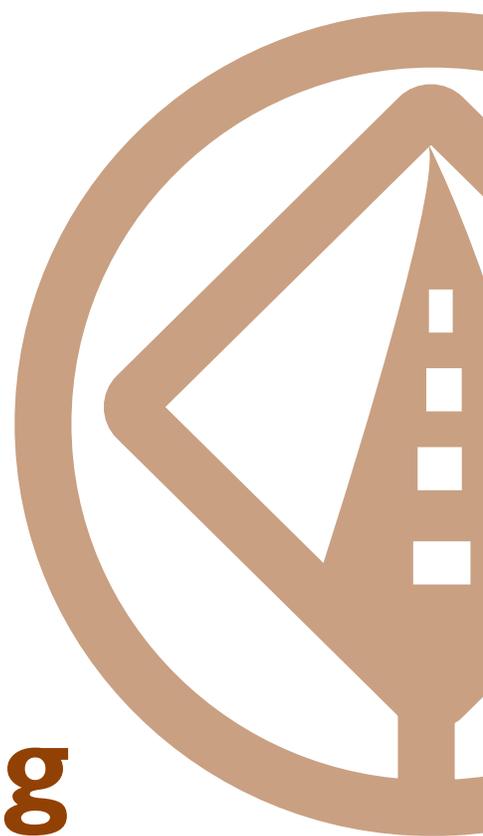


Part 3



Institutionalizing the Process and the Way Forward





**Institutionalizing
Improved Urban
Management and
Infrastructure
Development**



Institutionalizing Improved Urban Management and Infrastructure Development

Institutionalization is defined as the long-term sustainability of improved urban services and governance reforms. Institutionalization can succeed only when reinforced by a wide variety of activities, including legislation and pilot projects, political advocacy, professional training, information sharing, and incentive-based funding. Institutionalization needs to take place at all levels of governance—local, state, and central—but state and central governments bear the additional responsibility of encouraging and facilitating local government efforts to institutionalize governance reforms and service innovations.

Strengths. Institutionalization increases the likelihood that local governments will replicate innovations and reforms that have been successfully introduced and tested through pilot projects across India. A variety of tools, ranging from the Model Municipal Law (2003) to specialized guidelines, handbooks, training networks, professional associations, and performance-linked incentive schemes, such as the Jawaharlal Nehru National Urban Renewal Mission (JNNURM) and the 13th Finance Commission, are now available for states and local governments to support the institutionalization process.

Weaknesses. Institutionalization of improved urban services and governance reforms is still in its infancy in India. Institutionalizing and sustaining innovations and reforms, particularly those achieved as a result of the efforts of the Government of India (GoI) under JNNURM, requires money, effort, and new capacities within local governments. Yet most local governments do not have these resources available in adequate amounts, and the higher levels of government are not devoting the necessary effort or resources to support institutionalization.

FFRE (D) PROGRAM



Key Things to Remember

1. **Change is never easy.** Institutionalizing the concepts and innovations covered throughout this guidebook requires significant effort on the part of state and local governments.
2. **Institutionalization of urban governance reforms and service innovations is about overcoming the natural inertia of state and local governments by motivating and sustaining new ideas and new ways of operating.** This requires institutional as well as employee incentives, it requires constant learning and professional development, it requires better leadership and more effective city managers, and it requires knowledge sharing across the country.
3. **Institutionalization of improved urban management and infrastructure development calls for the use of change management tools.** When change management tools (e.g., incentives, regulation, knowledge sharing, and on-the-job training) are available and used effectively, institutionalization can succeed. But if some tools are missing or not used effectively, the institutionalization process is weakened.
4. **Education and communication are essential to getting local governments to decide to sustain reforms and innovations over the long term.** There is a need to work with local governments to help them understand the rationale for, and the benefits that can be derived from, improved urban services and governance reforms.
5. **Training, hand-holding, and facilitation are needed to successfully promote sustainable reforms.** State and local governments have to develop staff capacities to operate successfully in a new urban environment.
6. **Participation and involvement of elected leaders and key officials enable them to take ownership of the reform and innovation process.** There is a need to bring state and local government officials into contact with their professional colleagues who have already successfully adopted, and are now employing, new policies, systems, and procedures.
7. **Technical support and benchmarking are crucial to measuring and evaluating the extent to which institutionalization has occurred, and what still needs to be accomplished.** Uniform indicators of service performance and outcomes permit comparative evaluation of the sustainability of local government reform efforts.
8. **Incentives create the motivation that is essential to institutionalize the entire reform process.** There needs to be a series of incentives, including stronger regulations and conditional financing terms, that motivate and reward local governments for institutionalizing improved urban governance measures and better service delivery.

This chapter provides a discussion of the efforts to institutionalize the process for improving urban management and infrastructure development in India.

It includes key aspects of change management, such as knowledge sharing, technical training, benchmarking, incentive mechanisms, and regulation. It also examines the question of what remains to be done in India and proposes a way forward to more sustainable improvements in urban infrastructure services and governance.

ARTICLE 7.1

Introduction to Institutionalizing Improved Urban Management and Infrastructure Development

Despite successes achieved by many individual local governments in improving infrastructure services, accessing market-based finance, and reforming urban governance, India's real challenge is replicating and sustaining these innovations on a large scale. With limited local capacity, all centrally driven reforms and financial assistance have difficulty sustaining major, on-the-ground change across the country. Lasting change in urban management requires a sustained effort over the long term, so that tangible results become widely institutionalized and fully embedded in local systems.

Many FIRE (D) Program activities have been successful primarily because of sustained partnership with participating local and state governments and close hand-holding during the technical development and introduction of reforms (see Chapter 2 for the approach). Under JNNURM, the Ministry of Urban Development (MoUD) is trying to reinforce policy reform by providing significant grant incentives for local government projects and, to a lesser extent, technical assistance. Fiscal incentives to adopt reforms have also been built into the municipal finance recommendations of India's 13th Finance Commission (2010–2015). Nevertheless, the National Planning Commission's appraisal of the 11th 5-Year Plan shows large gaps remain between the desired reforms and India's urban reality.

Institutionalizing JNNURM and Finance Commission-supported reforms will require a variety of different efforts that include creating and sustaining specialized training programs, increasing the number of states with active City Managers Associations (CMAs), strengthening the Regional Centers of Urban and Environment Studies (RCUES) and the Centers of Urban Excellence, making use of performance benchmarking to focus attention on improved service delivery, and adjusting fiscal incentives for reform to become more credible.

Ask Yourself

If you are responsible for implementing projects

- Have you been able to access information, analysis, training, and technical assistance related to methods for sustaining improved urban management practices?
- Can you access a CMA, training institute, or Center of Urban Excellence in your state for relevant information, and, if so, has it been helpful in sustaining urban reforms?
- Has enough been done to sustain an urban reform agenda in your state or local government?
- How can you demonstrate your jurisdiction's ability to institutionalize the delivery of essential services?

If you are responsible for setting policy

- Do the institutional environment and its related incentive structures adequately encourage local governments to institutionalize essential urban management reforms?
- Are there effective institutional arrangements in place to ensure that local governments understand the advantages of improved urban management and to provide them with effective assistance and on-the-job training to sustain needed changes?
- Has provision been made for an appropriate role to be played by India's institutions of higher learning, specialized training institutes, nongovernmental organizations (NGOs), and the private sector in expanding the use of innovative urban management practices?

The Challenge of Institutionalizing Improved Urban Management and Infrastructure Development

Compared to the topics reviewed in the previous chapters, institutionalizing improved urban management and infrastructure development is a broader concept. The ideas and innovations discussed in relation to integrated planning, city financial viability, developing commercially viable projects, and urban infrastructure financing all represent changes that need to be institutionalized across India to sustain long-term improvements in urban services and governance. That institutionalization process is under way in some parts of the country, but not others, as displayed by the varying commitments of states to adopt JNNURM reforms.¹ There are local governments that have institutionalized some reforms and innovations, but not yet started on others. This is normal and to be expected. Institutionalization across a large number of relatively autonomous and diverse states is bound to take time. The question is whether improvements to urban governance are spreading or stagnating, and whether the pace of change is sustainable in light of the current urbanization trends in India.

In 1992, the GoI took a crucial step toward coping with increasing urbanization by adopting the 74th Constitution Amendment Act (CAA), which was designed to decentralize governance authority to local governments. Many reform initiatives since then have sought to strengthen the decentralization process. It is recognized that implementation of the 74th CAA has been slow and somewhat uneven; some states have taken significant steps toward compliance, while other states have been less successful. Some local governments have seized the opportunity to take more initiative in urban governance, and others have not. In this context, **the institutionalization challenge is to find ways of sustaining and building on the current reform agenda and innovative pilot projects that have started improving urban governance and infrastructure services in India.**

Just two years after passage of the 74th CAA, the GoI and the United States Agency for International Development (USAID) launched the FIRE (D) Program as a means of providing support for improving municipal services and governance. Part of that support has been directed toward institutionalizing the innovations and reform measures that have been tested throughout the country. The emerging challenges in institutionalization are scaling up the effort in more states, ensuring that incentive structures are credible and effective, making training programs more coordinated and accessible, and using service delivery benchmarking to encourage and sustain change.

Technical Diagnostic on Institutionalization

Sustaining and replicating initial improvements in urban governance and service delivery is a monumental task that requires incorporation of an effective change management process. State and local governments have to understand the need for reforms, focus on new and/or revised policies that enable change on a large scale, and take advantage of resources available for sustaining efforts over the long term. Change is never easy, but sustaining progress over the long term is even more difficult. Institutionalizing the concepts and innovations described in the previous chapters of this guidebook requires a significant effort on the part of state and local governments. Here are the main underlying challenges to institutionalization.

- **Limited knowledge** about the benefits of reforms, how to undertake them, and how to permanently institutionalize them within government structures.
- **Few avenues to gain specialized education and urban management skills.** Managing modern cities requires specialized skills that few civil servants and local government staff have. There are not enough civil engineers, financial experts, social scientists, technology professionals, or lawyers working with local governments.
- **Not enough participation among diverse stakeholders** in the development process. Sustainable solutions to today's urban challenges require the involvement of all members of society, including local businesses and the poor. State and local governments can benefit from learning from their professional colleagues, as well as knowledge centers and the private sector, which have successfully adopted reforms and can contribute to the institutionalization process. For the institutionalization process to take root, cities have to work for all segments of society.
- **Urban data are not available or informative.** Government officials, investors, and practitioners can make informed decisions only when objective and reliable data exist. It is difficult to evaluate progress and make course corrections over the long term without an effective urban indicator monitoring system.

¹ See the National Planning Commission's appraisal of urban development promoted in the 11th 5-Year Plan.

- **Incentives structures do not necessarily produce desired outcomes.** For incentives to motivate and reward state and local governments for institutionalizing reforms, they need to be tied directly to performance indicators. This is as applicable at the programmatic level as it is within governments, for employees. To sustain changes in service performance and good governance, staff need to work together. This requires leadership as well as positive and negative reinforcement (e.g., financial bonuses and performance report cards).
- **Regulatory and statutory mandates are still unclear.** The roles, powers, and responsibilities among different government agencies have to be clear before reforms can be implementable and sustainable. Expectations of performance have to be clear and regularly monitored with objective criteria. Based on performance, negative and positive consequences need to result in a timely fashion from regulatory authorities and public pressure.

Recognizing these requirements, the FIRE (D) Program worked with its partners, including MoUD, to build an institutionalization framework. Regional and national events provide information to state and local governments about technical innovations and the impact that they have had in pilot projects with participating local governments. CMAs, Centers for Urban Excellence, and the National Institute of Urban Affairs (NIUA) provide avenues for urban management professionals to exchange experiences about their reform efforts and learn from their practitioner colleagues. A network of training institutions and subject matter experts can provide courses designed to build local government staff capacity to manage reform. Public sector agencies, like urban infrastructure funds (see Article 6.6), academic institutions, and a growing list of private consulting firms, provide technical assistance to local governments to sustain the reform efforts. Finally, the GoI provides incentive structures to encourage the change through JNNURM, the Pooled Finance Development Scheme (PFDS), and the 13th Finance Commission, among others.

Pilot Projects: Design, Implementation, and Policy Reform

As many innovative pilot projects demonstrated the benefits of the urban reforms discussed throughout this guidebook, the need to replicate the achievements became apparent. The FIRE (D) Program, in partnership with other organizations, launched several initiatives explicitly geared toward sustaining and expanding the early progress that these pilot projects made.

- **Knowledge Products** on the innovative work being piloted throughout the country (e.g., project notes, case studies, reform primers, the Model Municipal Law [2003], National Municipal Accounting and Training Manuals, and the Municipal Asset Valuation Manual) are important inputs for supporting urban reforms in India. MoUD's Peer Experience and Reflective Learning (PEARL) Program, coordinated by NIUA, is an effort to organize and share knowledge projects more systematically across the country.
- A **Network of Training Institutions** was created to provide a forum for inter-institutional experience sharing, faculty exchanges, and a dialogue on how to promote better urban management at all levels.
- **CMAs** are state-level knowledge-sharing institutions for city managers and state officials dealing with urban issues. CMAs offer a unified platform for all local government members to facilitate peer learning, training, technical assistance, and advocacy of common urban goals and concerns. With help from the International City/County Managers Association (ICMA), the FIRE (D) Program supported Asia's first CMA in the State of Gujarat in 1997, which was followed by the formation of CMAs in 13 other states across India.
- **Private Consultancy** in the urban sector is a new phenomenon that has grown tremendously since the early 1990s, in part from substantial funding and professional support from the FIRE (D) Program. By making extensive use of local experts, organizations, and private companies, knowledge about urban challenges and solutions has expanded. Now, local governments have many options for accessing external support when needed.
- **Urban performance** indicators is critical to evaluating the current status of services and reforms, identifying appropriate norms for local vicinities, and designing better support programs in the future. The FIRE (D) Program helped Tamil Nadu introduce the first state-wide indicator system focusing on finance and service provision key areas, particularly water supply, sewerage, and solid waste management.
- **Incentive Schemes** provide financial and regulatory impetus for institutionalization. Cities participating in JNNURM are supposed to implement well-defined, albeit ambitious, reform

agendas. MoUD also created a financial incentive scheme to encourage the replication of pooled financing, first introduced by the FIRE (D) Program in the State of Tamil Nadu. FIRE (D) also helped introduce a capital grant incentive scheme for the water sector in Maharashtra to reduce unaccounted-for water, improve energy efficiency, and expand services to the poor. Rather than just transfer funds to local governments, the State of Maharashtra wanted to advance these specific policy objectives while providing resources to undertake them.

There is a growing awareness, exemplified by the recommendations of the GoI's 13th Finance Commission, that more needs to be done to increase the pace and reach of urban reforms. Improved urban management needs to be translated into measurable improvements in service delivery. Sustained efforts at all levels of government are required to institutionalize the urban agenda, which by nature is a long and resource-intensive exercise. The tools listed above and in Table 7-1 are critical for the institutionalization process, and they should be expanded on by central and state governments.

Table 7-1. Confronting Institutionalization Challenges in India

Institutionalization activity	What was learned from the activity	Pending issues
Knowledge Products and PEARL Program	Project notes, model laws, and technical manuals provide essential, substantive material for training events around the country. They raise awareness of the urban sector and can be adapted widely for local institutionalization.	Continued development of knowledge products needs to objectively assess results to date and capture ongoing innovations. Sustained attention for organizing and disseminating these (e.g., through PEARL) is necessary.
Network of Regional/ State Training Institutions and Centers for Urban Excellence	Training of government staff officials, at all levels, is essential to the creation of a cadre of urban professions. On-the-job training is the only way to significantly build internal capacity of all the technical aspects that are necessary for managing cities today.	A better mechanism is required to provide long-term, on-the-job training of government staff in all the reform areas. Professional certificate programs (e.g., public finance and management) should be developed in universities and research institutions.
City Managers Associations	Sharing of experiences among urban management professionals is a powerful means of sustaining and reinforcing improved urban services and governance.	Only a small number of states have established CMAs and even some of those are having difficulty building up their operations. They remain relevant if they are responsive to the members. CMAs and PEARL need to coordinate knowledge products and training opportunities within each state.
Private Consultant Services	Institutionalizing better urban management and infrastructure development requires technical expertise typically unavailable within the local government. Private consultant services can effectively close this gap, but they require financial resources and active management to ensure high-quality performance.	Private urban consultant services have rapidly expanded as a result of JNNURM funding, but this development risks lower-quality outputs. Better contract management (see Article 5.8) and on-the-job training is required to ensure quality, lasting results.
Urban Performance Indicators	To develop effective incentive schemes and regulatory framework, there needs to be a thorough understanding of urban performance and finances, which an indicator system can provide. Without a permanent mandate and resources, the effort runs the risk of being unsustainable.	The FIRE (D) Program's initial pilot project, which other organizations have built on, such as MoUD's service-level benchmarking program, needs to be expanded into a national indicator and benchmarking system that requires consistent data formats and disclosure for all local governments.
Incentive Schemes	Incentive schemes have the potential to motivate local and state government officials to focus on the urban reform agenda.	Incentives schemes need to be properly managed, monitored, and enforced to have credibility and to achieve their desired impact.

Integrated Solution: The Change Management Approach

After the initial policy changes of the early 1990s to liberalize the economy and decentralize political authority, state and local governments began testing innovative models for governance and service delivery, often with the help of central government and donor assistance, like the FIRE (D) Program. Subsequent Central Finance Commissions and major MoUD initiatives, like the Model Municipal Law and JNNURM, have brought the urban reform agenda to the forefront. General consensus exists on the key reforms that state and local governments need to undertake, but how to accomplish them, across the whole country, is less certain. It requires scaling up many of the FIRE (D) Program pilot projects for institutionalization so that the appropriate knowledge and tools are more widely available.

Change management is an approach used by private business organizations seeking to improve their commercial and financial performance over the long term; these improvements often require the organizations to make difficult changes. The fundamental principles of change management can also apply to governmental organizations, such as state and local governments that want to institutionalize improved urban management and infrastructure development. Change management deals with the “how to” of change, rather than the “what” of change. Change management is about overcoming the natural inertia of organizational status quo to truly institutionalize new ideas and new ways of operating.

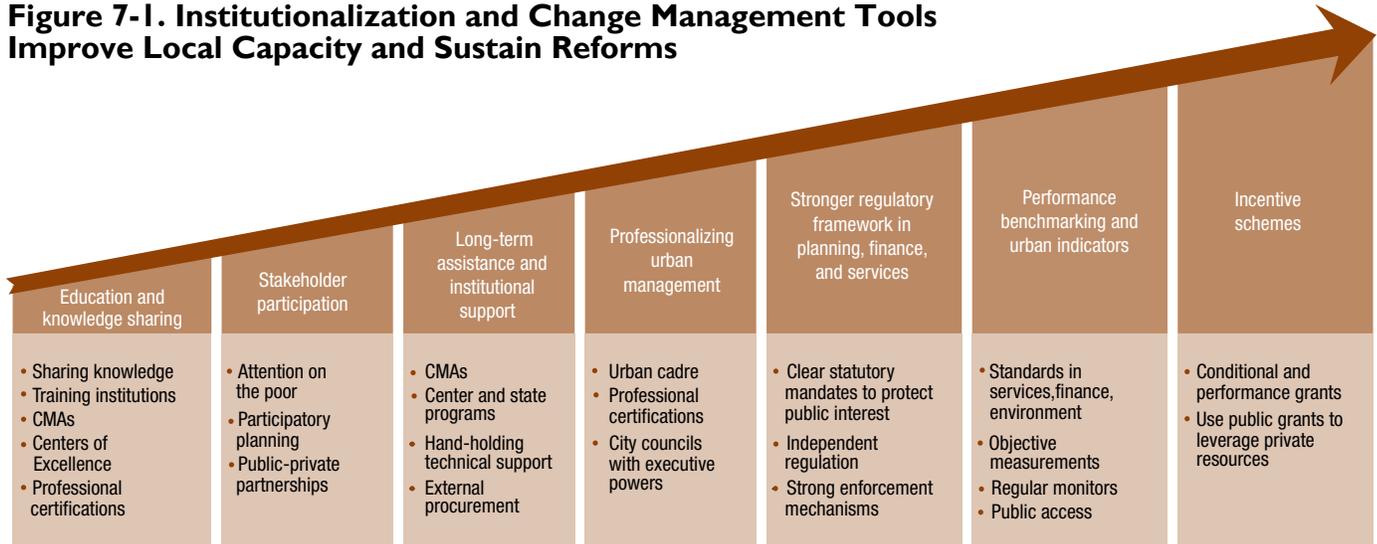
Other chapters in this guidebook deal with the content of many reforms and the process of developing sustainable and inclusive infrastructure. The tools for institutionalizing deal with sustaining the process so that it becomes a regular part of urban management:

- Education and knowledge sharing to build local capacity
- Stakeholder participation and special attention to the poor to build city-wide support
- Long-term assistance and institutional support to improve urban governance and services
- Professionalizing urban management
- Stronger regulatory frameworks for oversight and compliance
- Performance benchmarking to improve monitoring and evaluation
- Improved incentive programs to leverage more resources

Figure 7-1 shows the institutionalization tools that are used to strengthen and sustain the basic steps of initiating reforms or pilot projects. When all tools are available and used effectively, institutionalization can succeed. It is about building capacity, knowledge, and institutional structures that all reinforce the reform efforts to date. But if some tools are missing or not used effectively, the institutionalization process is weakened. The “way forward” section discusses the most important areas of focus to make these institutionalization tools applicable and available on a large scale throughout India.



Figure 7-1. Institutionalization and Change Management Tools Improve Local Capacity and Sustain Reforms



Capacity Requirements for Institutionalization

A variety of skills are required to further institutionalize the urban governance reform agenda. Table 7-2 lists the skills required to facilitate the institutionalization process (mostly at the state and center levels). The skills required at the state and local levels pertain to specific technical and organizational changes introduced at the local government level, and these have been outlined in the previous chapters.

Table 7-2. Capacity Requirements for Institutionalization

Functional capacity required	Personnel required
Knowledge product development	Subject matter experts, writers and editors, multimedia production experts
Training needs analysis	Organization development experts
Training course development and delivery	Subject matter experts, training experts, administration for training institutes
Professional association development and accreditation	Senior association managers, services product developers
Service performance benchmarking and improvement	Utility management experts, engineers, public finance analysts, customer service experts, information management experts
Incentive scheme development	Economists, public policy experts, lawyers

The Way Forward

The institutionalization process described in this chapter can be applied to each technical area covered in this guidebook. It can be used to strengthen good governance and encourage the leaders of local governments (elected and appointed) to become more accountable to the people of their cities. Local government needs to be accountable for city development planning; for the city's financial resources and overall viability, to effectively develop good projects and mobilize capital; and for improving service delivery. A number of critical paths emerge from the topics discussed in previous chapters. And there are many common elements repeated throughout the guidebook that relate directly to institutionalization. Most of the broad recommendations are consistent with the Mid-Term Appraisal of the 11th 5-Year Plan (see relevant points in box below).

Local government needs to be accountable for city development planning; for the city's financial resources and overall viability

Way Forward: Making City Management Sustainable and Promoting Positive Urban Growth

Highlights from the Mid-Term Appraisal of the 11th 5-Year Plan (July 2010)

Local Governance

- Devolve power, responsibilities, and decision making from states to local governments in accordance with the Model Municipal Law
- Reduce institutional fragmentation at all levels of government to promote holistic development
- Encourage and facilitate participation of the poor in the development agenda of the city
- Install an independent local body ombudsman to conduct audits and to look into complaints of poor administration

Development Planning

- Establish expertise in urban planning and development planning at the local level
- Institute planning processes that are dynamic, not static and rigid like Master Plans
- As local conditions differ considerably, ensure that implementation is a responsibility of the local government, rather than micromanaging from the center
- Create better-functioning land markets and a transparent system to value government-owned land, and develop a strategy for using it

Project Development

- Establish a two-stage detailed project report process for sanctioning during initial planning, and then release government funds after final cost revisions and full financial disclosure
- Strengthen monitoring process, including objective targets and timelines

Finance

- Reduce local government dependence on states and center by improving internal resources
- Continue emphasis on property tax and user charge reforms
- Leverage government funds on a greater scale through private equity and commercial debt

Institutionalization and Change Management

- Enforce the reform conditions of government incentive schemes
- Benchmark and monitor urban services through a transparent urban monitoring authority
- Create high-quality Centers of Urban Excellence, training institutions, and mechanisms for knowledge sharing
- Design financial support to encourage competition between state and local government for the next wave of reforms to make the impact of better management more visible
- Develop professional urban managers, a municipal cadre with specialized skills, and multisector teams that can sustain progress over the long term

Education and Knowledge Sharing Builds Local Capacity Building

Sustaining improvements in urban performance involves institutionalizing better practices and procedures in planning, financial management, capital mobilization, and service delivery. Local government officials and staff have to change the way that they do things, and that means learning not only new approaches and technologies for doing the work, but also learning new roles, responsibilities, and attitudes in the work place. For instance, improved delivery of water and sanitation services rests not only on local government staff mastering new approaches for delivering services and the use of new equipment. It also depends on engineers and managers regularly monitoring the quantity, quality, and accessibility of their services. Senior officials have to take responsibility for resolving issues that have led to unserved communities, and staff has to place a higher priority on customer service. Table 7-3 below provides just a few examples of the kinds of new capabilities that local government officials and staff will need to master to institutionalize improved urban management and infrastructure development. Many other subjects could be entered in each cell of the table.

Table 7-3. Examples of New Capacities Required for Essential Local Government Functions

	Development planning	Financial management	Capital mobilization	Service delivery
New approaches	Capital investment planning	Double-entry accrual accounting	Long-term municipal bonds	Cost recovery and sustainable operations
New technologies	Geographic information systems	Computerized accounting systems	Structured financing	Metering and other automated equipment
New roles	Promoting public participation	Revenue enhancement	Designing commercially viable projects	Performance benchmarking and monitoring
New responsibilities	Integration of physical and development planning	Achieving and maintaining creditworthiness	Attracting capital market investment	Fostering universal service coverage
New attitudes	Respect for the views of all stakeholders	Transparency and information sharing	Attention to investor preferences	Priority to customer service

The sheer volume of material that needs to be understood and institutionalized by local government officials and staff is daunting. **Building local capacity through long-term hand-holding, formal training, technical assistance, and employment of skilled professionals by local governments is essential to institutionalization.** Toward this end, it is crucial that state governments and MoUD devote more human and financial resources to increased provision of hands-on training programs and direct technical assistance to local governments that have committed to the reform process. The challenge will be to accomplish this on a large scale while developing a high standard for education. Sharing knowledge, strengthening national training institutions, and creating objective and formal professional standards for city management are all important ways to build local capacity.

Stakeholder Participation and Attention to the Poor Builds City-Wide Support

Participation from stakeholders throughout a city helps sustain good governance by (1) holding officials and elected leaders accountable; (2) helping prioritize, build consensus, and plan how limited resources are spent; and (3) even augmenting the limited capacity of the government sector with private and community-based resources. The poor are critical stakeholders in the development processes of cities, since they make up a large portion of the population and are integral members of the economic growth of the city.

The urban poor usually live in slum communities where housing and access to basic services is much worse than in other parts of the city. In effect, they are cut off, or excluded, from the advantages that living in the city normally confers on residents. In a physical sense, this is reflected in the lack of

household water connections, sanitary toilets, and solid waste collection in slum communities. In a broader sense, the urban poor may also be cut off from participation in the governance of their city. While the poor do vote, they are not often consulted about the plans for their neighborhoods, nor are they provided with information that would enable them to hold their elected leaders accountable for improving municipal services.

Improving local government performance is not only about improving services for those who already have service. Improvement has to extend services to the people who have up to now been excluded. Institutionalizing improved urban governance is not only about making local government officials more accountable to the well-to-do and the middle class. Accountability has to encompass dealing with the poor on issues that affect their lives. For all these reasons, development planning and service delivery need to be based on participatory processes where the views of all citizens are solicited and treated with respect.

Long-Term Assistance and Institutional Support for Improving Urban Governance and Services

Many FIRE (D) Program pilot projects have been successful only because of sustained partnership and close hand-holding during technical development and policy reform. Under JNNURM, MoUD is trying to institutionalize policy reform with project grants and, to a lesser extent, technical assistance. This approach to institutionalization has proved to be slow in showing results. More institutional support is needed, and CMAs as well as Centers for Urban Excellence and training institutions are important ways to provide that support.

CMAs are independent and nonprofit state-level organizations that help improve urban governance through knowledge sharing, policy advocacy, professional training, and technical assistance. As voluntary membership organizations, composed of many local governments within their state, CMAs can be highly responsive to the needs of cities. As of 2009, there were over 1,500 local government members across the country taking advantage of this professional association and learning platform. CMAs act as a two-way conduit, articulating the reform agenda from the top while also responding to specific needs of the local governments at the bottom. Key CMA objectives include:

- Promoting information exchange and experience sharing among local governments (policy reforms, new technologies, performance monitoring, and innovative service delivery options)
- Developing the capacity of urban managers (technical assistance on implementing reforms, project development, training, workshops, and study tours)
- Providing local feedback, through a single platform, to state government, NGOs, and educational institutions on evolving policy and implementation issues

In a few states, CMAs have become useful institutions for promoting urban management reforms and best practices. But as independent organizations, it is challenging for them to sustain their relevance over the long term, especially since the urban context continually evolves. CMAs need to stay up to date on both national and local issues, while still maintaining some autonomy from the state government. CMA activities need to stay responsive and useful to their membership, which ultimately demonstrates their relevance as professional associations.



FIRE (D) PROGRAM

Improving the financial resources of CMAs would help maintain their autonomy and expand the scope of their programs. At this point, grant funding needs to complement local government membership fees to support improvements in organization development. The same points are relevant for MoUD's Centers of Urban Excellence and proposed training institutions. The FIRE (D) Program found that the regional training network it supported could have been a good vehicle for developing urban management courses, ongoing training, and even certification. But without a sustained effort and investment from the central and state governments, these initiatives do not become institutionalized.

A national nodal agency should help coordinate the work of CMAs, Centers for Urban Excellence, and training institutions. A national agency's focus would be to evaluate and disseminate Indian and international best practices, to organize regional capacity building activities based on common needs, to provide information on accessing national grant funding, to advocate policy at the central government level, to develop certification standards (e.g., Institute of Chartered Accountants of India), and to help define appropriate curriculum. It would also provide a forum for the overall urban network to share information and lessons learned.

Professionalizing Urban Management

The original impetus for creating the first CMA in India came from an astute municipal commissioner in Ahmedabad. In fact, almost all of the improvements in urban governance that have been institutionalized in India have been championed by forward-thinking municipal commissioners. While the positive role of the Indian Administrative Service (IAS) is clear in this regard, the downside is that there are too few IAS officers with the right combination of skills and experience to manage modern cities and dramatically increase service performance and local governance.

The role of the municipal commissioner is, and will undoubtedly remain, key to the process of institutionalizing reforms in urban governance. But municipal commissioners are not urban professionals with the skills and tools required to run a modern city. Elected officials and city managers need the support of skilled and creative planners, accountants, engineers, information technology experts, financial analysts, lawyers, and community development specialists. In short, an urban cadre needs to be created and professionalized from top to bottom to institutionalize the many reforms that have been initiated. For this to happen, professionals need to see careers in municipal government as both challenging and rewarding. Better opportunities should be available for staff to advance professionally in a technical area, and even move from their own specialty into broader city management roles. Local government resources need to pay competitive salaries to professionals to attract the best possible talent, rather than relying on outmoded bureaucratic organizational models.

One approach to creating more city management professionals is to establish a special cadre within the IAS itself or at the state level. A professionalized "urban service" could be an elite body whose training and assignments would focus on the complex and multidimensional challenges of city management. Entry into the urban service would be based on the mastery of one or more essential urban management skills, such as development planning, municipal finance, service delivery, or poverty alleviation. Current civil servants could choose to specialize in urban management and/or candidates would be selected among university graduates from programs that provide appropriate academic preparation in the sector. Over time, universities and national training institutes could be encouraged to offer degree programs structured to meet the needs of the urban service. Opportunities for post-graduate education in management, public policy, and technical sectors would need to be offered to members of the urban service throughout their careers, and a professional accreditation system could complement this (e.g., the Government Finance Officers Association in the United States).

It is important to point out that urban infrastructure has project cycles (development through implementation and operations) of longer durations than normal civil servant rotations. Abrupt changes in posts are highly disruptive to projects, and on many occasions, the transfer of a key official has undermined efforts to improve governance (e.g., projects have been cancelled after several years of work and investment). As mentioned already, development skills are specialized and technical, making them difficult to learn in short time periods. Urban management needs to be relative stable to sustain advances in urban development.

Almost all of the improvements in urban governance that have been institutionalized in India have been championed by forward-thinking municipal commissioners

Finally, for decentralization to occur as envisaged by the 74th CAA, managers have to be accountable to the local government, not the state or central government civil services. This means that everyone working in the local government has to be accountable to the mayor and/or council, since they are the only ones elected by the city's residents. This accountability has to be built into the government system. The mayor-in-council could have greater executive powers in appointing urban managers and discretion over their compensation and overall work.

The most important thing in the near term is to make urban management a sought-after career. The number of well-qualified urban managers needs to be built up as rapidly as possible so that forward-thinking municipal commissioners can find the talent they need to manage the reform process in their cities.

Stronger Regulatory Frameworks for Oversight and Compliance

Education, knowledge sharing, institutional support, and professionalized managers all promote institutionalization from the “supply side” by improving essential knowledge, skills, and attitudes. However, all this capacity building becomes more effective when local governments are earnest about improving services. The remarkable leadership of some urban officials has been exemplary, but, **over the long term, robust regulatory frameworks set the conditions and standards under which all local governments operate.** Regulation provides “demand side” stimulus through clear standards, effective monitoring, appropriate incentives, and tough enforcement. There are a number of changes to the current regulatory framework that would help sustain the demand for reform at the local government level and that would thereby promote broader institutionalization of the development process covered in this guidebook.

Planning regulation. Regulatory strengthening could promote the institutionalization of development planning in local governments by giving city development plans (CDPs) a similar legal status as Master Plans. In the same way that a local government's Master Plan regulates and guides land use, its CDP should regulate and guide the overall development of the local government through a long-term vision combined with near-term prioritization of projects and a financing plan for those projects. The Town and Country Planning Act currently regulates only the preparation of Master Plans, but it could be modified to encompass CDPs as well. This would put the two types of planning on an equal footing and create the necessity for local governments to institutionalize the development planning function as a regular part of their responsibilities. State municipal acts would also need to incorporate the development planning function so that local governments are explicitly authorized to perform the function. With these regulatory changes, many more local governments would seek to institutionalize development planning and the use of CDPs to guide their future growth. (See Article 3.1 for more recommendations on development planning.)



FIRE (D) PROGRAM

Municipal finance regulation. The regulatory environment for municipal finance is another area where improvements need to be made to encourage, for example, the use of municipal bonds to finance local government infrastructure projects. In the current regulatory environment, Indian investors believe that municipal bonds are a relatively risky investment. These investors are concerned about the poor and deteriorating position of local government finances. This is compounded by a fear of unlimited public debt in the absence of legislation establishing debt limitations on local governments. There is also the problem of lack of full financial disclosure and standard accounting policies in most local governments, as well as the absence of compulsory audits. This leaves investors in doubt about whether most local governments are amenable to greater public scrutiny. There is also concern over the potential comingling of funds from a bond issue with a local government's general fund, because there are no clear monitoring and accountability mechanisms. Finally, there is investor concern over the lack of legal precedent and clarity concerning the options available to investors in case of a municipal bond default.

All of these investor concerns could be addressed through a more robust regulatory framework for municipal finance at both the national and state levels. State finance commissions urgently need to research and propose legislation that will put local governments in their jurisdiction on a more financially sustainable path. State-level regulations need to impose credible penalties for clearly defined imprudent financial behavior by local government officials. State governments also need to regulate the debt service burden that any local government in their jurisdiction can assume and establish mandatory registration of public debt so that local government debt can be properly monitored. All of these reforms depend fundamentally on creating a regulatory requirement for local governments to account for and fully disclose their financial condition on the basis of standardized double-entry accounting and accrual of expenditures.

Urban service regulation. Finally, stronger regulation of service performance is especially needed. In the environmental field, there is a need for more effective national and state government regulation of wastewater and solid waste disposal as urban growth increasingly poisons India's rivers, lakes, and aquifers. There is also a need to better regulate the quality, reliability, and accessibility of basic water supply in India's cities. These regulations have to be based on clearly defined performance standards for local governments and regular measurement by an independent third party (e.g., the percentage of wastewater or solid waste collected and treated to defined level or the percentage of the city population with access to a 24/7 potable water supply). Along with realistic standards, there need to be credible monitoring and enforcement mechanisms linked to serious penalties for noncompliance.

Such regulations will "push" local governments into sustaining the changes that have been initiated, including increased investment in water and other environmental infrastructure, so that they become a priority for many more local governments.

Performance Benchmarking Improves Monitoring and Evaluation

Given the importance of regulation as a means to promote the institutionalization of improved urban management and infrastructure development, there is a related need to promote local government performance benchmarking. Benchmarking involves measuring and monitoring performance on a systematic, objective, and continuous basis. **Benchmarking helps local governments and citizens identify norms, realistic targets, and performance gaps. It provides objective data over time, so that changes in performance can be evaluated.** This is critical for the whole infrastructure development process, particularly better development planning and continued operations and maintenance.

In the important areas of water, sewage, and solid waste management, MoUD has already started an important initiative. Two years of deliberation and consultation culminated in the finalization of a *Handbook on Service Level Benchmarking*,² which was disseminated to all states. The handbook identifies a minimum set of standard performance parameters for the water and sanitation sectors that are commonly understood and used by all stakeholders across the country. It also defines a common minimum framework for monitoring and reporting on water and sanitation service-level indicators and sets out guidelines on how to operationalize this framework in a phased manner. Use of the handbook is being piloted in a relatively small number of cities and towns across India, but ultimately service-level benchmarking needs to become a standard practice in the vast majority of India's local governments.

² MoUD, Government of India, 2010, *Handbook of Service Level Benchmarking*, New Delhi: India.

Once benchmarking has become a widespread standard practice, it can be broadened from measurement of service performance into a system of urban indicators that encompass measurement of financial performance as well. Regular reporting by local governments on standard urban indicators will increase the accountability of local government officials by providing a higher level of disclosure to the finance community and the public at large.

Improved Incentive Programs to Leverage More Resources

A good way to encourage the introduction of service-level benchmarking in more local governments is to make it a formal part of incentive programs, such as JNNURM and the 13th Finance Commission performance grants. However, it is also important to improve the operation of incentive programs to make them more effective. In principle, JNNURM requires all participating states and local governments to implement a set of mandatory reforms, and encourages the adoption of non-mandatory reforms as well. In return for implementing an agreed reform agenda, local governments are provided with supplementary grants to support infrastructure development. The concept is that access to the grant funds creates an incentive for local governments to institutionalize reforms, which can include things like service-level benchmarking.

While the concept seems logical, in practice JNNURM and other incentive programs have yet to produce a strong record of introducing improved urban governance. There are a number of reasons for this less-than-satisfactory outcome. Addressing these problem areas would greatly improve the impact of the incentives.

Incentive programs need to be structured so that grants are more contingent on results rather than promises (too strong). This also means that measuring and monitoring results has to be made more systematic, effective, and transparent (e.g., uniform disclosure laws and a robust urban indicator system). A stronger monitoring team with sector professionals (e.g., engineers, accountants, lawyers, and information technology experts), as was utilized for MoUD's service-level benchmarking study (2010), is appropriate. A municipal regulatory system also needs to make local government audits a normal and regular part of governance.

Given the difficulties inherent in the institutionalization process, local governments need change management support from their state governments (legal mandates, knowledge products, expert consultant services, hands-on training over the long term, and peer-to-peer learning opportunities). This requires significant resources and leadership from the state governments. Yet the incentive grants are designed to most directly benefit the local government, not the state government. It is not surprising that many states have failed to empower their local governments to institutionalize reforms, have not been able to replicate the changes widely across the state, and have not found ways for the incentive program to serve state government priorities. Incentive programs need to offer more conditional support to state governments so that those that empower their local governments see a direct benefit, while those that do not empower them are penalized.

Important aspects of improved urban governance have been driven by the need to develop commercially viable infrastructure (e.g., reform of service tariffs) and the need to mobilize capital investment from the market (e.g., greater financial disclosure). To the extent that incentive grants substantially fund infrastructure projects, they undermine the need for commercial viability, and thereby undercut the institutionalization of many of the innovations introduced by the FIRE (D) Program. Incentive programs need to reduce the percentage of project costs they will cover or make it a requirement for grant recipients to mobilize market financing for the other portion of the project costs (i.e., not use other grant funds and intergovernmental transfers to cover those costs). This also means that incentive programs need to more carefully monitor the financing of the projects that they assist.

One approach to improving incentive programs is to go beyond the JNNURM concept and make a large portion of intergovernmental transfers contingent on the implementation and institutionalization of the reform agenda. This has been recommended by the 13th Finance Commission, and would be a good step toward increasing the number of states and local governments institutionalizing reforms. The commission recommended substantially increased budgetary transfer allocations to states and local governments and divided the grants into two components: a general basic grant and a general performance grant. The basic grant can be accessed

by all the states and local governments, but the performance grant would be available only to those who comply with the commission's nine conditions relating to the constitution of property tax boards, establishment of a local body ombudsman, strengthening state finance commissions, accounting and audit reforms, and service-level improvements through benchmarking. If states fail to comply or fail to empower their local governments to comply with required reforms, they would forfeit the performance grant in the succeeding year.

To operationalize the 13th Finance Commission recommendations, a phased rollout and robust monitoring framework should be created. Based on the JNNURM experience, performance indicators have to demonstrate results. For example, a state may change the accounting rules for local governments, but that is just the first step. The local governments will need to continually operate their double-entry accrual accounting system and routinely publish the financial statements in standard formats before the reform could be considered institutionalized. The right approach to institutionalization addresses how reforms are sustained and strengthened over time. The 13th Finance Commission acknowledges that resources (time and money) and external assistance have to be built into results-oriented incentive programs.

Recommendations for Institutionalizing Improved Urban Management and Infrastructure Development

- Evaluate the tools and assistance required to replicate and scale up the urban development process described in this guidebook, based on your recent experience with urban reforms, decentralization, and efforts to improve services.
- Determine the specialized skills that will help sustain and expand good governance and improved urban management practices. Contact state, regional, and national agencies focusing on urban development to understand how these skills and other long-term technical assistance can be accessed.
- Begin measuring performance indicators to understand what areas need particular focus in the coming years.
- Share your recent experiences with reforms and performance trends with the public, through neighborhood and ward-level meetings and awareness campaigns. Solicit feedback from all types of communities, including the poor, on whether the reforms have positively affected their interactions with the local government (e.g., grievance redressal, service connection process). Understand the priorities of the city's residents, and how they think better urban management can be institutionalized.
- Establish state and local government structures that will carry forward the initial reform efforts, by coordinating with multiple agencies, advancing professional skills, and incentivizing staff through compensation packages.
- Explore sources of funding and other support for institutionalizing key urban governance and service reforms. Quantify the resources that will be needed and identify those that are available (national and state budget allocations, training institutions, and CMAs).
- Work with staff, key managers, and consultants to institutionalize the priority urban governance and infrastructure reforms in a manner that is sustainable from financial, social, and managerial points of view.
- Invest the necessary up-front resources that will allow your cities to take advantage of incentive programs. Leverage government resources with commercial finance and private expertise.

