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Strengthening Institutional Capacity to Facilitate Decentralization in Jabalpur

Indian cities need to improve their management systems, especially their financial management policies and procedures, and build institutional capacity, especially through human resource development, to fulfill their responsibility to provide urban services. The USAID FIRE (D) project carried out an Institutional Strengthening Project with the Municipal Corporation of Jabalpur from mid 2002 to early 2004. This Project Note reviews the project background and rationale, its design and implementation, and results. It provides a broad management framework for local bodies facing similar operational constraints and seeking to decentralize their operations.

The Municipal Corporation of Jabalpur (MCJ), one of 14 corporations in the state of Madhya Pradesh, serves a population of about one million. The state's third largest city, following Indore and Bhopal, it houses the state's high court and electricity board. The city is prominent for its national defense and military establishments and manufacturing facilities. Yet, its urban infrastructure is characterized by inadequate service levels and poor service coverage, stemming from organizational, operational and financial constraints.

The USAID FIRE (D) project conducted a rapid assessment in 2002 of the city's development issues and urban management framework associated with the delivery of urban infrastructure services, i.e., water, sanitation, and solid waste management. This assessment (carried out by Wilbur Smith Associates Pvt. Ltd.) analyzed the legal, institutional, financial and technical elements required to prepare a strategic plan to manage the city's growth. The outcome of the assessment was a strategy to improve municipal structure and functions, systems and procedures, and financial management. The assessment suggested creating a municipal management information system (MMIS) linked to computerizing key activities and reorganizing staff in the central and zonal offices, as required by state rules issued in 2000. Based on this recommendation, FIRE (D) developed an Institutional Strengthening Project

(ISP) to facilitate MCJ's decentralization program. It appointed consultants (NCR Consultants Ltd., Chennai) to assist MCJ and FIRE (D) in designing and implementing the MMIS, computerizing key municipal activities, and preparing an organization chart and job descriptions.

Project Background and Rationale

The assessment identified the following key issues and constraints in the municipality's structures and functions, systems and procedures, and financial management.

Structures and Functions

Like other municipalities in the state, the MCJ consists of: a legislative wing, with a mayor-in-council, general body of elected officials, and committees; and an executive wing, with seven key functional departments headed by the municipal commissioner. The corporation is divided into 60 electoral wards. As part of the decentralization initiative, the corporation divided its jurisdiction into eight zones, each with seven or eight wards. Each zone has an office and is headed by a divisional officer.

The MCJ prepared a three-staged decentralization plan for gradual delegation of functions to the divisional officers at the zonal offices. The principle was to create mini-

NCR Consultants Ltd. drafted a training manual on municipal accounting and procedures that includes sample training materials, detailed training requirements, a schedule of training sessions, and levels of employees required to take such training. It is available in English and Hindi.

Results and Outlook

With substantial support from the corporation, the new accounting system IDEAS was installed in eight zonal offices and in the headquarters' accounts, revenues and computer departments. The zonal offices primarily record revenue collections, which is then used to update headquarters' revenue department records. The central accounts department records all payments and voucher creations. The computer department records and monitors public works activities. The consultants are currently overseeing the MCJ performance to ensure that the staff internalizes the new operations and are conversant with recording entries and analyzing MIS outputs.

The MCJ appointed an independent chartered accountant to value corporation assets, required to prepare the opening balance for FY 2005. The process is nearly completed and will be incorporated into IDEAS. Accounting staff, trained to use IDEAS, will coordinate accounts-related work with the chartered accountant.

The draft HR policy and the revised organization structure have been submitted to the corporation for its review. The training manual on accounting and procedures has also been submitted to the MCJ.

All IDEAS outputs – accounting and MIS – are located in the MCJ headquarters, on the central server in the computer department. The corporation proposes to install a wide area network to facilitate constant monitoring at all levels, and has begun discussions with telecom providers to install the system. The MCJ also proposes to appoint a database administrator to oversee IDEAS operations.

The ISP was designed to strengthen the backbone of all corporation operations, systems and procedures. The purpose of its accounting focus is to enhance the corporation's creditworthiness. With India's states likely to base their accounting procedures on the recent Government of India's Comptroller and Auditor General's Task Force Report, the MCJ is prepared to make a smooth transition to the improved system. The ISP has successfully achieved this objective and is a step toward improving the corporation's financial management. However, the corporation has yet to strengthen its resource base, which consists primarily of property tax assesses. While initial efforts to increase these revenues were not successful, renewed efforts are now being made with the new IDEAS system in place. The success of the decentralization effort will strengthen the MCJ's ability to improve its financial position and thus its ability to provide adequate urban services to all its residents.

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The mission of the Indo-US FIRE-D Project is to institutionalize the delivery of commercially viable urban environmental infrastructure and services at the local, state and national levels. Since 1994, the Project has been working to support the development of demonstration projects and of a sustainable urban infrastructure finance system. Now, the Project is also pursuing this mission through:

- Expansion of the roles of the private sector, NGOs and CBOs in the development, delivery, operation and maintenance of urban environmental infrastructure;
- Increased efficiency in the operation and maintenance of existing water supply and sewerage systems;
- Strengthened financial management systems at the local level;
- Development of legal and regulatory frameworks at the state level;
- Continued implementation of the 74th Constitutional Amendment; and
- Capacity-building through the development of an Urban Management Training Network.

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corporations at the zonal level, with the central office focusing on policy formulation, planning and direction, control and coordination of zonal activities and departments. Several functions were delegated to the zonal offices, which they perform with the following constraints: inappropriate assignments and unfilled positions; assignments unrelated to qualifications and unrelated functions added to staff to overcome staff shortages; inefficient reporting between zonal and central offices; lack of an enterprising work environment and career structure that motivate staff and reward innovation.

Systems and Procedures

The assessment found cumbersome systems and procedures, due to the number of steps to be followed and manual record keeping, which result in untimely reports and lack of communication between departments with related functions. There is a need to streamline systems and procedures to enhance efficiency and facilitate coordination between departments. Information sharing is required for prudent planning, good management, and monitoring. The assessment identified the following key issues and constraints:

- Budget preparation and monitoring. Ineffective use of the annual budget as a tool for financial management and performance monitoring; absence of a budget narrative to explain policies underlying estimates.
- Accounting systems and procedures. Inadequate accounting system (i.e., single entry, cash-based system); absence of appropriate accounting of grants/transfers from the state government; absence of an effective financial reporting system; delays in responding to audit inquiries.
- Revenue management. Incomplete and inaccurate data on revenue sources (property tax, water charges, trade licenses, etc.); a complex and ineffective self-assessment system for property taxes; ill-conceived computerization of tax assessment, billing and collection; and lack of a system to track collections.
- Expenditure management. Inaccurate information on the physical and financial status of public works, due to a lack of project monitoring capability; absence of time and cost overrun recording mechanisms; inappropriate approval procedures.
- Assets and liabilities. Lack of information on municipal fixed assets and their valuation; lack of information on the MCJ's current and long-term liabilities.

Financial Management

The assessment found that the city's revenue (operating) account achieved marginal surpluses from FY97 to FY01 because it excluded overdue liabilities. The capital account drew down significantly

from the operating account. It identified the following issues and constraints:

- Maintenance and reporting of accounts. Substantial accrual of non-debt liability owed to the state electricity board (Rs. 4,000 million in FY 01).
- Revenue generation. Poor response to the self-assessment system of property taxation, low returns on municipal-owned leased land, and poor tax/water charge collection.
- Fund application. No expenses for debt service; provident fund (India's social security) contributions in arrears since they are used for MCJ operations.

Project Design

The prime objective of the ISP was to streamline MCJ systems and procedures, linking activities and creating an efficient reporting system between the central and zonal offices. The initiative aims to improve planning and management of municipal functions. The creation of the MMIS lays a strong foundation for future resource mobilization initiatives. A human resource plan, required for the revamped operations to be carried out, was also an integral part of the project.

The broad scope of the ISP was to computerize certain municipal systems and procedures, reconcile resource base records, create a municipal asset inventory, and prepare a human resource plan and policy. In November 2002, FIRE/MCJ appointed NCR Consultants to carry out the following scope of work:

1. Prepare a municipal management information system (MMIS) that includes: computerization of municipal systems and procedures for revenue and expenditure management and budget preparation; and guidelines for preparing all mandatory registers, recording and reporting, accounting and auditing.
2. Computerize key municipal activities.
3. Assist MCJ to strengthen its resource base and support the MMIS by: reconciling property tax and water connection records; and by preparing a computerized municipal asset inventory.
4. Prepare a human resource development plan and policy including: an organization chart and plan for staff allocation based on state-required categories for the central and zonal offices; and an HR policy incorporating rewards, incentives, training and career planning.
5. Train staff to maintain the MMIS.

Project Implementation

The ISP project had three prime components: municipal functions, focusing on accounting systems and procedures; human resource planning; and on-the-job training. Activities were undertaken

simultaneously on all three components over the next eleven months.

Reengineering Municipal Functions Regarding Financial Management

The principal objective of reengineering municipal functions was to streamline MCJ accounting systems and procedures. The activity consisted of an evaluation and reengineering of:

- Revenue accounting. After a critical review of revenue collection processes, reporting, recording, and information flow within MCJ and across zones, the redesign module proposed streamlining and establishing relationships with banks for information on revenue collection. No major change was proposed for the job description of concerned employees, other than a reduction in paperwork due to computerization.
- Expenditure accounting. This module covered the following transactions: establishment (salary, wages and pension), general administration, and public works. An important sub-module on public works covered physical progress of these works and associated payments.
- Asset inventory. The software module was designed to store data and generate a history of each fixed asset of MCJ, including depreciation, improvements, and disposal.
- Liability and loan inventory. This module provides details on interest rates, payment due dates, penalties for delayed payments, waivers, and write-offs. It captures opening and current balances of all liabilities.

The outcomes of the reengineering process were a key input to computerization and software development. The team recognized the need for a detailed chart of accounts and for developing a realistic budget for the next financial year. The team developed a budget information data sheet (BIDS) to capture the financial requirements and plans of each department. All of the above was used to develop the software *procedures module*.

The application software was modeled on the reengineered municipal functions and was called IDEAS, Intelligent Double Entry Accounting System.¹ Its four components – revenue, expenditure, assets and liabilities – had input features consisting of database and transaction components and output features consisting of revenue, accounting, financial, and public works reports. Examples of how decision-makers could use these reports include:

- Assess revenue collection performance by zone and by tax collector;
- Assess revenue collection by revenue item over any period;
- Track costs by department, activity, and zone;

- Generate financial statements consisting of budget variance, cash flow, revenue and expenditure, trial balance and balance sheet; and
- Monitor public works with reports showing physical and financial progress by type, department, ward/zone/head office level. These reports can be used to explain budget variances.

Human Resource Planning

The purpose of the human resource (HR) planning exercise was to clarify roles and job responsibilities, streamline reporting relationships, and identify training needs for different classes of staff. The consultants analyzed daily duties of 682 municipal staff and job descriptions of 343 municipal staff to identify the nature of the jobs currently performed and any mismatches between qualifications and responsibilities. They held detailed discussions on the two surveys with the commissioner, heads of departments, and zonal officers. Based on this information, they drafted job descriptions for staff directly involved in managing the MMIS, which included 186 staff at the headquarters and 70 staff in the zonal offices.

The outcome was a detailed organization structure for the headquarters and zonal offices, based on the state requirements and existing staff. The consultants prepared a draft human resource policy that incorporated recommended procedures for recruitment, hiring, training, promotion, etc. The HR policy also contains job descriptions for positions for Class I through IV level staff.

Project Training

NCR Consultants Ltd. provided technical and behavioral training to MCJ staff. Technical training covered practical aspects of double entry accounting, record keeping, and preparation of financial statements and was carried out in three phases:

1. Sensitization training briefed the staff on the project objectives and benefits; 130 staff participated (24 senior staff and 110 operational staff).
2. Conceptual training covered municipal accounting, double-entry accounting concepts, and detailed accounting and recording procedures; 44 operational staff participated.
3. Implementation training (for approximately 20 staff) covered using the reengineered systems. A seven-person accounting implementation group was also formed to oversee implementation of the system in the accounts department.

Behavioral training covered inter-personal behavior, leadership, and team building. Its objective was to improve the cohesiveness and productivity of MCJ staff. This training led to the formation of staff working groups that supported implementation efforts.

¹ The consultants developed the software modules on an Oracle 9i platform with Visual Basic at the front end and crystal reports for output generation.