted by resident welfare associations in different areas were made open to the public. The Corporation issued advertisement thanking those taxpayers who came forward to file taxes at correct rates. The correct rates adopted were published, put in the website and made popular; the process led to continuous improvement in the willingness of resident welfare associations to pay property taxes.

Dos & Don'ts:

Through a number of public notifications, the Corporation made the following requests to taxpayers:

1   Assist MCH and File Self-Assessment Form;
2   In case of doubts, invite the concerned Additional Commissioner to your area to explain you tax laws and make available slab rates worked out by MCH for various areas earlier. Slab Rates of Bangalore and Chennai City Corporations are also available for reference;

3   Resident Welfare Associations may adopt similar taxes for similar properties with similar areas devoted to similar uses in same/similar zones;

4   Never under-report area as Check Teams, Super Check Teams and Vigilance Teams are overseeing the operations of lower level officials; concealing of area will simply not be possible;

5   Do not entertain any middlemen. Always contact the concerned Additional Commissioner for clearance of doubts; Tax Assistance Cell is open in MCH;

6   Pay fair taxes and demand better services.

MCH's Guarantee:
MCH provided a guarantee that if correct Self-Assessment information is filed and tax paid at rate not lower than the benchmark rate, no municipal official shall visit the premises of the tax payer for tax enhancement for the next 3 years.

Achievement of Scheme
In response to the Self-Assessment Scheme, about 130,000 filed self-assessment returns within 3 months of the introduction of the same. This led to increase in the property tax collection from Rs.58 crores in 1998-1999 to Rs.82 crores in 1999-2000– in just 3 months (see Table 2 and Figure 1 below), although the effective tax rate went down by almost two-thirds. The rising trend in property tax collections is continuing with the progress in reforms. Figure 2 shows how MCH was able to enhance its capital expenditures due to property tax buoyancy. Figure 3 shows the trends in salaries as percentage of total expenditure by MCH.

Table 2
MUNICIPAL CORPORATION OF HYDERABAD
TRENDS IN PROPERTY TAX COLLECTION: 1991-1992 - 2000-2001

Year	Property Tax Collection in Rs. Lakhs
1991-1992	2415.00
1992-1993	2760.00
1993-1994	3018.00
1994-1995	2916.00
1995-1996	3639.00
1996-1997	4688.00
1997-1998	5694.82
1998-1999	5847.19
1999-2000	8332.00
2000-2001	9271.38
2001-2002	13011.80

Figure 1
MUNICIPAL CORPORATION OF HYDERABAD
GROWTH IN PROPERTY TAX REVENUES: 1991-1992 – 2000-2001
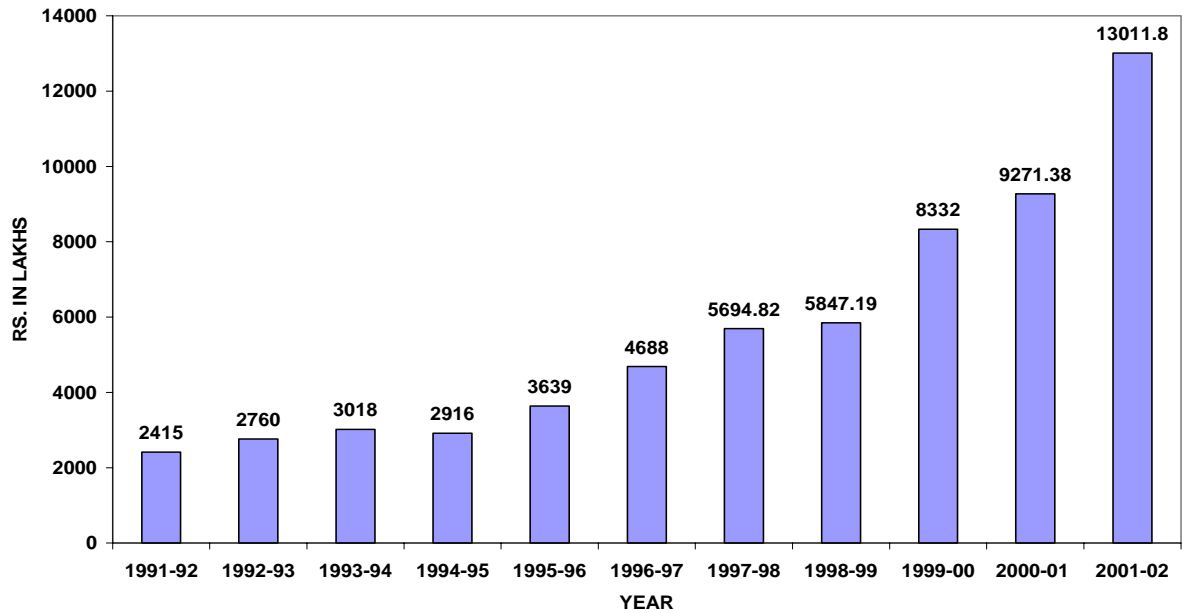
Figure 2
MUNICIPAL CORPORATION OF HYDERABAD
EXPENDITURE ON PUBLIC WORKS: 1994-1995 – 2001-2002
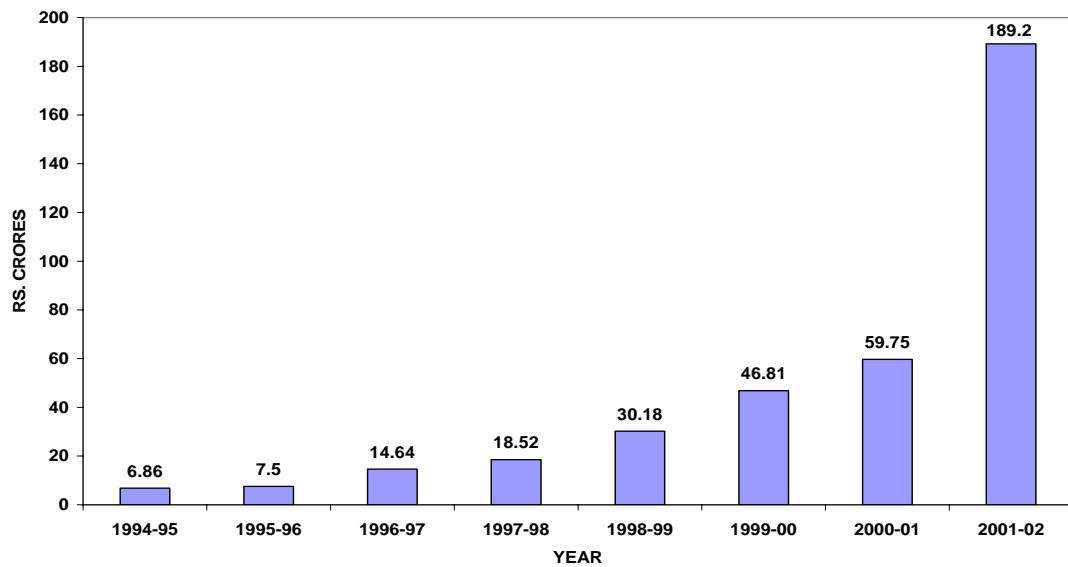
Figure 3
MUNICIPAL CORPORATION OF HYDERABAD
RATIO OF SALARY TO TOTAL EXPENDITURE: 1991-1992 – 2001-2002
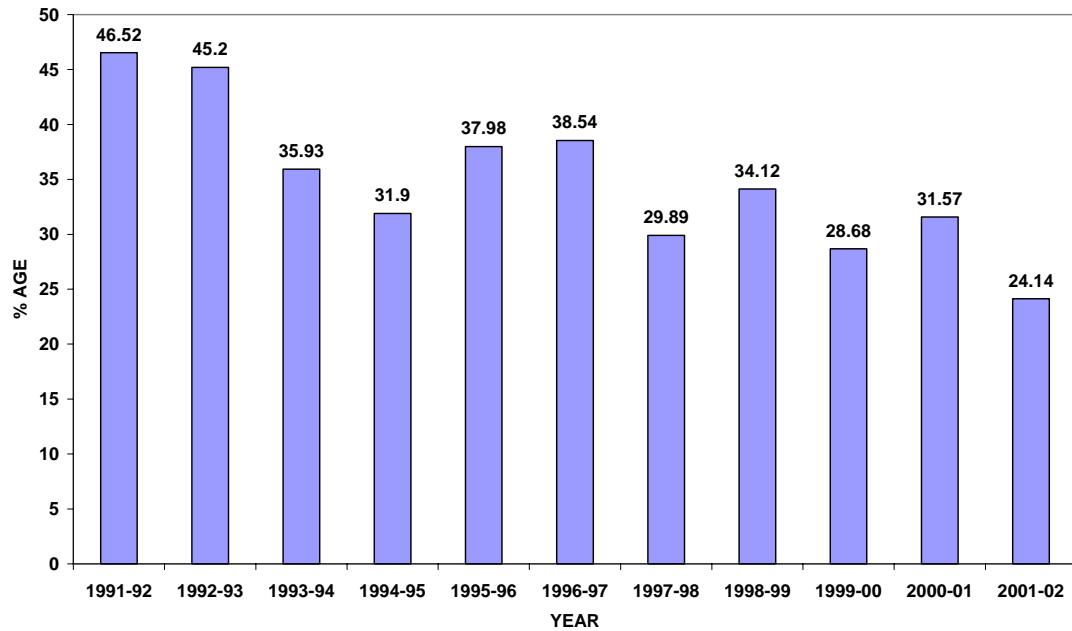
The Municipal Corporation of Hyderabad also resorted to the schemes of Self-Assessment in trade licensing fee and advertisement fee. The results from self-assessment of these fees were impressive as may be seen from Figures 4 and 5.

Figure 4
MUNICIPAL CORPORATION OF HYDERABAD
COLLECTION OF TRADE LICENSING FEE: 1991-1992 – 2001-2002

Figure 5

19
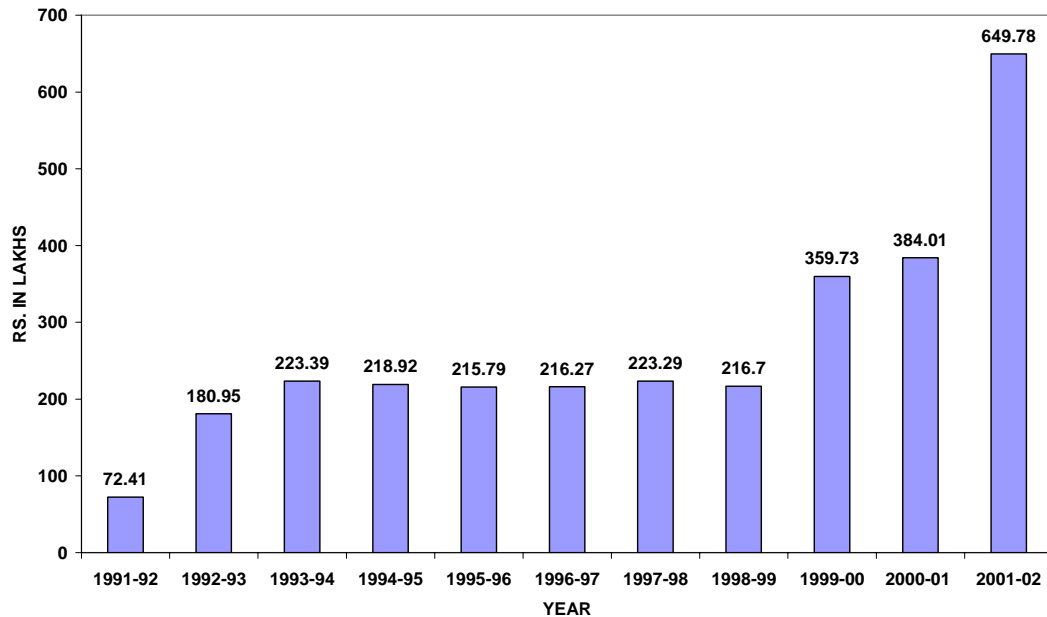
MUNICIPAL CORPORATION OF HYDERABAD
COLLECTION OF ADVERTISEMENT FEE: 1991-1992 – 2001-2002
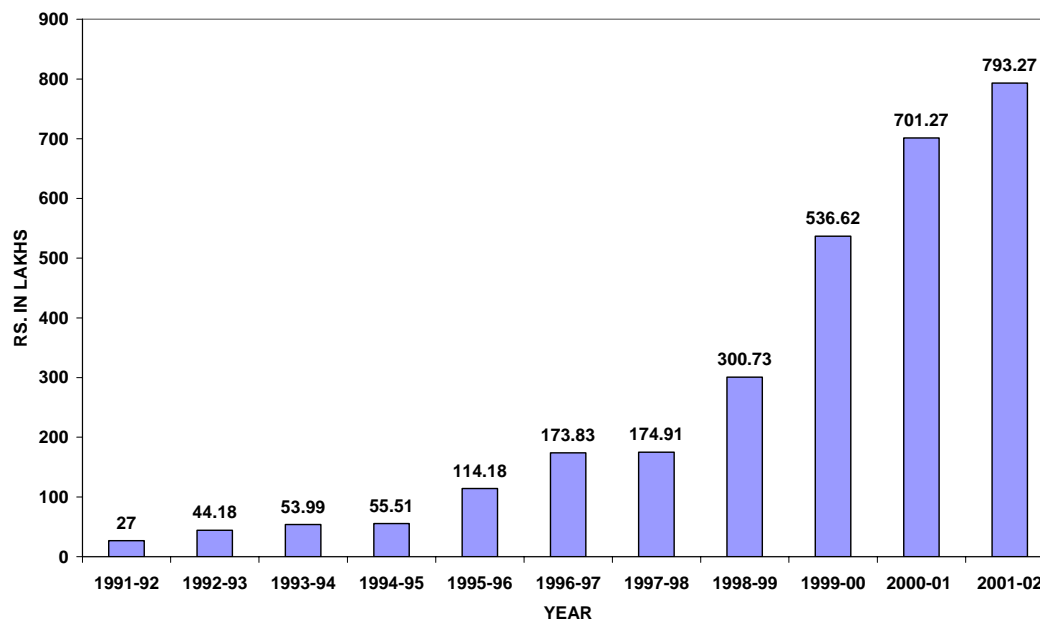
Conclusion

The experience of property tax reforms in Hyderabad provides a number of lessons. These include:

a. Tax reform strategy depends to a great extent on the pre-conditions; but certain principles such as the close involvement of the tax paper, tax-service linkage, incentives for filing of tax returns, disincentives for non-filing, tax education, etc., are important in the designing of successful reforms.

b. Arbitrary adoption of slab rates of tax in the name of elimination of discretion in the levy of tax is not desirable. Slab rates are useful in the case of homogeneous properties. But for heterogeneous properties such as commercial and institutional buildings, slab rates tend to be regressive. They over-tax properties with low rentals and under-tax those with high rentals as averages are affected by extreme items. This is against the fundamental principle of tax reforms, i.e., the market orientation of the tax system.

c. Correction of inequities in the tax system can be an important source of enhanced mobilisation of property tax revenues in most cities. Keeping tax rates low and emphasising on compliance led to significant increases in property tax collection in Hyderabad.

d. Tax education and organised publicity campaigns to address the psychology of tax-payer are often more important than economic factors such as tax rate and tax base in realising the potential of property tax; people must perceive the tax system to be fair and appreciate the linkage between tax and service provision.

e. Direct involvement of tax-payers in the provision of civic services is a must for better tax compliance

f. Tax reforms may need to be pursued in an incremental manner. Elaborate and time-consuming design may lead to the bouncing back of effort to clean a tax system.

The Self-Assessment Scheme of Hyderabad Municipal Corporation has not yet fully realised its potential; yield from property tax is going up as more and more corrections of the 20-year old inequity is taking place. The Scheme will prove that even with very low rate of tax, the revenues from property tax can go up significantly if systemic issues are tackled rather than dealing with traditional economic aspects such as tax rate and tax base.

Appendix 1

MUNICIPAL CORPORATION OF HYDERABAD

PUBLIC NOTIFICATION NO. 1375/CTS/99-CT1 DT. 9.12.99
Filing of Self-Assessment of Property Tax Form/Return

Last Date of Filing Information: 31.1.2000

AN APPEAL TO CITIZENS OF HYDERABAD:

The City of Hyderabad is one of the fastest growing cities in the country. Due to massive population growth and expansion of trade, business and commerce, civic services in the city are gradually becoming inadequate. The Citizens and MCH will need to jointly work out strategies to develop the City and provide critical infrastructure and basic civic services to the citizens. With better infrastructure and services, land and property values and rents will go up and thus the property owners will get benefited. The property occupiers will also benefit due to better civic services. Accordingly, MCH appeals to the Citizens of the Twin Cities to come forward and pay the right amount of Property Tax in accordance with the provisions of the HMC Act, 1955 by filing Self-Assessment Form/Property Tax Return. The information in Self-Assessment Form is called for as a "Written Return" based on "Requisition" made by the Commissioner, MCH under Section 213 of the Hyderabad Municipal Corporation Act, 1955. The Return is to be filed with signature of owner or occupier of property. Corporation of Chennai, Bangalore City Corporation and some other Corporations in the country have already introduced Self-Assessment and the same has proved a success.

WHY SELF-ASSESSMENT?

(1)   To ensure complete Transparency and Openness in Levy and Collection of Property Tax and to enable Citizens/Tax-payers to understand the basis of taxation so as to calculate the tax by themselves;

(2)   To build a Computerised Property Tax Data Base with each Property in the Twin Cities being assigned a unique Property Tax Identification Number (PTIN) so as to eliminate discretion in the levy and collection of tax, minimise inconvenience to the public, prevent any complaints of harassment and raise resources for city development;

(3)   To promote Equity in Tax payment (similar properties devoted to similar use in same or similar areas with similar rent-earning capacity to pay similar taxes);

(4)   To link services with tax payment so that tax-payers get value for money (quality services) and also feel proud of contributing their mite to the development of their own City and also assisting their fellow citizens, living in slums and poor localities, to gain access to Basic Minimum Services;

(5)   To minimise prolonged disputes between tax-payers and MCH running into years and to establish a healthy relationship between MCH and Tax-payers/Resident Welfare Associations.

WHO ARE REQUIRED TO FILE SELF-ASSESSMENT FORM/PROPERTY TAX RETURN?

Self-Assessment Form/Returns may be filed by all Property Owners/Occupiers (Owners/Tenants/Lessees, etc.):

(1)   whose properties were assessed by MCH before 1.4.1991 (1991 Census Date);
(2)   whose properties were assessed after 1.4.1991, but who feel that they are not paying adequately;
(3)   whose building/property has not been fully assessed (some part of Plinth Area yet to be assessed);
(4)   who have completed their buildings in the recent or distant past, but who have not informed MCH regarding the same as required under Section 210 of the HMC Act, 1955 and/or who have not applied for assessment;
(5)   who have made additions or alterations to their buildings or have reconstructed their buildings fully or partly but have not applied to MCH for assessment/reassessment of added/altered/reconstructed portions;
(6)   who have fully or partly converted their buildings from residential into non-residential use (commercial/institutional/industrial, etc.) after last assessment but have not applied for assessment/reassessment of converted portions;
(6)   who have been exempted from payment of tax in the past. The filing of returns is necessary to enable MCH to renew the exemption granted (to the extent of what is legally permissible).

BY WHOM RETURN TO BE FILED?
(1)   In case of owner-occupied individual building/flat   : By the Owner
(2)   In case of rented building/flat   : By the Owner and/or
                                                                                            Tenant/ Occupier
(3)   In case of company   : By the Secretary
(4)   In the case of partnership firm   : By the Managing Partner
(5)   In the case of public body (Corporation or Society) : By the Secretary or
                                                                                            Principal Officer
(6)   In any other case   : By the Owner and/or
person   who has taken the
premises   on rent.

VERIFICATION OF SELF-ASSESSMENT
After the Self-Assessment System gets established, MCH will take up random verification of Self-Assessment Forms as in the case of Income Tax Assessment. However, during 1999-2000, MCH proposes to undertake field verification of about 25% of the Returns filed by Residential Property owners/Occupiers. Those properties concealing measurements and/or rent and adopting unbelievably low Tax Rate per Square Feet in their Returns will be taken up for detailed field verification. The tax-payers are requested to treat filing of Return as an opportunity provided under Section 213 of the HMC Act to pay right taxes and demand quality services from MCH.

FILING RETURN & PAYING TAX

The last date for filing Self-Assessment Form/Property Tax Return is 31.01.2000. Those property owners/occupiers who do not file the returns by that date will be dealt with in accordance with the penal provisions of the HMC Act, 1955 and other Acts. The property owners/occupiers can deposit the property tax assessed by themselves by Cheque or Demand Draft drawn in favour of Commissioner, MCH at Head Office or concerned Circle Offices. MCH will open computerised counters at Branches of State Bank of Hyderabad in due course and initiate action to issue Passbooks to taxpayers to enable them to deposit their taxes.

ASSISTANCE FROM MCH

While making effort to provide better services to citizens, MCH assures that there will not be a single case of harrassment or over-taxation to honest tax-payers who file their Self-Assessment Forms. In case of any problem in assessment/reassessment of property, the following senior officers may be contacted in writing for redressal of grievances:

> …………………………………………………………….
> …………………………………………………………………

All Property Owners/Occupiers (Owners/Tenants/Lessees, etc.) and all Resident/Colony/ Flat-owners' Welfare Associations, Rate/Tax Payers' Associations, Traders Associations/Organisations are requested to ensure that Self-assessment Returns are filed for all properties belonging to them/their members individually in accordance with the provisions in the HMC Act, 1955 and assist MCH in the development of our City. Self-Assessment will eliminate the necessity for MCH to go in for time-consuming detailed survey and measurement of property and complicated tax assessment procedures. The Associations are requested to invite the officers mentioned above to Meetings and get their doubts clarified, if any. They are free to request MCH for specific services like roads, street lighting, drains, etc., after making their members file Self-assessment Returns based on a common/uniform understanding and paying the rightful taxes. MCH will make efforts to provide the required services over a period of time, if necessary by going in for Borrowing. Self-Assessment Forms are available in MCH Head Office and Circle Offices and Branches of State Bank of Hyderabad in the Twin Cities. Tax-payers can make Xerox copy of the Form notified, fill up the same and file with MCH.

MUNICIPAL CORPORATION OF HYDERABAD
Self-Assessment of Property Tax Form/Return
FORM A
(Fully Residential Property)
(Information required to be filed by Owner/Occupiers
(Owner/Tenant/Lessee) under Section 213 of the HMC Act, 1955

Property Tax Identification No (PTIN)
(To be filled up by MCH Office)

I.   Location Details

Circle No. [   ]   Ward No. [   ]   Block No. [   ]

Locality Name [   ]   Locality No. [   ]

Street Name [   ]   Street No. [   ]

House No. [   ]

Area Pin Code No. [   ]

Name of the Building [   ]

II.   Land Details:

Land Area in Square Yards [   ]

If Own land, state

(a)   Name of Owner (s) [   ]

(b)   Address [   ]

If Land is taken on Lease,

state from whom lease taken

III   Building Details:

Type of Building: Roof Code No [   ]
                       Flooring Code No [   ]
Code Numbers:
Roof: RCC   01
          Tiled/Asbestos/Other   02
          Thatched   03
Flooring: Partly of Fully Marble/Granite   01
          Mosaic/Ceramic Tiles/Polished Stone   02
          Other   03

If Flat, Floor No. (Ground – G, First – 01, Second – 02, etc.).

If Individual House, No. of Floors

Built-up (Plinth) Area of the Building/Flat in Square Feet

Year of Construction of Building/Flat

Use of the Building Code No. (In case Non-residential)

Code No.
Star Hotels   01
Other Hotels/Lodging Houses/Restaurants   02
Commercial Complexes/Markets/
Shops/Office Complexes/Offices/Banks   03
Cinema Theatres   04
Kalyan Mandapam/Function Halls   05
Hospitals/Nursing Homes/Clinics/Healthcare
Establishments/Diagnostic Centres   06
Educational Institutions   07
Industries/Factories   08
Religious & Charitable Institutions   09
Other Uses   10

IV.   Ownership Details:
        Name of the Owner,
        Address & Telephone No.

        Category of Ownership Code No.

        Code Numbers:
        Private: Individual   01
        Private: Corporate   02
        State Govt.   03
        Central Govt.   04
        State Govt. Undertaking   05
        Central Govt. Undertaking   06
        Other   07

V.   Occupancy Details:

Sl. No.	Name of Occupant(s)	Area Occupied in Square Footage	If Rented, Monthly Rent Paid/Rate per Square Feet	If Self-occupied, Monthly Rent expected if let out/Rate per Square Feet prevailing for similar Property in the Vicinity (MRV)
1				
2				
3				
4				
5				

VI.   Existing Tax Details:

Whether assessed to Tax or not: Yes or No

If Yes, Property Tax Assessment/Bill No.

Half-yearly Tax in Rupees

Half-year up to which Tax is paid

VII.   Self-Assessment Tax
[Proposed by Occupier (Owner/Tenant/Lessee)]:

Total Plinth Area of Property (PA)

Monthly Rental Value (Prevailing Rent in Local Area per Month) - MRV

Annual Tax payable (In Figures & Words)
(For Guidelines, see Annexure)

Amount already paid for 1999-2000
(In Figures & Words)

Balance to be paid for 1999-2000
(In Figures & Words)

Cheque/Demand Draft by which Tax Paid Now
(Name of Bank, Cheque/Draft No./Amount)

Acknowledgement

Received Self-Assessment Form along with Cheque/Demand Draft No._____

Date_____

Drawn on _____ (Name of Bank) from Shri _____towards Self-Assessment Tax for the year _____for Property on Premises bearing No. _____ situated at _____

Date: Receiver's Signature
                                                                       Name
                                                                       Designation
                                                                       Owner/Occupier

VIII.   Address for Correspondence

Telephone No.   O   [   ]   R   [   ]

DECLARATION

I/We_____ son/daughter/wife of Sri _____solemnly declare that I/We am/are fully aware of the legal provisions contained in Section 213 and other Sections of the HMC Act, 1955 and other relevant Acts, and the above information is correct to the best of my/our knowledge and belief.

                                                                       (SIGNATURE)

NAME OF OCCUPIER/OWNER:
_____

DATE   :

MUNICIPAL CORPORATION OF HYDERABAD
Self-Assessment of Property Tax Form/Return
FORM B
(Fully Non-Residential or Partly Non-Residential Property)
(Information required to be filed by Owner/Occupiers
(Owner/Tenant/Lessee) under Section 213 of the HMC Act, 1955

Property Tax Identification No. (PTIN)
(To be filled up by MCH Office)

I. Location Details

    Circle No. [ ]   Ward No. [ ]   Block No. [ ]

    Locality Name [ ]   Locality No. [ ]

    Street Name [ ]   Street No. [ ]

    House No. [ ]

    Area Pin Code No. [ ]

    Name of the Building [ ]

II. Land Details:

    Land Area in Square Yards [ ]

    If Own land, state

    (a)   Name of Owner (s) [ ]

    (b)   Address [ ]

    If Land is taken on Lease,
    state from whom lease taken [ ]

III Building Details:

    Type of Building: Roof Code No. [ ]
                       Flooring Code No. [ ]

(Code Numbers:		
Roof: RCC		01
Tiled/Asbestos/Other		02
Thatched		03
Flooring: Partly of Fully Marble/Granite		01
Mosaic/Ceramic Tiles/Polished Stone		02

Other   03

If Flat, Floor No. (Ground – G, First – 01, Second – 02, etc.).

If Individual House, No. of Floors

Built-up (Plinth) Area of the Building/Flat in Square Feet

Year of Construction of Building/Flat

Use of the Building Code No. (In case Non-residential)

Code No.
Star Hotels   01
Other Hotels/Lodging Houses/Restaurants   02
Commercial Complexes/Markets/
Shops/Office Complexes/Offices/Banks   03
Cinema Theatres   04
Kalyan Mandapam/Function Halls   05
Hospitals/Nursing Homes/Clinics/Healthcare
Establishments/Diagnostic Centres   06
Educational Institutions   07
Industries/Factories   08
Religious & Charitable Institutions   09
Other Uses   10

IV.   Ownership Details:
       Name of the Owner,
       Address & Telephone No

       Category of Ownership Code No.
       Code Numbers:
       Private: Individual   01
       Private: Corporate   02
       State Govt.   03
       Central Govt.   04
       State Govt. Undertaking   05
       Central Govt. Undertaking   06
       Other   07

V.   Occupancy Details:

Sl. No.	Name of Occupant(s)	Area Occupied in Square Footage	If Rented, Monthly Rent Paid/Rate per Square Feet	If Self-occupied, Monthly Rent expected if let out/Rate per Square Feet prevailing for similar Property in the Vicinity (MRV)
1				
2				
3				
4				
5				

VIII.   Existing Tax Details:

Whether assessed to Tax or not: Yes or No

If Yes, Property Tax Assessment/Bill No.

Half-yearly Tax in Rupees

Half-year up to which Tax is paid

IX.   Self-Assessment Tax
(Proposed by Occupier (Owner/Tenant/Lessee):

Total Plinth Area of Property (PA)

Monthly Rental Value (Prevailing Rent in
Local Area per Month) - MRV

Annual Tax payable (In Figures & Words)
(For Guideline, see Annexure)

Amount already paid for 1999-2000
(In Figures & Words)

Balance to be paid for 1999-2000
(In Figures & Words)

Cheque/Demand Draft by which Tax Paid Now
(Name of Bank, Cheque/Draft No./Amount)

Acknowledgement

Received Self-Assessment Form along with Cheque/Demand Draft
No_____

Date_____
drawn on _____ (Name of Bank)
from Shri _____towards Self-
Assessment Tax for the year _____ for Property on Premises bearing No.
_____ situated at _____

Date: Receiver's Signature
                                                                 Name
                                                                 Designation
                                                                 Owner/Occupier

VIII.   Address for Correspondence

Telephone No.   O | | R | |

DECLARATION

I/We_____son/daughter/wife of
Sri _____solemnly declare
that I/We am/are fully aware of the legal provisions contained in Section 213 and
other Sections of the HMC Act, 1955 and other relevant Acts, and the above
information is correct to the best of my/our knowledge and belief.

(SIGNATURE)

NAME OF OCCUPIER/OWNER:
_____

DATE   :

GUIDELINES FOR CALCULATING SELF –ASSESSMENT TAX

LEGAL PROVISIONS (HMC ACT, 1955 AS AMENDED):

Section 197:	MCH to levy property tax on lands and buildings.
Section 198:	MCH to fix or alter the rate of taxation.
Section 199:	MCH to levy tax up to 30 % of the Annual Rental Value (ARV) of the building (ARV = 12 X MRV. MRV is the Monthly Rent expected if the property is let out under normal market conditions)
Section 204:	The primary responsibility for levy and payment of property tax is the actual occupier (it could be the owner or tenant or lessee).
Section 212:	Vacant land tax shall be levied at 1% of the capital value of land.
Section 213:	The Commissioner may call for information or returns from owner or occupier of any property or enter and inspect assessable premises.
Section 217:	When the name of the person liable (occupier) for property tax is not ascertainable, the tax may be levied on 'the holder' of the property. If the person in occupation refuses to give details of ownership, he himself would be liable for payment of property tax.
Section 220:	Where a building is constructed, or re-constructed, or some structures are raised unauthorisedly, property tax on the same shall be levied with a penalty of 10% on the property tax till such unauthorised building is demolished or regularised.
Section 238:	The Corporation can collect Property Tax arrears under the provisions of the Revenue Recovery Act.
Section 264:	Property tax is payable in advance in April and October of every year.
Section 269:	When a person liable for property tax does not pay the same in time, the Corporation shall collect the same with an interest of 2% per month or the Corporation may disconnect the essential services or confiscate the movable articles of the defaulter of property tax.
Section 455:	Every person shall within One Month after completion of the building deliver a notice to the Commissioner in writing and obtain permission to occupy the building.

SELF-ASSESSMENT TAX CALCULATION

Step 1:	Measure Plinth Area (PA) of your Property /Building. This determines PA.
Step 2:	If Self-occupied, find out prevailing Market Rent per Square Feet per Month for similar Properties in the vicinity. This will give MRV per Sq. ft.
	If rented out, state the rent obtained per Sq. ft. per Month (based on Rental Agreement). If the rent obtained is low, you may state the

prevailing Market Rent for similar properties for the purpose of taxation and make the Occupier pay the property tax. This will give MRV per Sq. ft.

Step 3: Property Tax payable may be calculated as follows:

Residential:
No Tax if Monthly Rent expected is less than Rs.50.

Tax = Plinth Area (PA) X MRV per Sq. ft. X 12 X 0.17 if Monthly Rent expected is between Rs.51 and Rs.100 – 10% Depreciation
Add 8% towards Library Cess

= Plinth Area (PA) X MRV per Sq. ft. X 12 X 0.19 if Monthly Rent expected is between Rs.101 and Rs.200 – 10% Depreciation
Add 8% towards Library Cess

= Plinth Area (PA) X MRV per Sq. ft. X 12 X 0.22 if Monthly Rent expected is between Rs.201 and Rs.300 – 10% Depreciation
Add 8% towards Library Cess

= Plinth Area (PA) X MRV per Sq. ft. X 12 X 0.30 if Monthly Rent expected is more than Rs.300 – 10% Depreciation
Add 8% towards Library Cess

Non-Residential:
Tax = Plinth Area (PA) X MRV per Sq. ft. X 12 X 0.30-10% Depreciation
Add 8% towards Library Cess

The above formulae are guidelines only. The enlightened Tax-payers of the Twin Cities are requested to calculate their own Self-Assessment Tax taking into account the provision of law as appropriate, prevailing rental values, the costs of civic services and the need to contribute to the development of our City.

MCH TRUSTS YOU FOR THE FUTURE OF YOUR CITY AND YOUR CHILDREN

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Organisation Design for Service Delivery in the Public Sector

– Dr C. S. Rangachari

This paper is divided into 3 sections. *Section 1* introduces the public sector in parliamentary democracies. It makes the point that the 'wheel' of administrative reform has turned full circle in the last century. It reviews the market-led model of public management currently in favour in many developed countries and discusses the suitability (or otherwise) of this model for the developing countries. *Section 2* gives an overview of the environmental factors affecting public administration in India and narrows down to a description of the Revenue Department in the Government of Andhra Pradesh. *Section 3* describes and applies an analytical framework to the Revenue Department and discusses options for redesigning that department for more effective service delivery.

Section 1: The background: issues in public management

This paper is about organisation design—or re-design, as the case may be—in the public sector[1] to bring about changes in the arrangements for service delivery in order to achieve strategic objectives[2]. It will attempt to present a methodology for such an exercise rather than a step-by-step guide to how organisations in the public sector may be optimally designed for service delivery. It will do so on the basis of a study of one department and using an analytical framework developed for the purpose.

Public administration distinguishes between 'staff' and 'line' functions. At the centre of government are the agencies that deal in pure 'public goods', such as policy advice, budget-making and the raising of revenue, that government alone can perform[3], along with their support functions such as personnel. These central agencies, such as the Cabinet Office and the Treasury (the Cabinet Secretariat and Finance Ministry, respectively, in Government of India) are the 'buckles' that link the administrative with the political.

The 'line' ministries/departments deal in sectoral functions, including making and implementing policy for the sector. These departments are usually headed by ministers and may, as in the state governments of India, have field organisations (under a 'head of department') that are responsible for execution of policy under the guidance of the ministry.

This paper is about these 'line' ministries/departments. Each of them has some distinct functions viz. policymaking, regulatory, internal support services and direct services to citizens. A large majority of government departments fall within this category. If policy-making for the sector and the internal support services (sometimes also called 'corporate services') are excluded, the two main outputs of line ministries/departments that are of direct relevance to the lives of people are regulatory services and service provision to the citizens.

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[1] Here 'public sector' refers to government departments as well as autonomous bodies, statutory agencies and executive authorities appointed by and/or reporting to government, but excludes the 'public sector' as usually understood in India, viz. public sector undertakings or commercial entities owned and managed by the state.

[2] Strategic objectives are generally long-term and focus on ensuring organisational effectiveness in relation to a changing environment.

[3] Tax collection was privatised in ancient China, Greece, Rome and, more recently, Thailand which until 1875 did not have a governmental organisation for tax collection (Schiavo-Campo & Sundaram, 2002). Even in Moghul India, the collection of land revenue was through agents or intermediaries. In modern municipalities collection of parking and toll fees is through contractors. These qualifications will not stand in the way of tax collection being a sovereign function of the state and, in that sense, a pure public good.

The key question that we examine in this paper is *the extent to which 'market' can be the appropriate mode of governance for service delivery.* This would mean raising the following specific questions. Does the private sector have any inherent advantage over the public in service provision? Are there circumstances in which service provision by these line departments can or should be privatised? What criteria should be applied to decision-making in this regard?

Except exclusive departments or agencies that have been created for the purpose of delivering one homogeneous service or serving one homogeneous group of clients e.g. weaker sections housing or backward classes welfare, the large majority of line departments in Indian states are of the type wherein the regulatory and service delivery outputs are mixed. The outputs are, in fact, so mixed up that they cannot easily be separated. The regulations administered by the typical department are often the 'other side of the coin' of the services it provides to the citizen. They define the legal or administrative framework within which service delivery operates. An example is the transport department administering the rules and regulations under the Motor Vehicles Act by checking vehicles for overloading or pollution. It also provides services such as issue of fitness certificates to vehicle owners and driving licences to citizens who apply for them. Sometimes a regulation has to be enforced <u>in order</u> for a service to be delivered.

Herein lies the essential difference between the private and public sectors. In the public sector, rules and regulations have to be followed. Often these have the force of law but, in practice, executive instructions or even guidelines (such as for implementation of schemes) have the same effect as rules on civil service functioning[4]. Thus the system emphasises accountability[5] and transparency, as much as it does the delivery of service to the user. To be sure, the manager of a private sector service delivery agency is accountable to others e.g. vertically to his superior, and less directly to the Board of Directors or the shareholders of the company, but his accountability is neither as wide nor as multi-dimensional as that of his counterpart in the public sector. On the other hand, his immediate goal is usually 'customer satisfaction' with the objective, generally, of either improving the rate of return on investment, increasing the profit to a certain level or augmenting the market share of his company. In other words, *process matters a lot in public sector; in the private sector, what matters most of all is the 'bottom-line'.*

In the public sector the typical flows of accountability run somewhat as in Figure 1:

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[4] Customer differentiation (or 'segmentation'), which is often the objective of private sector marketing, is the exception rather than rule in public sector.

[5] The standard works define accountability as the legal obligation to be responsive to the legitimate interests of those affected by decisions, programs and interventions (Waldo; Wilson). But it also implies the authority of state actors to compel compliance and to exercise power (Considine, 2002). That is, accountability = answerability + enforceability (Draft WDR 2004).

Figure 1: Accountabilities in the Public Sector
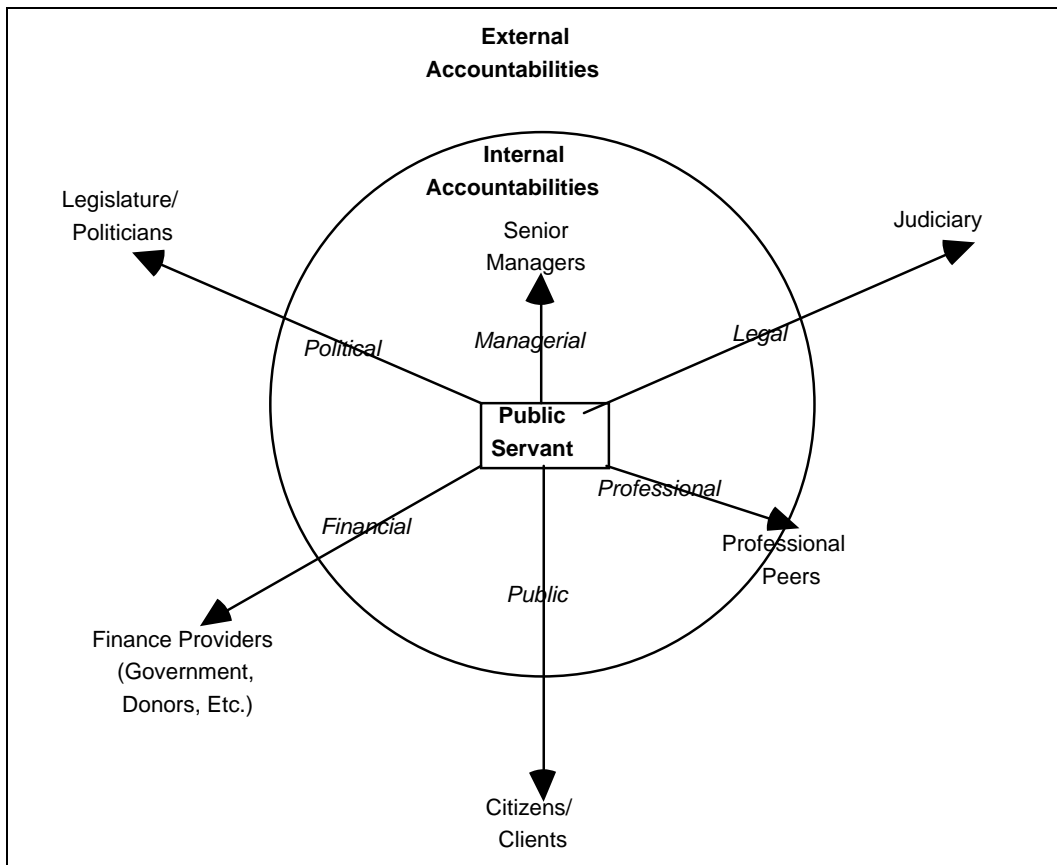
Source: Heeks (1998)

The diagram illustrates the five types of accountability viz. managerial, financial, public, judicial and professional.

Administration in the public sector, unlike management in the private sector, is bound up with, and part of, a larger system called the political executive. Not only is administration part of the political executive—making the civil servant answerable to the politician for policy implementation—but the executive is in turn subject to a number of 'checks and balances' that are the building blocks of democratic polity.

We can thus identify *three rather fundamental differences* between the public and private sectors. The powers and mandate of the public sector viz. the typical government flow from the constitution or other legislative enactments that are part of the 'framework for action' of the government. Government deals with matters of the eminent domain. Its actions flow from its '*imperium*'. In the prosaic language of economists, government has monopoly in the use of *coercion*. By legislative sanction, for instance, it can incarcerate people. These observations, typically, do not apply to the activities of the private sector. Secondly, as noted, by the very reason of its mandate, the executive part of government has *obligations* in all directions—to the legislature, the judiciary, the Comptroller-and-Auditor-General of India or other constitutional authorities and, of course, the people who elected the government—all of

whom together define the full scope of accountability of the executive.[6] By contrast, accountability in private sector is not so wide or multi-dimensional. Thirdly, government has multiple, even conflicting, *objectives* that often create piquant situations for the judiciary which sometimes (e.g. in public interest litigations) has to adjudicate between different parts of government (such as two ministries), and not only between government and the citizen. In the private sector, such conflicting objectives are rare; not only does an organisation in the private sector have its objectives more narrowly and specifically defined; they are, for the same reason, 'bought into' by employees down the line more easily than in the public sector.

It is in this background that we need to consider the organisational options for service delivery in the public sector.

<u>Changing role of the state and public administration:</u>
The question we shall now address is: how did the sweeping changes in public administration of the last two decades actually come about?

Questions of the role and powers of the state are far from being new: they were actually central concerns of philosophers such as Aristotle in ancient Greece, Kautilya in ancient India, Confucius in ancient China and Machiavelli in medieval Italy. However, the conception of the activist, bureaucratic state, despite its earlier parallels, is essentially a twentieth-century phenomenon. The characteristics of this bureaucratic state were set out most clearly by Max Weber, the German sociologist in 1920, with strong echoes of earlier writings (of around 1890) by the American Woodrow Wilson. The chief ones are:

- there should be clear separation between politics and administration, and therefore distinct roles for political leaders (normally elected) and state officials (normally appointed)
- administration should be predictable, based on clear, unambiguous, written rules
- administrators should be recruited on the basis of merit and function as trained professionals
- organisations must reflect a functional division of labour, and a hierarchical arrangement of tasks and people.

Further refinement of the traditional model of public administration came in the form of private sector based ideas of 'scientific management' popularised by Taylor and others, which introduced efficient operational methods based on standardisation of tasks, 'one best way' of fitting workers to tasks, and systematic control of tasks, processes and workers (Hughes, 1998). These principles were easily adapted to bureaucratic structures. A final addition was the application of the insights of social psychology, in a 'human relations' approach which is often contrasted with the scientific management approach, but which, in practice, sought to achieve greater efficiency of performance by motivating rather than controlling workers.

The most important assumption underlying this activist state model was that state intervention was needed to make good the deficiencies and failures of the private market.

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[6] In practice, public servants have to balance demands of accountability from other sources not listed here e.g. legislative committees, ministers outside their portfolio—in A.P., there are 'district ministers' each of whom is assigned a particular district for supervision of government's development and welfare activities-- different organisations representing parts of the citizenry, or other agencies with whom they co-produce public goods.

It is easy to see that such a model fitted ideally with the needs of the 'welfare state' that evolved during the first half of the twentieth century[7]. It did not matter whether the state was democratic, communist or fascist: they all relied on vertical bureaucracies to 'deliver the goods'.

All this changed in the later decades of the century. Suddenly, bureaucracy appeared to have become a bad word. What caused the cracks in its edifice? The critique of the traditional model is based in a comparison of the 'ideal' model of bureaucracy with what happens in real systems of public administration. The following differences can be identified:

- in many systems there is no clear separation between policy and administration;
- decision-making processes do not, in any case, conform to the rules of technical and economic rationality but are often shaped by conflicts and negotiations;
- hierarchy and centralisation have led to bureaucratic pathologies such as delay, inflexibility and an arrogant disregard for the interests of citizens; and
- bureaucracies are therefore characterised by a 'top down' implementation process which frequently produces inappropriate policies and inadequate results.

In short, far from effectively correcting market failures, the state became plagued by 'government failures' which transformed it into the 'unresponsive but invasive' state, the 'soft' state, the 'over-extended' state, or the 'private-interest' state.

Through the 1980's and up until the mid-1990's, the prevailing political trend was therefore one of dismantling the government and re-anointing the market in its role of primacy in the economy. This trend started with the Thatcher-Reagan era in the early 1980's and was strengthened by the collapse of the 'socialist' governments across the world towards the end of the decade. It was during this same period that the New Public Management (NPM)—representing a substantial departure from the 'Old Public Administration'--was built on the foundations of the 'new' orthodoxy of the market. The claim of this model is to transform the traditional public administration into a new species of public management, characterised by

- a separation of strategic policy from operational management
- a concern with results rather than process and procedure
- an orientation to the needs of citizens rather than the interests of organisations or bureaucrats
- a withdrawal from direct service provision in favour of a steering or enabling role
- a changed, entrepreneurial management culture.

The preferred methods of NPM included contracting out of service delivery to various agencies on a basis of competition, operation of quasi-markets, and separation of the purchaser and the provider of services.

The 'Washington consensus'[8], as the new approach is sometimes called, was adopted by the World Bank and other multilateral lending agencies as their leading strategy of development. This was in a background of many projects failing on account of 'government failure' in a number of developing countries leading to the Bank's realisation that, to ensure project success, *governance reform* needed to be given a higher priority than even development projects. The 'Washington consensus'—based on a ringing endorsement of democracy, the market and civil society-- reached its apotheosis during 1993-97.

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[7] Apart from the influence of 'social contract' notions that emphasised the obligations of government to the citizen, the Great Depression and the two World Wars placed a premium on state intervention in many areas of public life.

[8] The phrase was first used by John Williamson of the Institute for International Development.

After the collapse of the East Asian economies in and about 1997, cracks began appearing in the consensus (Knight et al, 2002). Tony Blair's government in UK began veering towards the 'Third Way', emphasising partnership between government and the people, which has been picked up by some European governments.

From Australia it was noted that "the language of contestability and competition has been replaced in many liberal democracies throughout the world with public-private partnerships, co-operation and relationships. Improving service delivery through contracting-out and privatisation has been replaced with new governance structures associated with 'joined-up' government, holistic government and the coordination of service delivery. The new language of public management……*recognises the limits of markets in the public sector, and restores the authority of government to act in the public interest*" (Ryan, 2001. Emphasis added).

The 1997 crash had given a severe jolt to public confidence in markets. Anxieties about regulating capital flows found their way into World Bank development reports, leading to an about-turn on the matter of regulation (the World Bank Development Report, 1999/2000). Subsequent reports such as *Attacking Poverty* (World Bank, 2000) have given a higher profile to social matters and have been based on consultations with poor people. Indeed there is now a 'new Washington consensus' (Edwards, 1999), heralding the emergence of the 'civil society' as a third player in the economy. The ascent of the civil society parallels the decline of the state, the rise of the market and the growing dissatisfaction with the failings of <u>both</u> the state and the market. The new consensus stresses 'good governance' as critical to the emergence of a new world order in which empowered citizens would themselves 'write the script' for their own growth. And 'good governance', it is increasingly being realised, does not mean blindly copying western institutions. Starting with the ascendancy of the activist model of the state in early 20th century, and through its various travails, the wheel has turned full circle indeed.

Passing fad or not, the propositions of 'good governance' raise many questions to which answers would need to be found if the vision of a good society is to translate into reality. What can the experience of the last two decades teach us, especially those living in the less developed countries, regarding the provision of services to people by various agencies both public and private? What is the desirable role of each of these sets of agencies, public and private, in the provision of the services vitally needed by the people, especially the poor and the weak among them? How do the recent advances in theory help us to understand and manage the 'real world' trends, to set up goals for the society to reach and to devise policies and design strategies to achieve those goals? On the empirical side, what can the experience of NPM teach us?

Experience of NPM in OECD countries: a critique
The experience of the last two decades in OECD countries shows that the private sector is not comfortable negotiating complex and multi-dimensional 'routes' of accountability. In these countries, during the last two decades, under the so-called NPM, government has been extensively 'contracted out', to the extent that the state is sometimes called the 'contractarian state'. Service providers here face a dilemma. In the traditional world of civil servants, a clearly defined office and an unbroken chain of command made it possible to reconcile the demands for accountability on a basis of priority and need. Here, on the other hand, *accountability has become an issue with multiple levels and layers of meaning*. Courts, parliaments and citizen groups still press ministers and civil servants to take responsibility for public programmes, even where the programmes are delivered by contractors (Considine, 2002).

Indeed, one may venture that the concept of accountability, in the situation described above in OECD countries, has been stretched to the breaking point. This has led to other ironies. For example, in USA, courts follow the practice of ruling on the legitimacy of 'state action' before deciding whether a citizen's claim against a public servant for doing certain acts in the name of the state can be allowed or not. Thanks to the extraordinary extent to which governments in USA have contracted out their functions to private for-profit and not-for-profit agencies, the courts have had to rule in many cases that there is no 'state action', thus in effect removing one major pillar of support to the accountability system in that country (Gilmour & Jensen, 1998). Thus reviews of NPM's performance in OECD countries have concurred that *while government's functions can be contracted out, accountability cannot*; and that NPM's failure to address the problem of accountability has cut at the roots of representative democracy, rule of law and the ethics of public service.

In the *U.K.* and *New Zealand*, two countries where NPM was implemented with the most enthusiasm, its results have been ambiguous: "as a tool for greater efficiency, NPM seems to generate, at best, about 3% savings year-on-year on running costs. Given that running costs are small relative to programme costs, this is a distinctly modest saving" (Scott & Taylor, 2000, cited in World Bank, GPSR net, 2000).

The literature on privatisation and market-type mechanisms such as contracting makes it clear that there is no hard evidence of real efficiency gains (several authors 1988-1998).
Minogue (2002) reviews NPM's negative outcomes *in the U.K.* thus: "the literature on privatisation and contracting mechanisms make it clear that there is no hard evidence of efficiency gains; the literature on civil service restructuring points to serious erosion of morale and accountability; while the applications to local government are judged to have increased 'democratic deficit' and emasculated local autonomy".

The post-9/11 retreat *in U.S.* from the dominant strategy of administrative reform of the 1990's--decentralisation and privatisation--suggests that the waning of attention in that country is associated with a 'slow recognition of the costs of reform' (Scott Robinson, 2003).

Thus NPM's limited impact, its high transactions costs, its adverse effects on constitutional governance, ethical values and substantive democracy—not to mention the emergence of 'participatory governance' as the new ideology--have all meant that there is no real consensus on NPM's suitability even to the OECD countries.

Perhaps the most disturbing critique of all is the view, based on research by OECD (1996), that 'despite differences between different countries, there is a growing convergence in terms of a concern that fundamental values associated with public services organisations are being undermined by the reform' (Lawton, 1998). The tensions involved may be illustrated as in Figure 2 below:

Figure 2: What the reforms really imply

Traditional practice	Replaced by	Implications
Clear standards of competence	Flexible contractual relationships	Legal protection to citizens must be guaranteed as in traditional public administration
Democratic control	Control by efficiency & effectiveness	Control instruments must be transparent

Decision-making in political arena	Decision-making in the managerial area	Politics must not be excluded
Discretion by civil servants	Extended discretion in managerial field	Guarantees of equity for claims to state services

(*Source*: Adapted from Schedler, 1997)

It is thus clear that the so-called NPM should, far from claiming to have answers, instead be prepared to raise questions or at least reflect on "the essential dynamics of those policy domains within the public sector where problems of legitimacy, consensus, information, and interdependence are prevalent and hard to solve" (Lynn, 1998).

Experience of NPM in the less developed countries: a warning
In the less developed countries the advent of NPM has <u>not</u> meant that hierarchical bureaucracies have been replaced substantially by chains of inter-linked contracts. Certainly there have been very significant reforms, especially in the water and health sectors, that have drawn from the NPM menu. But most government functions are still performed by vertically integrated bureaucracies functioning more or less as Weber imagined.

Batley (1999)'s comprehensive 5-year review of the 'changing role of governments in adjusting economies' in South Asia, Sub-Saharan Africa and South America finds that the effects of NPM reforms have, at best, been mixed, with some improvements in efficiency and mixed effects on equity. On the downside, he notes that the transaction costs of radical reforms to 'autonomise' service delivery agencies tend to outweigh the efficiency gains of unbundling, and that reforms that seek to separate purchasers from providers have tended to reduce accountability.

Polidano (1999) refers to the patchy record of privatisation and downsizing undertaken in some countries. In these countries, measures like 'autonomisation' and 'corporatisation' have been undertaken for the wrong reasons--not with a view to improving efficiency but for convenience, as a way of escaping closure or freeing a particular public function from the constraints of civil service red tape. Polidano concludes that evidence of the impact of NPM is "perplexingly equivocal". He emphasises the importance of contingency factors, arguing that few generalisations are possible concerning NPM.

Why is NPM not generalisable? One, perhaps the most important, reason is that the introduction of NPM methods does not dispense with the need for 'old public disciplines', including a public service ethos. It is not possible, for instance, to make decentralised authority and performance contracts work in the absence of the efficient functioning of the budget system under which both the line and central agencies are usually constrained by mutual obligations. Further, staff must accept certain clear standards of behaviour, policy must be authoritative and there must be no conflicting directions from government or the ministers. These preconditions cannot be brought about by decrees overnight.

Secondly, many providers along with their purchasers have remained in the public sector[9], thus reducing chances of judicial intervention to resolve disputes, while the 'contracts' are intrinsically flimsy and require the backing of a watchful public which is usually absent in these countries.

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[9] Some 72% of executive agencies providing (or purchasing) service in U.K. during the heady years of NPM were actually public sector entities who had won in the competition.

As per Minogue (2002), the NPM notion of accountability "fits uneasily" to developing country governance since its reliance on a competitive model of public service delivery assumes the existence of market and civil society institutions that, in many developing countries, are conspicuous by their absence. In his view what is needed in developing countries is "*not a reduction but an enhancement of the role and effectiveness of the central state*; not a fragmentation of government systems through separate agencies and new public-private hybrids, but *the construction of central institutions*" (Emphasis added). As Hirschman (1999) observes: "what is the point of the state being accountable if little is being achieved, of the state being transparent, if there is nothing to show?"

Is the NPM model transferable across cultures?
A model of public service that can be adopted and made operational across the globe without reference to a country's cultural heritage, existing institutions and their path dependencies is unthinkable. The introduction of modernising reforms (mainly privatisation and decentralisation initiatives, and increased contractualism) in *France*, then facing a major fiscal and economic crisis, met with strong resistance both at the elite level and at the lower, heavily unionised levels of the public sector. The resistance of these entrenched interests, and the centrality of the state in French political and administrative culture, stymied the intentions of reforming politicians. The reforms exacerbated the bureaucratic problems creating 'a two-speed civil service, a modernising periphery and a traditional centre' (Clark, 1998). Moreover, French users of public services saw little result from a decade of reform initiatives because the procedural nature of the system, rooted in administrative law, was largely undisturbed.

A quite different problem of cultural transfer is illustrated by the example of *China*, where the concept of merit-based bureaucracy runs into specific 'Chinese characteristics'.
The recent efforts at civil service reform demonstrate an uneasy tension between movement towards a professionalised bureaucracy, and the continuance of a political cadre system (Zhou, 1995; Tong et al, 1999).

Without flexible adaptation to local conditions, reforms will not become rooted, and will create empty, façade changes, which will be ineffectual, and do little more than create new bureaucratic layers. Nunberg (1995), writing for the World Bank, therefore dismisses the appropriateness to developing countries of such NPM reforms as executive agencies and performance management systems.

Section 2: Administration in India

Given the conceptual and cultural dilemmas associated with the adoption of some of the paradigms of administrative reform in western countries in the last couple of decades, we shall now move on to a consideration of the Indian situation.

What is the 'core competence' of public administration in India? What are our strengths on which we can build? Efficient logistics-driven delivery of services to people is surely one of our strengths. The colonial rulers had developed a system of governance suitable for a large country with a heterogeneous multi-ethnic population. The British went for the pure administrative model—a vertically constituted system of government which nevertheless experimented with ways of communicating with citizens to ascertain their views and preferences before bringing in major policy changes[10]. Nevertheless, it was in essence all about regulation and rule-based administration. There was no attempt at service delivery.

After independence, the country adopted a democratic constitution and things became complex. The inherited, paternalistic form of government—with government in the driving seat of service provision—does not work well with representative democracy.

India, despite common features, is different from Western democracies
A 'world vision' enables us to see the 'mega trends' better and to relate these to our own situation. At the same time, we need to be wary of assuming that all that has been found to be good for other countries is necessarily good for our own country. To know what is good for our society or what will 'work best' in our situation, it is important to be informed by a knowledge of the country's history and its institutions.

Being a former British colony with a tradition of 'common law' administration, and having constitutionally adopted the Cabinet type of government, India has much in common with the U.K. There are also important differences, such as that the U.K. follows a more unitary system of government while the federal system of government in India divides the powers between the centre and the states and envisages a clearly defined role in government being played by the states (or provincial or regional governments). The federal constitution of India has to be made to work the way it is conceived/designed i.e. with far greater devolution of powers and resources. In practice, the opposite has happened.

But states have already shown what they can do by way of competition among themselves. For the first time, administrative reform or 'governance' is emerging as a focus of competition. The Right to Information Act--which implements the legislative idea in both letter and spirit—is still some distance away, but as states open up and realise the benefits, information will also open up. Many states are already negotiating with multilateral lending agencies for development loans as well as with consortiums abroad for foreign direct investment.

In suitable cases i.e. where direct service to citizen and regulatory service are clearly distinguishable, one can make use of the concepts of 'imperium' and 'dominium'[11]. Regulatory functions are areas where the state has to function from 'imperium', while direct services to citizens must flow from 'dominium'. The first will be primarily civil service

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[10] An example is the introduction of the Indian Penal Code, 18.., which was preceded by elaborate discussions with groups of citizens all over the country.

[11] Government may either pursue its objectives through the command of law and the imposition of relevant sanctions (i.e. through 'imperium') or it may use its wealth, its power to disburse benefits, to buy or induce compliance with its purposes (i.e. 'dominium') (Daintith, 1994).

driven. The second, except to the extent it capitalises on the strengths of the governmental apparatus[12], must go with the most competent agency available in the chosen location. Thus a combination of multiple agencies must be carefully chosen for better benchmarking and effective 'yardstick' competition between them. Elsewhere, such as in the infrastructure sector (including power) and the municipal services sector, the record of privatisation has not been a very successful one.

In recent years, there has been much discussion of the weak institutions of governance in the developing countries. However, there is no consensus in the economics of institutions on how institutional changes can be brought about or how new institutions can be made to work. In a vibrant democracy with a good public ethos and a strong tradition of service provision either by the public sector (e.g. Germany, France) or by the market (e.g. the U.S., the U.K.), it is relatively easier to predict the consequences of a given change in the institutional arrangements for service provision. It is vastly more difficult in less developed counties with a different culture or where the ruling institutions are externally imposed (and not home grown) and not fully assimilated.

In India, political institutions are not mature enough. Accountability within organisations and outside i.e. both vertical and horizontal, is low; transparency vis-à-vis stakeholders is not an attribute of either government or business organisations; there is a fear of decentralisation/delegation even among responsible and well-intentioned members of the intelligentsia; corruption and rent-seeking are rampant; judiciary is weak; civil society institutions are not firmly rooted; patron-client relationships pervade society and are exacerbated by deeply-embedded feudal attitudes and relationships; information is scarce; and inequalities, both social and economic, are ever widening. Some of these features can be referred to as 'colonial legacy', others not.

Administrative reform is being attempted in India in such a context. This is not to deny that some administrative reform measures and organisational innovations have succeeded here and there. For example, dairy cooperatives have succeeded in Gujarat, *Pani Panchayats* in Maharashtra, the right-to-information movement in Rajasthan, participatory planning in Kerala, forest protection committees in West Bengal, water users' associations in Andhra Pradesh etc. In many of these cases—not in all—the new institutions are an outgrowth from the old and the traditional, or based in a collectively accepted political ideology or otherwise rooted in history and culture.

In general, government-imposed institutions have not done as well as institutions which had found a hospitable environment in some half-forgotten tradition or culture. Institutions which grow out of old roots have a greater chance of getting established than those which are imposed based only on their intellectual credentials (Rangachari & Mukherji, 2000). Given this background, institutional misalignment, a major problem of organisational design, has to be carefully diagnosed and corrected.

It is increasingly accepted in the literature that countries differ in their ability to assimilate western-style political institutions. Many of them, such as those in Africa, are culturally constrained in doing so. (Draft WDR 2004)

Former colonial countries like India have also to face the 'transactions costs of organisational change' caused by 'path dependencies'. Colonial regimes fostered professional ethos among civil servants that stressed the importance of maintaining law and order while maximising the efficiency of labour and resource extraction. This ethos was reflected in colonial civil servants' relations with the citizenry. Thus the notion of 'customer orientation' in the delivery

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[12] For example, PDS (public distribution system)-type logistical operations with centralised monitoring and control still work well in India.

of services was alien. It therefore stands to reason that in post-colonial societies, the path dependencies of state-society relations restrict the emergence of a public service ethos based on demand-driven principles of modern public management (Girishankar, 1995).

The 'theoretical model' introduced in the first part of Section 3 relates the governance structure to the 'type of goods' produced by the organisation. In countries like India, it is perhaps necessary to consider also the political environment, the weaknesses of institutions, the 'porousness' of the system and its vulnerability to pressures from outside. For example, let us consider the 'market vs. hierarchy' case. The standard argument is that competition will help improve the standards of service and that, therefore, market-like mechanisms should be devised for supply of even those goods that are plagued by 'market failure'.

Underlying this contradictory position is a distrust of hierarchy and unquestioning faith in the market. However, it is our everyday experience that despite good faith, markets are not allowed to function by vested interests, whenever the stakes are high and monitoring is or can be rendered ineffective.

It is possible, therefore, to argue that what we really need in the Indian situation is some kind of a 'Taylorian' organisational arrangement to protect many processes within the organisation from political interference. In other words, we opt for a low-permeability, hierarchical environment but with transparent processes that would prevent the system from getting overly politicised.

The suggestion to prefer a low-permeability organisational environment is made even though such an organisation tends to prioritise uniformity and conservatism. This is because of the resistance, both implicit and explicit, engendered by attempts at reform especially in the short run. In such situations a 'gradualist' approach to reform is called for.

The suggestion to make processes 'transparent' is made with a view to ensuring that the lines of accountability between citizens-politicians-public managers are not compromised. This implies that the 'voice' mechanism ought to be strengthened wherever possible, while self-help groups and other grassroots-level organisations can be used for service delivery where possible, especially in services which can be effectively monitored only locally.

Experience of other countries shows that public-private ownership (or private sector involvement in some form) is effective in delivery of urban services. However, India's record of such urban infrastructure reforms has been characterised by late starts or aborted projects. Years into reform, few such projects have been grounded.

Short political horizons and people's lack of 'voice' have encouraged opaqueness in the functioning of government. A study of the processes in weaker sections housing by CGG showed that selection of beneficiaries lacked transparency for such reasons. The recommendation was to publicise the guidelines and the actual selection process followed so that officials were made to tread the narrow path.

<u>The Revenue Department of Andhra Pradesh[13]</u>

The revenue department is the vital executive arm of the state. It is enjoined on the department to perform a multitude of functions concerning the people, starting from their birth to death. The revenue department has a legacy and the pride of being the oldest department in the administrative set-up. It continues to be the backbone of administration and has contributed a lot to orderly social development and growth in the state.

The primary function of the department is to safeguard the rights of the people to their holdings in land through maintenance and up-dating of land records. The work relating to land acquisition, land lease, alienation of government land etc. is also looked after by the revenue department. Measures for bringing into effect land reforms and social equality are also undertaken by the department through assignment and distribution of surplus lands. The department used to collect land revenue (including various cesses on it) and thus contributed to the resources of the government. However land revenue has now been abolished and the department's aura as a revenue-collecting agency has diminished. (Some would say the name 'revenue department' is itself a misnomer now).

The origin of the revenue department dates back to the colonial rule in India. In order for the administration to be effective, the colonial rulers formed districts with Collectors to head them. The Board of Revenue of the Madras Presidency—the composite state of peninsular India from which Andhra Pradesh was formed in the 1950's—was originally set up in the year 1786 to advise Collectors in administrative matters. This Board was abolished, in Andhra Pradesh, in 1976.

The functions of the erstwhile Board of Revenue are now being looked after by a number of departments (or sub-departments) under the Chief Commissioner of Land Administration. He is in charge of the district revenue administration and general administration, levy and collection of land revenue, cesses and other related levies. He also looks after land-related issues such as land acquisition, alienation, assignment of lands and house site *pattas*, maintenance of survey and land records as well as records of rights and distribution of land *pattas*. Further, he supervises land and agrarian reforms such as agricultural land ceilings, urban land ceilings, tenancy rights, assignment of surplus land for agricultural purposes and collection of non-agricultural land assessment.

At the district level, Collectors, Joint Collectors and District Revenue Officers are assisted by the Revenue Divisional Officers (who are in charge of 'divisions', numbering usually three or four, within a district), Mandal Revenue Officers (who are in charge of clusters of villages within each division), Revenue Inspectors and Village Secretaries.

The village administration is the backbone of district administration. The hereditary system of village officers was abolished two decades ago. Subsequently, Village Administrative Officers were appointed to deal with the functions previously performed by the village officers. The system of Village Administrative Officers has again been abolished recently with the transfer of village administration to the Gram Panchayats. The Village Secretary, who is also the Secretary of the Gram Panchayat, has taken over the functions of the erstwhile Village Administrative Officer and, for this purpose, he reports to the Mandal Revenue Officer.

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[13] The Revenue Department is now expanded to include Commercial Taxes, Excise and Prohibition, Registration & Stamps and Endowments. Here we consider only the 'old' Revenue Department which is concerned with land and land-related administration, and with general administration at the district level.

As head of the revenue administration at the district level, the Collector used to be one. Owing, however, to the rapid accretion of new developmental responsibilities, the Collector needed to be relieved of some of his revenue-related responsibilities by others such as the Joint Collectors, the District Revenue Officers, Special Grade Deputy Collectors and others. The District Collectors' Powers (Delegation) Act 1961 and a later government order, G.O. Ms.No.77 Revenue dated 22 January 1968, as amended from time to time, spell out the functions of the Collector, as also those of the Joint Collector and the District Revenue Officer.

In addition to the Revenue Department, in order to ensure efficient implementation of the district developmental activities, the following departments have been brought under the purview of the Collector who is also head of these departments: Agriculture, Irrigation, Co-operation, Panchayati Raj, Industries and Education. The district heads of other departments have also been instructed by government to carry out such directions as may be issued by the Collector from time to time in regard to the implementation of the schemes included in the District Plan. The Collector is the Chairman of the Standing Committees of the Zilla Parishad. He is also Chairman of some 100 official committees connected with the implementation and supervision of various developmental schemes in the district.

Originally, 'revenue laws'—some 134 Acts were in force in the late 1970's--played a vital role in the governance of the country. These laws, spread over a period of nearly two centuries, have an impact on every aspect of the common man's life, especially in the rural areas. The collection of land revenue, which was considered one of the main functions of the Revenue Department, has been discontinued with the abolition of land revenue in the state. Though the amount of land revenue collected represented a small share of the total revenues of the state, payment of revenue has an importance going beyond budgetary considerations. Payment of land revenue served as strong evidence of ownership rights (in the land) in the person paying it. It was also considered that the ground of the levy was the ownership of the '*melvaram*' right held in the land by the sovereign. It could be argued that, by the abolition of land revenue, the prorogatory right of government over land is lost[14].

A list of the <u>functions</u> performed in the Revenue Department is provided in Annexure I. A separate list of the <u>services</u> rendered by the department may be found in Annexure II.

According to the officials of the department, there has been a *functional shift* in the orientation, emphasis and workload of the department as evidenced by the following:

- the importance of pure 'revenue' work has come down considerably
- there is now computerisation up to the *mandal* level, with citizen interface
- land revenue is no longer collected, since it has been formally abolished in the state
- from a predominantly regulatory role, the department has turned to citizen-oriented services
- the work of land reforms under the various enactments (including the abolition of *Inams*, *Jagirs* and Estates) has been almost completed
- apart from the fact that judicial functions have been separated from the executive, most of the executive magisterial powers of the Collector have been delegated to police commissioners

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[14] The revenue settlements effected by the colonial government during the second half of the nineteenth century, such as the *Zamindari* and *Ryotwari* settlements, were intended to confer legitimacy on the sovereign's right to tax. Thus property rights in land *followed* the liability to tax and therefore *depended* on it, instead of the other way round. As for the sovereign's ownership of all land in the realm, this may be a viable concept in a monarchy or a colonial government. But it is a moot point whether the Indian constitution confers such rights on the government.

- administration has penetrated deeper and closer to the masses
- the department is more deeply involved in various welfare and developmental programmes
- village level revenue administration has undergone drastic changes

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At the Workshop organised by the Centre for Good Governance on 25th June 2003 in connection with the Strategic Review of the Revenue Department, there was frank and free exchange of views on the perceived 'change of direction' of the department. Minister for Revenue gave a lead to the discussion. Senior officials, including Principal Secretaries of the Revenue Department and the Chief Commissioner, Land Administration participated actively. So did field-level officials including some Collectors, Joint Collectors, Revenue Divisional Officers and Mandal Revenue Officers. They commented on 'the matrix of functions' of the department with enthusiasm and intelligence. On the mission, vision and objectives they made useful contributions. Some of the suggested versions of the Mission Statement of the department were:

"To provide service to people in all walks of life on all matters touching their lives directly or indirectly"

"It is the government itself at the local level; it is the door that gets knocked first, because it plays a coordinating and facilitating role vis-à-vis other departments"

"It provides essential public goods and services and facilitates micro-enterprises and economic support activities"

An important finding that emerged from our study of the Revenue Department is that despite being a large department with drastic changes in its role, importance and functions, it has adapted itself over time to the new reality. Such an adjustment was, to some extent, inevitable. The department's long history of contact with and access to the people made it the obvious ally in government's new-found quest viz. of getting closer to the people[15]. Also, a government hard-pressed for administrative resources and looking for quick results had to depend on existing organisations with a proven track record. Further, this happened to be the one department in government which had some 'clout' with the people in rural areas and could therefore be depended upon to implement welfare, social security and development activities that required access to and by the people.

An attempt was made, based on interactions with officials of the department, to redefine the current role and functions of the revenue department in terms of its basic mandate and mission. The result is seen in Figure 3 below:

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[15] Almost every state government in India is trying to get closer to the people e.g. through the *Janmabhoomi* programme in A.P. or the 'mass contact programme' in Tamil Nadu. In each of these examples, the Revenue Department is playing the role of spearhead.

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Figure3- **Overarching aims and objectives of the Revenue Department**

To help secure a just society where the poor and the weak are protected and where the rights and obligations of the state and the citizen are ethically balanced.

Act as bridge between state and citizen by assuring property rights in land to the individual and tax revenue to the state

Provide relief to the needy in times of distress and food security to the poor at all times, perform statutory & regulatory services, and act as 'first port of call' for citizens in need at levels below district.

Provide support to other agencies in maintenance of order and implementation of welfare and development programmes

Manage government land by keeping it free of encroachment and available for public and civic uses as well as for assigning to weaker sections

Acquire private land for public purposes on fair compensation

Reconcile conflicts on land; define and maintain land boundaries

Maintain land records and keep them updated; ensure integrity between graphic & textual records of land ownership; issue title certificates and house site pattas; perform settlement functions; act as authentic source of land use information.

Implement land reforms

Provide logistic support to public distribution system, keep check on fair price shops and enforce the Essential commodities Act.

Conduct elections and censuses; assist in protocol work and personnel selections; and raise resources by mobilising small savings and collecting the dues of other departments

Perform regulatory activities through field level enquiries and inspections under numerous Acts and Rules; act as focal point for grievance redressal in government

Issue income, caste and other certificates of eligibility for loans to needy applicants

Support Panchayati Raj, agriculture, irrigation, police and other departments by collecting and maintaining general and special purpose databases

Ensure selection of right beneficiaries for welfare and social security schemes

Assist in implementation of development schemes through collection of data and field inspections; assist specifically in implementing family welfare, youth and women empowerment and promotion of self-help groups
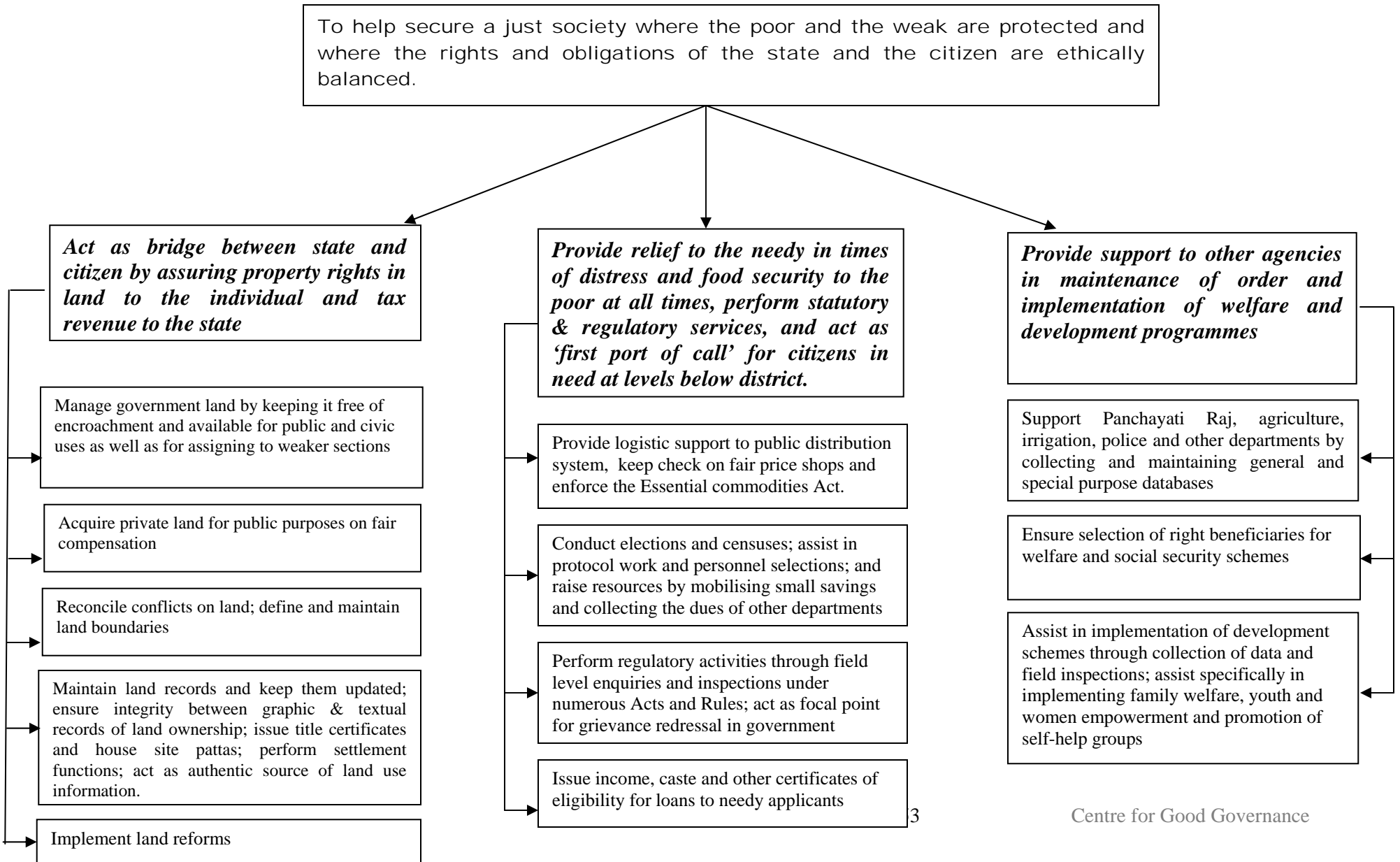
Figure 3 tries to follow, but does not exactly correspond to, the broad division of functions of the department into 3 categories viz. core revenue, regulatory and welfare/development services. An internal survey by the department attempted to estimate the time spent by each major functionary in the department on the various functions at his or her level. Annexure III gives the results. It shows that welfare and development services account for almost 50% of the time spent at work by the Mandal Revenue Officer, the key field-level functionary of the Revenue Department.

Most of these services go in the name of support services to the Collector as well as to other departments in the field such as police, *Panchayati Raj*, irrigation and agriculture that have close links to people in the rural areas. It will also be noted that though land-related services are not included in the 50% portion of the time allocated to welfare/development services, many of the tasks performed on land do also relate to individual applications e.g. applications for *pattadar* pass books, for house site *pattas*, for carrying out mutations in title records or for fixing boundary stones. These direct services, along with the welfare/development category of services, should account for almost 60% of the total time spent at work by the Mandal Revenue Officers. The remaining 40% can broadly be categorised as time spent on regulatory services—the 'other side of the coin' to actual service delivery to the citizen.

To sum up, our study of the revenue department leads to the following propositions:

--   its core services are still important in rural areas though, as a proportion of the total preoccupation of revenue personnel, it has become less significant

--   the department has the old 'logistic' advantages and so it should continue to provide the welfare and development related services, for which the resources of the department must be strengthened as shown in section 3 below

--   general administration functions are increasing in importance. There is a need to recognise these formally. Here the department is linked up in many horizontal relationships that have become increasingly complex. To negotiate them meaningfully, the personnel need to have their powers and resources correspondingly re-assessed and augmented.

Can any conclusions be drawn by applying theoretical models or analytical frameworks to this real-life situation, regarding the preferred organisational arrangements for service delivery?

Section 3: Designing Organisation for Effective Service Delivery

A theoretical model[16]

We may now review briefly the contribution made by those schools of thought that have left a significant impact on the fields of organisational theory, public sector reform and modern corporate strategy. These are the New Institutional Economics (including Agency Theory, and Transaction Cost Analysis), Managerial Economics and Organisation Theory.

Agency Theory and Transaction Cost Analysis assume that all organisations—economic, political and social—consist of a series of explicit (legal) and implicit (informal) contractual arrangements between factors of production which are cast in the roles of principal and agent. For the purpose of this analysis, the supervisor in an organisation is a principal while a staff member receiving instructions from the supervisor would be an agent; a person placing an order with a supplier would be a principal while the supplier becomes the agent; the landlord would be the principal and the lessee the agent.

Managerial economics and organisation theory offer insights into process design and organisation of work.

By combining the 3 schools of thought it is easy to identify 4 types of institutional arrangements that are really the 4 possible combinations of 'specificity' (low-high) and 'contestability' (low-high). The following simple matrix presents the 4 combinations:

	Contestability	
	High	**Low**
Specificity **High**	*Type I*	*Type II*
Low	*Type III*	*Type IV*

The term *specificity* refers to the degree to which the output can be specified i.e. defined/measured and therefore observed/monitored. Examples would be the number of reports published, the number of passengers carried by a transport system, the returns processed or the quantity of garbage collected. The term *contestability* refers to the presence or absence of 'barriers to entry' for alternative producers or providers of the service. In Indian cities, legal representation is a highly contestable output because of the large number of lawyers available. Software consultancy is another highly contestable output. Border control and processing of income tax returns, on the other hand, have low contestability by the nature of the service: they are sovereign functions and, in that sense, pure public goods.

What organisational arrangements best serve each of these 4 'stylized' categories of outputs? The extreme cases, *Type I* and *Type IV* have clear answers. Where both specificity and contestability are low, e.g. budgeting, policy-making or defence, i.e. in the case of *Type IV* goods, public provision is the only possible answer. At the other end, *Type I* goods, which can be clearly 'specified' and for which there are no entry barriers (i.e. they are highly contestable), are best provided by the market.

The problem arises in respect of the *intermediate* outputs that have one of the two attributes viz. specificity or contestability missing. In the case of Type II goods where contestability is low but outputs are monitorable e.g. processing of tax returns or issue of licences or permits, theory says it is best to have a system of audit (since outputs are specific), while accepting provision of the service within a hierarchical organisation (rather than by the market).

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[16] This sub-section mainly follows Girishanker & De Silva (1998) and Piccioto (1995).

In the case of *Type III* goods where there is contestability but specificity is absent, e.g. legal representation or consultancy, the correct strategy would be to take advantage of the contestability by having more players in the field but adopt professional standards so that specificity is increased i.e. monitoring is facilitated.

Figure 4: Strategic Alignment of Public Sector Organisations
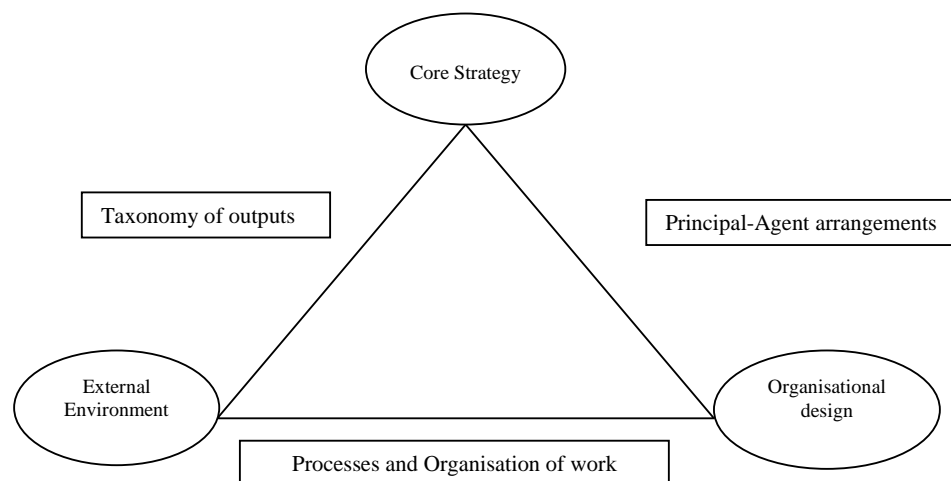
Source: Girishankar & De Silva (1998)

The three corners of the triangle represent (1) the core strategy, which refers to the purpose or mission of a particular organisation; (2) the internal organisational design, which refers to the processes and organisation of work that enable fulfilment of the organisation's mission; and (3) the external environment, which includes the stakeholders who could be direct consumers, interest groups or representatives of other parts of the government.

The organisation can be said to be *strategically aligned* when the relationships among the 3 corners of the triangle--i.e. between the core strategy and external environment, the core strategy and internal organisation design, and organisational design and external environment—are at an equilibrium. This will ensure that the functions, activities, processes and systems within the organisation flow from the organisation's mission, vision and goals.

An appropriate core strategy requires a clear definition of the output or service. This, along with the ability of the bureaucrats/technocrats to gauge citizens' preferences accurately, helps align the core strategy with the external environment.

Next managers should align the organisation design of their particular agencies with its core strategy by selecting appropriate institutional arrangements between principal and agent. Elimination of inappropriate institutional arrangements will bring the internal structure and systems into alignment with the organisation's mission.

Finally, the permeability of processes and organisations of work to external environments should be appropriate to the particular good or service provided by the department.

There are variants in the literature which present the same or similar concepts in terms of

(a) a *specificity-contestability* matrix (which looks at the extent to which the activity can be monitored and the degree of entry barrier to the activity) which we have just seen;

(b) a *subtractability-excludability* matrix (where 'subtractability' refers to the extent to which one individual's consumption of a good interferes with another's consumption of the same good, while 'excludability' refers to the extent to which it is possible to exclude a user through the price mechanism); and

(c) an *exit-voice* matrix (which looks at the degree of competition and the extent of user participation in service provision).

They all yield similar, though slightly different, classifications of outputs under *Types* I to IV. One specific insight, due to the 'exit-voice' approach, is worth mentioning in this brief review.

The mirror image of the *exit-voice* matrix is the '*hierarchy-market*' matrix. *Organisation design can thus be defined as the appropriate exit-voice-loyalty building mechanism.* The principle is that where the market represents the appropriate mode of governing an activity (e.g. in the case of 'toll goods' where *excludability* is high but *subtractability* is low, of which public utilities are a good example), '*exit*' mechanism should be given the pride of place. Correspondingly, in the case of 'common pool' goods (e.g. common pastures, irrigation water) which enjoy *subtractability* but lack *excludability*, market operation is hindered, while hierarchy cannot also deter 'free riding' because of monitoring difficulties. The best solution in such cases is to increase the 'voice' option through effective participatory institutions. Loyalty (and its ally, hierarchy) intervenes when exit and voice cohabit, but exit needs restraint to give full scope to the recuperative benefits of voice. Thus for pure public goods (e.g. a more rigorous tax policy or a traffic signalling scheme) full benefits occur where loyalty is encouraged by effective policing (hierarchy) and/or users are involved and motivated (participation).

In the case of 'toll goods' projects (such as for piped water) numerous organisational options are possible that combine market and hierarchy some which are shown in Figure 4 below. An important precondition is a judicious assessment of institutional potentials and constraints.

A point to note in this model is that 'exit' is an *economic* response mechanism and thus would be more appropriate for the large infrastructure sector in which citizens have little   direct interest. 'Voice', on the other hand, is a *political* response mechanism—therefore a tool better suited for municipal and rural service delivery, which affects citizens directly.

Replacing the model with an analytical framework

This is a purely economic model which focuses on 'principal-agent' relationships or the structure of incentives within the organisation. Incentives are undoubtedly important since they determine the economic rewards and therefore represent the opportunity sets facing the individuals in the organisation. But public administration literature stresses repeatedly the high motivation of officials in public services of foreign countries where they receive far lower compensation than their counterparts in the private sector. An example is that of law graduates in the U.S. who prefer to enter clerkships in courts rather than the more remunerative jobs in law firms, mainly on account of the prestige and opportunity for service to society offered by the former. In our own country, examples of highly motivated individuals, fresh out of college, preferring to join the public services in preference to the business sector are numerous. The above model thus seems to take a rather narrow view of the incentives within the organisation. It also ignores other relevant factors such as the legal-administrative framework within which public services operate, the infrastructure capacity, and the institutional capacity of the organisation. It tries to use certain proxies for variables such as vested interests, information processing, informal institutions, mental constructs and path dependencies that cannot be 'operationalised'.

A model that does not 'endogenise' politics has little chance of explaining the complexity of organisations in the public sector, especially in India.

The model's classification of outputs into 4 Types is oversimplified. Also, it starts with a predilection for the market, claiming that every service must be produced in a market or a quasi-market. It has no clear answers on how the so-called Type II and Type III outputs should be dealt with or to the fact that most of the attempts to organise service provision in India, especially municipal services such as water and sewerage, through public-private partnerships have ended in failure or premature abandonment (see Annexure IV).

It would therefore be useful to replace this theoretical model with an analytical framework that covers the various contingencies and situations that are typical of a developing country like ours. Such an analytical framework must be capable of being used like a 'decision tree' that can be used by the policymaker for taking the 'make or buy' decision for service provision. And, if a decision has been taken to 'buy', for deciding further on the appropriate <u>mode</u> of service provision, for here many options are available.

Based on the earlier discussion of the theoretical model, our position would be that the decision on the optimal governance arrangements for service delivery must depend not only on economic considerations but social and political ones. Secondly, the economic focus should also not be uni-dimensional viz. based on the 'output type'. It should factor in organisational economies, 'scale' and 'scope' economies and, most importantly, the transaction costs of the proposed option. Keeping these in view, the analytical framework would first deal with the 'make or buy' issue: i.e. whether the service must be produced in-house, or outsourced? Secondly, it would address the question: which of the several options for inducting other agencies into provision of the service should be adopted?

An analytical framework which can be used as a 'decision-tree' for these purposes is presented below as Figure 4. On the left hand side, it deals with the 'make or buy' decision. It first deals with the goals and tasks of the particular service and tries to match them with the capacities of the public sector as well as other agencies. It then looks at the technology for provision of the service, the capital needed and the risks involved and again, from these points of view, seeks to evaluate the options. Finally, it looks at the techno-economic case for continuing with the service in the public sector or otherwise. A major issue considered here is the transaction costs. This is a much-needed corrective since a review of the empirical literature on reforms in public management in OECD countries shows that most of the assessments do not take into account the transaction costs of the reform-induced changes.

The scene of action shifts to the right-hand side of Figure 4 once a policy choice has been made to 'intervene' in a given situation. Here it will be noted that the presence of one or more of four economic criteria viz. externalities, distributional concerns, agency problems and unobservable output quality—but not all of them at the same time[17]—gives rise to three options. At this point we turn to page 2 of Figure 4 which shows how these options can be further differentiated in terms of whether the public sector takes the responsibility of funding or not.

<u>Applying the framework</u>

We shall now apply the analytical framework described above to the revenue department and see if it is helpful in taking the decision, when considering a given service, whether it should be produced entirely in-house or whether it can be either partly or wholly sourced from outside.

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[17] If they all occur together, public sector provision of the service is the <u>only</u> option.

Let us consider one of the 'core' services that relate to land. Take the example of maintenance and updating of the land records including the 'record of rights' or the ownership record. Briefly, this service arises because ownership of land often changes hands either by succession, court order or voluntary transfer i.e. conveyance. In all these cases, there is a procedure for carrying out the necessary 'mutation' in the records of the revenue department, particularly in the case where ownership changes hands due to conveyance by sale. The 'conveyance' is recorded by the registration department which has to forward information regarding the change of ownership to the revenue department. Upon receipt of the information the Mandal Revenue Officer is expected to make a 'spot enquiry', confirm that the relevant change in ownership has indeed taken place as advised   and then carry out the consequent mutations in the records.

In the normal course, this service is being done manually which is one of the reasons for the widely reported delay in updating ownership records. Let us assume that government is not satisfied with the quality of service rendered at present and so decides to use our analytical framework to make decisions whether (a) to 'make' or 'buy' this service; and (b) if the decision is to 'buy' it, what would be the best among the available set of options?

 The first three sets of questions in Figure 4 regarding goals, tasks and political sensitivity of the service issue will elicit that the objective is to drastically improve the service. It will also elicit that ICT solutions being involved, the private sector has a demonstrable capacity to provide the service. There will be political sensitivity involved in failure to deliver the service as expected, but this could be taken care of through a public-private partnership of the e-*Seva* type (which is acknowledged to be a successful model). The 'economic' set of questions will probably confirm these answers, since organisation and 'scale and scope' economies are not present to any significant extent while competition is real and quite effective, since there is a good market for ICT products and services.

Proceeding to the right-hand side, the important issue is that of cost. Installation of an ICT system that would cover the thousands of villages in the state and the hundreds of thousands of records of individual land parcels—both textual and graphical—would be enormously expensive. On the other hand, user fees—at a nominal cost per record—would cover the cost adequately. A public-private partnership would involve the sharing of fixed and operating costs on some reasonable basis, the assured tenure of the private operator for a reasonable number of years and the eventual demise of the entire system to the ownership of government. Thus there would be part financing by government but substantial operation by private management subject to government regulation, which is the solution given by the analytical framework.

It must be noted that real life policymaking is seldom achieved with such simplicity or ease. Likely issues of real life include up-skilling of public sector staff, transfer of control over the operating staff to the private sector operator and so on. Indeed, a thoroughgoing business process study would have to be undertaken once the decision is taken in principle to involve the public sector in provision of the service and, based on the study, major changes would need to be brought about in the working of the department. Such 'business process engineering' usually brings to light many related opportunities for improving service.

As noted earlier, the department has two types of outputs viz. regulatory and direct service provision. An example of direct service provision is the issue of a caste or income certificate on application by a citizen. An example of regulatory services is inspection of fair price shops. The two types of services require different sets of organisational arrangements. For regulatory services, existing arrangements viz. provision by the department seem to be the best suited—with the modification suggested below. These functions are of the 'enforcement' type and require authority. Revenue officials are recognised as being empowered to inspect

fair price shops, conduct '*azmoish*' of crops or evict encroachments. They have therefore the comparative advantage in performing these functions.

However, in the case of direct customer services such as the issue of caste or income certificates, it is obvious that e-governance tools can enhance the efficiency of these services in the revenue department. To this extent, depending on the outcome of the analysis performed on the lines indicated earlier, the answer might be to source the e-governance tools from the private sector or through a public-private partnership.

A point to note here is the importance of customer access to officials as a major factor in improvement of service delivery. In this context, the concept of public servants exercising power derived from '*les majeste*' is a colonial relic as well as being an anachronism unacceptable to the people in today's environment[18]. Here the responsibility lies with members of the encadred civil services who should, ideally, set an example for others lower down in the hierarchy viz. the 'street level' bureaucrats and thus help inculcate the right attitudes in them. Apart from such leadership by example and behavioural training, another way to overcome such institutional misalignments—in this case misalignment of the core strategy with the external environment—is to re-engineer the business processes involved[19].

When business processes are re-engineered after a thorough-going analysis, such opportunities for improving customer service delivery will become apparent. What is needed is to recognise that there is a problem of citizen access—especially access by the poor—to services. Innovations will follow.

In the meantime, what does the above model suggest for (a) regulatory and (b) citizen-centred services? Most of the regulatory services will benefit from the business process reengineering and the application of ICT to the day-to-day 'routines' of decision-making. Even in areas where markets are known to fail, the opening up of administration to innovations made possible by advances in technology will come up with effective answers.

An example is the provision of 'value-added' services in land administration. Government in the revenue department has so far not been able to implement satisfactorily a system of recording title to land and issuing title certificates despite several legislative initiatives. The state can decide to guarantee title to land at low or no cost to small landowners/cultivators. Similar innovations in customer service are clearly possible once databases of related departments are interlinked. Streamlining of 'front office' services to the customer, as in the Maharashtra example of the registration department, are possible in every department.

Transparency, a measure of contestability to increase options for service provision and increasing the voice of the citizen through effective means of participation (not mere 'tokenism') are the best ways to improve the quality of service in the 'old' or conventional departments where work outputs are often regulation-intensive.

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[18] An example will illustrate this. In the 'old' departments dating back to colonial times it is customary to see the head of the office (such as the Mandal Revenue Officer or the Sub-Registrar) always preceded by a liveried attendant whose function seems to be mainly to 'reflect' the power and status of his superior, and then 'deflect' it back to him, so that the message goes down to the client-citizens who are usually overawed by officialdom. (The client-citizens are usually seen by officials more as supplicants than as individuals with rights).

[19] In Maharashtra reforms in the registration & stamps department have addressed this problem effectively. By bringing the registering officer down from his elevated 'dais' in a room (with the liveried attendant standing just outside) within the building and seating him in the front office, at the same desk along with the data entry operator and the customer, the reforms have dealt a body blow for the causes of process transparency and accessibility of the officialdom to the public. It is of such changes that the stuff of reforms should be made, for enduring results.

The revenue department, by its very nature, seems to offer a rather limited range of possibilities in regard to the mode of provision of the services typically handled by it. However, in many other departments such as health and education—that have multiple outputs with both 'exit' and 'voice' problems in real life--the power of the analytical framework can be more effectively applied in the choice of agencies such as NGOs, self-help groups or other 'not-for-profit' organisations for service provision on a variety of terms and conditions.

Conclusion

This paper started with a conceptual discussion of the role of the public sector with special reference to the developing countries. It showed that 'fashions' in administrative reform or public management tend to be volatile. There is a currently ongoing effort   everywhere to restore some values to public service and not assume the superiority of the market as an instrument of service delivery. However, provision by the market is an option that has merit in specific situations. What is needed is a framework that would enable the policymaker to take decisions whether to 'make or buy' a given service and, if the decision is to involve an outside agency, on what terms and conditions this should be done. Such a framework was introduced and applied to the specific case of the revenue department and, in the example taken, it gave the result that a public-private partnership initiative should prove the effective answer. However, that decision cannot be the final objective of organisation design. For a more complete solution to such issues, a proper study of the business processes involved would be needed.

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Best Practices for Internal Audit in Government Departments

– Kailasam Rameesh

1. Introduction

Traditionally, people understand internal audit as an activity of self imposed internal check and audit which also supposedly involved the activity of going around telling people what they were doing wrong. However even if one sees it in a narrow sense , the contribution of the activity of internal audit is potentially of major importance as an effective internal audit system leads to improved accountability, ethical and professional practices, effective risk management, improves quality of output and supports decision making and performance tracking.

Historically it was always held that internal auditing is confined to merely ensuring that the accounting and allied records have been properly maintained, the assets management system is in place in order to safeguard the assets and also to see whether policies and procedures are in place and are duly being complied with. With changing times this concept has undergone a sea change with regard to its definition and scope of coverage. Modern approach suggests that it should not be restricted to financial issues alone but also on issues such as cost benefit analysis, resource utilisation and their deployment, matters of propriety, effectiveness of the management, etc.

Internal audit is to be understood as an independent and objective appraisal service within an office/organisation.

The Institute of Internal Auditors of UK and Ireland defines Internal Audit as:
"Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes."

The Institute of Internal Auditors New York defines Internal Audit as:
"Internal audit is an independent, appraisal activity within an organisation for the review of accounting, financial and other operations on the basis as a basis of service to the organisation. It is a managerial control which functions by measuring and evaluating the effectiveness of other controls".

The above definitions of internal audit call for internal audit, to be an independent function within an organisation placing greater emphasis on its objectivity. Thus internal auditing primarily provides an independent objective opinion to the Head of the Government Department/ Office.

The findings of an independent focused internal audit function also brings to the fore its findings and recommendations which act as a tool to officers in a department to take suitable corrective action and help in plugging the loopholes which would otherwise go undetected for a considerable period of time.

The definitions stress on two aspects of internal audit—assurance and consultancy. It is important that in fulfilling both these roles, internal audit remains independent of the project.

It is the management's responsibility primarily to manage the project and they should therefore make the decisions, but internal audit could act as a facilitator within this process. For example, management should identify the risks associated with the project and decide how to deal with them with internal audit, acting as a consultant on risk and control matters.

The golden principles that state the Code of Ethics for Internal Auditors in Government are Integrity, Objectivity, Competency, Confidentiality and Independence.

a. **Integrity:** Integrity is expected in aspects of the internal audit work. The principles of honesty and fairness are to be observed. The basic point that is raised here is that his report should bring with it an air of trust, reliance and fairness.

b. **Objectivity:** Professional competency and assessment of facts with utmost care is a pre requisite for a good internal auditor. An internal auditor should refrain from making reckless and irresponsible statements or resorting to expressions without proper evidence.

c. **Competency:** An internal auditor is expected to apply appropriate skill and knowledge combined adequately with experience. An internal auditor should refrain from undertaking works that are outside his scope or beyond the scope of his skill and competence. Performance of the audit and preparation of the report require due professional care by persons possessing adequate training, experience and competence in auditing. The majority of staff development, however, results from on the job training where auditors assist in the training of other, less experienced staff members. Each auditor must be responsible for continuing his/her education in order to maintain their proficiency. This involves keeping abreast of current developments in auditing standards, procedures and techniques.

d. **Confidentiality:** The internal auditor should safeguard all information received by him as most of them may be of confidential nature. There shall be no spill out of possessed information unless there is a statutory, legal and professional requirement to do so.

e. **Independence:** As the definition states, Internal audit is an independent appraisal activity. We need to carefully note here that the word "independent" is important, even though it gets neutralised by the fact that it is within an organisation. Independence stands for an internal auditor being able to report on material facts and figures, uninfluenced by any favor or frown.

It is to be understood that the International Auditing Guidelines relating to "Using the work of an internal auditor" reads as follows "An internal audit function is part of the entity and irrespective of the degree of its autonomy and objectivity cannot be the prime criterion for independence". This is because the reporting relationship may influence his decisions and reporting patterns.

2. Objective and Scope

As defined above Internal Auditing is an independent appraisal function established within an organisation to examine and evaluate its activities as a service to the organisation. The objective of internal auditing is therefore to assist members of the organization in the effective discharge of their responsibilities. To this end, internal auditing furnishes them with analysis, appraisals, recommendations, counsel, and information concerning the activities reviewed. The audit objective includes promoting effective control at reasonable cost. The members of the organisation assisted by internal auditing include those in management and the board.

The scope of internal auditing should encompass the examination and evaluation of the adequacy and effectiveness of the organisation's system of internal control and the quality of performance in carrying out assigned responsibilities.

The Internal auditors should:

1. Determine whether the existing system of controls is in harmony with the structure of the organisation. As far as possible keeping the controls within the operating functions acts as a cost effective measure;

2. Review each control and analyse them in terms of costs and benefits;

3. Review the reliability and integrity of financial and operating information and the means used to identify measure, classify, and report such information;

4. Review the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on operations and reports, and should determine whether the organisation is in compliance;

5. Review the means of safeguarding assets and, as appropriate, verify the existence of such assets. The objective of the management is to ensure that assets are reasonably and adequately protected against loss and that they are properly managed and accounted for. The safeguard of assets should not be restricted to mere pilferage but physical threats like fire, water, electricity, etc.;

6. Appraise the economy and efficiency with which resources are employed;

7. Review operations or programmes to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.

3. Responsibility and Authority

The internal auditing department is an integral part of the organisation and functions under the policies established by management or board. The purpose, authority and responsibility of the internal auditing department need to be defined in a formal written document duly approved by management or the board. The document should spell out in clear terms, the intended purposes of the internal auditing department, scope of its work, and a declaration that auditors have no authority/responsibility for the activities they audit.

Throughout the world, internal auditing is performed in diverse environments and within organisations which vary in purpose, size, and structure. In addition, the laws and customs within various countries/states differ from one another. These differences may affect the practice of internal auditing in each environment. Hence the need to be compliant with prevalent and prescribed standards and best practices becomes all the more essential.

Auditors must take reasonable professional care in specifying evidence required, in gathering and evaluating that evidence, and in reporting findings. This requires auditors to be alert for instances that could indicate errors, fraud, improper or illegal expenditure, unauthorised operation, waste and inefficiency.

In determining which audit tests and procedures achieve reasonable professional care, the internal auditor should consider the following items:

- The requirements to meet audit objectives;
- The relative materiality of matters to be investigated;
- The effectiveness of systems of accounting and administrative internal control;
- The estimates of costs of implementing audit test plans in relation to likely benefits to be derived.

4. Independence

Internal auditors should be independent of the activities they audit. Internal auditors are independent when they can carry out their work freely and objectively. Independence permits internal auditors to render the impartial and unbiased judgments essential to the proper conduct of audits. It is achieved through organisational status and objectivity. Independence stands for an internal auditor being able to take a stand and report on materiality issues, uninfluenced by any favor or coercion or undue influence.

The organisational status of the internal auditing department should be sufficient to permit the accomplishment of its audit responsibilities. The head of the internal auditing department should be responsible to the management/board in the organisation with sufficient authority to promote independence and to ensure broad audit coverage, adequate consideration of audit reports, and appropriate action on audit recommendations.

Objectivity is an independent mental attitude which internal auditors should maintain in performing audits. Internal auditors are not to subordinate their judgment on audit matters to that of others. Designing, installing, and operating systems are not audit functions. Also, the drafting of procedures for systems is not an audit function. Performing such activities is presumed to impair audit objectivity.

Therefore the internal auditor must be:

- straightforward, honest and sincere in approaching the audit task;
- fair and not allow prejudice or bias to override objectivity; and
- impartial and free of any interest that might be regarded as being incompatible with integrity and objectivity.

Auditors should inform their supervisor if they consider that personal or external circumstances are likely to impede their ability to form independent and objective judgments.

Internal Audit therefore contributes to the quality of management, by the provision of an independent, objective and ongoing review of management procedures. Proper internal audit ensures review the efficiency and effectiveness of programs, assists development and maintenance of financial and administrative processes; and facilitates the conduct audit examinations on financial information in an independent, contemporary and professional manner to express an objective opinion on the quality and integrity of that information.

5. Steps

5.1   Planning

Adequate planning is necessary for every audit. All material areas bearing on the reliability of the accounts and records must be covered. The audit working papers provide the documentary evidence of audit planning in the form of an audit plan, setting out the objectives and scope of the audit and the techniques and resources to be used by the auditor. The planning process must include the development of an in-depth, well-conceived, overall strategic plan that

clearly defines the desired future state of the internal audit function. In addition, it is essential to create detailed tactical plans that support the overarching strategy, and to clearly describe the specific initiatives required to achieve the transformation. Too often we see internal audit functions diving straight into tactical planning - especially regarding the deployment of technology - without first comprehending how their overall strategic plans and tactical plans fit together.

The following need to be considered while preparing the audit plan:

- the nature, size and operation of the office, entity or business;
- previous audit paras and observations;
- availability and competence of audit staff;
- audit methodology most suited to the operations to be audited; and
- the format and general content of the report to be prepared.

Planning may be revised as may be deemed necessary in the course of the audit in the light of newer findings or situations.

5.2   Delegation, Supervision and Staffing

Internal Auditors must have sufficient proficiency and training to carry out the tasks assigned to them. The auditor's work must be carefully directed, supervised and reviewed. The amount of supervision required corresponds to the experience and skill of the auditor. The supervisory role includes:

- providing instructions in creation and approving or recommending approval of the audit programme;
- ensuring that the approved audit program is completed, unless deviations are both justified and authorised;
- determining that the working papers adequately support the audit findings, conclusions and reports;
- making sure that audit reports are accurate, objective, clear, concise, constructive and timely; and
- determining that audit objectives are being met.

Any significant internal audit transformation will involve a large number of specific tasks linked to a fairly complex timeline to ensure that everything comes together to produce the desired result in a timely fashion. It is important to bear in mind that this is more than just a simple scheduling exercise. Therefore, it is recommended that internal audit functions utilise some of the numerous, highly effective project management techniques that can help ensure the successful, timely conclusion of an internal transformation process.

The principles of change management typically are a centrepiece of any successful internal audit transformation. In fact, the more significant the transformation, the more important change management techniques become. Among the change management techniques that have proven particularly successful to transformation initiatives are the deployment of a project management office, the utilisation of project management tools and the development of detailed communication plans. These types of techniques must be built into any internal transformation process right from the start.

Building up a balanced pool of resources is critical to an effective internal audit function. The competencies of internal audit staff must take into account the skills and knowledge base laid down by the profession. This includes personal qualities, standards of education, sound judgement, innovation and operational and auditing/evaluation experience.

The skill requirements for internal audit should be aligned to the nature of the organisation's business, its risk profile and the associated needs of management. The changing role and focus of internal audit activity means there must be a broader range of competencies than required for traditional internal auditing. It needs also to address the composition of its audit teams if it is to undertake a range of activities.

Dedicated staffing is almost always a mandatory element of a successful transformation process. Some well-meaning internal audit functions only demand a part-time focus of their key personnel on the transformation process in order to keep them available for other important projects. However, transformation initiatives are often complex and demanding, and anything less than a full-time commitment from staff is likely to result in an incomplete, non-timely effort, which will ultimately make stakeholder buy-in more difficult. Dedicated staffing can help ensure that the time and effort spent on a transformation will pay dividends.

5.3   Evaluation and Internal Control

Internal auditors must systematically evaluate the nature of the operation and system of internal control in the section being audited, to assess the reliance that can be placed on controls. The assessment determines the nature, extent and timing of the audit procedures.

Internal controls of an organisation comprise the plan of organisation and methods adopted to safeguard assets, comply with laws and regulations, ensure the completeness and correctness of accounting data, promote efficiency and encourage adherence to management policies.

The characteristics of a satisfactory system of internal control include:

- proper segregation of functional responsibilities;
- a system of authorisation, recording and procedures adequate to provide accounting control over assets, liabilities, revenues and expenses;
- sound practices in performance of duties and functions by each of the organisational departments; and
- documented procedures to ensure that persons are aware of all manual and computer requirements, and have capabilities commensurate with responsibilities.

It is important that a review of an internal control system be directed primarily toward the controls that have an important bearing on the reliability of that system, i.e., key controls, to ensure efficient use of resources.

5.4   Evidence

An auditor must obtain all of the evidence considered necessary for the expression of an informed opinion. The evidence required will vary and professional judgment is required to determine the amount and nature of the evidence required. The auditor should consider:

- the nature of the item under examination;
- the materiality of possible errors or irregularities;
- the degree of risk involved, which is largely dependent on the adequacy of internal control; and
- the susceptibility of the given item to conversion, manipulation or misstatement.

5.5   Working papers

The standard for working papers and all documentation relating to an audit is very important as the purpose for the working papers can include any one or all of the following:

- They assist directly in the performance of the audit;
- They provide a historical record of the audit work;
- They contain the basis for the auditor's opinion;
- They provide information for the auditor's report;
- They aid the review and evaluation of the audit work;
- They support legal action against departmental officers or members of the public.

5.6   Quality Reviews

Review of the work of auditors is necessary to ensure the maintenance of professional standards. Such reviews cover the following areas:

- Preparation, review, and approval of field plan;
- Ensuring direction, supervision, and review of work at all levels is adequate;
- Ensuring working papers comply with the standards prescribed;
- Ensuring significant issues are properly documented, pursued to finality and reported appropriately;
- Resolving differences of professional judgment among staff involved in audits;
- On-the-job training of audit staff to assist their development of appropriate skills and competence;
- Overall review of audits to ensure that the quality of each audit meets professional standards.

Where the results of an evaluation are not satisfactory, the reviewer will discuss appropriate corrective action with the auditor. That action is to be recorded on paper and referred back to the auditor.

The review process can involve peer reviews by audit staff. These reviews have the dual effect of improving the standard of work performed and enabling auditors to learn from their peers.

5.7   **Management support**

It is generally accepted that, to be effective, the internal audit function must have the full support of the organisation's senior management. The support of line management is also critical. The attitude of management towards internal audit can have a significant influence on the behaviour of an organisation's staff - similarly the attitude of management towards internal audit can either strengthen or hamper its role.

The planning of the internal audit section should reflect the organisation's business planning and align the audit effort with the key business objectives and the critical business risks. Internal audit's focus should be on critical business processes and areas of high risk; be relevant; and give due weight to the needs and expectations.

Internal audit's processes should be subject to ongoing monitoring, review and evaluation. The concept of continuous improvement requires internal audit not just to measure its current performance but also to assess it against some standard or target.

It demands the development of balanced indicators of performance, preferably with input from the Audit Committee and line management. By promoting continuous improvement internal audit can also be a powerful sponsor or aid to improving processes within the organisation.

Internal audit has to be subject to performance management review as does other parts of the activity. This can be undertaken by the audit committee with internal and/or external assistance. This process can be facilitated by regular performance reports including appropriate performance measures. Internal audit needs to be pro-active in this respect both to set an example and to indicate better practice. This approach will both enhance its credibility and provide greater assurance to its stakeholders.

Therefore, from the above the following conclusions can be drawn for officials in the government departments on internal audit:

- Internal audit is to be considered as an independent and objective appraisal service within a government office or department;
- This internal audit activity will result in providing an independent and objective opinion to the head of the government office concerned on control failures, risk management, harmony of activities and expenditure in tune with the department's objectives as well as governance related issues;
- The findings and recommendations from the internal audit would greatly benefit the officials in various departments to devise their action plans.

5.8 Internal Controls Questionnaire

The internal auditor along with the audit staff is expected to take the help of an Internal Controls Questionnaire. An internal control questionnaire (ICQ) is a series of 'yes' or 'no' questions about the internal control structure. A 'yes' answer indicates that a needed control or policy is in place but however is to be accepted only after confirmation and testing to satisfy the existence. A 'no' indicates absence of a control and enhances risk or may not be relevant to the business, but requires confirmation to judge the impact of the same.

Most internal auditors use ICQ for undertaking audits. These questionnaires are designed specifically for the department/office being audited. Answering this series of 'yes' or 'no' questions helps in the assessment of internal controls.

A sample generic ICQ is depicted below:

Policies and Procedures

1. Does your department have an up-to-date copy of the department's policy and procedure manual?
2. Are written policies and procedures maintained for all departmental functions?
3. Are these policies and procedures reviewed and updated annually?
4. Does your department have an organisational chart that clearly defines lines of authority and responsibility?
5. Are current job descriptions on file for each employee in the department?

Cash Receipts

1. Are all monies received made payable to department/office?
2. Are the receipts restrictively endorsed immediately upon receipt?

3. Are cash receipts kept in secure storage until deposited?
4. Are deposits made daily to the cashier's office?
5. Are cash receipts deposited intact with no expenditures made from collections?
6. Is cash that has been received and deposited reconciled monthly?
7. Are cash receipts recorded and used only for the purpose for which they were received?
8. Are cash handling responsibilities rotated among two or more employees when possible?
9. Are numerically controlled receipt slips used for all cash receipts received in the department?
10. Are numerically controlled cash-receipt slips accounted for and reconciled on a regular basis?

Petty Cash

1. Are petty cash funds kept in secure storage?
2. Are policies on the use of petty cash funds followed?
3. Do all petty cash disbursements require original receipts for reimbursement?
4. Are surprise cash counts of department petty cash and change funds performed on a regular, random, and unannounced basis?

Travel

1. Is all travel reviewed for benefit to the department versus its cost prior to trip approval being given?
2. Are travel plans made sufficiently in advance to obtain the most favorable transportation rates?
3. Are travelers required to provide original receipts for all travel expenses?
4. Are direct advance payments and use of credit cards encouraged over cash travel advances?
5. Are travel expense reports reviewed in detail prior to being approved for reimbursement?
6. Are travel expense reports required to be completed in the time frames specified by policy?
7. Are unauthorised personal expenses excluded from travel expense reports?
8. Are travelers required to review the travel policy prior to traveling?

Purchasing/Online Requisitioning

1. Are competitive bidding policies followed on all requisitions against standing purchase orders?
2. Are passwords kept secret to preserve approval control over requisitions?
3. Are all requisitions reviewed by the department administrator to assure reasonableness and appropriate delivery address?
4. Are purchases through the department, not for department use, prohibited?
5. Are the department's ordering and receiving processes segregated to the greatest extent possible?
6. Are all purchases and requisitions of goods and services reconciled to the monthly Report of Transactions and Statement of Account?

Payroll

1. Are all staff time records reviewed and electronically authorised by the department administrator?
2. Are copies of timekeeping screens printed and retained on file for agreement to labor reports?
3. Are overtime hours reported verified for reasonableness and proper approval?
4. Are pay checks distributed by someone other than the timekeeper?
5. Are undistributed pay checks returned to the Treasurer's Office after three working days?
6. Are staff distribution and vacation/sick accrual reports reviewed at each pay period by the department administrator for reasonableness?
7. Are staff time cards periodically compared to time keeping screen copies by the department administrator to assure that actual hours are being recorded accurately?

Information System Security

1. Is the need for password security reinforced to department staff?
2. Is the use of software not licensed to the department prohibited on department computers?
3. Are computer applications logged off when the user is away from the terminal or PC?
4. Are all disks brought in from outside sources tested for computer viruses before being used?
5. Are floppy disks secured when not in use?
6. Are back-up disks maintained of all critical information?
7. Is sensitive information protected by password or removed from hard disks daily?
8. Are staff members encouraged to save work frequently?
9. Are electrical surge suppressers used on all computer equipment?

Fraud Indicators

1. Is the work of all staff members double-checked on a random, unannounced basis?
2. Are all staff members required to take one full week of continuous vacation time annually, especially those handling or posting cash receipts?
3. Are duties segregated in all cash handling functions?
4. Are job duties rotated when possible in cash handling functions?
5. Does more than one person have access to every screen or software application in the department?
6. Is employee performance reviewed and documented on a regular basis?
7. Are unusual trends or discrepancies in department accounts identified and reconciled monthly?
8. Are missing numbers in sequences of numerically controlled documents identified and investigated immediately?

6. Role of Internal Audit in Good Governance

The role of internal audit has been ignored in all discussions on governance. The reasons for this needs detailed examination. Is it lack of independence of the audit function? Is it that the audit is conducted by staff members who do not understand modern concepts of auditing?

The quality of audit work is directly correlated with independence and importance accorded to the internal audit function in an organisation. The poor status of the internal auditor is the

main reason why competent staff, are reluctant to take up this work. As a result most departments do not have an efficient and effective internal audit department.

The head of internal audit needs to be elevated in the hierarchy to a level consistent with that of the Chief Accounts Officer or more to minimise discounting of internal audit inputs, and enhance the quality of audit.

Internal auditors also have a special responsibility since no precise set of guidelines exist for best practices in 'Governance'. A few suggested concepts in this regard are:

1. Internal auditors must identify forces that impact governance. They must constantly fine tune their knowledge of these influences; and they must articulate, and recommend to management and audit committee, actions that will help the organisation against both traditional and emerging risks;

2. Management and organisational objectives must be the focus of internal auditing practice, and internal auditing must be fully integrated with organisation;

3. Internal auditing approaches must be flexible and adaptable, mirroring today's changing environment;

4. Internal auditors must be creative and aggressive as they seek strategies to add value, safeguard assets, and promote effective governance.

The internal auditor needs to continuously update himself of the changing times and technologies and sharpen his skills. By applying skills to the most critical points, building personal and professional credibility and recognising and responding to the needs, internal auditors can become indispensable, speeding good governance.

However, recognising the need to sharpen focus for bringing change is the easier but implementing strategic change and measuring the results is by far the greater challenge. Too often internal audit change initiatives fail, and the desired outcomes are never realised. By incorporating proven change management and project management techniques throughout the transformation process, internal audit functions can implement change initiatives quickly and effectively.

One part of internal audit's consultancy work would be to work with the management to improve systems, processes and methods of working. With regard to using Information Technology (IT) tools to simplify processes, internal audit could identify control weaknesses prior to the system going live. Identifying loopholes and strengthening the system during the development of the system is desirable as it is cost effective than trying to change the system at a later date, this will allow for the controls to be fully tested and not delay the implementation of the project.

Internal audit may be able to offer a proactive approach, which may provide advice on a framework for risk management on the project, facilitate risk identification, assessment and mitigation through the implementation of controls.

Successful internal audit transformations involve four key best practices:
a. Good planning at strategic and tactical levels;
b. Project management techniques to ensure that plans are achieved;
c. Change management techniques to facilitate change, improve communications and facilitate stakeholder buy-in;
d. Dedicated staffing for the transformation initiative.

Conclusion

By using best practices, internal audit functions can significantly enhance the probability of a successful transformation. In addition, many of the tools and strategic approaches used in the transformation process (such as detailed communications plans, teambuilding and change management techniques) have applications that go beyond the transformation process, and can be used to enhance basic internal audit strategies. We have seen the value of using these best practices to ensure the most effective transformation possible, and it is well worth the additional time and effort they require.

Appendix 1

(Case study: Government Treasuries, Education and Health Departments)

Current scenario:

The role of internal audit is to evaluate and report on the effectiveness of the internal control system, highlighting any deficiencies and the risks they pose for the achievement of the organisation's objectives.

Internal audit is a relatively new phenomenon in state governments in India. The various codes and manuals list out, quoting various government orders on functions and duties of personnel, which require the establishment of an internal audit function in each government directorate. It is the placement by Directorate of Treasuries and Accounts (DTA), of a Chief Accounts Officer (CAO), in each of these Directorates which enables internal audit to be undertaken. The CAO supervises the internal audits and reports to the Head of Department (HoD).

On specific evaluation it would reveal that *significant weaknesses* exist *in the internal audit arrangements of departments/projects.* It is understood that many, if not all, departments share these weaknesses. Indeed, the features of the internal audit functions are such that the internal audit might be *better described as departmental inspection*. The figure below sets out these key features, highlighting the weaknesses.

Departmental internal audit

Objectivity and independence of auditors: Usually there would be no separate internal audit function in the line departments. Instead, internal audits are undertaken by staff drawn together from different departmental functions, normally the Accounts Wing. This arrangement has a number of implications that potentially compromise the objectivity and independence of auditors in evaluating the adequacy of controls, for example:

- Their accounts duties will habitually lead them to work with district and field accounts staff and undertake accounts work;

- The staff in the name of internal audit would end up only answering AG audit observations on behalf of the department.

Objectivity and independence of management of internal audit: As laid down by the various GOs and Manuals, internal audit is the responsibility of the CAO. The overall audit function thus lacks the required independence, as the CAO is also responsible for the accounts and thus financial control.

Proper understanding of the role of internal audit appears to be lacking in some quarters: For example:

- The various codes and manuals set down the role of internal audit as being "to conduct internal audit of all *monetary transactions* in the department";

- Internal audit reports often start with a statement that the auditors have conducted an audit of the *accounts*;

- Internal audit reports normally state that they *cover a number of years*, i.e. the period from, e.g., 1997-2002. This defeats the objective of internal audit, which is not to cover transactions (and therefore, could cover several years) but to evaluate and report on the

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effectiveness of internal controls. While controls can be evaluated for their effectiveness over time, this period would not normally exceed one year.

Audit approach: The audit teams use an internal audit questionnaire which is normally outdated and would not generally be in a position of being followed. Hence, there would be no audit trail of results and conclusions on which to base the audit reports. This raises considerable risks.

Sufficiency and proficiency: Internal audit holds the last priority on the list of works to be done and the staff are usually cobbled up, which means they are not deployed on internal audit full time. This deployment is thus inadequate. The auditors are usually graduates who have passed the accounts tests of the Treasuries and Accounts Department, but they have neither specific internal audit qualifications nor training.

Inadequate coverage and timeliness: Coverage and timeliness of audits are generally inadequate, as set out below.

- The Directorates generally cover four district offices per year on a general check. Thus, each District office is only audited every 5 years approximately. Units below the district offices are visited much less often of course; some are not audited since a decade. Clearly, the huge number of units below the district offices will make regular audits of them difficult, but the same cannot be said for district offices. The irregularity of the visits undermines the validity of the audit substantially. It will be difficult to determine which rules were in place at the time of the transaction or event, to gather required documentation, and to hold officers accountable.

- *Inadequate responsiveness to internal audit*: Departmental responsiveness to internal audits are generally poor. Even the significantly more valuable internal audits undertaken by certain directorates do not generally generate any responses from districts offices. This is due to a number of factors, but the fact that there are no internal audit committees at the district level may also play a role.

In conclusion, therefore, although the work is known as "internal audit" in many ways it is more akin to inspection visits. Furthermore, its effectiveness has been low.

The *Treasury Departments' departmental inspection system seems to be more effective*, although it also lacks the required independence.

The DTA in-house departmental inspection function undertakes inspections of the District Treasury Offices (DTOs). Each DTO is inspected on a biennial basis either by the Director of Treasury and Accounts or by a nominated Deputy Director, Joint Director or the relevant Regional Joint Directors (RJD). The nominated official is usually assisted during the audit by one junior accounts officer and two senior accountants drawn from the DTA accounts wing. Sub Treasury Offices (STOs) are inspected by the DTOs.

Internal audit has the potential to substantially reduce fiduciary risk; it is imperative that effective internal audit units (staffed by professionals with proven records of integrity) are established across Government, reporting to the HoD to build his accountability for internal controls, and that this initiative receives the requisite resources.

General weaknesses in Government departments that need to be targeted by the Internal Auditors include:

- Absence of receipt books in cases where receipts of monies existed;

- Absence of control registers to ensure receipt of Utilisation Certificates;

- Absence of commitment and arrears control mean that transactions cannot be traced from their inception;

- Internal controls systems, and responsibility for them, are insufficiently well defined;

- Key codes and manuals are generally not updated and not in tune with changing times;

- Asset registers do not contain details of their cost nor the payment transactions, thus preventing assets being traced back to their original purchase documentation;

- Key registers and documents are available for inspection on site. However, supporting documentation and responses are generally tardy, suggesting that supporting documentation was not readily available;

One area that is particularly weak is records management, which together with accounting, is in the process of being computerised in many departments. It is essential that arrangements are in place to back up data and ensure that records can be maintained or recreated to ensure data security and the availability of financial information. However, it was noticed regarding:

- Absence of policies regarding maintenance, backup, movement of data, hardware and software in each department;

- Inadequate back up arrangements, i.e., some offices take backups on hard, floppy and compact discs, and they are stored in the same room as the main data source;

- No Disaster Recovery Plan (DRP) or arrangements for alternative activity continuity facilities have been made;

- Furthermore, staff members do not have necessary training in order to be confident in using technology. This enhances the risk of error in data entry;

- Outdated Internal Control Questionnaires and audit checklists.

Andhra Pradesh Community Self Help Model

– Kurien Thomas

This working paper examines the Self Help Group movement in Andhra Pradesh and dwells on the present status of various types of SHGs formed under different programmes supported by the Government. It also looks at the impact of Community Based Organisations on livelihood enhancement and in building social capital. The objective of this paper is to highlight the 'Andhra Pradesh Model' for designing, developing and sustaining community based organisations.

1. Introduction

Self Help Groups (SHGs) could be defined as the organised forum of people which is planned, shaped and structured by the people themselves to attain present/pre-identified goals and purposes. These groups are the agents of social change and catalysts for the entire empowerment and development process in a community. It is proved that the most sustainable groups in a society are the grassroots level community organisations which believe in empowerment, decentralisation, and participation. Even though these groups are small in size their advocacy power is high through their federated structure within the locality and also in the region. Many SHGs come together on one platform at local, regional, and district levels, which enables the groups to gather strength not only to influence the legislature but also to mobilise public opinion in favor of gaining adequate space and opportunities for the community members to respond to various complex issues concerning their livelihoods. SHGs are identified as socially viable community organisations having democratic values, relevant developmental orientation and oriented towards attaining individuals'/groups' own sustainability. In the current development scenario the effective functioning of these grassroots organisations become almost inevitable and rather challenging too.

Community-based self help institutions are being promoted at the village level to take responsibilities for a variety of development activities, which include management of natural resources, employment generation, and human resource development. Most government programmes emphasise adoption of participatory approaches envisaging participation of village communities through these institutions. Non-Government Organisations (NGOs) involved in rural development activities are also largely operating through Self Help Groups (SHGs). In some instances, SHGs have emerged without direct assistance from government or non-government organisations and have taken responsibility of the overall development in the area.

Functions of SHGs:
SHGs being the facilitators of social development, they have undertaken multidimensional activities including:
- Development of perspectives at local level;
- Identification and organisation of developmental activities;
- Ensuring effective participation in the development activities;
- Documentation and dissemination of success and failure in development;
- Engaging in networking/collaboration and linkage with developmental institutes;
- Promoting people's organisations; not only as a 'project' but also as a process
- Capacity building;
- Leadership development, participatory research and analysis;
- Participatory monitoring and evaluation;
- Access to information;
- Improving livelihood;
- Advocacy.

This paper initially tracks the evolution of policies on the SHG model with reference to Andhra Pradesh. It then discusses the linkages between management and livelihood issues that predicate the SHG Model. The paper then goes on to focus on the extent to which the SHGs formed by the Government or government promoted development organisations emerge on their own, i.e., exhibit characteristics that distinguish them as institutions as against a collection of individuals. SHGs are increasingly seen as contributors to poverty alleviation programmes in developing countries and this is a preliminary exploration of the linkages between participation in community organisations by providing opportunities for the poor to engage in productive activities and access to community assets. The number of SHGs in Andhra Pradesh had increased significantly over the years which in turn has helped in reducing rural poverty from 26.53% in 1983 to 11.05% in 1999-2000.

Table 1: Rural Population of Andhra Pradesh Below Poverty Line

	1983	**1993-94**	**1999-00**
No. of Persons (in Lakhs)	114.34	79.49	58.13
% of Persons under BPL	26.53	15.92	11.05
Poverty line (Rs.)	72.66	163.03	262.94

Source: Planning Commission, Government of India.

One major form of SHG that is popular in India is the savings and credit group model. SHGs of this kind engage in collective saving and thrift activities for the purpose of securing credit.

2. Need for SHG Formation

Reports indicate that self help programmes often in the form of savings and credit or micro credit schemes have succeeded in changing the lives of poor women in enhancing their incomes and increasing their self esteem. Therefore, it is appropriate and necessary to promote such empowered groups in the present situation. The various grounds for SHG formation are:

- As women are an important part of the community, it is necessary to build and enhance their capabilities to manage community projects;
- SHGs have been instrumental in empowering women by enabling them to work together as a collective agency;
- The participation of women in such groups is serving as an incubator for community leadership;
- SHGs have played valuable roles in reducing the vulnerability of the poor through asset creation, income and consumption smoothing, provision of emergency assistance, and empowering and emboldening women by giving them more control the over assets and increasing their self esteem and knowledge. (Zaman, 2001)

Above all, individually, a person tends to be insecure but group membership reduces the insecurity, makes him/her a more reliable borrower and provides access to community assets. Thus, the formation of a group would ensure best participation and the approach towards poverty alleviation should be 'self help'. This brings out the need for organising them into groups by which they get the benefit of collective perception, collective decision making and collective implementation of programmes for common benefit. This collective effort results from the balance between the driving forces that push for change and restraining forces that act against change. In order to make change happen, the balance of these forces must be altered so that the equilibrium moves. There either has to be an increase in the driving forces, or a decrease in the resistant forces as depicted in Chart 1.

Chart 1: The strength of forces
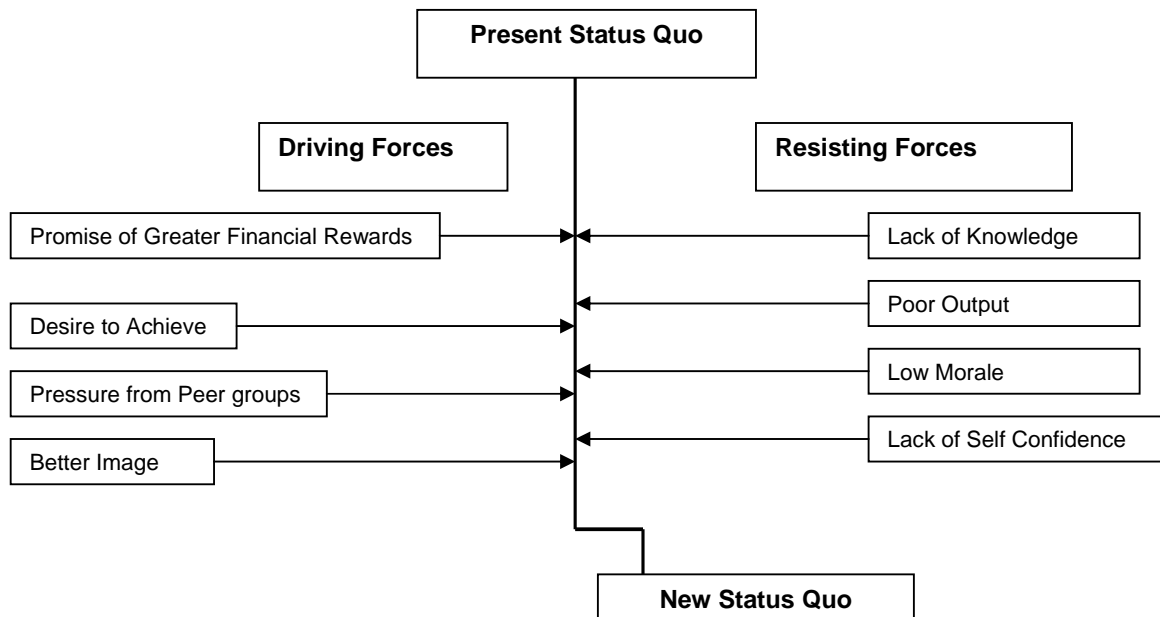
SHGs act as appropriate people's institutions that provide the poor with the space and support necessary to take effective steps towards greater control of their lives in private and in society. These community based groups are not static institutions but grow on the resources and management skills of its members and their increasing confidence to get involved in issues and programmes that require their involvement in the public and private spheres.

3. The Environmental and Political Context of the Approach

Andhra Pradesh is the largest maritime state in India. AP comprises of three distinct regions—Costal Andhra, Rayalaseema and Telangana. The poor natural resources base of the inland areas contributes to the area's poverty: poor soil, low and erratic rainfall, limited infrastructure and irrigation, often declining groundwater and little support to agricultural enterprise. Rain fed agricultural land is the primary livelihood resource for most farmers. Landholding distribution varies between villages, and there is widespread incidence of inequality in land distribution. Most cultivators are either small or marginal farmers and since a holding of at least two hectares is required for a household to derive subsistence, most of them are at risk.

The 73rd Constitutional Amendment Act strengthened the position and role of the Panchayati Raj Institutions (the rural local bodies) as institutions of self governance responsible for planning and managing nearly all aspects of rural development. AP passed a conformity legislation to acknowledge acceptance of the principles laid down in the Amendment Act, and also conducted elections for the Panchayati Raj Institutions (PRIs) according to the Act, but it has made slow progress with respect to devolving powers and functions to PRIs. The functions of the Panchayats have been suggested in the eleventh schedule to the constitution, which includes agriculture, soil conservation, watershed development, social forestry and farm forestry, fuel and fodder and maintenance of community assets. Thus there is the legal framework available to the Panchayats to work on natural resource management such as watersheds. The recent Government Order on functional committees had given power to the community based organisations promoted at the village level for active involvement of Panchayat bodies and in legalising the existing community based institutions. Politically it helped the government in a way that its presence is felt everywhere. The new arrangement is considered as 'a step ahead' in decentralisation. However, the new development has received different reactions from different corners and it is being commended that the implementation

guidelines will result in creation of parallel institutions. However, it is too early to comment on the political influence of these parallel institutional structures, for evidence suggests that the life of these institutions is coterminous with the project life. As a result, the long-term sustainability of the programme may be endangered.

4. Genealogy of Policy and Emergence of Self Help Approach

The premise is that poverty can be effectively tackled with the help of thrift and micro credit programmes. It was partly because of the perceived success of the Grameen Bank, that many development practitioners and development agencies started to see micro credit as a powerful tool to address poverty. Micro credit facilities, it was thought, would help poor people to overcome financial crises without the help of moneylenders. The bank or the financing agency would give much cheaper loans than the local moneylenders. Collateral is often not required, but there is a group which takes the responsibility for repayment, and which assesses the creditworthiness of the person who takes out the loan. There is a lot of faith in the 'thrift-cum-micro-credit-through-women's-groups' model of development. Many NGOs, international development agencies, as well as the World Bank and the International Monetary Fund are great supporters and promoters of the model. In 1997, an international Micro Credit Summit was held in Washington, which attracted participants from all over the world, and included a number of prominent participants. For many, micro credit, especially if organised through women's self-help groups, if not a panacea, seems to hold a great promise.

The 1990s saw a proliferation of women SHGs across India, particularly in the southern states. These groups were designed not only as a strategy for poverty alleviation, but also to increase women's access to resources and their power in household decision-making. Savings and credit groups are poor women's substitute for formal banking, and a potential distribution channel for banking services. However, women's savings groups themselves are micro-enterprises and like any other business their survival depends on their ability to satisfy the needs of the customers. Lending services in the SHGs offer fast, convenient and informal service, repayments are flexible and they are willing to lend for consumption and productive purposes.

The Government of Andhra Pradesh has taken up the theme of women's empowerment as one of the strategies to tackle socio-economic poverty. Self Help through savings has been taken up as a mass movement by women – a path chosen by them to shape their destiny. The development agenda of the State in the last few years, of placing the people, especially women, in the forefront has enabled the formation of a large number of Self Help Groups (SHGs) throughout the State. The majority of the women in these SHGS save one rupee a day, which is a significant percentage of their meagre incomes.

The State government is consciously making an effort to assist SHGs by providing Revolving Funds/Matching Grants under various programmes. In 1999, all the separate programmes were clustered together in the Swarna Jayanti Gram Swarozgar Yojana (SGSY), but DWCRA (Development of Women and Children in Rural Areas) as a term and as a separate programme does till exist, in Andhra Pradesh. DWCRA differs from the other IRDP type of programmes in two important ways. First, the main unit of development in DWCRA is not an individual or household, but a group of women. Groups usually consist of 10-20 women (this group approach is now also used in the SGSY programme). Second, the emphasis is not only on economic activities, but also on social issues such as family welfare, child care and literacy.

Initially, DWCRA started in a few districts in Andhra Pradesh only, but gradually more districts were added. However, it is only in the last seven years or so that DWCRA has really started to capture the imagination in AP and that the number of groups started to rise dramatically. It is claimed that at present there are approximately 450,000 DWCRA groups in Andhra Pradesh. This would mean that there are around 6 million women who are members of DWCRA groups. Assuming that around 70% of the women live in rural areas, this would

mean that approximately 20% of them are involved in DWCRA, a figure that more or less corresponds with the proportion of poor people. Apart from DWCRA groups, there are several other women's SHGs. Many NGOs have set up self-help groups. Recently the District Poverty Initiative Programme (DPIP, funded by the World Bank) has also started to set up women's SHGs. These SHGs are also thrift and credit groups. Andhra Pradesh is very much in the forefront in India, and indeed, in the world with regard to women's self-help groups. More than 40% of the SHGs that exist in India are in Andhra Pradesh and about 20% of all the women's SHGs that exist in the world belong to Andhra Pradesh.

Each month the whole group saves a particular amount. This money is deposited in a bank account and can be used for giving loans to group members. After some time, if the groups function well, additional loans can be given. These can be organised through the DRDA (District Rural Development Agency) in the case of DWCRA, through NABARD in the case of NGO supported SHGs, or through the Community Investment Fund in the case of DPIP groups. In recent years, commercial banks have also become involved. In principle, this borrowing is only possible when the group has performed well in its saving activities. The reason to focus particularly on women in these thrift and micro credit activities is the observation and/or assumption:

- that women are more concerned with the needs of the various household members;
- that they are better at repaying loans than men;
- that the credit and savings activities can help them become more active participants in social life (they have to learn how to maintain an accounts book; they have to deal with bank managers, etc.); and
- that these women's groups can be an entry point for various other activities.

5. Self Help Approach in Andhra Pradesh

Women run SHGs go by various names, including mothers' committees, DWCRA groups, and thrift groups. While most groups function to mobilise household savings, a few have attempted to deliver services previously rendered by government agencies. The massive growth of female-dominated SHGs illustrates a shift in the development paradigm in Andhra Pradesh. Community empowerment and reducing the role of the government to a facilitator are elements of the state government's new paradigm. Around 70% of the population of Andhra Pradesh relies on agriculture and renewable natural resources for a large part of their livelihoods. The members of a savings and credit group (SCGs) are usually neighbours, friends and fellow workers. Women in these groups may not be from the same caste/community but they have the same socio-economic background. These groups also provide an opportunity for social interaction. The regular obligation to save brings the group together and holds it together providing a base for other important activities. In some groups, opportunities for profitable investment are limited due to lack of skills, markets and opportunities. The SHGs are widely viewed as being better managers of money, more transparent, and accountable than most other community groups. Unlike most other parts of the country where NGOs have played a major role in organising people around community based organisations, in Andhra Pradesh the state machinery got actively involved. There was a clear and strong political support, with very senior leaders including the Chief Minister making public commitments to the programme. The policy not only gave the mandate to this movement, it also got the bureaucracy involved in the effort in an active manner and gave it the necessary freedom.

There are about 4.57 lakh women SHGs in Andhra Pradesh covering nearly 61.10 lakh poor women (See Table 1). Andhra Pradesh alone has about half of SHGs organised in the country. The SHGs are also popularly called DWCRA Groups, and this name became popular after the DWCRA programme through which women's groups were assisted initially. The SHGs are not only resorting to thrift but also are taking small loans out of the corpus

available with the group. The group corpus consists of savings, government assistance and also bank loans. Members use the loan out of group corpus initially for their personal needs. However, in the long run such loans are utilised for income generation activities. Since inception, an amount of Rs.1507.89 crores has been mobilised as corpus by these groups. The Micro Credit Summit held in Washington in 1997 resolved to reach 100 million poor women by 2005 all over the world. In Andhra Pradesh alone, 5.6 million (56 lakhs) women were covered under micro credit with a saving of a rupee per day and the financial institutions extending loans upto 4 times to the amount of group savings. From the year 1997 to January 2003, banks extended loans to the tune of Rs.900 crores to SHGs and the recovery of loans is more than 95%. Recently, commercial banks have reduced interest rate on the loans extended to SHGs from 12% to 9.5%.

Table 2: Status of DWCRA/SHG

Total Groups	4,57,526
Women Covered (Members)	61.10
Savings (Rs. In crores)	847.06
Govt. Assistance (Rs. in crores)	660.83
Total Corpus (Rs. in crores)	1507.89
Loan mobilised from banks under SHG linkage programme (Rs. in crores)	1160.71
Average Savings per groups (Rs.)	18514
Average Credit per group (Rs.)	32975
Average Corpus per group (Rs.)	32957

Source: Women Empowerment and Self Employment Department, 2003, AP

NABARD, commercial banks and Regional Rural Banks are providing direct assistance to SHGs under the "Self-Help Linking Scheme" of NABARD. Cumulatively, till 31st March 2003, NABARD had linked 7.17 lakh SHGs and were provided with bank loans, out of which 2.18 lakh (30.4%) SHGs are from Andhra Pradesh. More than 90% of the SHGs linked to banks are exclusive women SHGs (See Table 2).

Table 3: SHGs linked as on 31st March 2003

Southern States	No. of SHGs credit linked	SHGs refinance linked	Bank loan (Million Rs.)	Refinance (Million Rs.)
Andhra Pradesh	281,338	193,959	9,753.87	6,839.57
Karnataka	62,178	39,719	1,440.14	940.16
Kerala	21,012	11,156	644.87	273.77
Tamil Nadu	98,410	86,532	4,255.16	3,864.77

*Source: NABARD (*www.nabard.org*)*

6. Types of Self Help Groups/Community Based Organisations

The community based organisations try to involve all the people in various exercises. The Government fosters mobilisation and organisation of the poor and empowers them to address various issues concerning poverty. The ongoing efforts are in facilitating the formation and development of the Self Help Groups of the poor, especially DWCRA groups in the rural areas, DWCUA groups in the urban areas, Mothers Committees, School Education Committees, Watershed Committees, Vanasamrakshan Samithis and CMEY groups. Through these Self Help Groups, the poor are able to harness their potential, prioritise their needs, and design and implement developmental initiatives. The government would pursue policies to support the SHG movement and their participation in the programmes is critical to poverty eradication.

There are several constraints to the proper identification of affinity groups and several programmes in operation which describe the functional units at the field level as "groups" are not SHGs in most cases. However, social mobilisation enables the poor to build their organisations (SHGs) at grassroots level, in which they participate fully and directly and take decisions on all issues concerning poverty. The means used by the interveners to identify these affinity groups are several, a few popular ones include:

SHGs organised for development of natural resources:
> Water Users' Associations (WUA)
> Watershed Development Committees (WDC)
> Vana Samrakshana Samithis (VSS)

SHGs organised for employment generation:
> Women and Children in Rural Areas (DWCRA)
> Development of Women and Children in Urban Areas (DWCUA)
> Chief Minister's Empowerment of Youth (CMEY)

SHGs organised for human resources development
> Mothers' Committees
> School Education Committees

In addition there are a number of small groups which can be considered as Self Help Groups. These include Mahila Samakhyas, Milk Societies, etc.

Table 4: Dominance of Peoples Organisations in AP – 2003

Organisation Name	Estimated no. of Groups Formed	Remarks
Government Organisations		
Women Empowerment and Self Employment	457,526	Under DWCRA programme
Rural Development Department	7,857	Under watershed committees as part of Water Conservation Mission (Neeru - Meeru)
Youth Services Department	13,475	CMEY Programme
Forest Department	7,090	Vana Samrakshna Samaties Under JFM Programme
Irrigation and Command area Development	10,294	Water Users Association
District Primary education Programme	81,000 (approx.)	School Education Committees
ICDS	52,933	Mothers Committees
Society for Elimination of Rural Poverty		SHG/ Village Organisations/ Mandal Smakyas
Non Governmental Agencies		
CARE, Andhra Pradesh	6,337	Under CASHE Project

6.1 SHGs organised for development of natural resources
The capacity for collective action is crucial for the successful management of common property natural resources, as the communities are required to regulate the use of natural resources and adopt appropriate management practices to improve or maintain productivity. A variety of actions are required on the part of communities. The effectiveness of these actions would depend on the processes within the communities. This would include

mechanisms of deciding regulations and steps required for their implementation. Since conflicts could emerge as restrictions are imposed on the use of resources, the process of conflict resolution has to be functional in the community. Thus, it is the community actions and processes that become important for the success of collective action in Self Help Groups.

In a vast state like Andhra Pradesh various goods and services must be provided by a form of collective action rather than by the state. "The impact of participation throughout is significantly greater than it was during any single stage. Local social capital can help to improve effectiveness, efficiency, empowerment, and equity." Recognising the potential benefits of community participation in conserving, managing and accessing community resources as opportunities for local participation will enable the overall development of the community.

Water Users' Associations (WUA): It was observed that in many irrigation projects, the tail end reaches of the distributaries and outlets remain un-irrigated because of undependable flows and inequitable distribution of water in different areas of the command. A bureaucratic approach and the limited capacity for government to intervene at the field level compounded the problem. In many cases, repair and maintenance work was suffering because of lack of funds and as the farmers received little gains, they were refusing to pay as well. Considering the circumstances, many of the state governments decided to hand over the management of state irrigation canal network to its beneficiaries.

According to G.O. No. 101 of I & CAD (Irrigation and Command Area development) Department dated 19.7.1995, irrigation system up to a minor or group of minors covering a command area of 750 ha or more (a hydraulic unit) will be placed under the management of a Water Users' Association and the Water Users' Association will be autonomous bodies which will function on democratic lines. The change in management of irrigation systems through Farmers' Organisations resulted in the formation of Water Users' Associations (WUA) at the primary level, Distributory Committees (DCs) at the distributory level and Project Committees (PCs) at the project level. All minor irrigation schemes have only one tier, i.e., the Water Users' Association (WUA), while the medium irrigation schemes have a two tier structure (WUAs and the PC) and the major irrigation projects have a three tier structure (WUAs, DCs and the PC). WUA helps in ensuring active participation of farmers in irrigation management. Some of the salient features of this are:

- Transfer of power to manage community assets;
- Creation of new autonomous institutions as formal/informal entities;
- Areas defined on a hydraulic basis;
- Provision for social audit and financial audits;
- Facilitate fixation and collection of operation and maintenance charges from water users.

Watershed Development Committees (WDC): Members of the community, who are directly or indirectly dependent on the watershed area, will be organised into a Watershed Association. The Watershed Association will meet to evolve/improve the watershed development plan, monitor and review its progress, approve the statement of accounts, formation of user groups, resolve differences of disputes between different user groups or amongst members of the user groups/self help groups, approve the arrangements for the collection of public/voluntary donations and contributions from the community and individual members, lay down procedures for the operation and maintenance of assets created, and approve the activities that can be taken up with money available in the Watershed Development Fund. Subject to the overall supervision and control of the Watershed Association, a Watershed Committee shall carry out the day-to-day activities of the Watershed Development Project.

Vana Samrakshana Samithis: Vana Samrakshana Samithis (VSS) are constituted for protection and development of degraded forests through Joint Forest Management (JFM). The major focus is to secure the participation of the local people who depend on the forests, for the purpose of protection and development of forests. Under JFM, the village community gets a greater access to a number of Non-Timber Forest Products (NTFPs) and a share in timber revenue in return for increased responsibility for its protection from fire, grazing and illicit harvesting. The sharing of responsibilities and revenue vary from state to state as per its own JFM resolution/rules.

In Andhra Pradesh, every household living in the hamlets/villages/cluster of villages, particularly those depending on forest for the daily needs, would have the option of becoming a member of Samithi. However, all Scheduled Caste/Scheduled Tribe members of the hamlets/villages/cluster of villages would become members of Samithi automatically.

The Members of VSS, individually and collectively shall be responsible for:
- Ensuring protection of forest against encroachment, grazing, fires and thefts of forest produce;
- Carrying out development of forests in accordance with the approved Joint Forest Management Plan; and
- Creating awareness among other villagers on the importance of forests.

Members of VSS shall have the power to apprehend forest offenders and hand them over to the authorities concerned to take action under the provisions of the relevant Forest Acts and Rules. The members are entitled to 25% of the "Compounding fees" collected from such offenders where the offence was committed outside their JFM area as an incentive for the good work done by VSS.

Degraded forest areas are brought under JFM and land development is done by taking regeneration works, including soil and moisture conservation and gap planting. Along with trees for fuel, fodder and timber, the village communities are permitted to plant such fruit trees as would fit with the overall scheme of afforestation, such as Amla, Imli, Mohua, as well as shrubs, fodder legumes and grasses which would meet local needs, help soil and water conservation and enrich the degraded soil/land. Even local medicinal plants may be grown according to the requirements and preference of beneficiaries

6.2. SHGs organised for employment generation
As poverty is a complex phenomenon and manifests itself in a myriad ways, the poor not only suffer from low incomes and high unemployment but also low levels of literacy and poor health. Several poor women and youth had taken advantage of the SHG movement to set up viable self-employment ventures, to earn additional income.

Women and Children in the Rural Areas (DWCRA): The Development Agenda of the state in the last few years to place people, especially women, in the forefront, has enabled the formation of a large number of SHGs throughout the length and breadth of the State. There are more than 20 lakh women from poor families who have become members of these groups. The majority of them save one rupee a day. The State Government is consciously making an effort to assist these SHGs by providing Revolving Fund under DWCRA.

The DWCRA scheme has helped women earn additional monthly incomes, in addition to the economic betterment of their families. These women have taken initiatives in improving their socio-economic status by participating in Governmental Programmes of family welfare, promoting their nutritional and educational status, awareness on environment, public health through sanitation and clean drinking water.

Development of Women and Children in Urban Areas (DWCUA): The purpose of DWCUA, a component of Swarna Jayanthi Shahari Rojgar Yojana (SJSRY) is to encourage women below poverty line to set up group economic support activities themselves. Under this programme, groups of women devise a project plan. A successful plan will receive a subsidy from the government and a loan from an area Bank branch. The loan is 45% of the project cost (maximum) and the subsidy is 50% (maximum). The other 5% is borne by the group. The maximum project size supported is for Rs.250,000.

Chief Minister's Empowerment of Youth (CMEY): The objective of the movement is to empower youth to participate effectively in the development of rural youth, by providing opportunities for employment and creating a sense of accomplishment in them. The entire movement is based on the principles of diligence, self-help, cooperation and a sense of patriotism. This programme emphasises the promotion of sound morals, self-sacrifice and the establishment of firm social order through healthy discipline. This ultimately should result in the improvement of quality of life of the youth.

This programme is based on "Group Strategy". A group of 15 or more young people between the age of 18 and 35 years may form a 'Youth Association' to take up economic activities suited to their educational background, skills, aptitude, local resources and needs. The programme has been extended throughout the state so as to cover all habitations including urban areas. The family income of the youth association members shall not exceed Rs.11,000 per annum.

- Group formation (with 15 members or more aged between 18-35 years in each Yuvashakthi Sangha);
- Imparting of six modules of Training Programmes on Health Awareness and AIDS Control, Environmental Awareness on Clean and Green, Education for all, Functioning of Schools, Social Reconstruction through Janmabhoomi, Leadership, Personality Development and Skill Development;
- Generation of thrift – A total minimum thrift amount of Rs.5000/- accumulated over 6 months in regular intervals collected from all the group members during the weekly meetings and deposited in the Group Savings Bank account. Common monthly minimum effective thrift (COMMET) of the Youth Association is calculated by taking the least amount saved and rotated in a month in the given six-month period. This amount shall be taken into consideration only if it is rotated by Youth Association members among themselves;
- Group behaviour - spread over a period of six months to be evaluated on a Marks System;
- Release of financial assistance for taking up self-employment with the following pattern: Revolving fund - 100 times of the (COMMET) or Rs.1.00 lakh, whichever is minimum; Government of A. P. Grant – Margin Money - 50 times of COMMET or Rs.0.50 lakh.

Activities through CMEY Programme:
- Participation of all Group members of newly formed Yuvashakthi Sanghas in training, social and economic activities;
- Entrepreneurial and managerial skills upgradation to the CMEY asset holders at TTDCs;
- Training in simplified accounting procedure for SHGs – (less number of records);
- Revitalisation of non-performing units, through skill training and marketing;
- Margin Money Recovery/Prompt repayment of loan availed by beneficiaries;
- Raising the income-level of SHGs.

6.3 SHGs organised for human resources development

Mothers' Committees: As part of the community mobilisation exercise, Mothers' Associations have been formed in villages with mothers of children enrolled in anganwadis/ Early Childhood Care and Education (ECCE) Centres as members. These associations actively participate in the developmental activities of the school. They conduct periodic meetings to discuss the activities of ECCE Centres and take necessary steps for girls' enrolment and retention in primary school.

Village Education Committees: Village Education Committees were visualised as part of the decentralised management structures envisaged under DPEP. Their role is to establish a link between the school and the community. In addition, they are also expected to take up the task of management for ensuring community participation. Village Education Committees are formed with a view to facilitating and ensuring participation and involvement of local community in the educational process at village level. The role of Village Education Committees has been predominantly in areas related to accessibility and participation of children, particularly girls.

SHG Ensures Fair Deal to Farmers

Despite a good red gram crop, farmers of Kosigi village, Mahbubnagar District are an unhappy lot for they never got the price they expected. Transportation takes away the major chunk as the market yard is 40 km away in Tandur. In the yard the system of quality grading and weighing are heavily loaded in favor of the trader.

In an innovative marketing intervention by the Kosigi Mandal Samakhya, a federation of women's Self Help Groups formed under Velugu, the World Bank aided poverty eradication project, and the local group commenced procurement of agriculture and Non-Timber Forest Products directly bypassing the intermediaries. The SHG also took quotations, quality grading, weighing and price fixation ensuring that the farmers get a better deal.

"All this meant savings ranging from Rs.90 to Rs.150 per quintal. The intervention has been working well for the second crop season. With no middlemen involved the element of exploitation and the hardships faced by the farmers have gone," Kistamma of the Mahila Samakhya said. Investing Rs.31 lakhs obtained from the Community Investment fund of the Velugu project, the Samakhya earned over Rs.1 lakh profit this year.

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7. Key Policy Issues and Relationship with Livelihoods

Lack of access to sustainable financial services and accessibility to community owned assets are major development obstacles for poor and low-income households. People have responded to this situation by establishing informal SHGs that offer basic thrift and loan services and provide economic opportunities to its members, but operate outside the formal banking/organisational structure. SHGs are an important element of an effective poverty alleviation strategy which through improved access to and efficient provision of savings, credit and insurance facilities enable the poor to better adjust their household cash flows with consumption and investment needs, manage their risks better, build their assets gradually, develop their enterprises and enhance their income earning capacity. The advantages that SHGs offer to the poor can be enumerated as follows:

- Paves their access to financial services without physical collateral;
- Enables them to expand their micro enterprises;
- Enables them to take advantages of profitable investment opportunities;
- Helps them diversify their economic activities;

- Helps them adopt better technologies;
- Enhances their ability to absorb external shocks;
- Strengthens their self-confidence as bank customers; and
- Empowers women as entrepreneurs.

A better understanding of ground level realities, has led to more efficient and sustainable development programmes. But as the number of community based institutions and their members and portfolios increases, it is clear that there is a need for an enabling policy environment to be put in place at the local and state levels. Such 'formal' policies need to be directed at the overall development, plus the improvement in the reach of CBOs.

The Poverty Reduction Action Plan of Andhra Pradesh is closely built around the interventions made in forming and strengthening various community based organisations across various sectors and social groups. One of the most remarkable aspects of GoAP's development policy has been the State's role in facilitating the growth of social networks with the specific aims of social and economic inclusion.

Table 5: Social Networks in Andhra Pradesh

Social Networks	Department	Characteristics Of Networks	Expected Outcomes	Achievement
Women's Self Help Groups (SHGs)	Women Empowerment and Self Employment	Membership exclusively for women with savings and credit as main activity	Women Empowerment—better economic opportunities	Better access to credit, greater social mobilisation, empowerment
Water Users' Associations	Major & Minor Irrigation	Better water management Community management	Treatment of water bodies	Community management of local resources
Vana Samrakshana Samithies	Forest	Community forest management	Forest based livelihoods	Better resource management, forest based livelihoods
Mothers' Committees	Women Development & Child Welfare (ICDS)	Child care Women's health	Nutrition, childcare and Health	Enhanced MMR, IMR
Parents' Committees	Education	School Education	Quality of School Education	Better enrolment and retention rates
Watershed Associations	Commissioner Rural Development	Better water management Community management	Self reliance of community watershed resource management	Community management of local resources
Youth Groups	Youth welfare	Membership exclusively youth	Livelihoods Improved access to information	Better livelihood opportunities

Institutional Capacity Building

Capacity building of the SHGs and their federations need to be given adequate attention. The Government and NGOs should develop state level, district and mandal level training capabilities so that the capacity building of the members of the organisation is taken up

depending on the need and the demand of the groups. An effective mechanism to regularly carry out the rating of the groups should also be undertaken so that developmental inputs can be targeted in a more transparent manner. The organisations of the poor, being participatory bodies, will forge harmonious partnerships with representative bodies such as Gram Panchayats, Mandal Parishads and Municipal bodies.

Outcomes and Impacts for Livelihoods
The poor people can be helped out of poverty traps through empowerment, skill upgradation and by creating new economic opportunities. Women's SHGs have made much progress in bypassing male control in economic and political decision making. But attention needs to be paid to imparting them with better skills and improving their sustainability so that they can graduate beyond being thrift and credit societies to a social force that shapes village development. This includes improving the access of the poor to information and several experiments are in progress to provide the poor with easy access to the Internet and official data.

SHGs have been adopted as the appropriate people's institution which provides the poor with the space and support necessary to take effective steps towards greater control of their lives in private and in society. These small groups later link up together in smaller and larger associations depending on the objectives and on the roles with which the SHGs invest these apex associations. The self help group is not a static institution; it grows on the resources and management skills of its members and their increasing confidence to get involved in issues and programmes that require their involvement in the public and private spheres. Studies indicate that SHGs have several positive features which are listed briefly below:

Cost effective credit delivery system: They provide a cost effective credit delivery system, as the transaction costs of lending decrease sharply both to the banks and the borrowers; Banks which have advanced lines of credit report that the repayment rates are high, ranging above 95%.

Collective learning: They provide a forum for collective learning which rural people find more "friendly" and which is consequently more effective than the individual or classroom approach that is commonly adopted. The intervenor must realise and make use of this potential.

Democratic culture: They promote a genuine democratic culture where rights and responsibilities are equally valued and internalised; and where sanctions are imposed and accepted.

Imbibe norms of behavior: They provide the members with opportunities to imbibe norms of behavior that are based on mutual respect and which can be recognised by the society.
Entrepreneurial: They foster an entrepreneurial culture where members realise that while they need the support of the group to achieve personal objectives, their personal interests cannot be promoted at the expense of the group.

Stable base for dialogue: They provide a firm and stable base for dialogue and cooperation in programmes with other institutions like government departments, cooperatives, financial and Panchayat Raj institutions; if the groups are functioning well, they have the credibility and the power to ensure their participation in identifying, planning, budgeting, and implementing Panchayat Raj programmes for the empowerment of the poor.

Management capacity: They help to assess the individual member's management capacity which may fall short of what a "viable" investment package requires for optimum returns, as prescribed under regular IRDP norms, but which is manageable by a particular member.

The strategy therefore revolves around (i) the potential of the SHG to provide space and support so that each of its members can identify and use opportunities for her/his empowerment both in private and public life, and (ii) the capacity of the SHG to relate effectively with other institutions. It is, therefore, necessary that SHGs are promoted in a way that facilitates the development of a participatory and empowering culture. This, in turn, makes it crucial for all intervenors to empathise and be familiar with participatory management practices in their own organisations before using participatory methods to identify and form SHGs.

Economic Empowerment of SHGs: 60% of the women take up economic activities related to agriculture and allied activities. Land lease for growing agricultural crops is a common practice in Telangana districts. Vegetable and flower cultivation, food crops and pulses, oil seeds cultivation are taken up on leased lands. Similarly, rearing of calves, ram lamb, chicks, pigs and ducks, dairy, value addition to milk and milk products are preferred by women agricultural labourers. Illiterate and unskilled women engage in small business activities. Nearly 20% of the SHG members are artisans and are engaged in making handicrafts and handloom products.

Public-private partnership method is adopted in promoting economic opportunities to SHG members by appointing them as dealers for the sale of products manufactured by companies like Hindustan Lever Limited, TVS, TTK-Prestige, Colgate-Palmolive, Philips, etc. Companies in return train SHGs in finance management, enterprise development, packaging, branding and pricing of products. This partnership is a win-win model.

Increase in awareness levels about the society and community: Voluntary participation in community activities like laying roads, planting trees, conserving environment, construction of water harvesting structures, donations to the victims of natural calamities, helping to reduce crime against girls and women, campaign against eradication of social evils like dowry, child marriages, untouchability, AIDS, rescue and rehabilitation of orphaned children, counselling adolescent girls, and support to widows and destitutes are a few activities worth mentioning.

7.1 Impacts on Livelihoods and Poverty: Through Convergence

Socio-economic survey of such SHGs conducted by District Rural Development Agency (DRDA) in different districts has indicated that the scheme has helped women earn additional monthly incomes ranging from Rs.1500/- to Rs.1800/- depending on the economic activities taken up. In addition, women have taken up initiatives in improving their socio-economic status by participating in governmental programmes such as family welfare, promoting their nutritional and educational status, awareness on environment, public health through sanitation and clean drinking water. A large number of women from SHGs participate in Janmabhoomi (a government programme envisaging overall development of villages) regularly as active partners for the development of their respective villages.

Various services and government programmes are getting converged at the SHG level. Under the Deepam scheme, 12 lakh women SHG members were given LPG connections. In addition to the above, 15 lakh LPG connections are proposed by the Government under the Deepam scheme this year to the members of women SHGs. The Government is giving a subsidy of Rs.1000/- for each connection and the power to select the beneficiaries is given to the groups.

The Rural Permanent Housing Programme of the state government is being entrusted to the SHGs on a pilot basis. Raising of nurseries and management of watersheds are also entrusted to women in some districts. In addition to the above, construction of individual sanitary latrines has been entrusted to women in various places. Women SHGs are actively participating in the literacy programme "Akshara Sankranthi." Women SHGs also had a very

good impact on reducing the influence of moneylenders in rural areas. Similarly, there has been an impressive impact on SHG members of other Government programmes like family welfare, education, girl child education, immunisation of children, etc.

7.2 Institutions as social capital

In terms of social exchange theory, big parts of human culture serve as a device to stabilise behavioral expectations based on reciprocity: If I want to exchange with you, I have to trust you, and you have to trust me. If rules exist which we both accept, and if there is a community around us to enforce these rules (formally or informally), problems of interaction may be overcome and mutual cooperation can be assured. The same method is used by rural women to shape their future destiny through formation and self management of community organisations. Though the groups were started basically with thrift and savings, with the passage of time, these groups have evolved into a force by their numbers, unity and solidarity. Today, they are in the forefront of lobbying and advocating for their justifiable demands throughout the state.

After attaining economic development, women groups have taken up the path of social development and they are marching fast in this direction. A recent study of 1000 SHG groups in three districts of Andhra Pradesh has shown that on the aspects of social development, like sending the girl child to school, providing better nutritious food to the children, reducing family size, frequent interface with the Government officials, self management of the group, etc., there is considerable improvement in women's participation. Similarly, women's participation in local self government and CBOs like Vana Samrakshana Samithi, Water Users' Associations, Village Development Committees, and Village Education Committees has shown an increase over time. In household affairs also, there is an improvement in decision making by women from these Self Help Groups. As a consequence, women are planning for occupational mobility due to their awareness, skills acquired, availability of capital and channels for marketing. In addition, family members of the women belonging to Self Help Groups are also planning for better social mobility.

Abbreviations and Acronyms

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AP	Andhra Pradesh
CARE	Cooperative Assistance for Relief Everywhere
CASHE	Credit and Savings for Household Enterprise
CBO	Community Based Organisations
CMEY	Chief Minister's Empowerment of Youth
DC	Distributory Committees
DFID	Department for International Development
DPEP	District Primary Education Programme
DPIP	District Poverty Initiatives Programme
DRDA	Department of Rural Development
DWCRA	Development of Women and Children in Rural Areas
DWCUA	Development of Women and Children in Urban Areas
ECCE	Early Childhood Care and Education
GoAP	Government of Andhra Pradesh
GoI	Government of India
ICDS	Integrated Child Development Services
I & CAD	Irrigation and Command Area development
IRDP	Integrated Rural Development Programme
JFM	Joint Forest Management
NABARD	National Bank for Agriculture and Rural Development
NGO	Non-Government Organisations
NTFP	Non-Timber Forest Produce
PRI	Panchayati Raj Institutions
SCG	Savings and Credit Group
SGSY	Swarna Jayanti Gram Swarozgar Yojana
SHG	Self-Help Groups
VSS	Vana Samrakshana Samithi (Forest Protection Committee)
WDC	Watershed Development Committee
WUA	Water Users Association

Capital Improvement Planning Guide

– Dipanjana De

1. The Context

During the last eight years Andhra Pradesh has undertaken series of strategic reforms with the objective of improving civic governance and effective provision of infrastructure and basic amenities to the people. The Andhra Pradesh Vision 2020 document envisages that "By 2020, Andhra Pradesh will have well-planned, economically productive, socially just, environmentally sustainable, culturally vibrant, friendly and safe cities and towns." This calls for effective management of urban growth so as to have clean, green, comfortable, safe, and livable cities. The state will focus on infrastructure development, environmental management, street lighting, housing, and public transport to all. Civic governments will be participatory, responsive, and people-oriented. This Urban Vision is to be achieved through an integrated approach that blends urban development and infrastructure planning with sound fiscal policy and systems to manage and deliver urban services effectively.

Local Governments are responsible for providing and maintaining basic infrastructure facilities. This important governmental function is not made easier given current demands and local officials' inherent responsibility to achieve the greatest possible benefit at the least possible cost to the taxpayer. All of the world's cities are underpinned by a vast infrastructure network of roads, water supply, sewerage, drainage, power supply, flood protection, recreational and other assets.

Improving the management of municipal infrastructure can bring major benefits by ensuring that scarce resources are used in the most cost effective manner, thereby enhancing economic growth, improving living standards and improving environmental sustainability. Many municipalities have traditionally tried to meet infrastructure needs through investment in infrastructure creation, without recognising the long-term life-cycle costs associated with the ongoing operations, maintenance, and renewal of infrastructure. This has led to below-cost tariffs and has undermined the financial position of municipalities, leading to 'Low Level Equilibrium Trap'
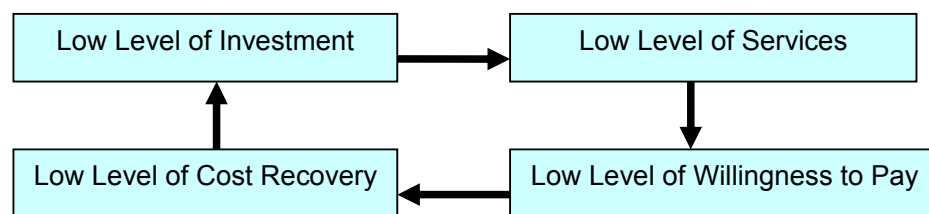
Breaking this trap requires securing private sector participation, accessing capital markets, enhancing financial viability through the development of a Capital Improvement Plan.

The **Capital Improvement Plan (CIP)** is a dynamic document that lists and prioritises needed improvements and expansions of the city's infrastructure system to maintain adequate service levels to the residents and to accommodate population growth and land development. The plan includes provision for planning and design, development of new facilities, rehabilitation or restoration of existing facilities, acquisition of land for specific development purposes, and the replacement of major facilities/services reflecting the needs and priorities of the city.

Need for Capital Improvement Planning

Capital Improvement Planning is an approach to develop a blueprint for capital expenditures to develop and maintain municipally owned infrastructure assets to:

(1) Ensure that scarce resources are used in an efficient manner rather than allow capital improvement decisions to be made on an ill-defined, haphazard basis, through prioritisation of the various projects, and providing for the funding and implementation strategy on an annual basis.
(2) Identify deficiencies in the existing network of roadways, water and sewer systems, and other essential public facilities.
(3) Determine infrastructure expansion needs to meet future residential and commercial development requirements.
(4) Select priority projects with input from elected officials, staff and the public.

The **Benefits of Capital Improvement Planning** includes:

(1) Reversing the historical trend toward declining public investment in important public facilities.
(2) Eliminating the duplication of project requests.
(3) Focussed attention on community goals and objectives.
(4) Allowing for proper programming and project design.
(5) Improved understanding of service level options and costs.
(6) Improved decision-making based on the benefits and costs of alternatives.
(7) Ability to demonstrate responsible investment in infrastructure/framework for the equitable distribution of public improvements.
(8) Improved knowledge of the timing and magnitude of future investments required to operate, maintain, and renew infrastructure.
(9) Assurance to tax payers that they will not suddenly be called upon to finance expensive public facility improvements.
(10) Long term expenditures can be averaged out so that major debt is not incurred all at once.
(11) Facilitating capital expenditure and revenue estimates and helping to avoid emergency financing methods.
(12) Improving a municipality's bond ratings and lower interest costs due to prudent fiscal management.
(13) Being a benchmark of the overall fiscal health of a local government.

In short, CIP helps in rationalised decision making, increased public support for expenditures, and improved management of infrastructure, strategic policy development, and increased market confidence.

1.1 The Capital Improvement Planning Process and the Capital Budget

The capital budget represents the first year of the Capital Improvement Plan. The capital budget is not only a tool for financial planning and control, it is also the most significant instrument to steer city development according to a vision. The primary difference between the capital budget and the CIP is that the former is a legal document which authorises expenditures for specific projects during the ensuing fiscal period. The CIP, on the other hand, includes first year projects as well as future projects, for which financing may not have been secured or legally authorised. The "out-years" of the CIP are not binding and are therefore subject to change.

1.2 Methodology for preparing the report

The methodology used in preparing the report includes:
    (1) A literature search for relevant material which outlines the status of and methodologies used by municipalities;
    (2) Identification of success factors and barriers to implementation of Capital Improvement Planning
    (3) Incorporation of study findings / case studies into a model / methodology for Capital Improvement Planning in urban local bodies in Andhra Pradesh.

2. Evolution of Capital Improvement Planning

Although the conceptual framework of a capital improvement plan[2] had not undergone major change during the years, there are *six discernible stages* in which its various aspects had come to be reviewed as integral parts of the overall debate of the applicability of the system to governments.

The first stage is the depression years. The then prevailing public philosophy did not favour public borrowing for financing government outlays except during national emergencies such as wars. Sweden was the first country to introduce a capital budget which was to be funded by public borrowing to be used primarily to finance the creation of durable and self-financing assets that would also contribute to expanded net worth equivalent to the amount of borrowing. The capital improvement plan/capital investment plan so launched, found application, in the following years, in other Nordic countries.

The second stage reflects a background that provided an impetus for the application of capital budgets to government transactions. During the thirties, the colonial government of India introduced a capital budget, more to reduce a revenue deficit by shifting some items of expenditures from a current to a capital budget as it was believed that a burgeoning budget deficit did not reflect well on the creditworthiness of the government and the introduction of a dual budget-system would provide an approach that would reduce revenue or current account deficits while providing a rationale for borrowing.

The third stage refers to the growing importance attached to capital budgets as a vehicle of development plans. The countries that were becoming independent since the late forties recognised that the inherited budget system did not properly serve their needs of development. Influenced by the Soviet model of central planning, many developing countries formulated massive five-year plans and capital budgets/development budgets were conceived to be the primary vehicle of economic development.

The fourth stage reflects the growing influence of economists on the more efficient and rational allocation of resources in government and the use of quantitative appraisal techniques, which hitherto were applied to multipurpose river valley projects. During the sixties these techniques established a trend for a more rigorous application of investment appraisal and led to detailed financial planning.

During *the fifth stage, i.e.,* in the early seventies, Sweden found that excessive focus on capital budgets would need to be tempered by a recognition that the overall credibility and creditworthiness of government depended more on the macro-economic policy and less on the net worth of government. While the application of capital budgets for quasi-commercial transactions was necessary, it was not the main basis for the borrowing programme. By the

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[2] It may be noted that most of the available literature, which any way is limited, excludes any discussion of capital plan implementation

late eighties, there was recognition that the management of government finances required radical approaches like the application of accrual accounting.

During this *sixth stage*, followed partly by the experience of Australia, New Zealand, and USA, there was a renewed plea for the introduction of accrual budgeting and accounting. For proper asset maintenance (which was as important as asset creation) there was need for division of outlays into current and capital as a part of day-to-day budget management.

3. Capital Improvement Planning Process

The key elements of effective Capital Improvement Plan are:
   (i)   Defined service levels and performance standards linked to strategic objectives;
   (ii)   Optimal investment; and
   (iii)   A long-term (life-cycle) approach.

Capital Planning activities typically include:

- Consultation with stakeholders and definition of strategic goals;
- Ongoing review of service levels and performance standards;
- Planning for future infrastructure requirements and reviewing the adequacy of current infrastructure, based on growth projections and service levels;
- Continually assessing and reviewing capital improvement options to ensure that optimal operations, maintenance, renewal, acquisition, and disposal decisions are made, taking into account both social and economic objectives;
- Accounting for capital investment in such a way that the true cost of services provided can be calculated, and future investment needs required to maintain the 'service potential' of infrastructures can be determined; and
- Auditing capital investment performance (the practices, procedures, and systems used to make asset management decisions) and continuously monitoring and improving these processes to ensure improvement.

Although capital improvement plans are prepared normally for five years, the size of the municipality's capital investment programme and the typical length of time required to complete investment projects may suggest a plan of seven to ten years. The process consists of **five distinct steps or stages**:

- Inventory of capital assets;
- Development of investment plan;
- Programming investment priorities over time;
- Development of the financing plan; and
- Development of the capital budget.

Step 1: Inventory of Capital Assets

The first step involved in preparation of a Capital Improvement Plan is Inventory of Capital Assets. Although responsibilities vary greatly throughout the world, the most important capital infrastructure assets for which municipalities are responsible are:

- Water and sewer lines and treatment plants;
- Urban road network;
- Storm drainage systems;
- Sanitary landfills or other solid-waste disposal sites;
- Public buildings, sports facilities, educational and social programme facilities, markets and so forth.

Several key characteristics of these facilities should guide the municipality's planning process in determining what types and levels of capital investments will be needed in future years. The first characteristic is the quantitative and qualitative aspects of the level of service; what level of service is provided by the existing infrastructure network, i.e., whether the water system provides direct, household connections to the urban population, whether the roads are kutcha or pucca or whether storm drainage systems may consists of several hundred kilometres of open canals or drainage ditches.

Without regard to the current age and need for reconstruction of some roads, for example, a municipality may consider a capital investment project in urban roads to reduce the number of kilometres of natural surface roads from 250 to 150 by asphalt or concrete paving of 25 kilometres and grading and gravelling of 75 kilometers. Without extending the existing road network, the municipality would be upgrading the quality of the current level of service with possible benefits of reduced fuel consumption, reduced travel time, and increased property values (residential and commercial) along the upgraded roads. In addition, this same municipality might consider, as part of the same capital project or as part of a future, extending the urban road network to recently developed formal or informal settlements which are served presently only by footpaths. Such capital project decisions focus on the current level of service provided by a network and the quality of the service.

Not all capital project decisions involve adding to the level of coverage. If a municipality not only has systematic records of the coverage provided by various infrastructure facilities but also has adequate records of their age (date of construction) and current condition, the capital planning process can also consider the need for replacement or major reconstruction of existing facilities. For example, the percentage cover by direct connection and standpipes illustrated above may not reflect the fact that several sections of the water systems are served by pipes that are more than 50 years old and that may be causing large quantities of water loss and absorbing most of the time for regular water system maintenance crews. Thus, to consider potential capital investments adequately, a municipality also needs to have information on the possible need for replacing existing facilities.

A systematic process for capital investment planning thus should be built around a base of relatively simple information that gives indications of the need for new or replacement infrastructure. Such an information base takes the form of an inventory of all existing infrastructure that specifies:

- Size or quantity (size of building, length of road, and so forth);
- Age (date of construction or last reconstruction);
- Coverage (number of market stalls, percentage of population, etc.); and
- Current condition (could be expert judgment such as "needs replacement within five years", based on good record keeping about the use of maintenance personnel, one could use the percentage of repair crew's annual time required by one section of a road, waterline, and so forth).

From this inventory, the municipality can then examine the areas of greatest need with respect to existing infrastructure programmes and add potential capital investments to those suggested by the need to provide new services for economic development or social reasons.

Most municipalities in India do not have adequate records of the date of construction, cost of construction, and current condition of existing infrastructure, nor do most municipalities have a programme for regularly examining the quality and the level of service provided by such facilities.

- Knowledge of machinery/equipment owned by the municipality if not readily available can be obtained from:
  Machinery and equipment listed on insurance policies, or in fixed asset inventory records, or from inventory listings prepared by a highway or public works department head. Additional information needed can be acquired from the appropriate department head.
- Knowledge about the remaining life of the asset:
  The operators, maintenance crew and department head of the machinery and equipment likely have a handle on how much longer the equipment will last and how much it will cost to maintain the equipment. Other sources to determine the remaining life of the equipment could be: the manufacturer's specifications; industry standards (where available); or neighboring municipalities may have some experience with the types of machinery and equipment the municipality uses.
- Cost to replace the machinery and equipment:
  This information can be easily obtained by soliciting a couple of estimates from vendors, contacting neighbouring municipalities or researching state and county contracts.
- Assembling the information in an easy to use format is not difficult. Mapping the information in a table can provide a clear picture of current obligations to meet future needs.

Step 2: Development of Investment Plan

Decisions to undertake capital investment are stimulated by six major considerations:

o The degree of urgency of the project, i.e., the need to reconstruct or replace existing facilities in order to maintain existing levels and quality of service;
o The need to upgrade or add to existing facilities in order to improve either the quality of service or coverage;
o The need to undertake new programmes or new services beyond the range of current municipal services, for economic and social reasons;
o Benefits derived form the project;
o Cost and financial impact of the project; and
o Acceptability to the local government

The first step in the development of the capital investment plan, therefore, is to establish goals for the level and quality of service, in terms of measures or indicators such as "extend water coverage to 100% of the urban population by 1995 with 80% direct connections and 20% standpipe or alternative community services."

From the inventory of existing capital facilities, the planning process thus begins with a comparison of service goals and the extent to which those are presently met. The output of this stage is a list of capital projects required to meet service goals, with at least a rough priority listing of when those projects should be started and completed in order to achieve the specified goals.

Step 3: Programming Investment Priorities over Time

The third stage in the capital investment planning process is to programme the investments required to meet the priority schedule established in the previous stage. This stage requires additional detailed engineering and cost estimation activities, sufficient to establish the approximate costs, and the approximate feasible completion dates for the projects listed in the priority schedule.

While the output of the preceding stage is a list of capital projects, the projects would be more in the nature of broad investment programmes rather than specific projects. That is, for urban roads, the list of projects might include repaving numerous segments of commercial district streets, adding 50 kilometres of new roads to the urban road network over a five year period, and upgrading 75 kilometres of natural surface roads over a three-year period. These broad investment programmes then would have to be subdivided into actual projects that would be designed, financed, and managed as individual projects or as components of a single investment programme for which international financing could be sought.

The next step consists of carrying out studies to establish the technical feasibility of the project and to develop sufficient engineering information on which to base cost calculation. These studies are part of the normal process of defining the scope of an investment project, establishing preliminary engineering designs, and developing preliminary cost estimates. At this stage, fully detailed engineering designs and cost estimates are not useful, because it is not clear how many of the projects might feasibly be undertaken with the next five year planning horizon.

Based on the preliminary cost estimates and the time schedule established by the technical studies, the initial priority list must be revised to establish a preliminary five-year investment plan. This five-year plan establishes the time schedule and costs for all capital investment projects under consideration by the municipality for the next five year period, including an estimate of the annual costs in each of the five years for each of the projects. For those that will not be completed during the five-year planning period, the plan should also include the total additional costs to complete these projects beyond the five-years.

Step 4: Development of the Financing Plan

Although some general financial evaluation may have been made during the third stage so as to preclude the development of a five-year investment plan that is completely beyond the municipality's financial capacity, the fourth stage of the capital investment planning process consists of conducting a detailed financial analysis of the municipalities capacity to undertake the investment programme. Several financial alternatives are considered at this stage:

- Cost recovery elements for individual projects;
- Availability of cost sharing by central or regional levels of government;
- Possibilities for improving the revenue generated by existing, general municipal sources;
- Possibilities for new, general municipal revenue sources; and
- Availability of credit and the possible terms of credit.

Many capital infrastructure projects have the possibility of directly generating revenues to cover either all or part of the investment. For example, extensions to or improvements in the water systems may be recovered through the application of additional fees, or the fee structure may include already explicit provision for the generation of capital investment revenues. If the beneficiaries of the investments include property owners whose property values are enhanced, betterment revenues can be employed to capture some of that value to pay for the

investment. Since the total programme of investments identified as a priority in the five-year programme is likely to exceed any municipality's ability to pay these out of general revenues, every self-sustaining cost recovery option should be explored at this stage.

Under some circumstances partial funding by a regional or central government agency is possible. Urban road networks, for example, include roads that are the urban portion of a national highway or are the endpoints of major connectors between metropolitan areas and rural service centres. Partial funding may be economically justified and may be available from central government to pay for a portion of cost that is attributable to a national or regional economic development investment.

Both existing general municipal revenue sources and possibly new revenue sources also should be examined. Analysis of the collection of efficiency of existing revenues, the extent to which late payments are prosecuted, the adequacy of records system for keeping track of tax-payer obligations, all should be considered to determine the extent to which present revenue sources can be improved. In addition, if there is revenue sources permitted to the municipality which presently is unused, these should be considered for possible input to the financing plan.

Finally, the availability of the credit programmes from a variety of internal and external sources must also be taken into account. Only a very small set of investments can normally be carried out by paying for the full annual costs of the investments out of current revenue sources. To undertake any extensive programme of capital investments will require, under most circumstances, borrowing to spread the costs over a longer period of time. The output of this fourth stage of the capital investment planning process is a general financing plan that shows the programme of capital investments and the mechanisms for paying for these investments over the five year period. It is likely that some reconsideration of priorities will have to take place and a revised capital investment plan developed after considering the full financing implications and the availability of financial alternatives.

Step 5: Development of the Capital Budget

The fifth and final stage of the capital-investment planning process is the development of the actual capital budget. The capital budget can be divided into a three-part budget:

- o The projects portion should show all annual construction costs, designs costs, interest costs, and any other costs attributed to each investment project, regardless of the actual financing mechanisms and the time in which payments will actually be made;
- o A second part of the capital budget, the annual capital costs, should show only the actual financial outlay for direct payments for construction and/or principal repayment on credit financed projects; this would include all financial outlays from those projects that are part of previous planning cycles (even from those which the 5-year planning horizon has been passed); an alternative has to include only a summary line for the total amortization for previous credit-financed projects rather than a project-by-project statement.
- o A third portion of the capital budget, *current account transfers,* should show separate statements of costs to be transferred to the current, operating budget; these would include: design costs, future operation, and maintenance costs, and interest and fees on credit.

The decisions to include interest and fees as a transfer to the current account or as a capital cost depend on the accounting approach followed. Some systems include both interest and principal as capital costs in a consolidated budget statement, whereas other systems consider interest a current cost, and principal a capital cost. Here preference is expressed for carrying interest into the current operating budget as a current, rather than a capital cost. The rationale

for this is that only the principle represents the actual investment cost whereas interest payments are the costs incurred for selecting a particular method of financing. In that sense, overall budget management strategies are treated as subject to annual review in which choices may be made to allocate more or less of the current budget to either direct payment of investment costs, hence incurring no interest cost, or to interest payments in order to increase the short-run availability of capital for investment.

With the three-part capital budget, one thus has the information necessary to understand the full cost implications of each project (projects), the annual (financial) value of the investment or capital being spent (annual capital costs), and the current budget of each implications of each project (current account transfers). The first provides a picture of the costs of the investment decisions taken through the planning process. The second provides a book statement of the purchase price of the investments that is also total to be depreciated if the municipal accounting system provides for the depreciation of capital assets. The third provides a picture of the impact of capital investments on present and current further budget operations.

Current Budget Implications

The *current account transfers* portion of the capital budget shows the amount to be transferred to appropriate line items or departmental accounts in the current budget. Thus, in the current budget and in the current portion of a consolidated current and capital budget, interest and fee payments would be reflected in a separate line item account which would contribute to total current expenditures. In addition, for each municipal department responsible for operation and maintenance of capital infrastructure, the necessity of additional current and future expenditures to operate and maintain new capital facilities would be identified so that decisions on whether to increase specific departmental budgets could be made. It is also likely, however, that some capital investments will actually reduce current budget requirements for operation and maintenance.

It must be reiterated that the public needs to participate actively in all stages.

Public Participation – the case of Alandur Municipality

The Alandur (a selection grade municipality in Tamil Nadu) sewerage project is a unique case of public participation in financing of the project. Unlike water supply where advantages of a safe water delivery system are well known, in case of sewerage most people are usually unaware of the impact of unhealthy sanitary conditions. Hence convincing the residents of Alandur to pay sewer connection and maintenance charges was no mean task. The fact that residents of neighbouring Chennai were not being charged for the use of sewers, made the task of mobilising public funds for ASP even more daunting. The process used by Alandur Municipality is as follows:
1. Discussions of weekdays with resident's welfare associations.
2. Campaign to explain the benefits of the underground sewerage scheme.
3. A willingness to pay (WTP) survey was undertaken in 1997 in order to access the affordability and willingness to pay by the residents of Alandur.
4. In order to facilitate the collection procedure, the municipality has opened collection centers at different locations keeping in view the convenience of the residents.
5. Monthly meetings were convened by officials of the Alandur Municipality.

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4. CIP Linkages

The Comprehensive Capital Project Planning process has three essential components:

- The Comprehensive Plan (Long-term Element – 20-25 years);
- The Capital Improvement Plan (Mid-term Element – 5-7 Years);
- The Capital Budget (Short-term Element – 1 year).

The Comprehensive Plan is a component of the planning process, or a generalised model of the future which expresses policy directions for a 20-25 year period. The CIP and the Comprehensive Plan are mutually supportive; the Plan identifies those areas suitable for development and the public investment they will require. The CIP translates these requirements into capital projects designed to support the goals and policies of the Comprehensive Plan. This ensures that necessary public facilities are planned in a concurrent time frame with private development. By providing a realistic schedule for the provision of facilities, orderly development in the best interest of the citizens can be achieved.

Many projects recommended for implementation in the Plan are not included in the five-year CIP period, but may be incorporated into the CIP as existing needs are met and additional growth occurs. The extent to which growth does or does not occur in a given area will influence both the timing and scope of capital projects. While it is a desired goal to minimise public facility deficiencies, it is equally desirable that only those projects with an identified need will be constructed.

The Annual Capital Budget serves to appropriate funds for specific facilities, equipment, and improvements. The first year included in the CIP reflects the approved annual capital budget funding levels. Projects slated for subsequent years in the programme are approved on a planning basis only and do not receive ultimate expenditure authority until they are eventually incorporated into the annual Capital Budget. The CIP is a "rolling" process and subsequent year items in the CIP are evaluated annually and advanced each fiscal year.
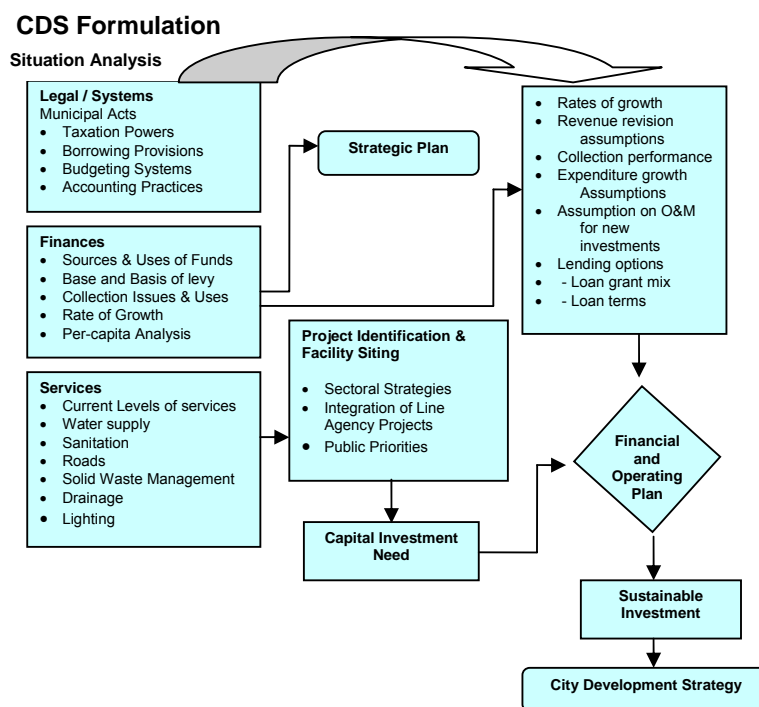
5. Funding Options

The following is a selected list of funding options for the CIP. Other funding options also exist. Not every funding option is utilised in a particular CIP.

Pay-as-you-go Financing

This method involves paying for projects with cash on hand. The money can be derived from specific tax levies dedicated to capital improvements, surplus revenues after operating and debt service requirements are met, grants, or unreserved fund balances. The advantage of this method is that there will be savings in interest and other issuance costs. This method of financing also protects the limited borrowing capacity of the Government and maintains the capacity to issue debt in future years. It also has the effect of enhancing the perception of credit quality amongst investors and rating agencies. Of course, if the project is large and requires more funds than are available from operating revenues, alternative funding sources must be considered. Reducing operating expenditures will provide for more pay-as-you-go funding for the capital programme. This type of funding is popular in developed countries like the United States.

Debt Financing

Long-term bonds are an important source of funding for the capital programme. After taking into account the amount of pay-as-you-go funding that is available and the amount of Central Grant funds that may be available, debt financing should be considered as the next source of financing. This source of financing should only be considered when the Government has brought the General Fund into structural balance. In some countries General Obligation Bonds are also issued. The Ahmedabad Municipal Corporation also issued Tax Free Bonds to mobilise Rs.108 crores in March 2002 (2nd Issue).

Lease-Purchase Agreements

Another form of financing that the Government should consider for equipment and facilities are lease-purchase agreements. Municipalities commonly use lease-purchase agreements to procure capital equipment or facilities. Under this arrangement, the Government enters into an agreement with a vendor or financial institution to lease an asset over a certain number of years. At the end of the lease period, the Government has the option to purchase the asset.

Impact Fees

To fund capital improvements associated with a new development, the Government should consider negotiating fees to be paid by the developers. Impact fees would be assessed on a one-time basis to pay for infrastructure costs associated with new developments. The fees would be tied to a standard measure, such as square footage, number of bedrooms per unit, or some other measure. Municipal Corporation of Hyderabad has levied impact fees at Rs.25 per square foot to be utilised for CIP/Decongestion Plan.

Community Development Grants

Community Development Grants are also used very often to fund capital projects.

Privatisation

Privatisation option is a major thrust nowadays and depends on 'packaging of projects'. The Delhi Jal Board (Delhi Water Board) has awarded the water treatment plant with 10 year O & M contract to the private sector in 2001.

6. Case Studies

This section outlines some examples of selected case studies of best practice both international and national that provides a useful basis for analysis and review.

6.1 Chesterfield County, Virginia

Chesterfield, in accordance with its County Charter, prepares a five year Capital Improvement Plan, which is revised annually. Preparation of the CIP is an interactive process that takes approximately six to eight months and includes projects in excess of $ 100,000. Additionally, the County continues to benefit, both economically and financially, from a credit rating of AAA (highest possible) from each of the three major bond ratings agencies.

Funding Options for the Recommended CIP

Reserve for Capital Projects	Funds reserved from County operating revenues for capital projects.
General Obligation Bonds	Payments from the proceeds of the sale of General Obligation Bonds must, in most cases, be approved by a general referendum of voters of the County, and they pledge the full faith and credit of the County for their repayment.
Revenue Fund	Payments from the proceeds of sale of revenue bonds.
State	Funds and payments received from the Commonwealth of Virginia.
Federal	Funds contributed by developers for infrastructure or construction of improvements.
Cash Proffers	Funds negotiated at the time of rezoning to help defray the capital costs associated with development.
Other Localities	Funds received from other localities to assist in project construction.
Community Development Grant	Federal funds provided to a locality to be spent on projects that benefit low and moderate income areas.

Financial Management Policies

The guidelines listed below are prudent financial management policies used to guide debt issuance and operations:

- The County does not intend to issue tax or revenue anticipation notes to fund governmental operations.
- The County does not intend to issue Bond Anticipation Notes (BANS) for a period of longer than two years.
- The County does not intend to establish a trend of using General Fund equity (Undesignated Fund Balance) to finance current operations. The County's General Fund equity balance has been built over the years to provide the County with sufficient working capital to enable it to finance unforeseen emergencies without borrowing.
- Each year the county will prepare and adopt a five-year CIP.
- In order to improve financial planning and decisions, the county will annually prepare a three-year projection of General Fund revenues and expenditures. The projections

will assume that the percentage of capital improvements financed with current revenues is maintained at the County's goal of approximately 20%.

- The County is committed to funding a significant portion of capital improvements with current revenues and now funds at least 20% of general government improvement projects and 10% of school projects with current revenue.

6.2 City of Scottsdale, Arizona

In Scottsdale, a five-year Capital Improvement Plan (CIP) is developed and updated annually, including anticipated funding sources. Capital budget appropriations lapse at the end of the fiscal year; however, they are re-budgeted until the project is complete and capitalised. As capital improvement projects are completed, the operation of these facilities is funded in the Operating Budget. The operating budget authorises and provides the basis for control of operating expenditures for both internal and citizen services, including operating and maintaining new capital facilities. Operating budget appropriations lapse at the end of the fiscal year.

The following guidelines determine what a CIP project is:
- Relatively high monetary value (at least $25,000);
- Long life (at least five years);
- Results in creation of a fixed asset, or the revitalisation of a fixed asset.

The City of Scottsdale uses a cross-departmental CIP Coordination Team that consists of approximately 20 individuals from all programmes and professional disciplines to review project submissions and ensure that

- Infrastructure components are coordinated (a waterline is installed at the same time as a roadway improvement at a specific location);
- Long-term operating impacts are included in estimates (staffing, utility and maintenance costs are considered);
- Timeframes for construction activity and cash flow requirements are realistic;
- Projects are coordinated geographically (i.e., not more than one north/south major thoroughfare is restricted at a time); and
- Project costs are reviewed to determine the adequacy of the budget and appropriate funding sources.

The Prioritisation Criteria used in Scottsdale is guided by the following:

- Capital Costs, i.e., the annual total costs, including future year capital costs, whether the proposed project will reduce future capital costs;
- Annual Costs, i.e., the expected change in operation and maintenance costs, changes in revenues that 0may be affected by a project;
- Health and Safety Effects, i.e., health related environmental impacts;
- Community and Citizen Benefits, i.e., economic impacts such as property values, the future tax base, added jobs, income to citizens, changes in business income, and the stabilisation (or revitalization) of neighbourhoods;
- Environmental, aesthetic, and social effects;
- Feasibility of implementation;
- Distributional Effects, i.e., estimates of the number and type of persons likely to be affected by the project and nature of the impact;
- Public perception of need of the project;
- Implication deferring the project;`
- Uncertainty of Information Supplied, i.e., the amount of uncertainty and risk;
- Effect on inter-jurisdictional relationships that could impair the proposal; and
- City Council Broad Goals.

Funding Sources

The Capital Improvement Plan uses funding from the 2000 voter-approved bonds, as well as any remaining funds from the 1989 and 1992 voter-approved bonds, and Preservation General Obligation Bonds. These General Obligation bonds, together with Municipal Property Corporation bonds, provide the bond-funded portion of the plan, which is approximately 48% of the CIP. Approximately 52% of Scottsdale's CIP is funded with pay-as-you-go revenues which include development fees, dedicated sales tax revenues and contributions from fund balance transfers.

6.3 Ahmedabad Municipal Corporation (AMC)

In the mid 1990s, AMC began instituting significant fiscal and management reforms, including improving tax collection, computerising the accounting system, strengthening AMC's work force and financial management, and developing a comprehensive capital improvement programme. These reforms laid the necessary groundwork for AMC to issue the first municipal bond issued in India without a state guarantee.

Before 1993, AMC was a loss-making urban local body with accumulated cash losses of Rs. 350 million (US $9.2 million). During a deteriorating financial situation in 1994, AMC launched a major effort to strengthen its capacity to develop commercially viable projects. As a result, AMC was able to turn around its financial position and achieve a closing cash surplus of Rs.2,142 million (US $50 million) in March 1999.

The main component for the financial turnaround of the Corporation and other development initiatives and administrative reforms was the restructuring of the Corporation and the upgradation of its workforce, and improving revenue collection, accounting and financial management systems and introduction of CIP.

In 1996, AMC prepared a five-year capital investment plan for investing Rs 5,973 million (US $150 million) for water supply, sewerage, roads, bridges and solid waste management projects and allocated Rs. 4,393 million ($US 110 million) for the water supply and sewerage component. It proposed to meet 30% of the total investment requirement from internal sources of financing while mobilizing the remaining amount through municipal bonds and loans from financial institutions. The project was structured within an urban financial framework that was predicated on receipt of significant transfers from general revenues such as octroi and property taxes.

6.4 Tirupur Municipality, Tamil Nadu

City of Tirupur ensures enhancing the standard of living of its urban poor by providing economic and employment generation activities through community development, improving the living conditions of 17554 households below the poverty line, continuous implementing and monitoring urban poverty alleviation programs. The scheduling or phasing of the plans is based on assessment of fiscal resources availability (for new investments and O&M), technical capacity for construction and O&M, and the choice of specific capital improvements planned for the future five years.

As part of the CIP, the Tirupur Municipality has
- Analysed the existing applicable norms and standards for
- Discussed, agreed the public priorities and expectations and recommended a reasonable / realistic options and

The municipality plans to raise resources through
- Funds devolved by the GoTN based on the recommendations of the State Finance Commission

- Revision of Annual Ratable Value at certain levels
- Revision of water and sewerage charges at specific intervals
- Transfer of water and sewerage tax to the respective account heads and

Underlying the major assumptions are growths in property tax assessments, growth in other taxes and miscellaneous income, as well as changes in the main expenditure heads have been made, including general administration, establishment, O&M, debt service, etc. The phasing and scheduling of investments have been carried out through an iterative process and the principles of phasing have taken into account:

- Priority needs with developed areas getting priority over future development areas
- Inter and Intra service linkages, like water supply investments shall be complemented by   corresponding sewerage/ sanitation improvements
- Size and duration of the requirements, including preparation and implementation period,
- Project linked implications such as installing house connections where supply and distribution capacities have been increased.

The capital improvements program was phased into the following stages.

- Project Identification
- Project Screening & Prioritization
- Estimation of Capital Investments & Project Phasing
- Formulation of Operational Action Plan

Funding Sources

It is assumed that TNUIFSL will finance the loan component, hence the terms of financing are of TNUIFSL i.e., at a interest rate of 16 % per annum repayable in 15 years with a moratorium of one year. While generating the Financial Operating Plan it is assumed that the surplus available from the revenue account will be used for funding the own source commitment.

6.5 Municipal Corporation of Hyderabad:

A massive Capital Improvement Plan (CIP) – in the framework of 20 – Year Perspective Plan and 5-Year Development Plan was approved by the MCH. The Capital budget for 2001-2002 was Rs.237.50 lakhs – higher by Rs. 175.40 lakhs over the 2000-2001.

The CIP was formulated by linking capital budget to Hyderabad City Development Fund to ensure a sustained flow of funds for essential city building / development / redevelopment activities, which are essential to move the city forward.

The other major components are:

- Emphasis on cost recovery for services
- Preparation of a separate Urban Community Development & Services Budget linked to Hyderabad Urban Community Development & Services Fund.
- Expenditure rationalization and minimization
- Shift to Modified Accrual-based Accounting and upto date auditing of all backlog
- Creation of Salary Reserve and Pension Fund
- Significant measures for municipal personnel and management reforms, including regular training of senior officers through a Centre for City Management in collaboration with the City Managers' Association of Andhra Pradesh development of performance indicators at all levels and a performance monitoring system.

It is worth noting that the Municipal Corporation of Hyderabad has adopted a policy that aims at the following long range goal of distribution of budgetary resources: salaries and

employee benefits 20%, maintenance works 30% and capital projects 50% This has called for a need to separate the Revenue from Capital accounts.

It is hoped that this will be a watershed in the transition of Hyderabad to a model city and will build strong foundations in the direction of moving the city to achieve the goals set under Andhra Pradesh Vision 2020.

7. Principles of sound Capital Improvement Planning that can be adopted in Andhra Pradesh

7.1 Legal Basis

The Andhra Pradesh Municipalities (Preparation of Budget, Allotment and Transfer of Funds) Rules, 1967 *[G.O. Ms. No 619, Municipal Administration, dated 7th October, 1967]* in exercise of the powers conferred by Clause (i) of sub-section (2) of Section 326 of the A.P. Municipalities Act, 1965 (Act 6 of 1965), lays down rules relating to Budget allotment and transfer of funds by municipal councils, the same having been previously published at pages 380 to 388 of R.S. to Part I of the Andhra Pradesh Gazette, dated 18th August, 1966, as required under Clauses (a) and (b) of sub-section (1) of Sec. 527 of the said Act.

The Tamil Nadu Government have issued orders in G.O. MS. No.189, MA & WS Department, dated 06-08-1999 to prepare City Corporate Plan in four Corporations (except Chennai and Coimbatore where CCP has already been prepared) and 41 Special Grade (13) and Selection Grade (28) Municipalities except Tiruppur where CCP has already been prepared. The local bodies, which are preparing the city corporate plans, are: Madurai and Trichy Corporations, Kodaikanal, Dindigul, Thanjavur, Kumbakonam, Vellore, Villuppuram and Thiruvannamalai Municipalities.

7.2 The CIP Review Team

A CIP Review team should be responsible for annually reviewing capital project requests and providing recommendations to the Municipality. The team consists of the City Engineer, Town Planning Officer and Revenue Officer along with the Commissioner and the elected representatives - the Chairman and the Vice-Chairman This team should also conduct an in-depth analysis of the impact of the Capital Program on cash flow and bonding requirements, as well as the municipalities ability to finance, process, and design and ultimately maintain projects. The committee should meet regularly throughout the year.

7.3 Principles for CIP

The capital program and budget is the result of an ongoing infrastructure planning process. Infrastructure planning decisions must be made with regard to both existing and new facilities and equipment. The CIP is to be developed using the following Principles of Capital Improvement Planning:

(1)The goals and objectives of the Comprehensive Plan, specifically the Land Use Plan and the Policy Plan, are the basis for capital planning.

(2)The Planning Commission/ Local Government shall review and recommend annually the Capital Improvement Program based on the adopted Comprehensive Plan for the consideration of the governing body.

(3) Public participation

(4) Criteria consistent with the Comprehensive Plan and with the principles stated in the action plan shall be established to guide the selection and prioritization of CIP projects.

(5) The development of the CIP shall be guided by the principles of life cycle planning to ensure that long-term maintenance, renewal and replacement requirements are adequately addressed to protect the investment and maximize the useful life of facilities. The Urban Local Body shall allocate an appropriate amount of its general operating, special revenue,

enterprise, and other funds to finance ongoing infrastructure maintenance, renewal and replacement of facilities.

(6) The CIP shall include the fiscal impact of each project and identify unfunded capital requirements to adequately anticipate resource requirements and capacity to provide services beyond the planning period.

(7) The CIP shall support the County's efforts to promote economic vitality and high quality of life.

(8) The CIP should recognize the revenue generating and /or cost avoiding value of making public infrastructure improvements to spur private reinvestment and revitalization in support of County land use policy.

(9) The CIP shall be developed to provide facilities that are cost effective, consistent with appropriate best practice standards and expectations of useful life.

(10) The Municipality will endeavor to execute the projects as approved and scheduled in the CIP. Value engineering principles will continue to be applied to appropriate capital projects. Changes in project scope cost and scheduling will be subject to close scrutiny.

(11) The CIP shall be guided by Principles of Sound Financial Management.

Essential Facets of Effective Capital Improvements Plan:

1. Each department views it its facilities needs as top priority. Hard boiled decisions about relative needs are an administrative responsibility that should be shirked or passed on to people less able to evaluate them.
2. The need to prioritize between various works – the course of action to be taken may vary from the time the decision was taken to now when the work can actually be taken up.
3. Some capital projects are not properly designed, with the tax burden applied to a group larger or smaller than the beneficiaries .In some cases the traditional agency purveying a service may be unduly burdening a too-limited tax base, compared with the benefits derived
4. Assessing costs directly against the specific geographic areas benefited by sewers, streets, storm drains or parks may be fairer than whole community financing. If different areas benefit to varying degrees, cooperation between agencies may not equalize costs but also open new avenues of financing under joint agreements.
5. Projects subject to stage construction like treatment plants, are ideal for pay-as-you-go facilities

7.4 Criteria for Recommending Capital Projects

The following criteria shall be applied to future capital projects in order to establish a relative priority for beginning and completing projects. These criteria are intended to guide decision making and may be adjusted as necessary.

All capital projects must support the goals established by the adopted Comprehensive Plan and conform to specified standards mentioned in the Plan. Other County or best practice standards may be cited so long as they are not in conflict with the Comprehensive Plan or Board directives.

All capital projects will be categorized based on priority and recommended for appropriate funding sources (i.e., general funds, bonds, special revenue funds, and other funds) according to their criticality or other standards as recommended by the staff, Planning Commission or other advisory body.

All new projects recommended to be included in the Capital Improvement Plan will be categorised by priority using the criteria listed below. Actual project commencement and completion are subject to identification of resources and annual appropriation by the CIP Review Team.

Immediate: *Projects are in progress or expected to be started within a year.*
Examples of such projects may exhibit the following criteria:

· Eliminate an immediate threat to personal and public safety.
· Alleviate immediate threats to property or the environment.
· Respond to a court order or comply with approved federal or state legislation.

Near Term: *Projects are expected to start within the next 2–3 years.*
Examples of such projects may exhibit the following criteria:

· Have significant Federal or State commitment.
· Preserve existing resources or realize significant return on investment.
· Preserve previous capital investment or restore capital facilities to adequate operating condition.
· Respond to federal or state mandates in compliance with extended implementation schedules.
· Generate significant revenue, are self supporting or generate cost avoidance (return on investment and/or improved efficiency).
· Alleviate existing overcrowded conditions that directly contribute to the deterioration of quality public services.
· Generate private reinvestment and revitalization.

Long Term: *Projects are expected to begin within the next 4–5 years.*
Examples of such projects may exhibit the following criteria:

· Accommodate projected increases in demand for public services and facilities.
· Maintain support for public services identified by citizens or appointed Boards and Commissions as a priority in furtherance of the goals and objectives established by the Comprehensive Plan.
· Meet new program goals or respond to new technology.
· Fulfill long term plans to preserve capital investments.

Future Projects: *Projects that are anticipated, but not scheduled within the five-year planning period.*

In proposing a five year capital plan, the CIP Team considers the feasibility of all proposed capital projects, evaluating their necessity, priority, location, cost and method of financing, availability of federal and state aid and the necessary investment in the County's infrastructure.

A series of meetings are conducted with the CIP Review Team.

Capital Project Evaluation Questions[3]
Project Urgency
· What are the most urgent projects and why?
· Is the project needed to respond to state or federal mandates?
· Will the project improve unsatisfactory environmental, health and safety conditions?
· What will happen if the project is not built?
· Does the project accommodate increases in demand for service?
Project Readiness
· Are project-related research and planning completed?
· Are all approvals, permits or similar requirements ready?
· Have affected citizens received notice and briefings?
· Are the appropriate departments ready to move on the project?
· Is the project compatible with the implementation of the other proposed projects?
Project Phasing
· Can the project be suitably separated into different phases?
· Is the project timing affected because funds are not readily available from outside sources?
· Does the project have a net impact on the operating budget and on which Fiscal Years?
· Does the project preserve previous capital investments or restore a capital facility to adequate operating condition?
Planning Questions
· Is the project consistent with the Comprehensive Plan?
· Does the project increase the efficiency of the service delivery?
· What are the number and types of persons likely to benefit from the project?
· Will any groups be adversely affected by the project?
· what geographic areas do the project serve?
· Are there any operational service changes that could affect the development of project cost estimates?

As capital projects are identified, the above evaluation questions may be used as an assessment tool in concert with the **Criteria for Recommending Future Capital Projects** regarding the immediate, near term, long term or future timing of project implementation.

7.5 Organisation of the CIP
The Capital Improvement Program should have several summary and planning charts contained in the Fiscal Policies and Summary Charts section. In addition, the CIP should include a comprehensive listing of all projects as well as information by functional program area.

Fiscal Policies and Summary Charts
This section should provide a Summary of the Current Capital Program, a Debt Capacity Chart, a history chart depicting the last 20 years of bond referendum (if possible), and a Summary of the Current Program.

Project Lists
Normally, the CIP should include a comprehensive listing of all projects contained in the CIP period and beyond by priority ranking.

Functional Program Areas
Each functional area should contain an introduction including: Program Goals, a plan period funding summary of the program area and a graph depicting the sources of funding supporting the functional area. Within each functional area, separate sections to denote current initiatives and issues, links to the Comprehensive Plan, and specific project descriptions and justification statements.

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[3] Adopted by Fairfax County, Virginia, United States of America

7.6 Suggested Stages for Implementation of CIP in Andhra Pradesh
A standardised process for the implementation of Capital Improvements Projects that can be applied to both major and minor projects involves the following steps:

Initial Planning Stage

Physical Master Plan	Program Analysis	Funding Feasibility Analysis	Environmental Review

Project Identification Stage

Policy, Regulatory & Legal Review Changes	Analyze Trends	Review / Revise Existing Plan / Policy	Citizen Participation

Formulate Goals & Objectives

Project Screening & Prioritization

Prioritize Projects using Ranking Criteria

Estimation of Capital Investments and Project Phasing

Explore Technical Options	Estimate O & M Costs	Identify Funding Needs & Sources	Project Phasing

Detailed Planning Stage

Funding Plan	Draft CIP	Preliminary Design

Feedback & Public Hearings

Construction Documents & Working Drawings	Final Report	Project Report /Plan

Operational Action Plan

Formulation of Action Plan

Approval

Submit CIP to Local Government for Approval

Implementation

Use CIP Locally

For the successful implementation of CIP there is an urgent need to build the capacity of the middle and junior level staff of the urban local bodies in the area of budgeting and accounting. The recommendation of the Office of the Comptroller and Auditor General of India to have separate Capital Receipts and Revenue Receipts heads in Budget Format for all ULBs will lead towards implementation of the scheme. The program can be implemented at first in the corporations, selection grade municipalities and later on in the smaller municipalities.

The plan is a tool used to allocate scarce resources in an efficient manner. Rather than allow capital improvement decisions to be made on an ill-defined, haphazard basis, the **Capital Improvement Plan** and annual capital budget identifies the needs, the prioritization of the various projects, and provides for the funding and an implementation strategy on an annual basis.

Guide to Performance-based Budgeting

– Dr B. Navin

I. Introduction to Performance-based Budgeting

Traditional and Performance-based approaches to budgeting

Traditional or line-item budgeting relates to allocation of funds based on line item costs regardless of the ability to meet the goals. Accountability is for use of inputs. The line-item budgeting involves focus on "inputs" – staff, equipment, supplies, etc. The budget justification is based on increase in line item costs – an incremental approach. There is lack of attention to "results" or "impacts" of programmes or "performance." Managers are encouraged to spend, not to 'economise' or 'innovate'. The accountability criterion involves keeping spending in line with budget. There are detailed controls and rigid appropriation rules.

Performance budgeting, on the other hand, relates to funding linked to expected "results" or "outcomes" – what programmes are able to accomplish. Accountability is for results or performance achieved. Performance budgeting focuses on "results" funding 'outcomes,' rather than 'inputs.' Assessing "results" by measurable indicators, holding managers responsible for performance, giving flexibility to managers to 'manage' and 'innovate', and having a medium-term and long-term view of use of resources are some of the significant features of the performance budgeting system which enhance the performance of the departments.

Performance-based budgeting is beneficial in more than one respect. The policy-makers find it advantageous as the system focuses on goals, clear information is available on usefulness of programmes and evidence-based policy choices can be made. Managers work with well-defined expectations, having flexibility for innovation and performance. People understand the connection between tax money spent and services provided. Performance-based budgeting has emerged as a tool for performance management. It integrates resources and objectives – budget and performance, suggests public managers to focus on economy, efficiency and effectiveness and makes performance measurement an integral part of budgeting.

More about Performance-based Budgeting (PBB)?

As a literal reading of the term suggests, PBB is about formulating schemes, projects and budgets that are driven by a number of desired results which are articulated at the outset of the budgetary process. It involves calculating and proposing resource requirements on the basis of pre-determined results, rather than merely on the basis of scheduled outputs or activities. PBB requires project directors to identify objectives and results that involve certain changes or benefits to end-users and subsequently to measure the extent to which these changes or benefits have actually been brought about; or, to give the precise definition for PBB, it is a project/scheme budget process in which (a) project formulation revolves around a set of pre-defined objectives and expected results, (b) resource requirements are derived from and linked to such expected results, and (c) in which actual performance in achieving results is measured by objective performance indicators.

PBB establishes a top-down, logical framework, using a number of strictly defined concepts, such as expected results, performance indicators and outputs. Its central tool is the annual budget which provides a direct link between expected results and resource requirements. Also crucial to PBB is the measurement of performance in achieving results. Performance measurement shows whether the activities of the government departments actually make a difference.

PBB is not a new budget methodology, but involves significant changes in the budget format by placing more demanding standards on project design and planning. By mapping the expected results in advance and by tracking to what extent these have been actually met, this budget format is also a versatile decision-making tool.

PBB is not a weapon to trim down the organisation and to cut spending. While efficiency is certainly to be expected from feedback on performance, PBB does not necessarily sanction a failure to meet targets with resource cuts. Rather, PBB will focus on the question why performance was below expectancy and enable managers to detect deficiencies. Nor does it expose project directors to disproportionate responsibility by penalising them for sub-projects/schemes that have not met desired results. "Expected results" are not to be understood as irrevocable production targets that one would find in commercial enterprises.

Why Performance-based Budgeting?

The current project planning, budgeting, monitoring and evaluation cycle of governments tracks the number of inputs and outputs, showing whether quantitative targets have been met and - at best - whether projects/schemes have been *efficient* in the use of resources. They do not, however, have sufficiently reliable means to determine the *quality* of services. Neither are they able to tell how *effective* the work of the government departments is or what the impact of departmental activities has been. One of the main answers, therefore, to the question of "why introduce performance-based budgeting?" is to see if the projects/schemes and activities of the government departments really make a difference in the lives of people.

PBB also serves as a strategic planning tool, improving the clarity, and consistency of project designs, facilitating a common understanding and better communication between different departments and staff in general of the desired results of projects.

PBB allows the departments to attain a unified sense of purpose and direction. Moreover, through the measurement of performance in achieving defined results, PBB provides feedback to projects on how well they are doing, and creates a strong incentive for adopting best practices and efficiencies in use of resources, as well as improving the quality of services and other outputs.

PBB has also been proposed as a means to release project directors from overly restrictive input and/or central controls and to accord them more discretion in determining the right mix of resources to meet expected results. In PBB, the increase of the accountability and responsibility of concerned officials (a consequence of holding them responsible for achieving results) is designed to go hand in hand with an amplified authority for managing financial and human resources.

In the first - **preparatory** - stage, establishing objectives, results as well as performance indicators and linking these to resource requirements in one logical framework constitute the basis for the project/scheme budget proposals.

The project directors need to have identified and established sources of information and methods of collecting data to measure the values of performance indicators that have been incorporated in the project budget. This is considered as the start of the second - **measurement** - stage. Where necessary, baseline measures need to be taken at the beginning of the comparison. Throughout this stage, mid-term measurements provide feedback on the usefulness of the performance indicators and the progress of the projects. Moreover, throughout this measurement stage, mechanisms for linking the expected results of the subprojects to those of the relevant departmental units and to the performance assessment of individual staff need to be developed.

In the final - **evaluation** - stage immediately following the collection of data, measurements are used to establish the actual results of the projects and to determine their success and, where necessary, to analyse shortcomings in performance or project design.

II. The PBB Framework

Setting up a logical framework for the project

The setting up of the framework includes defining the objectives, define the expected results, specifying outputs, identifying significant external factors, and determining required resources.

The existing planning, budgeting, monitoring and evaluation process involves establishing links between inputs, activities and outputs. Objectives are defined in the medium-term plan and the project/scheme/department budget, but are not strictly tied in to the budgetary process. Project/scheme/department budgets and evaluation of performance both focus on activities, outputs and the resources that are required to deliver these. As discussed in Part I, such a model is not capable of providing meaningful information about the desired results or the accomplishments of a project in terms of bringing about benefits to end-users or other changes.

A performance-based model links inputs, activities and outputs, as well as expected results and objectives. In order to allow project planning and decision-making that is based on such a performance-based model, PBB uses the logical framework approach which is set out as under:

Step 1: Set up a logical framework

1.1: Describe Vision 2020

1.2: Describe Long-term Perspective Plan – Broad Strategy – comparison with best 5 States

1.3: Define Objectives

Defining the objectives for the department/project/scheme

Project planners are required to start out by defining their objectives. **The objective expresses what the department wishes to accomplish within the specified time period.** In particular, objectives are defined as the expression of an overall desired achievement, involving a process of change and aimed at meeting certain needs of identified end-users or clients. They describe the underlying or overall rationale for implementing a project/scheme by representing a meaningful benefit or change. Officials and planners should therefore begin the formulation of their objective by addressing the following questions: what is the problem we are trying to address? What do we intend to accomplish? Who are the intended end-users/ beneficiaries?

Objectives represent what we want to accomplish, not how we should do it. In other words, objectives are not equivalent to strategies, activities, processes or outputs. Thus, activities such as: to study, to provide support, to advise, to cooperate with etc, are not proper objectives. Rather, objectives should be formulated along the following lines: to reduce/ increase; to change; to make progress towards; to strengthen, etc. (Note that objectives are expressed in the infinitive form of a verb).

1.4: Define Expected Results you desire

Defining the expected results of the project
As the term results-based budgeting suggests, expected results are its core elements. Not only are they the link between the outputs and the objective of a project, they also provide the basis on which performance will be measured. Considerable attention should therefore be given to a proper formulation of results. The formulation of the result should answer the question "**What benefit will accrue to the end-user?"**

Expected results are the desired outcomes of a project, involving benefits to end-users and, after gaining experience in measuring results, should be expressed as a qualitative or quantitative value or rate. For example, an expected result at the initial stage could be "increased funding for the department". But after gaining experience, the expected result could be "increased funding for the organisation by 5%". Results are the direct and often tangible effect or consequence of the delivery of outputs, leading to the fulfillment of a certain objective. Results may relate to knowledge, skills, attitude, behaviour, condition, or status.

1.5: Specify Outputs – fix realistic targets

1.6: Identify significant external factors

1.7: Clarify resources available

> Step 2: Establish correct performance indicators
>
> Step 3: Determine the method of measurement
>
> Step 4: Collect data
>
> Step 5: Measure and monitor results using Online Performance Tracking System (OLPTS)
>
> Step 6: Report and analyse measured results: monthly, quarterly, half-yearly and annually
>
> Step 7: Use findings for performance management and budgeting
> (Involve People and stakeholders in all stages from Village to District to State)

III. Performance Management System: The Case of Andhra Pradesh

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 Figure 1.

Figure 1

Performance Management Model

```
                    ┌─────────────────────────┐
                    │    Planning Process     │
                    │ Development Priorities, │
                    │  Objectives & Budgeting │
                    └─────────────────────────┘

┌──────────┐  ┌──────────────┐    ┌──────────────────┐  ┌──────────┐
│Community │  │ Draw Lessons │    │Select Performance│  │Community │
│Particip- │  └──────────────┘    │    Indicators    │  │Particip- │
│ations    │  ┌──────────────┐    └──────────────────┘  │ation     │
│          │  │    Report    │    ┌──────────────────┐  │          │
│          │  └──────────────┘    │  Set Measurable  │  │          │
│          │  ┌──────────────┐    │     Targets      │  │          │
│          │  │   Improve    │    └──────────────────┘  │          │
│          │  │ Performance  │    ┌──────────────────┐  │          │
└──────────┘  └──────────────┘    │     Monitor      │  └──────────┘
                                  │   Performance    │
              ┌────────────────────────────┐
              │    Review & Measure        │
              │      Performance           │
              └────────────────────────────┘
              ┌────────────────────────────┐
              │        Community           │
              │      Participation         │
              └────────────────────────────┘
```
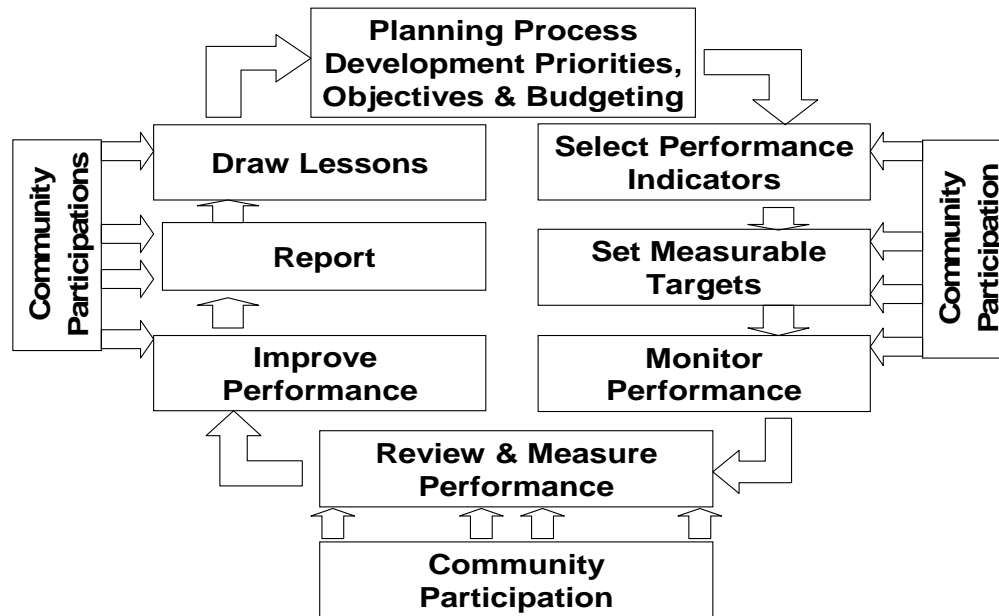
The performance management system links development goals, policies, priorities, plans, programmes, projects, budgets, action plans and performance towards achieving the desired objectives. The system involves performance indicators, performance monitoring, performance measurement, performance-based 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 competed 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.

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

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. The state government has classified government departments into 8 groups depending on the pre-dominant role the government will need to discharge as per Vision 2020. These groups are:

Table 1

Andhra Pradesh: Group-wise Classification of Departments

Group	Group Description	Role of Government
Group I	Economic Development (Primary Sector)	Facilitator of economic growth
Group II	Economic Development (Secondary & Tertiary Sector)	Facilitator of economic growth
Group III	Human Development	Promoter of human development
Group IV	Welfare	Directly undertaking services for the socially backward and needy
Group V	Local and Urban Bodies	Decentralisation and strengthening of local government to enable them to discharge civic obligations
Group VI	Infrastructure Development	Building economic & social infrastructure
Group VII	Revenue Generation	Mobilisation of resources for development
Group VIII	Governance	Provider of general administration, and regulatory services, maintenance of land records and maintenance of law and order

Performance Indicators

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

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.

Through a process of rigorous exercise for about two and half years, which involved the time of the Chief Minister of Andhra Pradesh himself for more than 300 hours, different departments in the Government have been able to map their inputs, outputs and outcomes and arrive at a set of performance indicators divided into core, functional and departmental indicators. The total number of indicators currently adopted by various heads of departments and public sector undertakings in Andhra Pradesh (numbering more than 200) are as follows:

Table 2

Andhra Pradesh: Group-wise Number of Indicators

Group	Group Description	Number of Indicators
Group I	Economic Development (Primary Sector)	93
Group II	Economic Development (Secondary & Tertiary Sector)	115
Group III	Human Development	176
Group IV	Welfare	126
Group V	Local and Urban Bodies	113
Group VI	Infrastructure Development	211
Group VII	Revenue Generation	55
Group VIII	Governance	91
Total		980

Table 3

Andhra Pradesh: Process Indicators

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

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 kevels. 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

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;
- 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

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;

Performance Reviews

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 head 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)

The Centre for Good Governance has developed a unique Online Performance Tracking System (OLPTS). This provides a robust computer package to measures and grade performance and generates 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;
- Support system for different predictive models to track and improve governance.

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.

District Performance Tracking

A District Performance Tracking project has been facilitated by the Centre for Good Governance for Ranga Reddy district by applying the OLPTS to practically all aspects of district functioning. It aims to use e-governance as a strategy for good governance at the district level, information technology as a tool for improving performance and transparency as the hallmark of people-centered administration. The district performance tracking system includes the following features: Login accounts for all the field level functionaries in the district, automatic provision of all forms and reports with due permissions, authorisation and rules in effect, provision to set the organisation structure, enter information on employees, institutions, functionaries and department indicators, etc. The organisational structure can be generated at the district, division, mandal and village levels. The system can generate among others, the following reports:

1. Department-wise cumulative achievement and grading reports
2. Department-wise integrated grading comparison report (best and least achievers)
3. Department-wise indicators cumulative report
4. Department-wise performance grading of functionaries report (A-B-C-D analysis)
5. Department-wise monthly performance variation report
6. Department-wise quarterly performance report
7. Department-wise monthly status on pendency of files
8. Department-wise file disposal report (A-B-C-D analysis)
9. Department-wise reviews, tours and inspections report (A-B-C-D analysis)
10. Department-wise action in important matters (A-B-C-D analysis), etc.

The district performance tracking system aims to further enhance its reach through grading of functionaries and jurisdictions to the last mile, grading of all institutions and self-help groups (SHGs) and developing a time series database on the performance of all employees.

Performance Feedback

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

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

Summing up

Developing a sound performance management system involves the careful designing of several aspects. These include: establishing profile: vision and mission, clarifying and delegating responsibilities, creating internal institutional mechanisms, preparing departments and organisations, facilitating system development, supporting implementation, preparing for management of "change", developing framework for innovation and accountability, assessing current reality, identifying stakeholders and creating structures for stakeholders' participation, developing performance monitoring and evaluation system, including performance indicators-baselines-targets-data collection-data analysis-reporting-publishing and adopting the system, implementing the system: gathering data, monitoring, measuring, reviewing, evaluating, reviewing and improving performance, etc. The process involves many challenges. Countries have taken decades to establish a sound performance management system. The Andhra Pradesh experiment is only two and half years old. It is expected that the system will be perfected in a year or so. To measure is to know. There is no alternative to performance measurement if one is serious about improving performance – whether in private sector or in government. The Government of Andhra Pradesh considers the performance management system as a tool for improving performance. It is focusing on how to use this tool effectively. The virtue of simplicity – "Keep It Simple" – is kept foremost in mind by the policy-makers. Future directions include the improvement of indicators, measurement and grading, and linking quantitative measurements to qualitative assessments. All efforts are to usher in an era of good governance in consonance with Vision 2020 goal of Swarna Andhra Pradesh.

IV. Establishing and Using Performance Indicators

Performance indicators

Performance indicators do not fit into the logical framework in the same way the other project components do - that is, they do not fulfill the cause-and-effect relationship. Nevertheless, they form an integral part of PBB because of their direct link to expected results. Choosing the right performance indicators is one of the more challenging parts of PBB.

Performance indicators are features or characteristics used to measure the progress of the project in reaching its expected results. The measured values of performance indicators tell us if and to what extent the expected results have been achieved. Indicators provide answers to

questions like: **what characteristic or feature, when measured, will indicate that expected results have been achieved?**

A distinction is to be made between the indicator itself - a characteristic - and its *value,* which is to be obtained by measurement. This distinction allows us to elaborate on the definition: a performance indicator is the answer to the question, "what feature - once it has been measured - will indicate that expected results have been achieved?"

Criteria for establishing and selecting performance indicators

For each expected result, indicators should be selected in a manner that they best represent the characteristics or features which, when measured, will show the achievement of the expected results.

Performance indicators must be **measurable** or **observable**: they must reflect characteristics that are concrete. The extent to which indicators can be measurable will, of course, also depend on the formulation of the expected result. (See further below for a discussion of quantitative and qualitative performance indicators)

Indicators must be **relevant, meaningful, valid and verifiable**: they should answer the central question: what will indicate that the programme has achieved its expected result? Performance indicators should provide meaningful information on the actual performance of the programme relative to its expected results and should be able to measure what they claim to measure. They must not allow subjective interpretations: repeated measurement must yield the same results, and mean the same thing to different people.

Last but not least, performance indicators must be designed in a way that allows their measurement to be **cost-effective**. A reliable system for collecting the data required for performance indicators must be developed. This will require the identification of the sources where information will be taken from and the methods of collecting the data. These data collection issues are discussed in step 3. Relevant here is that the costs associated with the method of gathering information should not be outweighed by the relevance of the information that can be obtained. Planners will therefore need to consider the data collection dimension of indicators during the programme design stage before making a final determination about performance indicators.

In many cases, sources of information may have to be identified or even created for the first time and new methods of data collection set up. The additional efforts and costs of collecting material must be weighed against the value of using the performance indicator in question: the efforts involved in measurement may be inhibitive and may require that the indicator be adapted or even rejected. Performance measurement should always be seen in the context of being a tool in providing feedback and as a basis for improving performance and should not result in the establishment of elaborate measurement processes or bureaucracies.

Quantitative and qualitative indicators

Most performance indicators will be expressed in a quantitative way, that is, they will involve amounts, numbers, ratios, percentages, etc. In all these cases, measurement will yield a certain numerical value that will be indicative of the performance of the programme. Such quantitative performance indicators will correspond to the numerical targets usually contained in the expected result. Quantitative performance indicators are therefore fairly straightforward to formulate.

But not all expected results necessarily contain such numerical targets. Difficulties arise when indicators have to be formulated for expected results that relate to concepts such as behaviour, attitudes, knowledge, awareness, etc., in other words, qualitative aspects that cannot simply be

expressed in terms of numbers. The challenge here is to define indicators that can accommodate such abstract or intangible results. Depending on the circumstances of the case, this can be done using indirect indicators for which any of the following methods, or a combination thereof is discussed below.

Qualitative performance indicators

A seemingly straightforward solution is to use a *qualitative* performance indicator. Qualitative indicators cannot be measured by means of numbers, but examine whether a certain situation or feature is present or not. Has the new policy been implemented? Has the institutional capacity to do x been increased? The measurement of such an indicator will yield either a positive or negative answer: the feature is either present or absent, the criterion either met or not. The disadvantage or risk of purely qualitative performance indicators is that they are considerably more prone to subjective interpretation than numbers: whereas one observer may consider that the new policy is in place, another may find that its application is not yet consistent and conclude that implementation has not been completed (this would mean that the indicator is either not sufficiently measurable or not verifiable). Consequently, qualitative indicators should only be used when none of the other methods described below are practical, and the indicator meets all other requirements, such as being measurable, verifiable and meaningful.

Converting qualitative results into quantitative indicators

A very similar approach involves using indicators that are based on *quantifiable* features that one could expect to arise when the result is actually achieved. This can result in the conversion of a qualitative result into *quantitative* indicators.

Measuring efficiency and effectiveness of outputs

In most cases, performance indicators will relate directly and exclusively to actual results. Sometimes, however, expected results can be defined in terms of the efficiency and effectiveness of the project's <u>outputs</u>. A project's expected result could be the increased the effectiveness of its outputs: the extent to which outputs lead to actual results. Both examples could be valid expected results.

In such cases, performance measurement would require the use of composite performance indicators, combining the measurement of two features. *Effectiveness* indicators - measuring the degree to which outputs have affected the actual results - should be formulated as the *ratio of outputs per unit of results*. For example, in a programme aiming to improve the impact of staff training, the performance indicator would be number of staff members utilising new skills in their work" (or simply "number of staff using new skills / number of staff members who have attended training workshops"). *Efficiency* indicators are represented as the *ratio of inputs used per unit of output produced*. Assuming the same programme of the example above would also strive for a more economic use of resources, the indicator would be "efficient use of funds for training courses" (or simply "funds used / number of course given"). However, caution should be exercised in the use of efficiency indicators as some indicators may fail to be meaningful or valid. Using the preceding example, a reduction of funds used may not necessarily indicate efficiency unless one is measuring the reduction of funds for the same training course.

Measuring the quality of outputs

In cases where the expected result of a programme depends on the improvement of the quality of reports, recommendations or other written advice to end-users, measurement of the quality of individual reports could be accomplished against pre-defined quality parameters. The following non-exhaustive list suggests seven quality criteria. Further criteria which are particular to the programme or subject matter could be added. In the list below, all outputs such as recommendations, advice, reports, notes, proposals etc. are collectively referred to as

'report'. Some criteria are, however, more relevant for reports containing specific proposals or policy advice.

1. *Purpose* (is the aim of the report clearly stated and does it answer the questions set or addresses the relevant issues?)
2. *Logic* (are the assumptions behind the report explicit and is the argument logical and supported by facts?)
3. *Accuracy* (are the facts in the report accurate and are all material facts included?)
4. *Options* (is an adequate range of options presented and are the benefits, costs and consequences of each option to the department)
5. *Practicality* (have the problems of implementation, technical feasibility, timing and consistency with other policies/actions been considered?)
6. *Presentation*

Measuring timeliness of outputs

Performance of a programme in achieving an expected result that depends an improvement of the timeliness of output can be measured as follows.

Timeliness can be defined in terms of the response time - the time between the request for the output and the delivery. This may be relevant, for example, in interoffice policy advices. A possible performance indicator could be: "*average response time to provide policy advice*".

These definitions of timeliness can also be incorporated as a component of, or criterion for, the quality of reports and used in the type of measurement described in the preceding section ("measuring the quality of reports").

Methods of collection

The methods of collecting the data from these sources are more limited. Each method has its own advantages and limitations, and each will require a varying level of effort. These aspects are highlighted below. Choosing a proper performance indicator will require an assessment of these factors against the expected result to which the indicator is to be linked.

Desk review

The desk review involves researching (written) material that is already available or easily obtainable. The desk review has the advantage of being cost effective, of not requiring any significant amount of special skills, and of having a response time that is in proportion to the amount of data needed. It is limited, however, in the sense that is focuses exclusively on written material (see the type of documents listed above), that is, it cannot yield more information than obtainable from this material (contrary to the other methods described below, which can be designed or tailored to the requirements of the programme).

The review of records will usually be suitable for performance indicators relating, for example, to economic growth, strengthening of institutional capacity, changes in behaviour and attitudes, the adoption of legislation or policies, compliance with decisions or standards, etc. In principle, this method is less suitable for an assessment of end-user opinions.

Questionnaire/Survey

Questionnaires or surveys can cover a large number of end-users, but only a limited amount of data. Relative disadvantages of questionnaires are a longer response time and an unpredictable response rate. In addition, it is difficult and often impossible to verify the validity of responses. Programmes using questionnaires should also allow for sufficient time for recipients to respond and keep the number of questions to a minimum.

Using questionnaires will generally involve higher costs than desk reviews, but less than interviews. Time and skills are required to develop suitable questions. Attached to the Evaluation Manual, however, are a number of pre-designed surveys. With some modifications tailored to the specific programme and its expected results, these model surveys are ready to be used, saving efforts and costs in setting up new questionnaires.

A questionnaire or similar approach will usually be the appropriate method in connection with expected results relating to end-users' opinion of the usefulness or other feedback on the programme's output. Questionnaires can also be a suitable method (but not the only method) for determining the level of knowledge, awareness, etc., of a target audience.

Regardless of the amount and kind of information sought, the design of a questionnaire will have to meet a number of requirements. A draft action plan for the Government of Andhra Pradesh departments and the related questionnaire formats is enclosed.

Collecting data
Setting up and actually having performance measurement yield meaningful results is one of the demanding aspects of PBB. For many projects/schemes, it may initially be a process of trial and error. It is therefore recommended that "pilot" measurements be undertaken at an early stage. This may give a clearer view of the time required to collect data, the response rate on surveys, etc. Such testing may reveal the need to adjust the collection method or to expand or change the source of information. At worst, initial measurements may indicate that performance indicators that were included in the project budget are unfeasible, too costly to measure, or provide meaningless information. This may be permissible on an exceptional basis if warranted by the particular circumstances. (It is clear, of course, that the expected results which the indicators are supposed to measure cannot be altered without approval by the appropriate legislative bodies).

Information on the performance of projects in achieving is to be presented to the legislative bodies within six months of the end of the period under study. This means that implementing offices should have their measurement facilities operational and yielding information immediately after the close of the specified time period.

Environmental Impact Assessment and Social Impact Assessment: A Methodology for Practitioners

– Srikiran Devara

1   Sustainable Development and Impact Assessment

Sustainable development is an evolving concept. But is definitely a key concept that has gained increasing international acceptance during the last two decades. A key milestone in the process is the 'Brundtland Report' which defines 'sustainable development as the development that meets the needs of today's generation without comprising those of the future generations'. The question of sustainable development has emerged due to overexploitation of resources as well as mismanagement of technology. It is now established that to achieve 'sustainability', all the projects, policies, plans and programmes should go through a comprehensive exercise of determining the effects/impacts of the projects/plans/programs in hand so that the negative impacts might be mitigated and that positive effects can be used more effectively. Literature suggests two main impact analysis mechanisms for an effective forecast viz, Social Impact assessment and Environmental Impact Assessment. The following is a step by step explanation of EIA and SIA developed by compiling information from different sources of reputed standing. This source acts as introductory information for the practitioners to conduct assessments. An important caveat, however, is that the methodology developed in this paper needs to be tested in the field and may require further analysis in the light of the reflections developed in the field.

1.1   What is Environmental Impact Assessment – EIA?

Simply defined, EIA is a tool to identify and evaluate the environmental impacts of proposed actions/projects/plans/programmes. More specifically EIA is one of the crucial *aids* for decision making process as EIA involves not just evaluation of the possible impacts but also mitigation of such impacts. Thus EIA is to ensure better outcomes from planning processes, informed and comprehensive decisions both in terms of environment and economy.

1.1.1   *Stages in Environmental Impact Assessment*

Environmental Impact Assessments are performed following a number of stages with many permutations and combinations. Certain basic steps that are involved in the EIA process are:

1   Public involvement
2   Screening
3   Scoping
4   Impact analysis
5   Mitigation measures and impact management

As a first step it is important to collect all the baseline information on the project area and other relevant baseline information which can be used as a source of comparison during the later stages of the EIA exercise. Especially this information is useful during the impact analysis phase of the process.

1.1.2   *Public Involvement*

Public involvement is a fundamental principle of EIA. This involves taking the views of all the stakeholders - affected and interested public - to ensure decision making process is equitable and fair and leads to a more informed choice that would ultimately lead to better environmental outcomes. The involvement of the public within the decision making process ensures that the all the stakeholders are informed in hand about the proposed actions; identify the concerns of the stakeholders; facilitate the process of mitigation and identification of alternatives. Most often the key stakeholders include individuals, groups and communities who are most likely to be

affected by the proposal; relevant Government agencies; NGOs and interest groups etc. A common rule that is followed is to include any person or group who expresses an interest in the proposal. However, particular attention should be given to those at stake because of the proposed action/proposal.

Bass et al (1995) identifies different ways in which public involvement can be achieved[1]. In principle the steps are separate but for all practical purposes they can be used in combinations. Some of the common steps include:

Dissemination of Information:
Effective dissemination of information to the public is the important precondition for a meaningful public involvement. This is a stage where information about the proposed activity is kept before the public and is intended to inform the public on the different proposals so that they can in turn participate in the decision making process. This is mostly a one way process wherein the agencies just open the proposals in the public domain for any possible feedback and is more to act as a precondition for a meaningful public involvement.

Consultation and Participation:
Consulting is a stage to obtain feedback from the public. It is a stage involving a two way flow of information between the proponent and the public with opportunities for public to express views on the proposals. This is a stage wherein the public raise their concerns, issues that might be relevant but otherwise missed out, provide inputs for the decision making process.

Participation is an interactive process of engaging the public in addressing the issues, establishing the areas of agreement and disagreement and trying to reach common positions. This stage might also include the negotiation stage wherein all the queries, disputes and confrontation areas are solved. This is more of an alternate dispute resolution mechanism based on joint fact finding, consensus building and mutual accommodation of different interests.

A systematic approach to planning a public involvement programme typically involves addressing the following key issues:

Who should be involved? – identify the interested and affected public (stakeholders), noting any major constraints on their involvement

What type and scope of public involvement is appropriate? – ensure this is commensurate with the issues and objectives of EIA

How should the public be involved? – identify the techniques which are appropriate for this purpose

When and where should opportunities for public involvement be provided –establish a plan and schedule in relation to the EIA process and the number, type and distribution of stakeholders

How will the results of public involvement be used in the EIA and decision-making processes? – describe the mechanisms for analyzing and taking account of public inputs and providing feeding back to stakeholders

What resources are necessary or available to implement the public involvement programme? – relate the above considerations to budgetary, time and staff requirements

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[1] Bass S, Dalal-Clayton and Pretty J, "Participation Strategies for Sustainable Development", IIED. London.

Dynamics within the public involvement process: need for specific steps in the specific public involvement processes

Level of participation: 1=Low; 2=Medium; 3=High.

Level of Public Contact Achieved	Ability to Handle Specific Interest	Degree of 2-way Communication	Public Participation/Communication Technique	Inform / Educate	Identity Problems/ Values	Get Ideas/Solve Problems	Feed back	Evaluate	Resolve Conflict/Consensus
2	1	1	Public Hearings		X		X		
2	1	2	Public Meetings	X	X		X		
1	2	3	Informal Small Group Meetings	X	X	X	X	X	X
2	1	2	General Public Information Meetings	X					
1	2	2	Presentations to Community Organization	X	X		X		
1	3	3	Information Coordination Seminars	X			X		
1	2	1	Operating Field Offices		X	X	X	X	
1	3	3	Local Planning Visits		X		X	X	
2	2	1	Information Brochures and Pamphlets	X					
1	3	3	Field Trips and Site Visits	X	X				
3	1	2	Public Displays	X		X	X		
2	1	2	Model Demonstration Projects	X			X	X	X
3	1	1	Material for Mass Media	X					
1	3	2	Response to Public Inquiries	X					
3	1	1	Press Releases Inviting Comments	X			X		
1	3	1	Letter Requests for Comments			X	X		
1	3	3	Workshops		X	X	X	X	X
1	3	3	Advisory Committees		X	X	X	X	
1	3	3	Task Forces		X	X		X	
1	3	3	Employment of Community Residents		X	X			X
1	3	3	Community Interest Advocates			X		X	X
1	3	3	Ombudsman or Representative		X	X	X	X	X
2	3	1	Public Review of Initial Assessment Decision Document	X	X	X	X	X	X

Source: Adopted from EIA Training Resource Manual, Second Edition 2002

1.1.3 *Screening*

Screening is an important step in the EIA process. Screening is done to determine the boundaries of EIA. It is concerned with selecting 'developments' that require assessment and avoiding 'developments' that do not require one. Conduct of screening thus involves making a proposal on the 'developments' in terms of its impact on the environment and of its relative significance. A certain level of basic information about the proposal and its location is required for this purpose. Screening procedures employed can be based on the already existing legal frameworks that emphasize the requirement of an EIA or can be carried on a case by case determining the need for EIA. Where inclusive project lists are used, the disposition of most proposals will be immediately apparent. However, some proposals will be on the borderline in relation to a listed threshold and for others, the environmental impacts may be unclear or uncertain. In these situations, case-by-case screening should be undertaken, applying any indicative guidelines and criteria established for this purpose. This of course provides the authorities greater discretion than mandatory lists in determining the requirement for EIA.

Environmental Screening

Category A:
For projects likely to have significant adverse environmental impacts that are serious (i.e. irreversible, affect venerable ethnic minorities, involve involuntary settlement, or affect cultural heritage sites), diverse or unprecedented, or that affect an area broader than the sites of facilities subject to physical works.
Eg: dams and reservoirs; forest and production projects; irrigation, drainage and flood control; port and harbour projects, river basin projects.

Category B:
For projects likely to have adverse environmental impacts that are less significant than those of Category A projects, meaning that few if any of the impacts are likely to be irreversible, that they are site-specific and that mitigation measures can be designed more readily than for Category A projects. Normally, a limited EIA will be undertaken to identify the suitable mitigation and management measures, and incorporated them into the project.
Eg: Agro-industries; Electrical transmission; renewable energy; tourism.

Category C:
For projects that are likely to have minimal or no adverse environmental impacts. No EIA is required.

Source: World Bank

Following criteria, as developed by UNEP[2], can help in determining the level and the extent to which there is a need for environmental impact assessment. This is just suggestive and needs to be fine tuned to the specific requirements.

Character of the receiving environment
• Is it, or is it likely to be, part of the conservation estate or subject to treaty?
• Is it an existing or potential environmentally significant area?
• Is it vulnerable to major natural or induced hazards?
• Is it a special purpose area?
• Is it an area where human communities are vulnerable?
• Does it involve a renewable or a non-renewable resource?
• Is it a degraded area, subject to significant risk levels, or a potentially contaminated site?

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[2] Based on criteria developed by the Australian and New Zeland Environmental Conservation Council (ANZECC), 1996

Potential impact of proposal
• Will implementation or construction, operation and/or decommissioning of the proposal have the potential to cause significant changes to the receiving environment (on-site or off-site, trans-boundary, short term or long term)?
• Could implementation of the proposal give rise to health impacts or unsafe conditions?
• Will the proposal significantly divert resources to the detriment of other natural and human communities?

Resilience of natural and human environments to cope with change
• Can the receiving environment absorb the level of impact predicted without suffering irreversible change?
• What are the implications of the proposal for bio-diversity?
• Can land uses at and around the site be sustained?
• Can sustainable uses of the site be achieved beyond the life of the proposal?
• Are contingency or emergency plans proposed or in place to deal with accidental events?

Confidence of prediction of impacts
• What level of knowledge do we have on the resilience of a given significant ecosystem?
• Is the proposal sufficiently detailed and understood to enable the impacts to be established?
• Is the level and nature of change to the natural human environment sufficiently understood to allow the impact of the proposal to be predicted and managed?
• Is it practicable to monitor the predicted effects?
• Are present community values on land use and resource use known or likely to change?

Presence of planning, policy framework and other decision-making processes
• Is the proposal consistent with existing policy frameworks?
• Do other approval processes exist to adequately assess and manage proposal impacts?
• What legislation, standard codes or guidelines are available to properly monitor and control operations and the types or quantity of the impacts?

Degree of public interest
• Is the proposal controversial or could it lead to controversy or concern in the community?
• Will the amenity, values or lifestyle of the community be adversely affected?
• Will large numbers of people require relocation?
• Will the proposal result in inequities between sectors of the community?

Screening Process
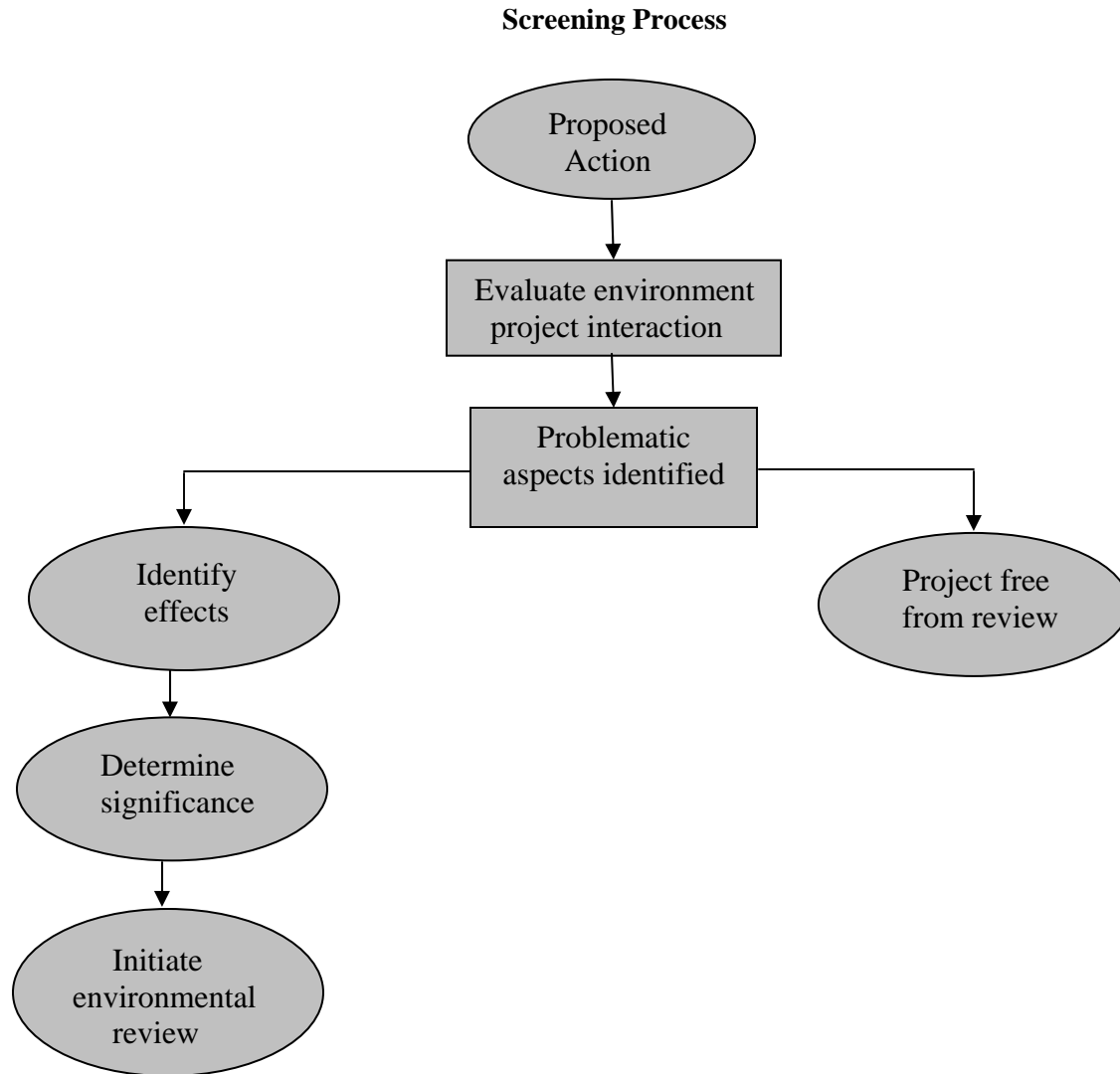
1.1.4 *Scoping*

Scoping primarily is to confirm the requirement of an EIA and identify the critical and early steps in the preparation of an EIA. Scoping helps in early evaluation of the purpose, need, alternatives, and assessment of proposed project and ensure that time and money are not wasted on unnecessary investigations. In short it establishes the boundaries identified in screening; important impacts to be considered for the EIA; all the necessary information for an apt decision. For a fruitful effort it is important to have sufficient information about the project and the areas which are going to be affected because of the new project, and on the basis of all these define the feasible alternatives to the proposed action.

A comprehensive scoping process will include all or a combination of the following functions:
- will the project introduce major changes in the locality during the construction, decommissioning or operation phases?
- what impact does the project have on the natural resources?
- identify the range of community and scientific concerns about a proposed project or action. For instance, community changes involve change in population size, displacement and rehabilitation issues, scientific concerns include release of hazardous, toxic or noxious

substances to air, increase in noise pollution, electromagnetic and other radiations, contamination of water resources,
- evaluate these concerns to identify the significant issues (and to eliminate those issues which are not important)
- organize and prioritise these issues to focus the information that is critical for decision making, and that will be studied in detail in the next phase of EIA
- what are the best possible alternatives. These alternatives can be location alternatives, process alternatives, supply alternatives etc.

The timing of the preparation of the scoping study will vary but almost always it should be undertaken at the beginning of the project.

Typically, scoping begins after the completion of the screening process, however stages do overlap to some degree. Scoping takes forward the preliminary determination of significance made in screening to the next stage of resolution – determining which issues and impacts are significant and require further study. In doing so, the scoping process places limits on the information to be gathered and analyzed in an EIA and focuses the approach to be taken.

A systematic and transparent approach should be taken to sifting and paring down the concerns, issues and impacts. This can be undertaken in three steps[3].

Step 1 – compile a 'long list' of concerns from the information available and the inputs of stakeholders. No attempt should be made at this stage to exclude or pre-judge concerns

Step 2 – derive a 'short list' of key issues and problem areas based on their potential significance and likely importance for decision-making on the proposal. This phase involves evaluating the issues against selected criteria; for example, differentiating serious risks or threats from effects that can be mitigated

Step 3 – classify and order the key issues into 'impact categories' by reference to policy objectives and scientific concepts, such as emission levels that may exceed health or environmental standards.

A sample checklist of the questions that might be included in the scoping exercise involves:

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[3] UNEP EIA training Manual.

S. No.	Questions to be considered
1.	Will the project introduce the major changes? If yes, what type of changes? ■ Permanent or temporary changes? (new rail/road facilities, diverted transmission circuits, long standing impacts on water bodies, loss of flora and fauna and other native species of the region) ■ New constructions/demolitions ■ Underground works and developments ■ Solid waste, air, water, noise pollutants ■ Facilities for disposal of these pollutants
2	What impact does the project have on the natural resources? ■ Impact on resources- land, air, water, minerals, forests etc. Does the project involve massive use of available resources such as forest produce, minerals, power and other man made resources and facilities?
3	What are the community and scientific concerns because of the development of the project? ■ Community based concerns include such changes in population, resettlement and rehabilitation issues, creating of new work opportunities and new facilities as hospitals, entertainment venues and the like. ■ Scientific concerns include contaminations caused because of the new project. Handling of the pollutants, dust and odours, sewage and solid wastes, emissions and radiations etc. Developing new vulnerabilities as increased scope of floods, earthquake and other natural disasters.
4	Specific contaminations, any, due to the project and increase of other evils like scope for accidents, impact on children and women, impact on existing flaura and fauna.
5	On the basis of this long list, develop a short list of key issues and problem areas specific and relevant to the project.
6	Develop best possible alternatives on the existing information and with consultations.

1.1.5 *Impact Analysis*

The aim of this step is to take stock of the impacts the proposed project might have. This involves making sure that the indirect and cumulative effects of proposed actions are not omitted. Impact analysis starts from the first stage i.e screening itself and continues through scoping, wherein specific impacts are classified into categories. This stage can be broken down into three overlapping phases[4]:

- *identification* — to specify the impacts associated with each phase of the project and the activities undertaken
- *prediction* — to forecast the nature, magnitude, extent and duration of the main impacts; and
- *evaluation-* to determine the significance of residual impacts i.e. after taking into account how mitigation will reduce a predicted impact

Impact identification is in fact a variable which has to be compared against a standard. In most of the cases this standard is often the standard environmental baseline developed on select indices and indicators. The collection of this baseline information and the relevant biophysical and socio-economic conditions begins very much during the start of the study before the screening stage itself. The most common formal method used for impact identification is the checklists method; of late there is increased use of geographic information systems (GIS) data as well.

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[4] Ibid

1.1.5.1 Checklists
Checklists annotate the environmental features or factors that need to be addressed when identifying the impacts of projects and activities. Checklists provide a systematized means of identifying impacts. A sample checklist that might be considered can be:

Q: What specific impact the project has on the local environment in and around the project area? ▪ areas protected which are otherwise protected under local legislation and which might have an impact from the proposed project. ▪ impact on air, water and land resources including mountains, coastal zones, hilly mountains and other areas. ▪ changes on the genetic stock of the environment ▪ impact on areas of scenic importance, transport facilities as roads, rail and others.
Q: Is the project located in an area which involves major developments that can facilitate speedy process in terms of facilitating the project?
Q: What specific impacts doe the project carry on ▪ agriculture patterns and cropping as such ▪ public/private spaces and community facilities ▪ commerce and industries including tourism, heavy industries etc
Q: Specific impact on the scarce commodities as minerals, water bodies, forests and forest produce and the like
Q: Does the project add to any increase in the vulnerability in the incidence of natural disasters as earthquakes, floods, severe winds, fog and dust and the like.
Q: Emissions and radiations from the project? Increase in temperatures, electromagnetic and other radiations, emission of dangerous contaminants into air, water and soil.
Q: Specific impact on the people particularly belonging to the lower starta located within the project area.
Q: Is the project likely to affect the physical condition of any environmental media?
Q: Any major impact on the scarce natural products and such products as forest produce, minerals, ground water resources.
Q: Any strong influence on the geological and other ground conditions? Will the effect extend over a major area? If there is a negative impact can this be reversed?
Q: Impact on infrastructure facilities as power generation, telecommunications, waste disposal etc

1.1.5.2 Overlays and geographic information systems
Overlays can be used to map impacts spatially and display them pictorially. This approach is useful for comparing site and planning alternatives, for routing linear developments to avoid environmentally sensitive areas and for landscape and habitat zoning at the regional level. In simple terms, a GIS stores, retrieves, manipulates and displays environmental data in a spatial format. A set of maps or overlays of a given area provide different types of information and scales of resolution.

Impact analysis/prediction
The object of prediction is to identify the magnitude and other dimensions of identified change in the environment because of a particular initiative in comparison without that initiative. For this comparison the data that was collected earlier the initial processes of screening. Once all the important impacts have been identified, their potential size and characteristics can be predicted. Impact prediction or forecasting is a technical exercise involving use of physical, biological, socio-economic and cultural data to estimate the likely characteristics and parameters of impacts (e.g. magnitude, spatial occurrence etc). A range of methods and techniques may be employed. These

can be a continuum from simple methods for to advanced methods, often involving the application of mathematical models.

Typical parameters[5] to be taken into account in impact prediction and decision-making include:

- nature (positive, negative, direct, indirect, cumulative)
- magnitude (severe, moderate, low)
- extent/location (area/volume covered, distribution)
- timing (during construction, operation, decommissioning, immediate, delayed, rate of change)
- duration (short term, long term, intermittent, continuous)
- reversibility/irreversibility
- likelihood (probability, uncertainty or confidence in the prediction); and
- significance (local, regional, global).

1.1.6 *Mitigation and impact management*
Mitigation is a critical component of the EIA process. It aims to prevent adverse impacts from happening and to keep those that do occur within an acceptable level. Opportunities for impact mitigation will occur throughout the project cycle. There are three identifiable steps in mitigation process. Step One: Impact avoidance once there is an established evidence that the project execution has a high to high level of negative impact on the environment then the most effective impact , mitigation might be to not to undertake the project. Second stage in the mitigation process is the *impact mitigation* process wherein the aim is to reduce the degree of the adverse impacts. This might involve changes in the design if the project, project location etc. Another alternative in the mitigation process involves *compensation* to the public who are adversely affected. This most often boils to such processes as rehabilitation/resettlement of the affected people, allocating new land and other facilities that were lost due to the project. Compensation might be both in monetary and non-monetary terms.

Carrying out impact monitoring and management
Mitigation measures are implemented as part of impact management. This process is accompanied by monitoring to check that impacts are 'as predicted'. In some cases, it may be necessary to establish or strengthen impact management systems to facilitate the implementation of mitigation measures during project construction and operation. These supporting actions should be identified as part of the environmental management plan. The management of social impacts associated with the influx of a temporary workforce and additional population will require specific mitigation measures. These include the provision of:

- improved transport, water and sewage infrastructure;
- expanded social and health care services, including measures to target specific impacts
- better support and counseling services to cope with socio-economic changes; and
- additional recreational areas and facilities, including full replacement of any areas lost to development.

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[5] UNEP EIA training manual

Centre for Good Governance

2.0   What is Social Impact Assessment – SIA?

There is no widely agreed definition of SIA. Put simply, it focuses on the impact of development proposals on people. However as the Bank identifies, Social Assessment is Social Analysis + Participation…..a process that provides a framework for prioritizing, gathering, analyzing, and incorporating social information and participation into the design and delivery of development operations. Social Assessment is a process for ensuring that development operations (i) are informed by and take into account the key relevant social issues; and (ii) incorporate a participation strategy for involving a wide range of stakeholders. Social Assessment activities can take place throughout the project cycle, but the integration of social factors into project design works best when it begins at the identification stage. The methods for social analysis and participation that are most commonly used include:

Consultative Methods: Collaborative decision making often takes place in the context of stakeholder workshops. This forges together all the concerns the stakeholders might have and facilitates a collaborative decision.

Participatory Methods: This involves visits by the team to the field site and interact directly with the key stakeholders. These consultations involve use of established participatory techniques as RRA, PRA etc. Participation based techniques provide tools for collaborating effectively with local people in analysis and planning. This method is quite effective to capture the immediate concerns of the people.

2.1   *Identify Social Impact Assessment Variables*
Social impact assessment variables point to measurable change in human population, communities, and social relationships resulting from a development project or a policy change. Some of the most obvious social assessment variables include:

- *Population Characteristics*- present characters and expected changes, impact on ethnic characters, impact on work-patterns etc.
- *Community and Institutional structures*- government including linkages to the larger political systems, size and level of activity of voluntary associations, religious organizations and interests groups, and finally, how these institutions relate to each other.
- *Political and Social Resources*- refer to distribution of power authority, interested and affected publics and leadership capability and capacity within community or region
- *Individual and Family Changes*- refer to factors which influence the daily life of the individuals and families, including attitudes, perceptions, family characteristics and friend-ship networks. These changes range from attitudes toward the policy to an alteration in family and friendship networks to perceptions of risk, health, and safety
- *Community Resources*- include patterns of natural resource and land use; the availability of housing and community services to include health, police and fire protection and sanitation facilities. A key to the continuity and survival of human communities are their historical and cultural resources.

Under this collection of variables we also consider possible changes for indigenous people and religious sub-cultures. Following is a matrix developed by UNEP as a sample:

Matrix on Social Impact Assessment variables:				
Social Impact Assessment Variable	Planning/Policy Development	Implementation/ Construction	Operation/ Maintenance	Decommissioning Abandonment
Population Characteristics				
Population Change				
Ethnic and racial distribution				
Relocated populations				
Seasonal residents				
Community and Institutional Structures				
Voluntary associations				
Interest group activity				
Size and structure of local government				
Historical experience with change				
Employment/income characteristics				
Employment equity of minority groups				
Local/regional/national linkages				
Industrial/commercial diversity				
Presence of planning and zoning activity				
Political and Social Resources				
Distribution of power and authority				
Identifications of stakeholders				
Interested and affected publics				
Leadership capability and characteristics				
Individual and Family Changes				
Perceptions of risk, health, and safety				
Displacement/relocation concerns				
Trust in political and social institutions				
Residential stability				
Density of acquaintanceship				
Attitudes toward policy/project				
Family and friendship networks				
Concerns about social well-being				
Community Resources				
Change in community infrastructure				
Land use patterns/Effects on cultural, historical, and archaeological resources				

These variables are suggestive and illustrative and are only intended to provide a beginning point for the social assessor. Taylor et al. (1990) (and the U.S. Forest Service manual and handbook) use the four major categories of: population change; life style; attitudes, beliefs and values; and social organization. Brudge(1994) uses the five categories of population impacts; community and institutional arrangements; conflicts between local residents and newcomers; individual family level impacts and community infrastructure needs. Branch, et al. (1984) use four categories of social impact assessment variables in their social organization model: direct project inputs; community resources; community social organization; and indicators of individual community well-being.

For each project/policy stage, the assessor should identify potential impacts on each social variable identified in the matrix. This approach ensures that no critical areas are overlooked. We emphasize that above matrix is just illustrate the issues which represent the beginning of such a task. The task for the assessor is to spell out the magnitude and significance of impacts for each cell like those identified in the illustrations.

2.1.1 *Stages in the Social Impact Assessment Process*
The social impact assessment itself may contain the ten steps. These steps are logically sequential, but often overlap in practice. This sequence is patterned after the environmental impact assessment.

2.1.2 *Baseline Conditions - Describe the relevant human environment/area of influence and baseline conditions*
The baseline conditions are the existing conditions and past trends associated with the human environment in which the proposed activity is to take place. This varies on the type of project being taken up. For instance in the case of construction projects, baseline unit may be a cluster of population identified along with the distribution of special populations at risk; programs, policies, or technology assessments, the relevant human environment may be a more dispersed collection of interested and affected publics, interest groups, organizations, and institutions. The generic set of dimensions for investigation listed below would include the following aspects of the human environment for construction projects and geographically-located programs and policies.

• Relationships with the biophysical environment, including ecological setting; aspects of the environment seen as resources or problems; areas having economic, recreational, aesthetic or symbolic significance to specific people; residential arrangements and living patterns, including relationships among communities and social organizations; attitudes toward environmental features; and patterns of resource use.

• Historical background, including initial settlement and subsequent shifts in population; developmental events and eras, including experience with boom-bust effects, as well as a discussion of broader employment trends; past or ongoing community controversies, particularly those involving technology or the environment; and other experiences likely to affect the level of distribution of the impacts on local receptivity to the proposed action

• Political and social resources, including the distribution of power and authority; the capacities of relevant systems or institutions (e.g., the school system); friendship networks and patterns of cleavage or cooperation among potentially affected groups; levels of residential stability; distributions of socio-demo-graphic characteristics such as age and ethnicity; presence of distinctive or potentially vulnerable groups (e.g., low income); and linkages among geo-political units (federal, state, county, local and inter-local)

• Culture, attitudes and social-psychological conditions, including attitudes toward the proposed action; trust in political and social institutions, perceptions or risks; relevant psychological coping and adjustment capacity; cultural cognition of society and environment; assessed quality of life; and improvement values that may be relevant to or affected by the proposed action

• Population characteristics including the demographics of relevant groups (including all significant stakeholders and sensitive populations and groups); major economic activities; future prospects; the labor markets and available work force; unemployment and underemployment; population and expected changes; availability of housing, infrastructure and services; size and age structure of households; and seasonal migration patterns.

The level of effort that is devoted to the description of the human environment should be commensurate with the size, cost, and degree of expected impacts of the proposed action. At a minimum, the existing literature on comparable or analogous events, knowledgeable experts, and readily available documents such as government reports should be consulted. On-site investigations and the use of previous field studies and surveys are recommended, as well as rapid appraisals and mini-surveys.

2.1.3 *Public Involvement - Develop an effective public plan to involve all potentially affected publics*

This requires identifying and working with all potentially affected groups starting at the very beginning of planning for the proposed action. Groups affected by proposed actions include those who live nearby; those who will hear smell or see a development; those who are forced to relocate because of a project; and those who have interest in a new project or policy change but may not live in proximity. Others affected include those who might normally use the land on which the project is located (such as farmers who have to plow around a transmission line). Still others include those affected by the influx of seasonal residents who may have to pay higher prices for food or rent, or pay higher taxes to cover the cost of expanded community services. Once identified, representative from each group should be systematically interviewed to determine potential areas of concern/impact, and ways each representative might be involved in the planning decision
process. Public meetings by themselves are inadequate for collecting information about public perceptions. Survey data can be used to define the potentially affect-ed population. In this first step, the pieces are put in place for a public involvement program which will last throughout the environmental and social impact assessment process.

2.1.4 *Identification of Alternatives - Describe the proposed action or policy change and reasonable alternatives*

In the next step, the proposed action is described in enough detail to begin to identify the data requirements needed from the project proponent to frame the SIA. At a minimum, this includes:

• Locations
• Land requirements
• Needs for ancillary facilities (roads, transmission lines, sewer and water lines)
• Construction schedule
• Size of the work force (construction and operation, by year or month)
• Facility size and shape
• Need for a local work force
• Institutional resources

The list of social impact assessment variables shown in Figure 3 is a guide for obtaining data from policy or project proponents. Sometimes the description of the proposed alternatives may not include all the information needed for an SIA. Another problem is the provision of summary numbers when disaggregated numbers are needed. For example, the social assessor may be given numbers for the total peak work force of a construction project, when information is needed on local, in-migrating, and non-local commuting workers for each phase of construction.

2.1.5 *Scoping*
After obtaining a technical under-standing of the proposal, identify the full range of probable social impacts that will be addressed based on discussion or interviews with numbers of all potentially affected.

After initial scoping, the social impact assessor selects the SIA variables for further assessment situations. Consideration needs to be devoted both to the impacts perceived by the acting agency and to those perceived by affected groups and communities. The principal methods to be used by experts and interdisciplinary terms are reviews of the existing social science literature, public scoping, public surveys, and public participation techniques. It is important for the views of affected people to be taken into consideration. Ideally, all affected people or groups contribute to the selection of the variables assessed through either a participatory process or by review and comment on the decision made by responsible officials and the interdisciplinary team.

Relevant criteria for selecting significant impacts include the:
- Probability of the event occurring
- Number of people including indigenous populations that will be affected
- Duration of impacts (long-term vs short-term)
- Value of benefits and costs to impacted groups (intensity of impacts)
- Extent that the impact is reversible or can be mitigated
- Likelihood of causing subsequent impacts
- Relevance to present and future policy decision
- Uncertainty over possible effects; and
- Presence or absence of controversy over the issue

2.1.6 *Screening*
Similar steps developed above in the EIA can be followed.

2.1.7 *Predicting Responses to Impacts - Determine the significance to the identified social impacts*
This is a difficult assessment task often avoided, but the responses of affected parties frequently will have significant subsequent impacts. After direct impacts have been estimated the assessor must next estimate how the affected people will respond in terms of attitude and actions. Their attitudes before implementation predicts their attitudes afterwards, though there are increasing data that show fears are often overblown and that expected (often promised) benefits fail to meet expectations. The actions of affected groups are to be estimated using comparable cases and interviews with affected people about what they expect to do. So much depends on whether local leadership arises (and the objectives and strategies of these leaders), that this assessment step often is highly uncertain, but at least policy makers will be notified of potential problems and unexpected results. This step is also important because adoption and response of affected parties can have consequences of their own-whether for the agency that proposes an action (as when political pro-tests stalls a proposal) or for the affected communities, whether in the short-term or in the long-term.

Patterns in previous assessments guide this analysis, and expert judgment and field investigations are used to see whether they study case in following the typical patterns or how it is developing uniquely. Being able to show potentially affected people that significant impacts are being incorporated into the assessment is critical to the success of this step.

2.1.8 *Changes in Alternatives - Recommended new or changed alternatives and estimate or project their consequences*

Each new alternative or recommended change should be assessed separately. More innovative alternatives and changes probable should be presented in an experimental structure. Expert judgment and scenarios are helpful in developing project and policy alternations. The number of iterations here will depend upon time, funding, and the magnitude of the project or policy changes.

2.1.9 *Mitigation measures*

Use of social impact assessment is not just to forecast impacts it should identify means to mitigate adverse impacts. Mitigation includes avoiding the impact by not considering the project at all if the felt impact is severe to too severe. Alternately if the predicted impact is minimal and can be managed then modify the specific event in the project or reducing the impacts through redesign and operation of the project or policy; or compensating for the impact by providing substitute facilities, resources and opportunities. Ideally, mitigation measures are built into the selected alternative, but it is appropriate to identify mitigation measures even if they are not immediately adopted or if they would be the responsibility of another person or government unit. Ideally effort should be to avoid all adverse impacts. In the second instance effort should be on minimizing the negative impacts, this might also involve providing suitable compensation packages. Compensation can be proportionately based on the type resource lost, the severity of the impact, and the location of the mitigation site.

Principles of SIA good practice

- *involve the diverse public* – identify and involve all potentially affected groups and individuals
- *analyse impact equity* – identify who will win and who will lose, and emphasise vulnerability of under -represented groups
- *focus the assessment* – deal with the issues and public concerns that really count not those that are just 'easy to count'
- *identify methods and assumptions and define significance* – describe how the SIA is conducted, what assumptions are used and how significance is determined
- *provide feedback on social impacts to project planners* – identify problems that could be solved with changes to the proposed action or alternatives
- *use SIA practitioners* – trained social scientists employing social science methods will provide the best results
- *establish monitoring and mitigation programmes* – manage uncertainty by monitoring and mitigating adverse impacts
- *identify data sources* – use published social scientific literature, secondary data and primary data from the affected area
- *plan for gaps in data* – make clear any incomplete or unavailable information and the reasons why this could not be obtained

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Steps in the SIA process (Capsulated)

1. public involvement – develop and implement an effective public involvement plan to involve all interested and affected stakeholders

2. identification of alternatives – describe the proposed action and reasonable alternatives to it, including the no action alternative

3. profile of baseline condition – document the relevant human environment/area of influence of the proposal and the existing social conditions and trends (using the characteristics and variables described previously)

4. scoping – identify and prioritise the range of likely social impacts through a variety of means, including discussion or interviews with numbers of all potentially affected

5. projection of estimated effects – analyse and predict the probable impacts of the proposal and the alternatives against baseline conditions (with versus without the action)

6. prediction and evaluation of responses to impacts – determine the significance of the identified social impacts to those who will be affected

7. estimate indirect and cumulative impacts – identify the subsequent, flow-on effects of the proposal, including the second/third order impacts and their incremental impacts when added to other past, present and foreseeable current activities

8. changes to alternatives – recommend new or changed alternatives and estimate or project their consequences for affected and interested stakeholders

9. mitigation – develop and implement a mitigation plan, in order of preference to firstly avoid, secondly minimize and thirdly compensate for adverse impacts

10. monitoring – develop and implement a monitoring programme to identify deviations from the proposed action and any important unanticipated impacts

(Source: *Inter-organizational Committee on Guidelines and Principles for Social Impact Assessment]*

Appendix   (Source: World Bank)

STAGE IN PROJECT PROCESS	TYPE OF PARTICIPATION			
	Information-sharing (one-way flow)	**Consultation** (two-way flow)	**Collaboration** (increasing control over decisionmaking)	**Empowerment** (transfer of control over decisions and resources)
Project Identification				
Preparation Appraisal				
Implementation, Supervision, and Monitoring				
Evaluation				

Mapping Key Stakeholders Relative Influence and Importance

INFLUENCE OF STAKEHOLDER	IMPORTANCE OF ACTIVITY TO STAKEHOLDER					
	Unknown	Little/No Importance	Some Importance	Moderate Importance	Much Importance	Critical Player
Unknown						
Little/No Influence						
Some Influence						
Moderate Influence						
Significant Influence						
Very Influence						

Identification of Stakeholder Groups, Their Interests, Importance, and Influence

Stakeholder Groups	Interest(s) at Stake in Relation to Project	Effect of Project on Interest(s) + 0 -	Importance of Stakeholder for Success of Project U- Unknown 1=Little/No importance 2=Some Importance 3=Moderate Importance 4=Very Importance 5=Critical Player	Degree of Influence of Stakeholder over Project U- Unknown 1=Little/No importance 2=Some Importance 3=Moderate Importance 4=Very Importance 5=Critical Player

Records Management Guide

– A. Vijay Krishna

Introduction

Why should you bother about records management? Have you ever lost or looked for an important document for a long time? Do you need space in your filing cabinets? Without a well coordinated records management system you could be buried under mounds of paper. No perfect formula for efficiently managing large volumes of paper exists; each system requires time and perseverance. Unfortunately, in spite of the Information Act and Records Act being passed by Government of India there has been no concerted effort to move towards more effective government records management practices. Both the centre as well as the state governments do not even have a basic records management guide. This guide is an attempt to provide guidance by which records can be managed effectively.

Without you records are unmanageable. Proactive management of your records puts you in control. Reactive management puts your records in control. It is the duty of every government employee to manage the records within his/her purview. Each day public servants create, compile index, access, maintain, and /or transmit government information irrespective of the job title and department they work for. The personal responsibility for records management will not end until public employment of the employee ends. In today's information age the management of Government information and the records that contain it, must be recognised as a fundamental government process (day to day activity) and not a Government program.

What are records?

There is sometimes a lack of clarity about what is meant by 'record' in relation to the more general term 'information'. There are many definitions of the term 'record'. A 'record' can be defined as *information generated in the course of an organisation's official transactions and which is documented to act as a source of reference and a tool by which an organisation is governed*. The records themselves form a part of or provide evidence of such transactions. As evidence, they are subsequently maintained by or on behalf of those responsible for the transactions. While all records convey information, not all sources of information are necessarily records. For example, a published book or an externally provided database (on- or offline) will not be a record, although information selected from it and reused in a new context may itself become a record.

Records arise from actual happenings; they are a 'snapshot' of an action or event. They offer a picture of something that happened. To serve their purpose in providing reliable evidence for greater accountability, records in both paper and electronic form must be accurate, complete, and comprehensive.

What is records management?

Records management is "the field of management responsible for the systematic control of the creation, maintenance, use and disposition of records", (NARA, 2003). Records management addresses the life cycle of records, i.e., the period of time that records are in the custody of the Government agencies. The life cycle usually consists of the three stages given below:
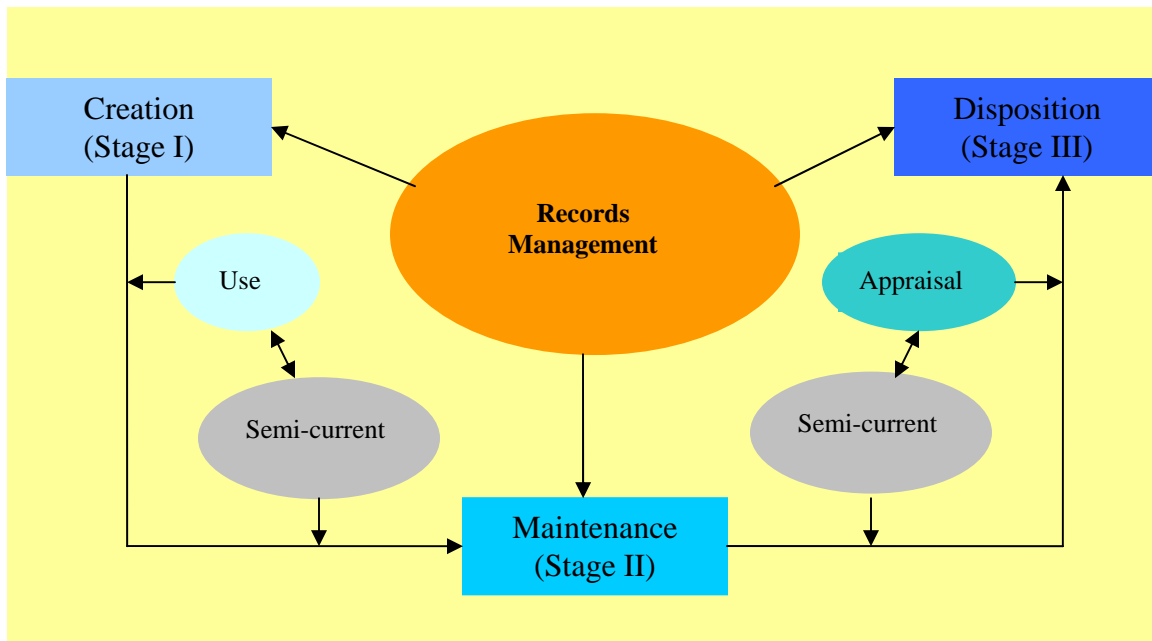
The table below describes the various phases shown above in the diagram including the degree of records management activity involved.

Phase	Activity Level	Comments
Creation/Receipt	-	Records are created or received and captured into a record-keeping system
Maintenance and Use	High	Records are being used for the business purpose for which they were created
Semi-current	Medium	Records are stored and maintained for reference purposes
Appraisal	Low	Survey methods and retention schedules are used to appraise records for their value
Disposal	Very Low/Nil	Records are destroyed or sent to Archives

(Source: Based on Records Management manual, DTI, 2000)

Records management is concerned with the effective management of records throughout their life cycle. There are several benefits of having an effective records management programme. These are listed below:

- Facilitates effective performance of activities throughout an agency
- Protects the rights of the agency, its employees and its customers
- Provides continuity in the event of a disaster
- Meets statutory and regulatory requirements including archival, audit and oversight activities

- Provides protection and support in litigation
- Allows quicker retrieval of documents and information from files
- Improves office efficiency and productivity
- Supports and documents historical and other research

Records management vis-à-vis Information Act

To achieve the goal of having an effective records management system it is necessary to enact and implement comprehensive legislation to regulate the life-cycle, management of records and archives, irrespective of medium and format, designating a single authority to oversee the process and assigning clear responsibility for actions at each stage. Government of India enacted the "Public Records Act, 1993" and "Information Act, 2002", both these Acts lay down the principles for managing, maintaining and monitoring records in Government departments.

The "Information Act, 2002" among other things lays emphasis on the following points:

- By providing freedom to every citizen to secure access to information under the control of public authorities, in order to promote openness, transparency and accountability in administration and in relation to matters connected therewith or incidental thereto, the bill underlines the importance of having an effective records management program in every Government office.
- Every public authority shall- maintain all its records, in such manner and form consistent with its operational requirements duly catalogued and indexed.
- A person desirous of obtaining information shall make a request in writing or through electronic means, to the concerned Public Information Officer specifying the particulars of the information sought by him. Provided that where such request cannot be made in writing, the Public Information Officer shall render all reasonable assistance to the person making the request orally to reduce it in writing.
- Where a request for access to information is rejected or the concerned applicant is aggrieved, the citizen has a right to appeal.

The "Public Records Act, 1993" assigns a range of responsibilities to the records officer in relation to proper arrangement, maintenance and preservation of public records under his charge. The records officer must undertake:

- Periodical review of all public records and weeding out public records of ephemeral value;
- Appraisal of public records which are more than twenty-five years old in consultation with the National Archives of India or, as the case may be, the Archives of the Union territory with a view to retaining public records of permanent value;
- Destruction of public records in such manner and subject to such conditions as may be prescribed under sub-section (1) of section 8;
- Compilation of a schedule of retention for public records in consultation with the National Archives of India or, as the case may be, the Archives of the Union Territory;
- Periodical review for downgrading of classified public records in such manner as may be prescribed;
- Adoption of such standards, procedures and techniques as may be recommended from time to time by the National Archives of India for improvement of record management system and maintenance of security of public records;
- Compilation of annual indices of public records;

- Compilation of organisational history and annual supplement thereto;
- Assisting the National Archives of India or, as the case may be, the Archives of the Union territory for public records management;
- Submission of annual report to the Director General or, as the case may be head of Archives in such manner as may be prescribed;
- Transferring of records of any defunct body to the National Archives of India or the Archives of the Union Territory, as the case may be, for preservation.

Apart from the above main responsibilities the Records Act details several other aspects of the role of the records manager. With the passing of the Information Act, the right to get information from the public authority is ensured by the Statute. This obligation to share information with the citizen adds additional responsibility on the public officers to manage, maintain and monitor records efficiently and effectively. The current systems are not geared to handle the function of records management effectively and efficiently and there is a need to revise the entire process of records management.

In Andhra Pradesh the Information Act and Records Act have not been passed by the legislative assembly. Although a draft Information Act is ready, not much work has been done on the Records Act. Realising the importance of a Records Act in the face of the eminent passage of the Information Act in future, Centre for Good Governance has taken the initiative and come out with a draft Records Act for Andhra Pradesh. Along with the Records Act, Government offices will also need to have a guide for records management that will enable them to handle the task of managing Government records more efficiently.

Record Keeping – Current Reality

Record keeping is a fundamental activity of public administration. Without records there can be no rule of law and accountability. Public servants must have information to carry out their work and records represent a crucial source of information. Records are vital to virtually every aspect of the governance process. The effectiveness and efficiency of the public service across the range of government functions depends upon the availability of and access to information held in records. The following sample case studies illustrate the state of the record rooms in Andhra Pradesh.

Nalgonda
The record room at the Nalgonda collectorate is a welcome improvement over the old style record rooms present in most other government offices. The record room is clean and the record registrars are maintained in a very orderly fashion. The collectorate has replaced outdated wooden racks with new Godrej compactors, which occupy less space and are more user friendly.

Currently the records are being delivered to the concerned officials as and when they are being asked for (being requisitioned on time). Although the time taken to retrieve a record is efficient, the team felt that slight modifications can be made to the existing rack indexing to enable even quicker retrieval and convenience of retrieval.

DDIS files have been updated or destroyed till 1988. LDIS files have been updated till 1999. A sample RDIS file 22774 – 95, where the subject was "State Republic Day Celebration" and with ate 14/12/95 was studied. The file was made a RDIS 11/12/97. The immediate question which came to the project team's mind is whether the file needed to be classified as R-DIS, especially when it has no historical or accountability value. The administrative officer agreed that the file can be classified as D-DIS and there was no need to classify it as R-DIS. The problem faced by

officials for classifying a particular file is that no norms are laud out in any government circular or manual. Although the DOM specifies the various categories and the number of years each of those categories needs to be retained, it does not specify which type of file should be put in a particular category. There was consensus among the collectorate officials and the project team that it would be helpful to have some guidelines which can help in classifying the files better. Unnecessary wrong classification of files leads to a lot of paper work and wastage of precious storage space.

The above figures show the new Godrej compactors being used at the Nalgonda collectorate. The compactors enable the records to be stored safely and also enable better space management.

The above figure show the current indexing system being used at the Nalgonda collectorate record room

The above figure shows the record registers being maintained in an
orderly manner at the Nalgonda collectorate

Medak – Collectorate

The record room at the Medak collectorate is an old style record room. The infrastructure in the record room is ageing and the wooden racks need replacement. However the collectorate is making a concerted effort to improve the record room along with updating the records by destroying ageing records. Due to the interest taken at the collectorate the process of retrieving registers is quite efficient and record registers are maintained in an orderly fashion.

The time taken for the records assistant to retrieve a randomly selected record was approximately 2.5 minutes seconds. Currently the records are being delivered to the concerned officials as and when they are being asked for (being requisitioned on time). Although the time taken to retrieve a record is efficient, the team felt that slight modifications can be made to the existing rack indexing to enable even quicker retrieval and convenience of retrieval.

The project team felt that despite the lack of new infrastructure facilities the records room could have been better ventilated and cleaned. Currently ventilation is poor and there is immense dust which has accumulated on the records. Open style wooden and steel racks are being used to keep records. Certain records which have historical value such as certain land records from the Nizam period are in a very bad shape. These records are being stored in a disorderly manner without any proper classification and the officials at the collectorate are not sure of the contents of the records as they are written in Urdu language. It will help to classify these records with the help of a person well versed in Urdu and also place them in racks for better preservation. Where it is deemed that the record has archival value it should be transferred from the record room to the archives, which will free valuable space in the record room.

D-DIS records have been destroyed till 1985. Where retention of a particular record was considered a must it was converted into a R-disposal. L-DIS files have been updated/destroyed till 1996. Currently files of the years 1998 and 1999 are being considered. Although the DOM specifies the various categories and the number of years each of those categories needs to be

retained, it does not specify which type of file should be put in a particular category. There was consensus among the collectorate officials and the project team that it would be helpful to have some record retention schedules/guidelines which can help in classifying the files better. Unnecessary wrong classification of files leads to a lot of paper work and wastage of precious storage space. Most of the categorization presently is being done subjectively by the concerned administrative officer in the absence of specific record retention schedules.

The above figures show the records being stored in open wooden and metal racks at the Medak collectorate. The second picture shows the presence of indexing system. However this can be further improved and refined. The third picture shows that there is no indexing on some of the shelves.

Medak – Zilla Parishad

The records room at the Zilla Parishad in Sanga Reddy is an old style record room, which is nearly in shambles. The infrastructure in the record room is ageing and the wooden racks need replacement. There is no interest to either renovate the record room or ensure that it functions efficiently. Record registers are not being maintained properly and it is virtually impossible to requisition records on time. The records assistant found it nearly impossible to retrieve a randomly selected record, as there is complete lack of indexing or classification.

Apart from the lack of new infrastructure facilities, the record room lacks proper ventilation or lights! Most of the records have been wrapped in bundles of cloth and dumped on shelves for years. The state of the record room is highly unhygienic for anyone to work in. One could not rule out the possibility of rats and even snakes being present in the record room along with the record assistant.

D-DIS records have not been destroyed or updated to the knowledge of the record assistant. In essence most of the D-DIS records have acquired the status of R-DIS, de facto. The last time L-DIS files have been updated or destroyed was in 1991. Over the last twelve years no effort has been made to destroy any unwanted records or at least retain the basic requirements for a good records room.

The project team also visited individual sections at the Zilla Parishad. Most of the sections were dumping files and records around the desks and other places without any proper classification or

review of the necessary or unnecessary records. Some of the important records were not being sent to the records room for fear of misplacement. There were so many records around tables in the accounts and finance section that over a period of time they had begun to act as cabin walls for individual tables.

Most of the records are dumped in bundles without any classification or indexing making it virtually impossible for the records to be retrieved efficiently. There is also lack of proper ventilation at this Zilla Parishad record room.

King George Hospital, Vishakapatnam

Often pictures convey more than words. This is absolutely true in the case of King George Hospital medical record room. Even Shakespeare would have found it difficult to describe the pitiful state of the records room. There is water leakage in the record room not because of the rains but because of water over flowing from the over head tank! Some of the medical records have become wet due to the seepage of water. Patient records are being dumped in piles at one corner of the record room without any classification or even in proper bundles. They are not even being kept on racks. One being asked to show the case register the record assistant showed the case register which looked very similar to an accounts register. When quizzed by the team leader as to how the case register was looking similar to an account register, the record assistant admitted that they were forced to use accounts registers due to the non-availability of case registers! The record assistant was not aware of the ICD (International Classification of Diseases) coding. The team was later informed that several circulars were sent to the record room regarding the ICD coding. The record assistant claimed that it takes between fifteen to thirty minutes to retrieve a particular file of death case. However looking at the state of affairs in the record room it is difficult to believe that even a death case record can be retrieved in a day. As per Law it is mandatory for a hospital to supply medical records within 3 days as and when asked by the courts. But the situation is such that none of the hospitals in Andhra Pradesh are aware of the legal requirements of maintaining medical records.

The figure on the left shows the medical records getting damp due to leakages in the ceiling of the record room. The figure on the right shows medical records being dumped in a corner of the room without any classification or proper schedule of destruction. Can anyone retrieve a particular medical record from the dump?

In all the above record rooms the three basic M's of record keeping, i.e., monitoring, maintenance and management, are either lacking or are not adequate. The project team found that the record rooms in district collectorates were comparatively better administered than the record rooms in Zilla Parishads and hospitals. Although Nalgonda was the best record room visited, still some changed can be brought about which can further improve the condition of the record room. In general a lot of work needs to be done in improving record keeping systems in government offices. To be more precise the concept of records management has completely been forgotten in most government offices.

Record Rooms in many Government offices are typical dust bins, seen as garbage outlets by the men in authority and all and sundry items are dumped in these rooms. Record keeping systems are weak or have actually not been effectively put into use by the departments. Though classification of records and their management in record room in the paper mode form is laid down in District Office Manual, over a period the system collapsed to the point where they barely function. Informal practices supplanted formal rules, and efficient public administration was of secondary importance to providing employment. While the civil service expanded steadily, bringing with it a corresponding increase in the flow of paper, more formal ways of working gradually collapsed, often replaced by ad hoc work methods. In many cases, the administrators got used to making decisions without referring to records. There was little incentive to maintain effective record keeping systems or to allocate adequate resources for records storage and staff. In some cases, the failure to create and maintain records systems was motivated by the desire to conceal financial and other irregularities. Eventually, the registries stopped acting as the point of entry for able recruits and became dumping ground for staff without career prospects. The staff had limited training or experience with record keeping work, and record keeping was allowed to deteriorate. File classification and indexing systems originally designed to meet the record keeping requirements of the British administration could not meet the needs of complex needs of development oriented modern governments.

Despite the low usage of records, there was an extreme reluctance to destroy records, even after they ceased to have any value to the institution. In the absence of rules and guidelines for what should be kept and for how long, staff were reluctant to authorize destruction. Over time, registries became severely congested with older records. Ultimately, many records systems collapsed under their own weight. Even as record keeping has declined, there have been important advances in the field of records management in Europe, USA, and Australia.

Recordkeeping has deteriorated so gradually that it has gone largely unnoticed as a development activity. Administrators did not recognize the need and necessity to establish a good record management system and the connection between the breakdown of record systems and the problem of public administration. Development planners tend to assume that the problem is so prevalent, ingrained, and thankless that little can be done to improve the system. On the contrary there is an assumption that computers will resolve record keeping problems. As a result, record system reforms rarely crop up for discussion and find a place in reforms agenda.

In today's information age the management of Government information and the records that contain it, should be recognized as a fundamental Government process—not a Government program. Unfortunately during the last 55 years after independence a tendency to view the management of public records as a functional activity apart from routine daily responsibilities began to proliferate. This phenomena led to one of two results. The first caused less active agency records to be put out of sight and ignored—often until storage place was used up and more space was acquired. The second resulted in a type of institutional lethargy. A program or position was created to come in (when necessary) to take care of an agency's older records. This resulted in a kind of when needed reaction compared to needed action which was necessary.

The neglect of public records and the quantity of storage space and equipment used for housing them increased at nearly identical rates. This trend continued unabated for years and continues as of now, irrespective of the value of information in the records and of the physical conditions of the storage areas. Till today in countries around the world Government managers have not recognized that neglect of records is counter-productive and inherently wasteful. However recently some developed nations like UK, USA, Canada, etc, have taken the initiative in putting together new records management programs. In India and in Andhra Pradesh the standard way of doing things created major obstacles to efficiency and dis-incentives to participation in records management activity for Government administrators at all levels. The time has come to put an end to it! In order to help bring about change it is very important to have a Records Act in AP along with a Guide to Records Management. The Records Act along with the Information Act will go a long way in changing the very way Government institutions function. Undoubtedly records management which has been neglected for years will gain centre stage and every Government employee's responsibilities and rights will increase manifold.

The Guide for Managing Government Records

About the guide

Keeping in mind the state of the record rooms in Andhra Pradesh there is an urgent need to take up the process of revamping Government records management programs before the system deteriorates further. The Records Act, Record Management Report and this guide will aim to help departments in improving the state of record rooms and record management practices in the state. This guide can be used in several ways:

1. Vehicle for understanding and communicating several basic concepts that will aid in the management of Government records and information contained in them.
2. As guidance on how best to establish and/or improve 'life-cycle' records management activities.
3. Make it a tool for use in the identification of areas in which training or management attention is needed, such as in the use and preservation of records that contain essential government information.

Apart from the various aspects of the guide described in detail below, additional parts to the guide will be added as necessary to meet the training and programming needs of state and local Government administrators.

About your responsibilities

Refer to the main responsibilities of the records officer mentioned above as per the Records Act, 1993 of Government of India. Also refer to the draft Record Act of CGG.

Your role in Government of Andhra Pradesh

As Georgia Records Guide points out, "facts on the first and last days of individuals, the start and finish of Government activities, and poignant details about the most heart-warming and heart-rendering aspects of human nature are found among the records. They offer great insight on the state's past, present and future", (A Guide to Managing Public Records in Georgia, 2003). Records contain important ideas and principles to hold onto and to build on. Although records are just records, their real value is in what their contents can tell us about the ideas that inspired their creation and use. Hence it is very important to establish a process to preserve, maintain and access the information present in these records that might be useful for the future and which might act as a source of inspiration as well. In essence it is very important for every Government employee to realise that records contain the most precious public resource, i.e., its 'information'. This information offers a 'usable past' (past from which lessons can be learnt) that help the state make its way to a better future. All Government employees of Andhra Pradesh must protect, preserve and defend the records in their control, considering the value of records as precious public resource. Every Government employee must ask, "is it possible to imagine a challenge and responsibility of greater fundamental importance, or a richer legacy of democracy?" than that of performing the role of a records manager.

About your rights – you are empowered to manage records

Your role is to accomplish a very fundamental and important function of Government that is to maintain 'public trust' by adhering to the ethical requirements of Government information management. This role is only likely to increase in the future with the passage of Information Act and Records Act. The time has come to gear up our existing systems to meet the new and demanding requirements of the future.

It is the record managers right to make decisions on how to utilize the agency's expertise and resources to complete the record management duties. Identification and selection of the best tools, methods and techniques must be accomplished with the needs of your agency in mind. Restrictions on budget and time always place outside limits on choice. But this need not restrict you from considering and adopting an innovative blend that best suits you're agency's specific needs. Variety increases the chances of success. Just because a system or approach has not been tried, does not mean that it may not work. The solutions that permit the best combination and application of your resources are going to yield the best results. Records managers can, "take full advantage of the possibilities to reduce information and records management costs through cooperative efforts", (A Guide to Managing Public Records in Georgia, 2003, pp 50). Attention must be paid to in house agencies which are often under utilized and under appreciated source of cooperative support. External opportunities must also be considered.

Issues in classifying and indexing files

For any office to run efficiently a well organised filing arrangement is a must. Each individual office should decide on the required filing system and equipment that best suits the specific needs of the office. "Finding the information needed, being able to extract that information from records in existence and being sure the information is in a useable format depends on an efficient universal filing system", (Public Health Works Orientation Manual for Public Health Leaders, 2001). Regardless of the filing system chosen one must know exactly where the files are located when they are needed. People might face several constraints in using modern equipment and supplies relating to records management due to constraints in budget. However this cannot be an excuse to have an adequate, workable system which will serve the record managers needs and the needs of the office. One such example is the Medak collectorate described above. Although the collectorate did not have modern equipment or buildings a system of records management is in place and it is a workable system. A lot more improvement can be done to the record room but at least the system is performing unlike some offices like the Medak Zilla Parishad where the record management system has completely collapsed.

The Public Health Works Orientation Manual for Public Health Leaders of Missouri Department of Health and Senior Services discusses certain key filing procedures that can be followed for effective file management. These are discussed below:

1. Avoid unnecessary filing – filing unnecessary papers is a waste of manpower and equipment.
2. Arrange folders, guides and labels correctly – folders are necessary to keep the papers together and in order. Guides serve as 'sign posts' to help speed up the filing and finding operation. The incorrect use of these two tools will retard the concerned operations.
   - Guide cards – Guide cards make it easier to search and help folders stand erect. Using too many guide cards is a wasteful and defeats the purpose of guides. As a general rule, place a first position guide card in front of each record series to identify and isolate it from other series in the same drawer.

- Folders – the contents of each file should be carefully kept in a folder of reasonable quality. Each folder should contain a folder label. The folder label should show the file name, number, subject and date. The year of inclusive dates should also be included. The label should be on the folder cover. Record keepers should consider the use of color-coded folder labels to facilitate filing and disposition. Color codes can be used for distinguishing one file series from another, identifying vital records and helping identifying the life of a cycle (e.g., L, D or R disposal).

3. Receiving and preparing papers for filing. The following steps should be taken while preparing documents for filing:
   - Remove rubber bands, paper clips, pins and other temporary fasteners
   - Determine if the file is complete and all necessary enclosures and attachments are accounted for.
   - Remove all unnecessary forms and paper such as cover sheets and routing slips, except those which contain remarks of a significant record value.
   - Ensure that parts of another file are not attached
   - Ensure that the document has been authorized for filing. The initials of the person forwarding the communication for filing and the date should be mentioned on the lower right hand corner of the folder cover. This will show that the proper official has seen the document and 'certified' the need for filing it.

4. Filing loose vs. fastening.

5. Use Cross references where appropriate – if a document being classified involves more than one subject or case transaction and there is a possibility that it might be asked for by either, a cross reference should be prepared as a finding aid. Cross referencing can also be used to show that a record has been moved from one place in the file to another, such as brining forward a piece of correspondence from a cutoff or closed file for attachment to a document in the current file. However it is important to avoid making and filing unnecessary cross references, as they take up valuable space and time.

6. Safeguards are a must while filing confidential records. Confidential records need to be placed separately in equipment affording security. A cross reference can be placed in the non-confidential folder of the subject or case indicating that the material is filed in security equipment. The cross reference should not reveal the content of the confidential material. When an entire folder needs to be placed in the security equipment, a tracer card can be used to show the location.

Types of numbering/indexing systems for files
A file is an organized collection of documentary items, usually kept within a file cover, that relate to the same business activity or transaction and are kept together. A file performs a number of functions:

- To facilitate retrieval of information it contains;
- To preserve the context in which the documents were created;
- To provide a degree of physical protection to the documents.

Registered files are given a unique number/identifier when they are captured into the record keeping system. This identifier usually consists of the file series prefise and a sequential number. The three popular numbering systems which can be used for a file series are discussed below.

Themed – the files within the series are sub-divided using 'themes'. A number represents each theme. The file reference format is: **ABCD/m/XX/nnnn,**

This is illustrated below.
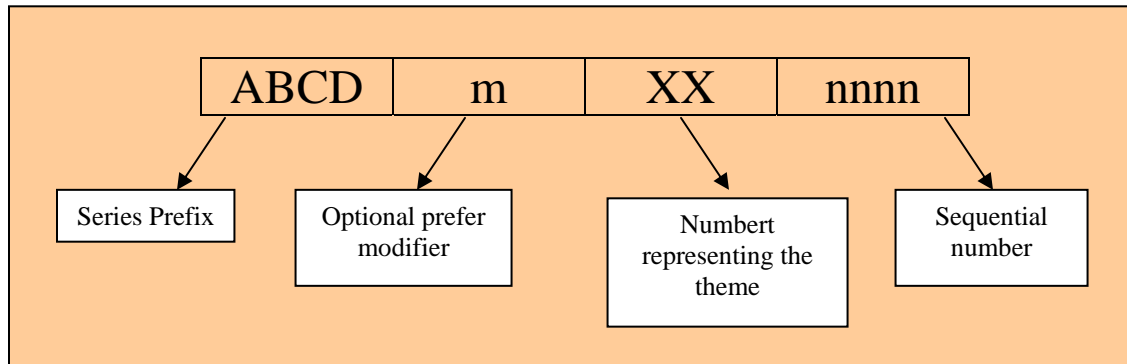
Example:

• ABCD is used for records relating to government quarters

Modifiers:

A single letter represents a modifier. Modifiers are used to classify records by type rather than by function, activity or subject. A few examples of modifiers are given below

P – policy document. This includes the records documenting the development, modification formal acceptance and dissemination of new policies or procedures.

C – is used for a variety of records broadly concerned with implementation of policy or action based on existing policy.

Q – Parliamentary Questions

In a themed file series, a 'theme' is used to further sub-divide the documents into more closely related groups of records. Each theme normally represents one of the main types of activity carried out as part of the business function. The list of themes for prefix ABCD is based on issues relating to Government quarters:

1. Allotment
2. Eviction
3. Recovery of rent
4. Rent free accommodation
5. Construction

Example: a policy document regarding allotment of govt. quarters will have the following classification: **ABCD / P / 1 / 0001**

Sequential – files within the series are not subdivided. File reference format can be described as follows:

ABCD	m	nnnn
Series Prefix	Optional prefer modifier	Sequential number
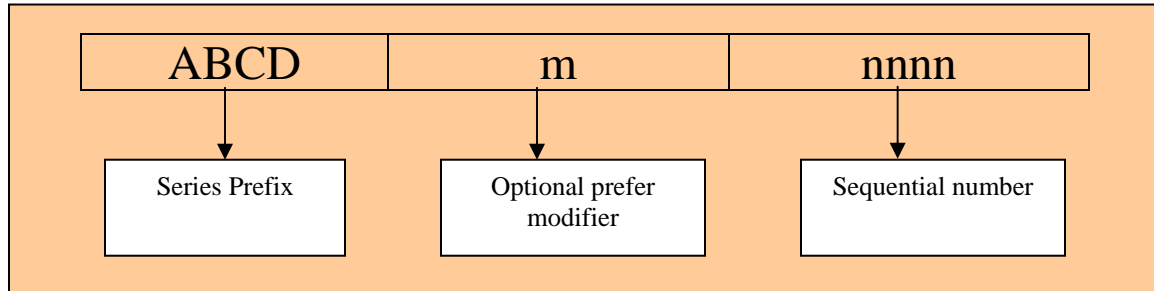
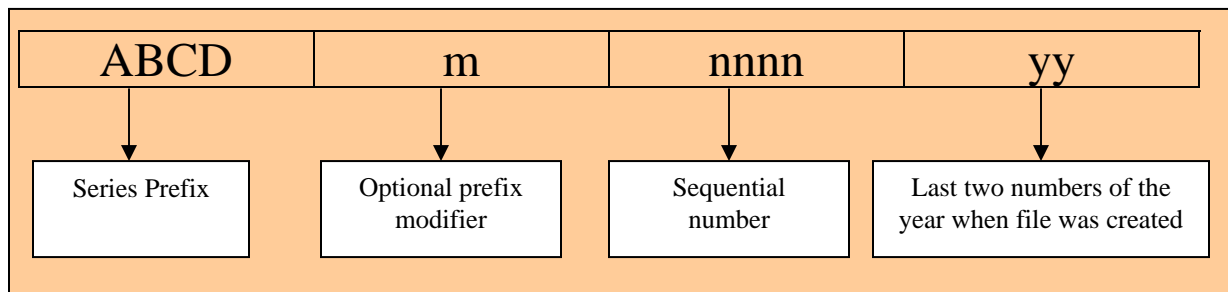Sequential systems are usually used when subject area is narrow and there is as annual cycle of records creation.

Annual – is this case the sequence of numbers starts from / each year. File reference format is as follows:

ABCD	m	nnnn	yy
Series Prefix	Optional prefix modifier	Sequential number	Last two numbers of the year when file was created

Annual systems should be used where there is an annual cycle to file creation (eg some file series holding accounting records)

Note: A given file series may use only one of the above numbering systems. The numbering system must never be changed.

A radically new approach to classification can be adopted in a record room. The entire government of files can be brought into 6 categories. Any file in the Government can be put in these 6 categories. The six categories are:

1. Assets
2. Communications
3. Finance
4. Personnel
5. Planning
6. Process

Classifying the record room based on the above 6 categories will radically change the way records are being kept in record rooms. It will also greatly simplify the process of records management. It is very important to note that one must never have a category with the title "miscellaneous" records. No file should be classified as miscellaneous as there is every scope that such as category if prone to misuse and over a time due to negligence there is a danger that every record is put in the miscellaneous category.

Records Survey methodology

A records survey is a complete inventory of an agency's records holdings. It identifies all records, where they are located, and in what quantity. The survey includes all types of records with an agency. Having a records survey is an essential first step in any records management program, at a later stage the survey will prove to be a vital document in identifying vital records, formulating disaster management plans and above all it acts as a working document for preparing a records retention and disposition schedule. After completing a records survey, agencies usually discover that many records can be destroyed or moved to inactive storage. Empirical studies of record surveys have shown that approximately 30% of the total volume of records can be destroyed, 30% can be moved to inactive storage and the balance can be retained as active files.

The Kansas State Records Management Manual discusses the main steps in a records survey below:

1. Obtaining management support – management support is critical to the success of the survey project and to the entire records management program. A directive should be sent to entire staff describing the objectives and importance of the survey and requesting the participation of everyone concerned. Management support legitimises and establishes priority for records management program ensuring the cooperation of all the concerned staff.

2. Forming a core group (team) – records officers for small agencies may choose to perform the records survey themselves. However in most Government offices in Andhra Pradesh the record assistant does not have the required skills to carry out a records survey without the supervision of a middle ranking official. The head of the organisation must entrust the job of carrying out the survey to an official who is well versed in office procedures, this in most cases is likely to be the administrative officer. The supervisor must have a team working under him comprising of at least four people depending on the size of the record room and volume of records. It is a must to have a data entry operator to capture the data on records on to a database. The supervisor also needs people to help fetch records and organise them in piles for an effective survey. A key element in the success of thee survey is adequate training for the records surveyors. To ensure that complete data is gathered in a uniform way, survey staff should receive detailed instructions on survey techniques as well as background information on records management terminology. The State archives or National Archives will be in a position to provide valuable advice and training on records management practices.

3. Designing the *survey form* – a survey form should be used by an agency to capture vital information on the type of records and record series in a record room. An agency may design its own form to carry out a records survey. However the survey worksheet should be able to capture vital information such as:

   - Type of file
   - Record series title
   - Description of the record series
   - Inclusive dates
   - Number of records in the series
   - Public access restrictions
   - Recommended retention period

   A sample records survey form is given in Appendix – 1. Along with the records survey form a sample record series summary form is given in Appendix – 2. Each space for information on the form is called a field. The fields are numbered for ease of

identification. A brief description of the information that should be recorded in the records survey form is given below.

1-3 Agency/Sub-Agency/Other Organisational Unit: List the agency maintaining the records subdividing the agency by appropriate division, section, etc.

4 Location of records: Mention the building and room in which the records are stored. If there is no name, number or letter for a room, provide a subjective description. Where possible indicate the location of a particular record series/record within a room. For example an existing number of the rack in which the record is placed, etc.

5-6 Person responsible for maintaining records/Contact details: in most cases this will be the record assistant and his or her title. Include the telephone number or other contact details of the records custodian.

7 Record series title: enter a title that accurately describes the record series. A record series is a group of records normally used and filed as a unit and which permit evaluation as a unit for retention scheduling purposes. For example files pertaining to casual leave will come under the series title 'Leave'. It is easier to fill this field once other information on the file is collected.

8 File Name/Number: enter the file name or type of file in this field. Along with the file name enter file number. Where the file name/type is common for several files then the same survey form can be used and individual numbers can be entered overleaf.

9 Inclusive dates: enter the date on which a particular file was created and the date on which it was closed.

10 Arrangement: in this field describe the kind of classification and indexing system used. Records are often found in no particular order and if that is the case, write 'none' in the space provided.

11 Total number: in this field enter the total number of records or files in that particular category. This figure can be arrived at after calculating the total number of files, which can be arrived at by adding the serial numbers on the rear side of the form.

12 Usage of record: in this section note whether the record is active i.e. should be stored in office for reference and usage or inactive/semi-current that is whether it has to be moved offsite and stored in a record room or sent to the archives after storing it for the required number of years in the record room.

13 Status: in some cases there is often duplication of documents. In order to prepare an accurate retention and disposition schedule, it is essential to identify where the official copy (original) of a document is placed. It is also important to determine if information from the document or series is duplicated or summarized in another location or in another record series. These questions will often be easier to answer after the survey has been completed and after consulting with the records custodian or the concerned people who use and maintain records in the office.

14 Public access restrictions: indicate whether any public access restrictions apply to a particular record. This field will become very important in the future when the

information Act comes into effect. Where available provide citations for specific state or central statutes and regulations that limit public access to records.

15 Recommended retention period: in this field indicate how long the record should be stored in the office. While indicating the retention period it is important to follow retention schedules to avoid unnecessary arbitrary classification of records. Where available the general retention schedule formulated by the Central or State archives can be used. In case of office specific records every office is required to draft its own retention schedule based on the record survey form. The schedule will be signed by the concerned head of department and changes to it have to be approved by the concerned head of department in consultation with other officials in the department.

16 Relevant statutes/regulations: note any laws or regulations which may affect the management of a record series (for example mandate the creation of a series; require the retention of the series for a specific period of time, etc).

17 Recommended final disposition: note whether the record custodian recommends the destruction of a series or its transfer to the state archives. A particular record might be retained for some additional time provided sufficient reasons are given for it.

18 Vital record: Check 'yes' if the record series is considered to be vital. Vital records are records that contain information required by an agency to continue functioning or to re-establish operation in the event of a disaster. This section will help in preparation of a disaster management and mitigation plan in which all the vital records of an organisation need to be identified and additional protective and security measures need to be adopted for them.

19 Additional remarks: add any significant information or comments which do not seem to fit elsewhere in the form.

20-22 Name/ Telephone/Date: enter the full name of the person who filled out the survey form. Include the telephone number or other contact details and record the date the surveyor completed the record form.

Along with the records survey form it is also important to have a record series summary form. The record series summary form is based on the records survey form. A brief description of the information that should be recorded in the records series summary form is given below.

1 Record series title: enter a tile that accurately describes the record series. A record series is a group of records normally used and filed as a unit and which permit evaluation as a unit for retention scheduling purposes. For example files pertaining to casual leave will come under the series title 'Leave'. After completing the baseline survey using the records survey form several vital pieces of information will be available which can be used to complete the records series form. The probable questions to ask in identifying particular records series includes:
- Are individual records interfiled?
- Do the records have a common function?
- Do the records have the same retention and disposition requirements?

If the answer to the above questions is 'yes', then the records should probably be placed in one coherent, comprehensive records series. As the Kansas State Records Management Manual states, identifying separate records series is one of the most important aspects of the records survey. It shows how record series can be managed when there may be distinct record series overlapping within individual records. In this case it is necessary to treat different types of documents as a single series. For example, an agency staff member may have several responsibilities and might interfile information relating to his/her various activities. It would be time consuming to document each file folder as a series, therefore grouping the records in a series called 'working files' or 'subject files' could be the most appropriate survey method.

2 Record series description: in this field mention the nature and purpose of a records series and the types of information or documents which form a part of the series. Avoid repeating the previously recorded series title. In most cases the series title is too brief to provide a clear indication of the nature and purpose of the records. Explain why a particular series is created and its function. Very importantly the various types of records which form part of the series should be clearly mentioned. Series description should contain enough detail so that anyone can understand the record series.

3 Inclusive dates: enter the earliest and most recent year in which the records were created. Where precise dates are not known enter an approximate figure clearly indicating that it is an approximation. This column will help in identifying records of historical importance while devising the retention schedule.

4 Annual accumulation: in this field indicate whether a particular series is still being created. Where a series is still being created, check the 'yes' box and attempt to estimate the annual accumulation.

5 Recommended retention: in this section note the record custodian's recommendations regarding an appropriate retention period for the series. This column is vital to draw up general and office specific retention schedules for individual records.

6 Recommended final disposition: after a series stops being generated note whether the record custodian recommends its destruction after its stipulated time period is completed or its transfer to the archives.

7 Vital records series: these are records that contain information required by an agency to continue functioning or to reestablish operations in the event of a disaster. This section is very important while developing a disaster management and mitigation plan for the record room. Vital records also need to have certain security measures in place to prevent unauthorized persons from tampering with them.

8 Additional remarks: in this field enter any significant comments or remarks which do not seem to fit anywhere else in the form.

9-11 Surveyor's Name/ Telephone/Email/Date

Records survey forms the backbone for having an effective and efficient records management system. The record survey forms shown above are only an illustrative example. Individual offices can devise their own record survey forms based on individual needs and requirements. However most of the important information which needs to be included in a survey is captured by the model forms discussed above. The records survey helps in almost every aspect of records management right from the record creation stage to its maintenance and destruction. While a record is being created having a proper survey will enable one to determine the degree of space required for a particular series and the frequency with which it is us4ed in day to day activities. Record survey also helps in devising effective classification and numbering systems. Most importantly record surveys help in drawing up detailed retention schedules (both general and office specific) which are the key for an effective records management system. Having proper retention schedules will prevent wastage of valuable space and will help in retaining records as per relevant statutes and regulations. Even while formulating a disaster management and mitigation plan records survey plays a critical role by helping record custodians to identify vital records. The success of a records management program is related directly to the accuracy and completeness of the record survey. The time you spend on the records survey is time well spent.

Record Retention Schedules

"A records retention and disposition schedule is a timetable that identifies the minimum length of time a record series must be retained before it is destroyed or transferred to the Archives" (Kansas State Records Management Manual, RS-1). The retention and disposition schedule is developed directly from the records survey and it lists by record series title every record series created and maintained by the agency. Record series titles remain the same throughout the life cycle of the record series, from creation to disposition.

There are two types of record retention schedules that apply to an agency's records. The first is a 'general schedule' which includes guidelines for record series maintained by most state agencies. That is this schedule contains records which are common to most Government offices. Examples of records described in the General Schedule are employee personal records, audit reports, budget preparation records, etc. The second type of schedule is an 'office specific schedule' which contains retention and disposition requirements for record series that are unique to the organisation. 'Office specific schedules deal with records not listed in the 'general schedule'.

Records should only be destroyed systematically and under an approved records retention program. Organizations should avoid selective destruction and selective retention. As far as possible the element of subjectivity and discretion must be reduced while retaining or destroying records. When determining minimum retention periods and final disposition requirements, the value of records can be broken down into four categories:

- Administrative value
- Fiscal value
- Legal value
- Historical value

Administrative value relates to how long an agency needs to retain a record series to meet its own business needs. Administrative value pertains to the need for records in performing current work as well as in performing future work. Records with administrative value can be policy records that document how an organisation functions and how it is organized. Policy records which normally have long term or permanent value include:

- Policy and procedural manuals
- Directives
- Organisational charts
- Annual reports
- Legal opinions

Most records with administrative value are not policy records. The majority are operational records that document the implementation of an agency's policies. For example, a records disposition form is an operational record because it implements the policy established by the retention schedule. Determining retention schedules for administrative records especially – operational records is not always easy. In most cases the primary administrative value of records will be exhausted when the transactions to which they relate are completed. As a general rule file activity can be used to guide retention requirements for operational records. When office staff no longer need to refer to a particular record series, the administrative value diminishes and the records are probably ready for final disposition.

Records with fiscal value document an agency's financial transactions. Budgets, payrolls, etc are examples of records that have fiscal value. Retention periods f0opr records with fiscal value are most often determined by audit requirements.

The legal value of records can take two forms. Some records have intrinsic legal value because they contain evidence of legally enforceable rights or obligations of the Government. Among records having intrinsic legal value are:
- Documents showing the basis for action (legal decision, opinions)
- Legal agreements (contracts, titles, leases)
- Records of actions taken in particular cases (claims, etc).

Records with intrinsic legal value particularly those that document the legal rights of citizens, often have enduring value and should be considered for transfer to the State Archives. Legal value can also take the form of statutes and regulations that set legal retention periods for some records. Statutory or regulatory requirements for specific records retention periods are infrequent. Usually statutes and regulations relate to actions rather than records. Records retention can be inferred, however, by the need to provide evidence of a particular action. It is imperative to consider the legal retention requirements of records. It makes retention scheduling easier and more effective, and it will protect an agency from litigation resulting from improperly retained records.

Along with administrative, legal and fiscal value of records the final record value or historical value should also be considered before determining the final disposition of a record series. Even though records might have lost their legal, fiscal or administrative value it might be possible that they still have historical value and for this reason should be retained. Records that contain authentic evidence of an agency's organisation, function, policies, decisions, procedures, operations, or other activities have some historical value. These records usually show an agency's origin, its administrative development and its present oganisational structure. The records that are identified as historical records and which are not used in the agency's daily operations should be transferred to the State Archives

Record retention and disposition schedules can be developed in various formats. The National Archives of India has developed a general record schedule. However the format can be further improved. A model format for developing retention and disposition schedule is shown below. The

following key pieces of information should be included in a records retention and disposition schedule:

- Record series title and description
- Minimum retention period
- Final disposition requirements
- Access requirements
- Vital record identification

The above retention and disposition schedule elements are developed through an analysis of the data gathered during the comprehensive records survey. Ale the above elements need to be captured in a record retention and disposition schedule to have an effective and a comprehensive record management system in place. An example of a record retention and disposition schedule relating to leave application series is shown below.

Leave Request

- Minimum retention: L disposal (One year); see comments
- Disposition: destroy
- Comments: note the type of leave application whether casual, medical, earned, etc. Destroy upon completion of action
- Restrictions: None
- Date of Entry: enter the year from which the series has been created

An agency can use retention schedules developed elsewhere as long as they meet an agency's requirements. But make sure you acknowledge the source from where the retention schedules are obtained.

Note: retention and disposition schedules should never contain any record series with the title 'miscellaneous'. Miscellaneous is not an acceptable title as it will be prone to misuse and the end result will be many records being stored under this category without proper thought being given to their usefulness or the exact series under which they come.

Conclusion

There is a common misconception among record managers and government officials that computerizing records or microfilming them will solve the problem of records management. However this is far from the truth. Simply computerizing or microfilming existing records without carrying out a records survey or developing retention schedules will only ensure that a lot of the existing unnecessary records will be retained in an electronic format. This will result in a lot of existing paper garbage being transformed into electronic garbage. As the process of microfilming or computerisation is expensive it is very important to have a successful operating records management program in place before thinking about digitizing records. One must also consider the various alternatives available to store records along with carrying out a complete cost benefit analysis before embarking upon the process of digitalizing records. One must also understand the various laws and regulations for microfilming records.

We are drowning in information but starved for knowledge. It is generally recognized that information is not knowledge, and knowledge is not wisdom. The wisdom of government, or the lack thereof, is demonstrated through the ways in which it applies its acquired knowledge. Your acquired knowledge of the rewards available though proper maintenance of your agency information, and the appropriate use of record-keeping technology, should encourage you to demonstrate the wisdom of your ways. The ways of wisdom gained in offering the public more cost-effective records administration, efficient technical management, and timely delivery of information services. The Guide has already indicated to you that the purpose for Andhra Pradesh government records management program, is to reduce the cost of creating and maintaining public information. Simultaneously, its aim is to increase its information's accessibility, security, and viability as a public resource and asset. This is accomplished through the use of appropriate techniques and technologies. A clear cut mission like this can clearly result in rewards. This guide was written created of a belief that many agencies have considered neither these rewards nor the benefits from their accrual.

Actively managed agency records can produce both direct and indirect cost savings and cost avoidance. Traditional studies and measurements of such government activities have documented that the reduction of stored records volume can directly reduce labor, space, and equipment costs. Three cost areas still at the top of the list of any budget reduction list. Of the total volume of records on hand in any government agency that has not been practicing records management, statistics have shown that one third of the total are active records and need to remain in the office. Another third are inactively used and can be stored at less cost in other locations or in other formats. And remaining third are obsolete and disposable, no longer having any value to the agency or government. If, for example, you can eliminate the need for an agency to lease a self-storage unit for housing records, you have reduced government costs. The key to success in this is the elimination of both the need for the leased space, by removal of the records in it (through schedule disposal, reformatting, or consolidation at another site), and by modification of practices throughout the record life-cycle. This will prevent space from being similarly leased in the future.

Less easily quantified, but still readily apparent, are benefits resulting from better control of the creation, duplication, and distribution of your agency records. Better control will reduce record maintenance costs. Savings like this have permitted some agencies to re-allocate scare resources for use in document management technology such as imaging, computer, tele-communications, and other systems.

By using the Internet, you can make contact with sources of records management assistance within minutes. It does not even require use of an office computer. A trip to the local public or college library can put any records officer in touch with a wealth of information resources-another reward! Bench Marking is an extremely useful management technique in the field of government information and records management. It requires a review of existing systems and programs in outside organizations which have a mission and operations similar yours. Record managers can pattern their programs after the best models available. Why go to the time, effort, and expense of reinventing an existing system or administrative mechanism? Why not profit from the experiences (both good and bad) of other agencies? Find the best and the brightest, and borrow the techniques and technologies that are good. Work to apply them in a way that makes them work even better! Take advantage of existing programs, materials, and systems. Reach out to leaders in your areas of interest. More often that not, you will be surprised how much they have to offer, and how willingly they offer it. This is particularly true of other government programs and agencies. Most of their publications, training materials, and other resource material is in the public domain and non-proprietary.

Appendix 1

RECORDS SURVEY FORM

1. AGENCY	2. SUB-AGENCY

3. OTHER ORGANIZATIONAL UNIT (section, bureau)	4. LOCATION OF RECORDS

5. PERSON RESPONSIBLE FOR MAINTAINING RECORDS	6. TELEPHONE

7. RECORDS SERIES TITLE

8. **FILE TYPE / NAME** -- NUMBER (Continue overleaf)	9. INCLUSIVE DATES FROM ------------------------------- THRU -------------------------------
10. ARRANGEMENT (Describe if any)	11. TOTAL NUMBER --- NOTES:

12. USAGE OF RECORD

ACTIVE / CURRENT --

SEMICURRENT --

13. STATUS RECORD COPY? CONVENIENCE COPY? IS INFORMATION DUPLICATED ELSEWHERE? --------------------- ---	14. PUBLIC ACCESS RESTRICTIONS? Yes No LEGAL AUTHORITY --

15. RECOMMENDED RETENTION L (one year) ---------------------------------- D (ten years)--------------------------------- R (fifty years)---------------------------------	16. RELEVANT STATUTES / REGULATIONS 1. --- 2. --- OTHER ---	17. RECOMMENDED FINAL DISPOSITION DESTROY RETAIN ARCHIVES

18. VITAL RECORD? Yes No	19. ADDITIONAL REMARKS:

Centre for Good Governance

20. SURVEYOR'S NAME	21. TELEPHONE / EMAIL	22. DATE

Serial Number	File Number
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Appendix 2

<u>RECORDS SERIES SUMMARY FORM</u>

1. RECORDS SERIES TITLE
2. RECORDS SERIES DESCRIPTION (Nature and purpose, types of information or documents, Continue on reverse if necessary)

3. INCLUSIVE DATES FROM ---------------------------------- THRU ----------------------------------	4. ANNUAL ACCUMULATION SERIES STILL CREATED? Yes No ANNUAL ACCUMULATION (Number) ---

5. RECOMMENDED RETENTION
 	
L (one year) --
 	
D (ten years)--
 	
R (fifty years)--
	6. RECOMMENDED FINAL DISPOSITION
	
	  DESTROY RETAIN
	
	  ARCHIVES

7. VITAL RECORDS SERIES? Yes No	8. ADDITIONAL REMARKS :

9. SURVEYOR'S NAME	10. TELEPHONE / EMAIL	11. DATE