



# Municipal Management Manual for Afghanistan



## Afghanistan Municipal Strengthening Program



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## Chapter 13: Public Finance and Budgeting

**Summary:** By definition, finance is one of the most critical components for the optimal functioning of any organization. It is a branch of economics concerned with resource allocation as well as resource management, acquisition, and investment within an organization. This chapter deals with the basic principles of public finance, specifically municipal finance. It presents budgeting techniques and principles and also highlights strategies for improvements in municipal revenues.

**Objectives:** To present standards and procedures for sound, secure, and sustainable management of the fiscal and financial affairs of Afghan municipalities and municipal entities to ensure the following:

- Formation of municipal budgetary and financial processes and coordination of those processes with other levels of government.
- Streamlining of the process of funding for the municipalities.
- Guidance of the Afghan municipalities in managing their revenues, expenditures, assets, and liabilities and handling their financial dealings.
- Handling of the financial problems in the municipalities.
- Recommendation of reporting systems to ensure transparency, accountability, and appropriate lines of responsibility in the fiscal and financial affairs of municipalities and associated entities.

### 1.0 Introduction to Public Finance

Public finance (government finance) is the field of economics that deals with budgeting the revenues and expenditures of a public sector entity, usually government. Public finance is essentially concerned with the ways governments raise money, the ways they spend that money, and the effects of these activities on the economy and on society.

Public finance studies how governments at all levels provide the public with desired services and how they secure the financial resources to pay for these services. Through public finance mechanisms, governments typically provide goods and services such as roads, policing, fire protection, water and sewers, garbage collection and disposal, recreation and culture, and education. Public finance also enables governments to correct or offset undesirable side effects of a market economy. These side effects are called spillovers or externalities. Public finance provides government programs (e.g., social security, welfare, and other social programs) that moderate the incomes of the wealthy and the poor.

Governments, like any other legal entity, can also take out loans, issue bonds, and invest. These are all public finance instruments. Based on the taxing authority of the entity, governments issue bonds such as tax increment bonds or revenue bonds. A bond issued by a public sector entity may give tax advantages to its owners.

### 2.0 Municipal Financial Management

#### 2.1 What Is Municipal Finance?

Municipal finance is essentially concerned with the management of finances related to municipalities (as opposed to public finance, which is concerned with finances of public sector entities at any level of government). Municipal finance deals with the raising and disbursement of public funds, including investment decisions, for which the municipality must consider the returns and opportunity costs of various options, and financing decisions, for

which the municipality must allocate funds in the best possible manner to yield maximum returns.

A municipality, like any other organization, is a business entity that needs to make profits in order to survive and, like any other public entity, is accountable to the people. Key principles of the operations of municipal finance are transparency, accountability, and equity. At its core, municipal finance deals with revenue and expenditures.

In an environment of limited resources and unlimited needs, municipalities can improve revenue and control expenditures by employing three broad strategies:

- By seeking to raise additional revenue through a variety of means, such as increasing efficiency in billing and collection of current taxes, increasing user fees and charges, raising local taxes, introducing new taxes and charges, and selling off assets such as unused land. For example, many municipalities do not send out their property tax bills on time, and hence the collection efficiency also decreases. If the municipality sends out bills on time and undertakes a more intensive effort to collect taxes, the municipality might be able to collect more taxes.
- By seeking to improve the efficiency and effectiveness of their operations through productivity improvement programs; more efficient programming, planning, and budgeting; use of low-cost approaches; or achievement of cost savings through the use of private contractors or outsourcing (e.g., for repairing leaks in the water supply system).
- By reducing the scope of their activities through increased private participation in the provision of urban services under self-help activities and through mobilization of nongovernmental resources. For example, outsourcing door-to-door collection of solid waste to contractors might enable a municipality to reduce expenditures on hiring staff.

Municipal finance deals with basic relationships between revenue generation, expenditure control, and financial balance:

- **Revenue generation:** How well the government is tapping the revenue potential and the costs of increasing revenues
- **Expenditure control:** The costs of delivering public services and the factors that cause those costs to rise
- **Financial balance:** The existing balance between revenues and expenditures and the trends projected into the future.

## 2.2 What Is Municipal Financial Management?

Municipal financial management involves financial planning, forecasting of cash receipts and disbursements, collection and recovery of funds, allocation thereof, and use of funds in the best possible manner and with financial control. This approach also entails a decision-making process after analyzing alternative uses and sources of funds.

In general, the following processes relate to financial management in municipalities:

- **Budgeting:** Working out what income the municipality will get and balancing this with planned expenditures by preparing detailed plans and forecasts
- **Safeguarding:** Putting controls in place to ensure that the municipality's income, capital, and assets (such as money, vehicles, and computer equipment) are safeguarded against misuse, damage, loss, or theft
- **Monitoring:** Monitoring actual revenue and expenditures, comparing them to the budget through regular financial reporting, and undertaking corrective action when needed
- **Auditing:** Preparing municipal financial statements that undergo auditing by an independent auditor or by auditors from the Control and Audit Office of Afghanistan (CAO)

- **Accountability:** Reporting financial results to all stakeholders by publicizing the municipal financial statements.

The municipality's objective is to guarantee that the highest quality services are rendered at the lowest possible cost for the benefit of all – dwellers of informal settlements, squatters, business owners, and other citizens. Effective financial management assists the municipality to achieve this objective of good governance. Citizen representatives and elected members have the right to discuss, ask questions, and make recommendations to the council about the best ways to generate income, keep costs down, prevent corruption, and safeguard the municipality's assets.

### 2.3 Why Is Municipal Financial Management Important?

Effective financial management can help the municipality transform its local area into a better place in which to live and work. Most citizens know what municipal services they would like to have in their area. One of an elected representative's greatest responsibilities is approving and regularly monitoring a budget that provides money to fulfill citizens' desires.

Elected representatives, committee members, and municipal officials all have to make tough budgeting decisions; prioritize spending; and ensure that funds are managed carefully, transparently, and honestly. Through the decentralized system, municipalities have the potential to be the most transparent and accessible level of government. Citizens are closer to the operations of their municipality and have the opportunity to provide input on the use of local resources to address the community's problems. Given their autonomy, municipalities can manage their finances by:

- Creating and levying new local taxes and fees
- Determining the tax base
- Ensuring tax collection
- Obtaining revenues from nonlocal sources.

The core components of municipal financial management are as follows:

- **Financial planning:** A process in which coordinated comprehensive strategies are developed and implemented to achieve a municipality's financial goals and policies. The policies are developed in response to projections of a picture of the future over various timeframes.
- **Budgeting:** The process by which the municipality plans for its future expenditures, revenues and borrowing, and other financial activities.
- **Accounting and monitoring system:** A set of records and procedures that are used to record, classify, and report information on the financial status and operation of the municipality.
- **Internal and external auditing:** Expert examination of legal and financial compliance, carried out internally to satisfy the requirements of management (internal auditing) or externally by an external audit authority or independent auditor to meet statutory obligations (external auditing). A particular task of internal auditing is to monitor the management control system, report on weaknesses, and recommend improvements.
- **Administrative controls:** Nonfinancial procedures and records of the governmental organizations that ensure compliance with rules on personnel (e.g., appointments, promotions, pay, and disciplinary action); public procurement (e.g., bids, contract management; see Chapter 22, Procurement); the handling of information flow; and travel and other allowances.

- **Financial forecasting:** The process by which a municipality produces projections of future year's revenues and expenditures based on a set of specific policy objectives and economic assumptions.
- **Financial reporting:** A process for presenting the municipality's financial position for a specific period of time. Reports should present revenue and expenditure information as well as deviations from the budget.
- **Debt management:** The process of directing and controlling the acquisition and retirement of debt.

### 3.0 Strategies for Improving Financial Management

Financial management strategies have to be developed at the top level; in other words, by the Ministry of Finance (MoF) and the Independent Directorate of Local Governance (IDLG) in consultation with international experts. However, these strategies need to be implemented jointly as well as separately at all levels, as explained in Section 7.0.

To achieve good financial management, municipalities need the following:

- A well-defined law on municipal finances
- Recommended guidelines on financial management
- A well-defined governance structure
- Definitions of the roles and responsibilities of all finance personnel and departments
- A predefined budgeting structure
- A predefined reporting structure
- Active participation of municipal officials and the public.

#### 3.1 Financial Analysis

Good financial condition can be broadly defined as a municipality's ability to finance its services and operations on a continuing basis. More specifically, financial condition refers to a municipality's ability to:

- Maintain existing service levels
- Withstand local and regional economic disruptions
- Meet the demands of natural growth, decline, and change.

Financial analysis, the essential starting point of financial management, is a continuous process of measuring and monitoring a municipality's financial condition. Financial analysis looks at, for example:

- External economic conditions (e.g., inflation, employment, interest rates, economic growth)
- Other external conditions (political culture, governmental policies, legal framework)
- Internal economic conditions or practices such as repeated use of one-time revenue resources (e.g., reserves or sale of assets)
- One-time accounting changes
- Internal borrowings
- Possibilities of deferring a large amount of current costs to the future; for example, pension costs. These are long-term costs accrued and provided for over the lifetime of the municipality or employees.

Financial analysis tools are useful for diagnosing the financial condition of the organization and suggesting definite solutions to the financial problems, while financial forecasting tools

envision a systematic approach to planning. In Afghan municipal bodies, application of both types of these important tools is grossly lacking. The details are as follows.

### 3.2 Fund-Flow Analysis

For effective financial management, an organization must constantly analyze its financial operations, changes in expenditure levels, and movements of funds. Fund-flow analysis and cash-flow analysis help management to analyze financial operations and movements of funds. This type of analysis can be used not only to analyze past trends but also to show how an organization should acquire and use funds during some future period. Though at present not widely used in municipal bodies around the world, fund-flow analysis can be a very useful financial analysis and planning tool.

### 3.3 Ratio Analysis

Ratio analysis, the process of determining and interpreting numerical relationships based on financial statements, is very applicable in a municipal environment.

The advantages of using the ratio analysis technique are that it is:

- A statistical tool for setting standards for measurement of performance
- A very useful tool for comparing the financial performance of similar municipalities
- A widely accepted reporting tool
- Helpful in decision making.

### 3.4 Break-Even Analysis

Simply put, the break-even point for a service is the point where total revenue received equals the total costs associated with providing the service. Break-even analysis helps in resource planning activities and capital budgeting by providing a rational and scientific approach. This tool is very useful for nonprofit organizations such as municipal bodies because knowing how costs fluctuate in response to change in volume is valuable regardless of whether profit is an objective. Managers of any organization need to know the behavior of costs with change in volume so that they can plan out the activities in such a way that an appropriate volume of activities is undertaken.

Because no organization has unlimited resources, this tool is specifically useful for allocation of limited resources to various competing activities and determining the financing needs to accommodate the changes in volume. Further, the knowledge of cost behavior helps to minimize costs and maximize returns. These returns may not necessarily be only of a financial nature; they can be of a developmental or social nature as well. This broad applicability makes break-even analysis very beneficial for nonprofit organizations such as municipal bodies.

### 3.5 Financial Forecasting

Financial forecasting creates projections of future years' revenues and expenditures based on a specific set of policy and economic assumptions. Multi-year financial forecasting links the operating budget to long-term planning and also links it to capital programming, debt planning, and economic and community development planning (in the case of municipalities).

Financial forecasting is rarely a continuous and formal process in municipal bodies worldwide. Financial forecasting mostly forms a part of the annual budgeting exercise. In fact, the municipal budgeting exercise itself takes the form of a "projected income statement" using a simple incremental or rule-of-thumb approach.

Application of more sophisticated forecasting techniques requires computerization of accounting and other processes. Nowadays, lending institutions ask for detailed forecasts that include financial forecasts before approving loans. As municipal bodies often need to



borrow funds for urban development works, sooner or later municipal bodies will have to establish formal and continuous forecasting processes.

### **3.6 Short-Term Financial Management**

Short-term financial management essentially involves day-to-day operations of every organization and thus forms a crucial part of overall financial management. The very existence of the organization depends on short-term financial decisions. The major areas of short-term financial management are working capital management, cash/liquidity management, receivables management, and inventory management. Most municipal bodies worldwide suffer from defective short-term financial management, which results in poor cost recovery performance, inadequate growth of resources to meet growing needs, lack of expenditure control, waste of scarce resources, and other problems.

#### ***Working Capital Management***

Working capital measures how much in liquid assets a company has available to build its business. The number can be positive or negative, depending on how much debt the company is carrying. Companies with negative working capital may lack the funds necessary for growth. Working capital is calculated as current assets minus current liabilities. If current assets are less than current liabilities, an entity has a working capital deficiency, also called a working capital deficit. In general, companies that have a lot of working capital will be more successful since they can expand and improve their operations.

In municipalities, just as in business firms, the control of working capital requires an analysis of operating cycles. The operating cycle of a municipal body begins with the delivery of municipal services and ends with the collection of tax. Working capital is controlled by planning efficiently and adhering to the budget as closely as possible. For short-term fund requirements, it is essential to plan for a cash budget, which will ensure control over the movement of cash.

In many municipalities, the accounting department learns about payments to be made only when the payments are due or overdue. Consequently, these municipalities occasionally face a liquidity crisis. The problem of overspending (spending beyond budgetary limits and even beyond resources) also exists in these municipalities. Overspending causes accumulation of deficits and amounts due to various agencies, leading to poor financial health of these municipalities. In certain cases, the scrutiny is done at the time of approval in principle, which is theoretically good, but many problems may occur (e.g., liquidity crisis, time lapse between the conception and implementation of the project, loss of budgetary authorization, or loss of relevance or priority). Ideally, the scrutiny should be done at the time of approval as well as on an ongoing basis during implementation.

#### ***Cash or Liquidity Management***

Simply put, cash or liquidity management means the strategies an organization uses to ensure that it collects all cash owed to it. Cash management is crucial for every type of organization because it represents day-to-day solvency and protects the organization against uncertainties in its cash flow. The nature of municipal financial transactions is highly cash based because most municipal bodies receive payments in the form of numerous tax receipts and most municipal services require resources in cash form. In most of the municipal bodies, cash is viewed as serving a solvency purpose; accordingly, most of the municipal bodies have huge cash holdings. But the liquidity provided by cash holding is at the expense of profits sacrificed by foregoing alternative investment opportunities. Municipalities can benefit from consideration of the “profitability” aspect of cash.

#### ***Receivables Management***

The nature of municipal resources is such that receivables (the money that is owed to an organization by those who have bought its goods or services and have not yet paid for them) of the municipal bodies are very large in number. In this context, receivables management

assumes great significance. Receivables management in Afghan municipal bodies has not kept pace with increasing volume and complexities, and is weak in most of the municipal bodies.

### **Inventory Management**

Inventory is a list of goods and materials, or those goods and materials themselves, held available in stock by an organization. The inventory in municipal bodies represents a significant proportion of total assets, generally averaging around 20 percent of total expenditures. In spite of this, inventory management is usually overlooked. This area is significant enough to deserve emphasis, as improvement in managing inventory items can lead to savings of millions of Afghanis. Better inventory management will reduce time and costs associated with material handling procedures and can result in considerable savings.

### **3.7 Long-Term Financial Management**

The continuity of an organization depends on short-term financial management, whereas the growth of an organization depends on long-term financial management. Accordingly, every organization has to develop long-term financial management strategies. Municipalities need long-term financial management strategies to cater to growing populations. Long-term financial management in a municipal context involves four broad areas: long-term planning and control, augmentation (pooling the appropriate mix) of resources, allocation of resources (budgeting), and capital budgeting. See Section 4.0 for discussion of municipal budgeting processes.

### **3.8 Cost Efficiency and Expenditure Control**

Expenditure control essentially deals with the distribution of control between direct and indirect expenditures. The basic components of expenditure control consist of the expenditures in public service categories mandated by the government. The costs of providing services are determined by the local cost factors (costs of labor and materials) of those particular services plus the administrative costs of running the municipality. In addition, for municipalities that have borrowed money, loan repayments are a component of municipal expenditures.

Steps that a municipality must take to control expenditures and improve cost efficiency are:

- Determine the required staffing and take steps to remove unnecessary staff members or allocate them to alternative functions.
- Compare the actual expenses to budgeted expenditures and identify the reasons for overspending, if any. After identification, find solutions to remove those reasons to a reasonable extent.
- Ensure a noncorrupt system.
- Make municipal officials accountable for their actions.
- Compare performance across municipalities and exchange views and feedback from the office holders.
- Develop and implement data management and reporting systems so as to obtain maximum information at all levels of management.

### **3.9 Debt Management**

This is a unique strategy developed to help a debtor manage its debt efficiently. Debt management may involve a debtor working with creditors to restructure debt or creditors helping the debtor manage payments more effectively. The advantages of debt management are that it is helpful in:

- Identifying debt
- Differentiating between recoverable (good) and non-recoverable (bad) debts
- Taking steps for recovery of good debts
- Decision making regarding bad debts (whether to write them off or not).

#### **4.0 Municipal Budgeting and Budget Management Processes**

Budgeting is the process of allocating resources to achieve desired objectives. Families typically make monthly budgets based on their monthly income and the expected expenditures for the month.

The operating budget and the capital budget are the driving force behind financial management. In simple terms, the operating and capital budgets identify what the citizens want and devise ways to achieve it.

In Afghanistan, the initial responsibility for budget formulation currently rests with the mayor, who submits the proposed budget to IDLG for approval. Following that, the draft budget goes before the MoF for its review and approval. When clarifications of municipal authority for taxation or imposition of fees are required, IDLG intervenes with the MoF.

##### **4.1 Reasons for Preparing Budgets**

The municipal budget is an important and fundamental responsibility of the head of the municipality, generally the mayor. A good budget links a community's goals with the methods for achieving them. The budget considers both immediate and future needs.

A municipal budget sets out the municipality's planned revenues and expenditures, usually for an annual period. The municipal budget serves two primary purposes:

- To set out a program of municipal expenditures during the coming year and to forecast the revenues that will be used to finance those expenditures
- To provide a method to control municipal expenditures so that they do not exceed municipal revenues.

The budget is a very important document because, if properly prepared, it will eliminate unnecessary expenditures, increase efficiency in the methods of collecting revenues, and preserve the credit rating of the municipality. Budgeting has always been important as a means of controlling expenditures and identifying revenues. In recent years, however, the importance of budgets has grown significantly as cities face increasingly difficult revenue and expenditure decisions in an environment of increased demands for services and infrastructure. Not only do budgets serve as a necessary management and planning tool, they also contribute to the accountability and transparency of the overall financial system of local governments and reduce the possibility of corruption and misappropriation of funds.

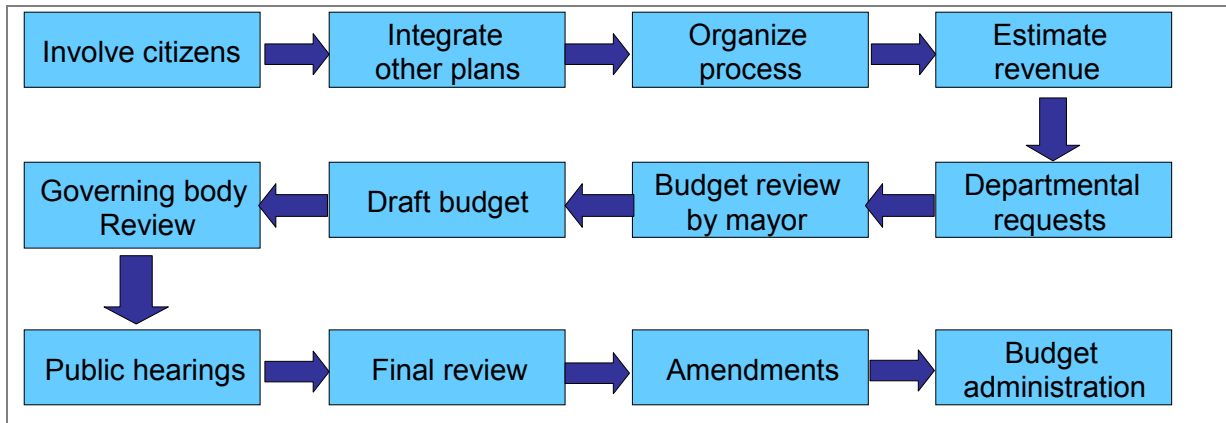
##### **4.2 Accountability in Budgeting**

Democratic local governance has resulted in increased demands for accountability and transparency at the local level. In some cases, increased accountability has meant that municipalities are making the effort to include citizens in important decisions on how revenues are raised and how funds are spent. One example is of participatory budgeting, which began in Porto Alegre in 1989 and has spread to other municipalities in Brazil and around the world. Bringing the public into budgetary decisions ensures that residents are represented in the decision-making process and that municipal officials are held to account for budget decisions (both in the previous year and in the coming year). It also increases transparency in the budgeting process.

### 4.3 Budget Preparation

When preparing a budget, municipalities must have realistic revenue expectations to ensure that outcomes can be achieved. Unrealistic revenue projections have often undermined the ability of municipalities to deliver effective services. The sources of revenue available to municipalities (which in future may include property taxes, user charges, grants or transfers from national and provincial government, special purpose conditions, equitable share) must be optimized and used effectively for the betterment of communities. Avoiding a budget deficit is necessary for improving service delivery in a sustainable way.

Figure 1: Process for Developing an Operating Budget



Source: Center for Railway Information Systems.

The budget also provides a primary internal managerial control over the expenditure of government funds. Budgetary control should not be interpreted as simply fulfilling the legal requirements of staying within the budget. It should be more broadly defined to include a responsibility for effective and efficient use of government funds. With the broader definition of budgetary control comes a need to assign responsibility for implementing the budget. This assignment of responsibility should be reflected in the selection of the implementing units and in the ways that data from these units are aggregated into larger units.

### 4.4 Types of Operating Budgets

- Line-Item Budget:** A line-item budget lists expenditures for the coming year according to objects of expenditure, or line items. The line-item budget is a financial document that lists how much the local municipality will spend on every item that it uses. Cost categories include personnel expenses, operating expenses, and capital outlay. These cost outlays are often further detailed in object codes. For example, personnel expenses can be further separated into salaries, retirement, and health insurance costs. Operating expenses can be subdivided to include such items as office supplies, printing, and utility costs. The capital outlay category includes office equipment, furniture, and vehicles. The primary orientation of a line-item budget is that of expenditure control and accountability. The line-item budget is relatively easy to prepare and illustrates how much money is appropriated to specific cost categories. While the simplest type to prepare, the line-item budget does not provide any information regarding activities and functions of a program, department, or municipality. The line-item budget assists municipal officials in understanding how much they are spending on salaries, supplies, and maintenance, but does not reveal how much is being spent on the actual delivery of a service. In order to determine the cost of service delivery, expenditures must be rearranged into programs or activities.
- Performance Budget:** A performance budget usually divides proposed expenditures into activities and a set of workload measures that relate the activity performed to its cost. A performance budget allocates money to various programs within an organization but also

details the service level on which the budget is predicated. The service level is identified by the use of performance measures. In addition to controlling costs, the primary orientation of the performance budget is that of improving the internal management of the program.

- **Program Budget:** Program budgeting focuses on the budgetary choices among competing policies. The program budget differs from the traditional line-item approach to preparing, reviewing, and presenting the budget. Rather than focusing on what the local municipality buys, a program budget allocates money to major program areas, focusing on the expected results of services and activities to be carried out. Program areas of municipalities often include public safety, public works, human services, recreational services, and general government. The emphasis of programs is on the attainment of long-term community goals.
- **Capital Budget:** A capital budget is a budget that lays out expenditures on future capital projects and anticipated revenues for funding these projects. The capital budget sets out the local government's long-term plan, which is to be carried out over a multi-year period, usually of at least five years. Capital budgeting sets out a plan to acquire or rehabilitate long-term assets such as roads, water and sewer lines and treatment plants, public buildings, and sanitary landfills. At the same time, this plan indicates how all capital expenditures are to be financed (own-source revenues, borrowing, grants, or other revenues). The process of preparing a capital budget is as follows:

Stages of a Capital Budget	Description
Inventory of capital assets	The first step is to provide an inventory and an assessment of the current condition of all infrastructure facilities. This information is important because it will help to determine the need for renewal, replacement, expansion, and retirement of the current inventory of infrastructure facilities.
Developing a capital investment plan	The second step requires the establishment of goals for the level and quantity of service in terms of measurable indicators. These service goals help the municipality to determine if it needs to replace or upgrade infrastructure, or undertake a new investment. The development of a multi-year investment plan compares the inventory of assets and current level of service with the desired service goals. The output of this stage is a list of capital investment projects to meet the service goals and a priority list showing when the projects should be started and completed.
Developing a multi-year capital investment plan	The multi-year capital investment plan sets out the time schedule and costs for all capital investment projects being considered. The total additional costs to complete these projects beyond the five-year recommended period should be included in the plan.
Developing the financial plan	The most critical stage of the capital investment program is the financial analysis of the municipality's capacity and ability to undertake the investment program. The number of improvements that the municipality can finance depends on the level of recurring operating expenditures, the cost recovery elements for individual projects and the potential for revenue generation, the availability of funding from other levels of government or the private sector, and the debt-carrying capacity of the municipality.
Finalization of the capital budget	At the final stage of the process, the completed capital budget should list the full cost implications for all projects, the annual capital costs, and the current budget implications of each project.

#### 4.5 Budget Administration or Management

Characteristics of an efficient operating budget are as follows:

- **Transparency:** Important policies and procedures are explicitly stated, fully documented, and communicated to all. Similarly, all the results are shared with all concerned and with the general public according to disclosure regulations.
- **Accountability:** Actions, decisions, and decision-making processes are fully documented and are open to scrutiny by citizens, public agencies, the governing body, and civil society, especially in the case of public bodies.

- **Responsiveness:** The operating budget has the capacity and flexibility to respond to changing regional, national, and international circumstances.
- **Workability:** The budgeting system is workable and understandable.
- **Compatibility:** The budget structure is compatible with the accounting system, (see Chapter 14, Municipal Accounting) so that actual results can be compared with those budgeted.
- **Performance Measurement:** Outputs or performance measures are an integral part of the budget, and there is a system of monitoring performance on a regular basis and thereby controlling it.
- **Performance Audit:** Besides financial auditing, there must be a system of performance auditing, which would examine the following aspects, for example:
  - Have the goals of the previous year been achieved?
  - Have standards for measuring the degree of goal accomplishment sharpened?
  - Has management abandoned its obsolete goals?
  - Were alternative means considered, tested and evaluated?
  - Are necessary management analytical techniques in use?
- **Cost Containment:** Costs should be contained to the fullest extent possible to achieve maximum productivity. The operating budget should ultimately lead to knowledge of the cost of each and every operation, component, and unit of service delivered, allowing a municipality to take appropriate measures to improve its overall productivity.

#### 4.6 Budget Approval

Currently, once the budget is drafted, it goes to IDLG for review. IDLG may seek explanation or clarification from the concerned municipality to justify a particular capital expense. Necessary changes may be incorporated into the budget, and the revised budget goes to IDLG for approval.

#### 4.7 Publication of the Budget

The approved budget must then be published and circulated across the municipal departments so that each and every department understands interdepartmental sharing of common costs, interdepartmental cost implications, and individual department financial targets. In smaller municipalities, the budget should be shared with the full municipal team.

#### 4.8 Mid-Term Review of Budgets

It is recommended that the head of the municipality (generally the mayor) supervise a review of the annual budget every quarter and comparison with the actual performance. If major variations or errors in estimation are apparent, then the budget should be revised to that effect for the remaining period. Every revision should be approved by IDLG.

### 5.0 Fund Management

Municipalities generate revenue from both local and external sources. Local sources are those raised directly from the local community, such as property taxes (*safai*) and business licenses. External sources are those that come from outside the local community, such as donor funds, central government grants, and borrowing.

The two main local revenue sources for Afghan municipalities are property taxes pursuant to the Safai Tax Regulation of 2000, and taxes and fees pursuant to the Municipal Service Tax Law of 2001, as amended in 2002.<sup>1</sup> The critical components of these revenue sources are the size of the local revenue base as well as the amount that the municipality is entitled to collect. The types of taxes and fees, the tax base, and the range of tax rates are generally assigned by the central government. The tax base is increased basically by improving the

administration of tax collection and increasing tax rates within legal limits. It is important that municipalities improve their tax bases, especially the property tax or *safai*, to sustain their operations. In India, municipalities have undertaken numerous improvements to increase the property tax base and hence improve their overall financial condition. For example, the Ahmedabad Municipal Corporation improved its property taxes through an intensive tax collection and monitoring drive and through changes to the property tax assessment system itself (see Case Study 1, “Property Tax Reforms in Ahmedabad Municipal Corporation,” in Annex A).

Currently in Afghanistan, municipalities’ main external source of revenue is grant funding from donors. External sources that may become significant in the future include central government grants, or revenue derived from borrowing (from the central government or a bank). Borrowing requires repayment, thereby creating an expenditure component of this revenue source.

The types of municipal revenue sources are detailed below.

## **5.1 Revenue Sources**

### **Grants**

Grants (subsidies or other funding) received by the municipalities are the major source of revenue. Grants are received for a specific purpose, and grant funds have to be used for pre-determined purposes only (technically called earmarked funds) unless the funder or the donor provides flexibility with their approval for the multi-sectoral use of grants.

### **Donations**

Municipalities often receive funds in the form of donations. Unlike grants, donations can be used for general purposes. However, some donors prefer to give donations for specific purposes only.

### **Intergovernmental Transfers**

Transfers of funds from other levels of government are known as intergovernmental transfers. These transfers are not currently a revenue source for the municipalities but may be implemented in the future.

### **Taxes**

Taxes (toll tax, water tax, property tax, road tax) are an important source of revenue for the municipalities. The municipalities must have systems in place to ensure the collection of taxes. Property tax is regarded as an important tool for raising revenue at the local level. This tax is also often used to shape urban development patterns and to foster rural land reform. (For prescribed tax rates, please refer to the Municipal Service Tax Law.)

### **Surplus**

A surplus is the balance of revenues in the hands of municipalities after deducting the expenditures. A surplus from one period can be used in subsequent periods.

### **Transfer Fees**

Fees are a regular source of income for a municipality. A municipality generally charges fees so that it can recover some of the costs attached to the service requested. (For prescribed fees, please refer to the Municipal Service Tax Law.)

### **Fines and Penalties**

Fines and penalties are a disciplinary source of income. Fines are levied for violation of laws, and penalties (often called interest) are levied on late payments.

### **User Fees**

The municipalities provide certain facilities at a nominal charge to users. User fees can be charged for water or for use of public parks and public toilets. (For prescribed fees, please refer to the Municipal Service Tax Law.)

### **Other Revenues**

In addition to the abovementioned types of revenue, any income that the municipalities receive for any special event or occasion can be categorized under the heading of “other revenues.” In case of public events such as celebrations, the municipality may receive advertisement revenue, which is an example of other revenues.

### **Debt Funds (Municipal Borrowing)**

Borrowing allows a municipality to enjoy the immediate benefit of a capital improvement, which is not always possible when relying on current revenues. Current revenues (taxes and user fees) are usually not sufficient to fund large expenditures.

Borrowing to make capital expenditures permits municipalities to synchronize the costs and benefits of infrastructure over time. A project built today will result in benefits over a longer period, such as twenty-five years. If funds are borrowed, the municipality pays for the project over the next twenty-five years through repayment of the principal and interest. This means that those who benefit from the facility (the users over the next twenty-five years) also pay the costs through taxes and user fees.

Long-term borrowing offers additional benefits. It spreads the impact on the operating budget over a number of years. It allows multiple projects to be constructed simultaneously during a period of rapid growth and increasing tax assessment. It may reduce the real cost of projects during periods of cost inflation (this occurs when the cost of labor and materials increases without any improvement in technology or quality of inputs). And it is a useful tool for handling emergency situations such as sudden declines in other capital funding sources (such as grants) or sudden increases in capital needs.

The main disadvantage of borrowing from a municipal perspective is that potential revenues are dedicated to debt repayment and are thus not available for other uses. When the costs are spread over time, a significant portion of local budgets is devoted to fixed obligations, and debt payments can constrain local fiscal flexibility. A municipality with low debt also has more flexibility to respond to unanticipated future events.

## **5.2 Forms of Funds**

It is recommended that municipalities keep funds in three forms:

- **Cash:** Hard cash, only up to the estimated expenses for one week.
- **Bank Deposits:** Balance in bank, only up to the estimated expenses for one month.
- **Fixed Deposits with Banks:** Balance funds to be deposited in banks as fixed deposits, broken into various maturity periods depending upon the budgeting estimates for the whole year.

## **5.3 Types of Expenditure in Municipalities**

### **Capital Expenditures**

Municipal infrastructure is essential to the economic, social, and environmental health of cities. Cities not only have to provide roads, transit, water, sewers, and other “hard” services, they also have to provide “soft” services that enhance the quality of life in their communities such as parks, libraries, social housing, and recreational facilities. Cities need adequate revenues to make the needed infrastructure investments.

The appropriate financing tool depends not only on the type of infrastructure (e.g., roads, sewers, libraries) but also on the nature of the infrastructure investment. For example, there



may be a need to invest in new developments (provide infrastructure for new developments), to provide new services in existing developments (where communities are not fully serviced or where the service has not been provided), to maintain and replace old services (where existing capacity has been exceeded because of increased density in urban areas), or to invest in mega-projects (for example, a transit system or a water treatment plant that affects more than one jurisdiction).

### **Operating Expenditures**

Operating expenditures are the backbone of municipal spending. The operating expenditures that a municipality has to incur during the year can be broadly categorized as follows:

#### **Personnel Expenses**

Benefits and Allowances  
Employee Welfare  
Other Terminal & Retirement Benefits  
Pension  
Reimbursements  
Salaries, Wages, and Bonuses

#### **Administrative Expenses**

Advertisement and Publicity  
Audit & Other Professional Fees  
Books & Periodicals, Membership, Subscriptions  
Communication Expenses  
Insurance  
Legal Expenses  
Printing and Stationery  
Rent, Rates and Taxes Paid  
Travel & Transportation

#### **Operations & Maintenance Charges**

Consumption of Stores  
Fuel  
Power  
Repairs & Maintenance -Infrastructure Assets  
Repairs & Maintenance - Buildings  
Repairs & Maintenance - Service Infrastructure & Civic Amenities

Repairs & Maintenance - Vehicles, Plants & Machineries

#### **Interest & Finance Charges**

Bank Charges  
Other Finance Expenses

#### **Program Expenses**

Own Programs  
Share in Programs of Others

#### **Revenue Grants, Contributions, and Subsidies to Others**

Grants

#### **Provisions and Write-Off**

Provisions for Doubtful Receivables

#### **Depreciation**

Buildings  
Furniture, Fixtures, Fittings & Electrical Appliances  
Office & Other Equipment  
Other Fixed Assets  
Plant & Machinery  
Roads & Bridges  
Sewerage and Drainage  
Vehicles  
Waterways

### **Interest Payments**

If a municipality has borrowed funds carrying contractual interest, then it must consider the impact of the interest on its financial performance.

### **Surplus Transfer to Funds (General/Specific)**

It is always a good practice to transfer any surplus funds to the general fund or specific funds so that the surplus funds can be used later for a good purpose.

### **Investments**

Depending upon funding requirements, surplus funds must be invested. The investments can be further categorized as follows:

- Short-term investments are invested for a period of less than one year.
- Long-term investments are invested for a period of more than one year.

## **5.4 Treasury Management**

Treasury management involves the management of a municipality's holdings in and trading in cash, bank deposits, bonds, other investments, and the associated financial risk management and maximization of interest. Essentially, treasury management is a function that involves wise operation of funds through bank accounts, investments, and interest receivable from those investments.

### **Bank Accounts**

The accounting officer of a municipality is responsible for the safeguarding and maintenance of a municipality's assets and liabilities, and must implement an accounting and information system that accounts for the assets and liabilities in accordance with standards of generally recognized accounting practice.

The municipality must also maintain a system of internal control for assets and liabilities to ensure that there is no theft or loss and that the assets are not misused in any way. The accounting officer must make sure that adequate funds are requested in the budget for the maintenance of facilities and equipment.

Every municipality must designate and maintain a primary bank account for the purposes of receiving certain funds, including donor and government appropriations, income from investments, and income from municipal entities. A municipality should limit the number of bank accounts to only those that are reasonably necessary for business and efficiency reasons, and all accounts must be in the name of the municipality.

The primary bank account must be used to deposit all moneys and receipts of the municipality: those made to the municipality for transmission to a municipal entity or other external mechanism that helps the municipality perform its functions; all income received by the municipality from its investments; all income received by the municipality in connection with its interest in any municipal entity, including dividends; all money collected by a municipal entity or other external mechanism on behalf of the municipality; and any other moneys.

### **Investments**

A municipality's investment policy should encourage the design of municipal operations to maximize cash flow. Maximizing cash flow requires managers to schedule the timing of key expenditures and revenues. The accounting officer must make all senior managers aware of the objectives to accelerate the receipt of revenues, to promote robust revenue collections, and to maximize cash flow through various methods. These objectives should be included in the cash management and investment policy.

The investment policy should address the following:

- Ways to maximize cash flow
- Persons who have the authority to invest funds for the municipality
- Appropriate investment instruments and spreading of risk
- Liquidity (access to funds when needed)
- Maturity (terms or length of investment)
- Safety or default risk
- Investment return objectives
- Staff capabilities and reporting requirements.

A municipal council must ensure that its investment policy is consistent with the investment regulations and that appropriate delegations of authority are in place for effective management of the funds available to the council.

The authority to invest should be placed specifically with the chief financial officer. The chief financial officer should be authorized to sub-delegate the authority to invest to a treasurer or an investment officer who would be acting on written authority of the chief financial officer.

Municipalities must undertake investment transactions in a competitive process only with reliable and reputable financial institutions. When selecting institutions for idle cash or selecting specific investment vehicles, for example, a competitive process is advisable.

The investment policy should also require those persons authorized to make investments to carefully evaluate the creditworthiness of depositories and credit issuers.

### **Interest**

One of the important elements of treasury management is the interest earned on the municipality's investments. Such interest can add up to a major source of income for municipalities that have a large amount of investments.

### **Liquidation**

Just as investment is a major factor affecting the fund management process, liquidation (conversion to cash) of investments is also an important factor. Which investments need to be cashed in, what the proper timing is for converting them to cash, and what is the best method of liquidation needs to be understood efficiently by the financial staff of the municipalities.

## **6.0 Human Resources for Management of Financial and Accounting Functions**

Currently, there is no formal structure that specifies the human resource requirements of the financial as well as accounting functions of Afghan municipalities. The current need is to identify the required human resources, designate their roles and responsibilities, delegate powers to them, and set up a reporting structure that also acts as a control mechanism. The following is a recommended structure and list of responsibilities for the financial and accounting functions.

### **6.1 Positions**

- **Auditor General:** One in the country
- **Chief Financial Officer (CFO):** One CFO for each province (*Wilayat*)
- **Accounting Officer (AO):** One for each municipality
- **Accountants:** Two for each municipality.

### **6.2 Qualifications and Experience**

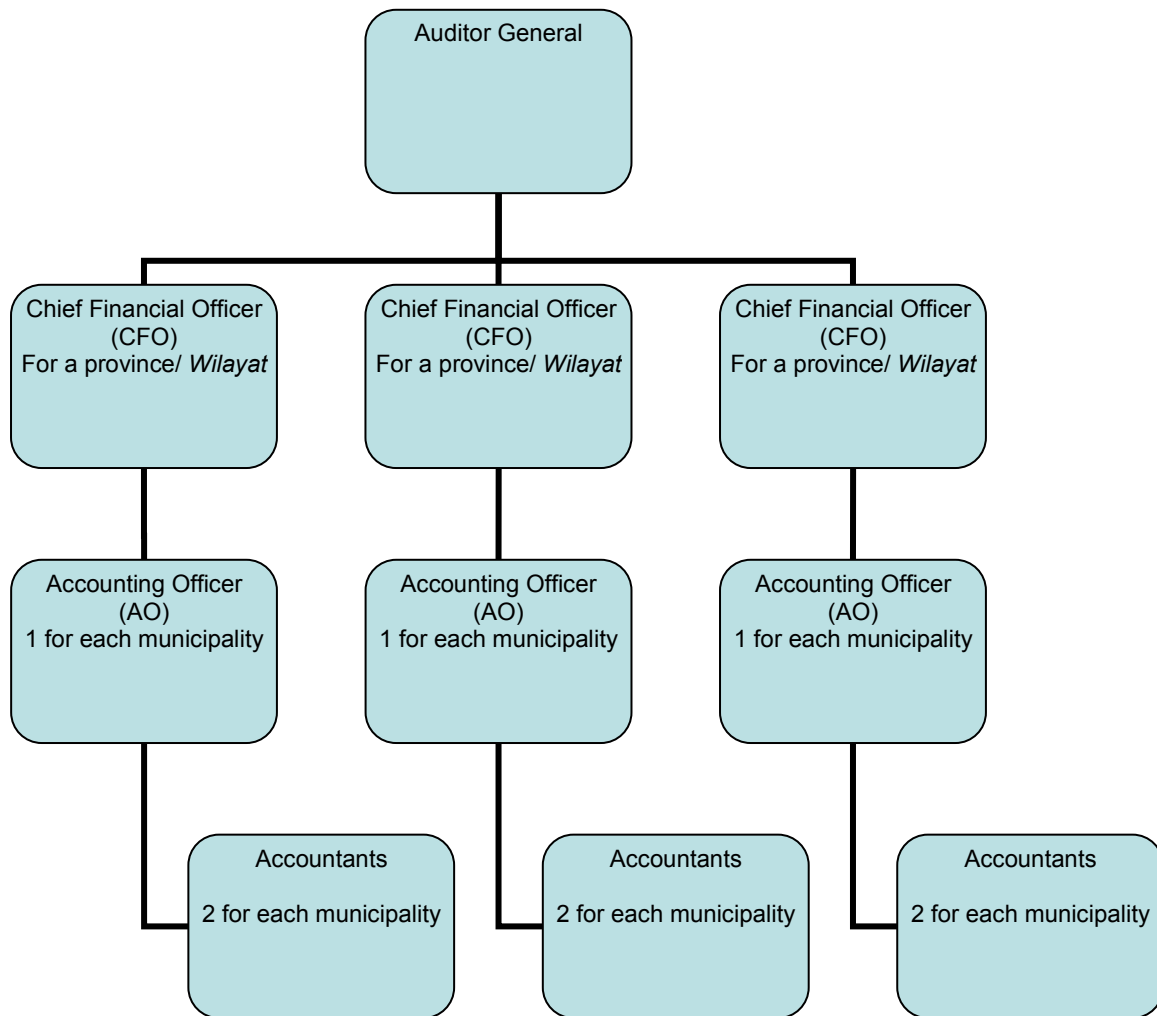
The Auditor General must be a Chartered Accountant or a Certified Public Accountant having at least 15 years of experience in municipal accounting.

The CFO should be a Chartered Accountant or a Certified Public Accountant and should have a minimum 10 years of experience in municipal accounting.

The AO should have a master's degree in accounting or finance and should have a minimum 10 years of experience in municipal accounting.

An accountant should have a bachelor's degree in accounting or finance and should have a minimum 5 years of experience in accounting.

### 6.3 Recommended Structure



### 6.4 Roles and Responsibilities

The roles and responsibilities listed in this section are recommended human resources (staffing) for finance and accounting functions in the Afghan Municipal Sector. Although detailed functions have been mentioned as the responsibilities of the Accounting Officer, all the functions, to the extent feasible, are applicable to the Accountants as well as CFOs. However, during the actual implementation or training phase, some functions and activities may be clearly defined and separated.

The fiduciary responsibilities of all people working in the financial and accounting sections of the municipal sector are:

- To act with honesty and integrity and in the best interests of the municipality in managing the municipality's financial and accounting affairs
- To attempt as far as possible to prevent any prejudice to the financial interests of the municipality(ies)
- To act at all times in a manner that is consistent with the duties assigned to their respective positions
- To refrain from using the position, privileges of the position, or confidential information obtained in an official capacity for personal gain or to improperly benefit another person.

**Principal Responsibilities of the Auditor General**

- To supervise the municipal finance and accounting functions at the top level
- To ensure regular audits of all the municipalities and to support the municipalities in promptly and accurately rectifying the audit qualifications
- To provide support to the CFOs in performing their duties
- To report directly to the President, MoF, and IDLG on a regular basis regarding the municipalities' performance.

**Principal Responsibilities of the Chief Financial Officer**

The CFO of a municipality has the following responsibilities and is required to:

- Administer the budget and treasury office
- Provide advice to the accounting officer on the exercise of powers and duties assigned to the accounting officer
- Support the accounting officer in the administration of the municipality's bank accounts and in the preparation and implementation of the municipality's budget
- Support the decision-making process of the municipality by providing necessary input and support on the financial and accounting aspects of the activities planned or undertaken by the municipality.

In addition, the CFO must perform any other duties delegated by the Auditor General. These would relate to budgeting, accounting, financial analysis and reporting, cash management, debt management, supply chain management, financial management, and other duties as may be delegated.

**Principal Responsibilities of the Accounting Officer**

The accounting officer of a municipality is responsible for managing the financial administration of the municipality and must try to ensure that:

- Resources of the municipality are used effectively, efficiently, and economically
- Full and proper financial records of the municipality are kept
- The municipality has and implements an appropriate:
  - Tariff policy
  - Tax policy
  - Credit control and debt collection policy
  - Supply chain management policy
- The municipality maintains effective, efficient, and transparent systems of:
  - Financial management
  - Risk management
  - Internal control
- Unauthorized, irregular, or wasteful expenditures and other losses are prevented
- Disciplinary or, when appropriate, criminal proceedings are instituted against any official of the municipality who has allegedly committed an act of financial misconduct or an offense.

### *Asset and Liability Management*

The accounting officer of a municipality must take all reasonable steps to ensure that the municipality maintains:

- Bank accounts
- Records of the assets and liabilities of the municipality, including systems to safeguard, maintain value, and account for those assets and liabilities (specifically, to maintain an assets and liabilities register).

### *Revenue Management*

The accounting officer of a municipality is responsible for the management of the municipality's revenue and must take all reasonable steps to ensure that:

- The municipality has effective revenue collection systems consistent with legislation.
- Revenue due to the municipality is calculated on a monthly basis.
- Accounts for levies and charges for municipal services are prepared at least monthly.
- All money received is promptly deposited into the municipality's primary bank account.
- The municipality maintains a management, accounting, and information system that recognizes revenue when earned, accounts for debtors, and accounts for receipts.
- The municipality maintains a system of internal control related to debtors and revenue.
- The municipality charges interest on arrears (except where the council has granted exemptions).
- All revenue received by the municipality, including revenue received by any collecting agent on its behalf, is reconciled at least weekly.

In managing the municipal revenue system, the accounting officer must immediately inform the National Treasury of any payments due from an organ of the state to the municipality for municipal tax or for municipal services, if such payments are regularly in arrears for more than 30 days. The accounting officer must also ensure that funds collected by the municipality on behalf of another organ of the state are transferred to that organ of the state at least weekly; and that such funds are not used for municipal purposes.

### *Expenditure Management*

The accounting officer of a municipality is responsible for the management of the municipality's expenditures and must take all reasonable steps to ensure that:

- The municipality maintains an effective system of expenditure control, including procedures for the approval, authorization, withdrawal, and payment of funds.
- The municipality maintains a management, accounting, and information system that recognizes expenditures when they are incurred, accounts for creditors of the municipality, and accounts for all payments made by the municipality.
- The municipality maintains a system of internal control in respect of creditors and payments.
- The municipality makes payments directly to the person to whom due (unless agreed otherwise) and either electronically or by non-transferable checks.
- Approved invoices or statements are paid within 30 days of receipt
- The municipality complies with its tax, levy, duty, pension, audit fee, and other statutory commitments.
- Any dispute concerning payments due from the municipality to another organ of the state is disposed of in terms of legislation regulating disputes between organs of the state.

- Available working capital is managed effectively and economically in terms of the prescribed cash management and investment framework.
- The supply chain management policy is implemented in a way that is fair, equitable, transparent, competitive, and cost effective.
- All financial accounts of the municipality are closed at the end of each month and reconciled with its records.

#### *Expenditure on Staff Benefits*

The accounting officer of a municipality must report to the council on all expenditures incurred by the municipality on staff salaries, wages, allowances, and benefits, and in a manner that discloses the expenditure by type:

- Salaries and wages
- Contributions for pensions
- Travel, ground transportation, accommodation, subsistence, and other allowances
- Housing benefits and allowances
- Overtime payments
- Loans and advances
- Any other type of benefit or allowance related to staff.

#### *Budget Preparation*

The accounting officer of a municipality must:

- Assist the mayor in performing the budgetary functions assigned to the mayor
- Provide the mayor with the administrative support, resources, and information necessary for the performance of those functions.

#### *Budget Implementation*

The accounting officer of a municipality is responsible for implementing the municipality's approved budget, including taking all reasonable steps to ensure that:

- Spending of funds is in accordance with the budget and is reduced as necessary when revenue is anticipated to be less than projected in the budget.
- Revenue and expenditures are properly monitored.
- An adjustments budget is prepared and submitted to the mayor for consideration and tabling in the municipal council.
- No later than 14 days after approval of the annual budget, a service delivery & budget implementation plan together with drafts of the annual performance agreements for senior managers are submitted to the mayor for approval.

#### *Impending Shortfalls, Overspending, and Overdrafts*

The accounting officer of a municipality must report in writing to the municipal council any impending shortfall in budgeted revenue or overspending of the municipality's budget, and steps taken to prevent or rectify such shortfalls or overspending.

If a municipality's bank account, or the consolidated balance of more than one bank account, shows a net overdrawn position for a period exceeding a prescribed period, the accounting officer must notify the National Treasury of the amount by which the account or accounts are overdrawn, the reasons for the overdrawn account or accounts, and the steps taken or to be taken to correct the matter.

When determining the net overdrawn position, the accounting officer must exclude any amounts reserved or pledged for any specific purpose or encumbered in any other way.

*Reporting and Publishing Role*

- Reporting unauthorized, irregular, or fruitless and wasteful expenditures
- Reporting impending shortfalls or overspending, and any overdraft position
- Reporting on monthly and mid-year budget progress
- Reporting on other matters as prescribed, including staff expenditures
- Making public and inviting comment on draft contracts with a term greater than three years
- Ensuring that information is supplied to the council and the public on borrowing proposals
- Making public any proposal to establish or participate in a municipal entity
- Preparing the annual financial statements for audit
- Verifying salaries and benefits paid
- Making public the annual report and the council's oversight report
- Monitoring entities to ensure that their reporting obligations are met.

***Principal Responsibilities of an Accountant***

- To ensure regular accounting of day-to-day activities of the municipality
- To assist the accounting officer in performing his duties
- To provide all necessary information as may be required from time to time.

**7.0 Financial Reporting**

Financial reporting is one of the most important products of the accounting system (see Chapter 14, Municipal Accounting). Unless financial information compiled by the accounting system is organized into meaningful reports and distributed to the appropriate people, accounting will have little effect on the overall management of the public sector.

Municipalities should issue financial reports for both external and internal purposes on a timely basis. A fully operational information management system will facilitate the ability of operating unit or program managers to make electronic requests for information and to design reporting formats and content in accordance with their own. Financial reporting should demonstrate the accountability of a municipality (or a municipal operating unit) for the financial affairs and resources entrusted to it, and provide useful information for decision making by:

- Indicating whether resources were obtained and used in accordance with the legally adopted budget
- Indicating whether resources were obtained and used in accordance with legal and contractual requirements, including financial limits established by the appropriate legislative authorities
- Providing information about resource allocation and uses of financial resources
- Providing information about how the government or unit financed its activities and met its cash requirements
- Providing information that is useful in evaluating the municipality's ability to finance its activities and meet its liabilities and commitments
- Providing information about the financial condition of the municipality and changes in it
- Providing aggregate information that will be useful in evaluating the municipality's performance in terms of its service costs, efficiency, and accomplishments.



There are three prominent objectives of financial reporting as issued by the Governmental Accounting Standards Board (GASB).<sup>2</sup> These objectives, which provide a good basis for evaluating the financial reporting practices of any municipal government, are as follows:

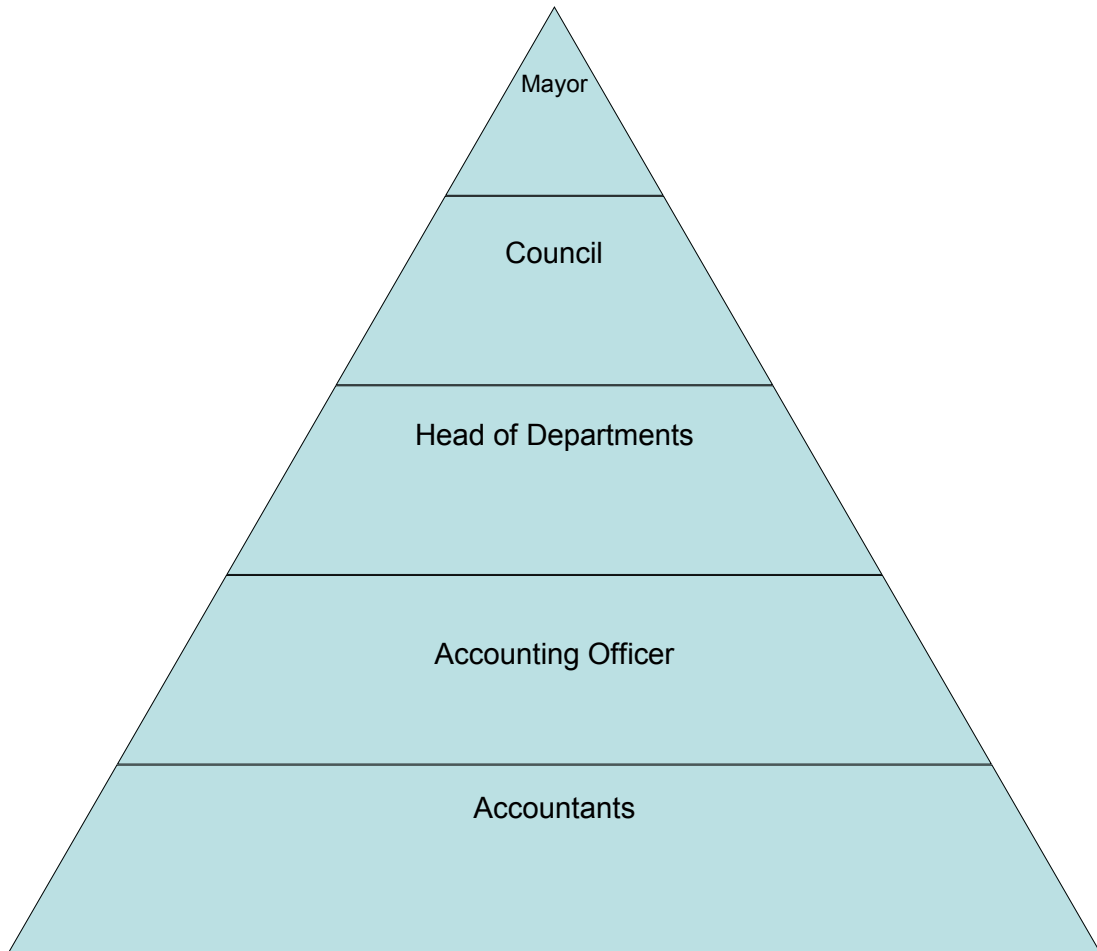
- Financial reporting should assist in fulfilling government's duty to be publicly accountable and should enable users to access that accountability. This means that municipal financial reporting practices should provide information to determine whether current-year revenues are sufficient to pay for the current year's expenditures (or financial services).
- Financial reporting should assist users in evaluating the operating results of the government entity for the year. Municipal financial reporting should provide information about the sources and uses of financial resources and about how the governmental entity financed its activities and met its cash requirements. Financial reporting should also provide information necessary to determine whether the jurisdiction's financial position improved or deteriorated as a result of the current year's operations.
- Financial reporting should assist users in assessing the level of services that the municipality can provide and the municipality's ability to meet these obligations, as they are due. This means that financial reporting should provide information about the financial position and condition of the municipality, and about the physical and nonfinancial resources that have useful lives beyond the current year fiscal year. Municipal financial reporting should reveal whether resources were obtained and used in accordance with the municipal government's legally adopted budget, should demonstrate compliance with other finance-related legal and contractual requirements, and should provide information to assist users in assessing public sector service costs and accomplishments.

Currently in Afghanistan, municipal financial reporting is overseen by the Control and Audit Office (CAO), which reports directly to the president of Afghanistan. Headed by the Auditor General, the CAO constitutes the supreme independent audit institution of the public sector in Afghanistan. Its authorities are based on the Public Finance and Expenditure Management Law of 2005. The previous Law on Municipalities of 2000 did not mention the need for external or internal auditing. Presumably, arrangements for the internal auditing apparatus were left to be determined by the individual municipalities. Now, by law, the financial records of the municipalities are subject to the review of the CAO. The CAO has been regularly sending out audit teams to the provinces, and its audits have included municipalities as well.

### **7.1 Internal Reporting**

Internal reporting means reports that are generated for internal review and monitoring within the municipal administration. The internal reports need to cover the financial as well as accounting aspects of the municipalities. Figure 2 shows the internal reporting structure for municipal finance and accounting.

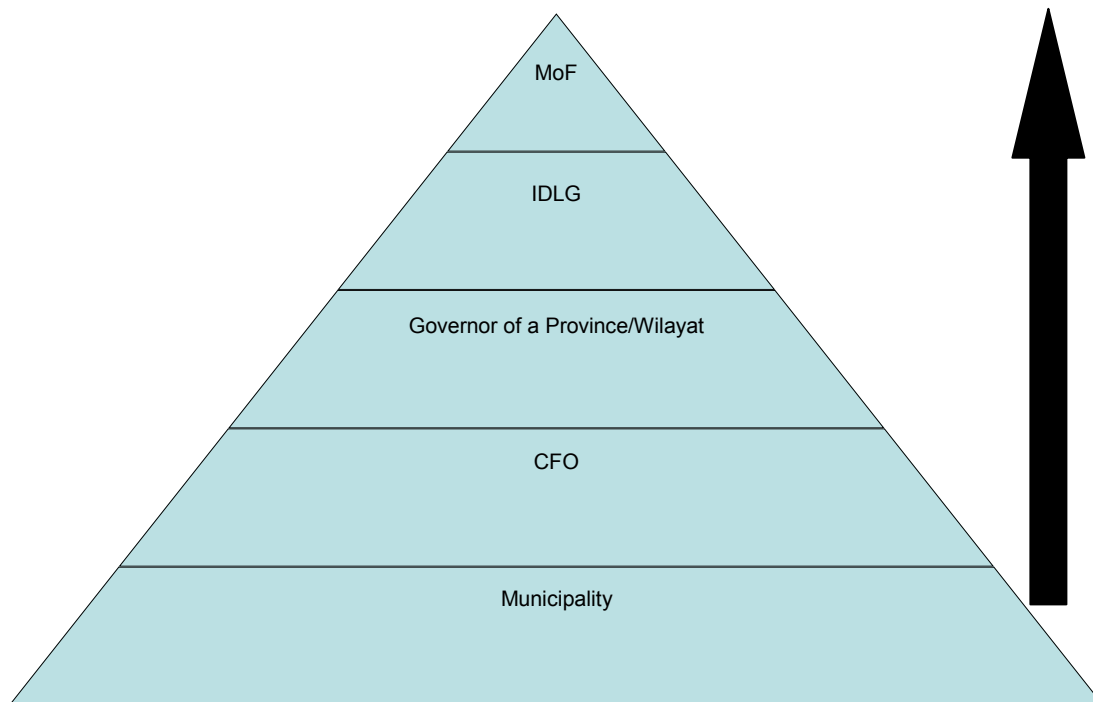
Figure 2: Internal Reporting Structure



## 7.2 External Reporting

External reporting means reporting outside the municipal administration; such as to the other levels of government. Figure 3 shows the recommended external reporting structure for municipal finance and accounting.

Figure 3: External Reporting Structure



### 7.3 Reporting for Statutory Compliance

These are the compulsory reports to be submitted by the municipalities over a fixed period of time to external agencies at other levels of government. The statutory reporting structure should cover all the financial data as well as important events and incidents affecting the finances and accounting of the municipalities.

### 7.4 Reporting to Citizens

The municipalities are also accountable to the public they serve. Certain data that are not confidential should first be included in the reporting structures. Along with those data, a brief write-up of the activities affecting the financial and accounting performance of the municipalities must also be covered. Municipalities should consider sharing budgets and balance sheets of the past year's performance on their websites.

### 7.5 Reporting to Funding Agencies

Funding agencies and donors expect an account of the use of their donated funds. The municipalities should furnish accurate information to funding agencies.

### 7.6 Reporting on Budget Performance

The most important report from the financial management perspective is the comparison statement of budget versus actual performance. Government authorities at higher levels analyze these data and use them as a management tool for estimating the cost of future projects and comparing the estimates versus actual performance. Therefore, municipalities must accurately report these comparisons.

## 7.7 Reporting to Elected Representatives

To fulfill their oversight role, elected representatives need reports that help them monitor the municipality's financial performance. The main reports to be prepared by the municipal officers include reports against the development plan, the annual budget, budget adjustments, and the service delivery & budget implementation plan. Reports include:

- Mid-term performance reports of the municipality
- Annual performance agreements for the municipal head (generally the mayor) and all senior managers
- Reports on the remuneration and benefits of councilors, public office bearers, and staff members
- All service delivery agreements
- All long-term borrowing contracts
- Annual review of the inventory management policy
- Public-private partnership agreements
- Reports from the internal audit and the audit committee
- Annual financial statements of the municipality
- The Auditor General's report for the municipality
- The municipality's annual report including disclosures of the municipality
- The annual report for any municipal entity under the municipality's control
- Other reports and reportable matters as prescribed by legislation.

## 8.0 Financing of Municipal Infrastructure

Municipalities require funds to achieve their goals in the areas of social, physical, and economic infrastructure. This section explains the concepts of infrastructure financing and methods for financing municipal infrastructure.

Typically, a municipality requires short-, medium- and long-term funding for infrastructure. Most of this funding is characterized by low capital absorption capability as well as long development periods and sizeable investments. In acquiring financing for infrastructure, municipalities need to keep in mind the following:

- The financing should be the cheapest available source of financing.
- The term of the financial arrangement (short or long) should depend on the size and nature of the infrastructure development.
- The financing should be generated internally, acquired from external resources, or a mixed portfolio of internal as well as external funding.
- In using external funding, municipalities should take note of their rights and responsibilities vis-à-vis external funding agencies.
- External funding should be carefully structured to achieve maximum returns while taking minimum risks.

The important issues that revolve around infrastructure financing decisions are:

- What is the best amount to be arranged?
- What is the timeframe for which the amount needs to be arranged (long or short term)?
- What is the best source of financing?
- What is the best structure for the financial arrangement?

## 8.1 Existing Practices and Future Possibilities

### *Traditional Funding Practices for Urban Infrastructure*

Government has traditionally been seen as the provider of all basic services to its citizens, especially at low cost. One ideological basis for government dominance and cost subsidization of urban infrastructure is the belief that these services are “basic” and “essential,” and hence provision of these services based on market principles will prevent a large percentage of the urban population from accessing at least a minimum level of these services. Some other reasons for the continued dominance of public agencies in the urban infrastructure sector include the long-term, capital-intensive, and monopolistic characteristics of investment in these sectors and their pricing difficulties caused by factors outside the municipality’s control. Issues such as consumers’ poor willingness to pay and political leaders’ poor “willingness to charge” have further pushed away private sector investment interests from these sectors. It is also believed that since the demand for certain infrastructure services such as water supply does not respond strongly to changes in price, privatizing such services would lead to unfair pricing. Moreover, the administered pricing system introduced in some of the sectors is totally unrelated to the cost of the service.

Historically, some of the above factors have denied private sector participation in these sectors. But technological innovations leading to “unbundling” of these services and innovative public-private partnerships to share investment and management risks have introduced a new chapter in the provision of these services. Important institutional reforms impacting the devolution of fiscal and functional responsibilities to municipalities and improved administrative decentralization and fiscal autonomy in investment-related decision making have further opened private and public sector investment partnership opportunities in these services. A review of the fiscal and financial profiles of municipalities, however, suggests that traditional sources of funding still dominate the investment scene in these sectors.

One of the most conventional concepts of financing urban infrastructure is confined to:

- Revenue surplus of a municipality
- Government grants
- Borrowing.

### *Alternative Sources of Urban Infrastructure Financing*

Municipalities need to seek alternative sources of funds not only to meet their resource gaps, but also to improve their financial and project management capabilities. Mutually beneficial public-private sector partnerships and the market-based provision of urban infrastructure services can help municipalities achieve these goals.

Designing and implementing projects based on commercial viability considerations (the financial viability of projects based on their own cash flows) demands significant institutional and systemic improvements at the local level. Municipalities can implement these changes only if they reform their existing financial, institutional, and legislative structures. While the need to improve the legal and regulatory frameworks required for enabling private sector participation is well recognized, reforms in the areas of local governance and fiscal management are also critical to sustain these changes in the production and provision of urban infrastructure services.

#### *Private Sector Participation*

One commonly discussed alternative mechanism for providing urban services and infrastructure is private sector participation. The popularity of this mechanism is based on the perception that the private sector can provide many services better and more cheaply than the public sector. The organizational and management flexibility of the private sector enables it to be more responsive to consumers and more competitive than the public sector. However, privatization (the transfer of ownership from the public to private sector) may not be

the most appropriate alternative in the case of all urban services. While increased competition in these sectors will benefit consumers in terms of reduced prices and better quality of services, continuation of a monopolistic environment, where a private company owns and runs a public utility in the absence of effective regulations, could lead to high prices and poor customer service. Public-private partnership arrangements are discussed in more detail later in the chapter.

### *Loan Financing*

Loans can be financed through banks or specialized financial intermediaries. Loan financing can come from two sources:

- **Commercial banks:** Term loans from banks have become the cheapest source of finance. As a policy matter, banks should be encouraged to finance infrastructure projects of Afghan municipalities. The advantage to the banks would be that funding the municipalities would enable them to avoid problems with nonperforming assets and other related problems. Further, bank term loans may offer a maximum moratorium period of two years, which is suitable for the low capital absorption capacity of urban infrastructure projects and of municipal bodies. Also, bank term loans have the advantage of an early exit option, which makes this loan financing option very flexible. The disadvantages of bank loans are that municipal bodies will have to put in their own share ranging from 25 to 35 percent of the project cost.
- **Municipal development funds:** In India, these include special purpose funds that provide loans and grants to municipalities such as the Tamil Nadu Urban Development Fund (TNUDF) or Calcutta Urban Development Fund (CUDF) for infrastructure projects. The TNUDF aims to improve the financial management practices of its borrowers through fiscal and financial improvements and capacity building. Other states such as Karnataka and Kerala have also introduced funds to assist local infrastructure financing. Under the TNUDF, loans to municipalities have been made at rates that approximate market interest rates. TNUDF experience in terms of repayment of loans has been encouraging, with most of the municipalities now showing a high debt servicing capacity. A similar structure is recommended for Afghanistan, where different provinces (*Wilayats*) can have their own urban development fund and can further lend funds to other provinces or to district (*woluswali*) municipalities.

## **8.2 Strategies for Improvement of Conventional Sources**

### ***Tax Resource Reforms***

The Municipal Service Tax Law of the Islamic Emirate of Afghanistan (published in the *Official Gazette*, Issue No. 794, 10.07.1421 H.Q. (1379)/November 16, 2001) tried to establish a taxation structure; however, there are many gaps in the structure. Annexes 1 and 2 of the law list the occupations and events that are subject to taxation, but the related provisions such as timing, interest, penalties, and governing mechanisms seem unclear.

In order to establish a direction for tax resource reforms, this section explains certain important features of a municipal taxation system.

### ***Characteristics of a Good Local Tax***

- The tax base should be relatively immobile so that local governments can vary the tax rates without losing a significant portion of the tax base.
- The tax yield should be adequate to meet local needs, increase over time as expenditures increase, and be relatively stable and predictable.
- The tax should not be one that is easy to export to nonresidents.
- The tax base should be visible to ensure accountability.
- Taxpayers should perceive the tax to be reasonably fair.

- The tax should be relatively easy to administer.

### **Property Tax**

Property taxes are a major source of revenue of municipalities worldwide. However, in most cities, not all properties are assessed, records are not updated regularly, and tax collection is far from satisfactory. Municipalities can increase revenues by improving property inventories, records management, public awareness and participation, and tax collection.

Although the property tax is an appropriate tax for local governments, it has been underused, particularly in developing countries where it accounts for only 0.6 percent of gross domestic product on average, compared to more than 2 percent in industrialized countries. The main reasons are inadequate administration and lack of enforcement. If decentralization continues in developing countries and central governments insist on local revenue mobilization, however, interest in local property taxes may increase significantly in the future.

### **Property Tax Collection**

Tax collection involves sending out tax bills, collecting the taxes, and ensuring payment. Since the primary purpose of the property tax is revenue generation, tax collection and enforcement are the most important components of the property tax system.

If the property tax is not paid within a specified time period after the due date, interest and a late fee are generally charged. In cases of long-term delinquency, other enforcement measures are usually taken, eventually leading to the sale of the property to satisfy the tax obligation. Such sales are rare in most countries, however. Often, a more effective enforcement mechanism (at least for properties transferred within the formal legal system) is that property transfers are not permitted unless property taxes are paid.

Tax arrears (unpaid taxes) reduce the revenues generated from the property tax. Although tax arrears as a proportion of collectible taxes are low in most developed countries (for example, 3 to 4 percent in Japan and the United Kingdom), they can be very large in some less developed countries (for example, 50 percent in parts of Kenya and the Philippines). Tax arrears obviously tend to be highest in countries that do not have sufficient resources, expertise, or will to administer the property tax and where enforcement is weak.

Low collection rates can be attributed to lack of political will, lack of transparent collection and enforcement mechanisms, and lack of taxpayer confidence in or understanding of how the tax is levied, collected, enforced, and used.<sup>3</sup> To improve compliance and collection, political will is needed and administrative systems have to be improved.

Local officials also have to be willing to use legal enforcement provisions. Local residents and businesses need to be convinced to pay their taxes, and this process can be facilitated by improved service levels and the perception that taxes are being administered fairly. In short, people are more willing to pay taxes if they feel they are getting something for them. Community involvement in local decisions through mechanisms such as participatory budgeting, for example, may also improve revenue collection.

The following examples show how some cities increased their property tax revenue through administrative reforms in India.

**Self-Assessment System (SAS):** Several municipalities have introduced a SAS to make property tax assessments simpler and more transparent. This method helps taxpayers to understand the assessment process and removes the discretion of the assessors to assess the properties in an arbitrary manner. It increases taxpayers' involvement by allowing them to calculate their own assessment according to established guidelines.

The Municipal Corporation of Hyderabad (MCH) introduced a SAS for property taxes in 1999–2000. MCH computerized all property records and gave each unit a unique identification number. MCH involved the public in determining the revised tax rates by consulting resident welfare associations. Tax education and publicity campaigns, including

newspaper advertisements, helped MCH introduce the reforms. Consequently, the city increased its property tax revenue from 569 million rupees (approximately 567 million Afghanis) in 1998–99 to 1.008 billion rupees (approximately 1.005 billion Afghanis) in 2000–01.<sup>4</sup>

In the Bangalore Municipal Corporation (BMC), after the abolition of *octroi* (local customs tax), the property tax became the city's largest revenue source. The city had not revised its tax rates for 28 years, but the Municipal Act provided for general revision of the annual ratable value of properties every five years. The BMC introduced an optional SAS in April 2000. Citizens were allowed to determine their property tax using rating scales based on the location, type, size, and use of their properties. The Bangalore Agenda Task Force supported the new assessment method through a public awareness campaign. Approximately 60 percent of taxpayers selected the SAS option. Coupled with the rate revision incorporated into the rating scales, the new method increased tax collections from 1.13 billion rupees (approximately 1.13 billion Afghanis) in 1999–2000 to 1.57 billion rupees (approximately 1.57 billion Afghanis) in 2000–01.<sup>5</sup> The Chennai, Indore, and Vishakhapatnam municipal corporations also introduced the SAS.

**Improved Information Base:** In 1997–98, the Chennai Corporation introduced a computerized information system that enables better linkages between property taxes and facilitates close monitoring of collections. This helped the corporation to increase its property tax revenue by 50 percent. The Indore Municipal Corporation (IMC) computerized existing property tax records and conducted a physical survey of all wards to identify properties not on record. It increased the number of properties identified from 155,000 to 267,000.<sup>6</sup>

**Collection Drives:** Ahmedabad conducted a special campaign to increase property tax revenue by forming special collection teams. The municipal corporation gave the teams the power to disconnect water supply or drainage lines, attach the property of defaulters, and issue arrest warrants for nonpayment of property taxes. The result: in two years, 1994 to 1996, Ahmedabad nearly doubled its property tax collection, which rose from 470 million rupees to 920 million rupees (from approximately 470 million Afghanis to 920 million Afghanis). See Case Study 1, "Ahmedabad Property Tax Reforms," in Annex A.

**Outsourced Bill Distribution:** Tax administration systems are labor intensive, and sometimes the cost of collection exceeds the revenue collected. Some municipalities have begun to outsource sub-processes. The Municipal Corporation of Ludhiana (MCL), for example, introduced a courier system for bill distribution. MCL had twenty-eight bill distributors to serve property tax and water charge bills and issue overdue notices at an annual salary expense of 3.5 million rupees (approximately 3.5 million Afghanis). It reassigned these employees to other positions as they became vacant and gave their work to three private couriers. The couriers completed the task for 1.1 million rupees (approximately 1.1 million Afghanis), saving nearly 2.5 million rupees (approximately 2.5 million Afghanis) per year.<sup>7</sup>

### *Shortcomings of the Property Tax*

Although the property tax is generally regarded as a good revenue source for local governments, there are some problems associated with relying too heavily on this tax. First, property taxes are costly and difficult to administer well, and these problems increase with the size of the tax base. Lack of training of municipal personnel, particularly in less developed countries, exacerbates these problems.

The property tax cannot finance major social expenditures (such as social assistance, health, and education) in most communities. The result is that cities have to either restrict themselves to delivering services such as garbage collection and street cleaning or else rely on external funding sources.



### **User Charges and Pricing Mechanisms**

A user fee is a charge per unit of output. User fees can take at least three forms – service fees, public prices, and specific benefit taxes.

- **Service Fees:** Service fees include license fees (e.g., for marriage licenses, shop and establishment licenses, dog licenses) and various small charges levied by local governments for performing specific services such as registering a vehicle or providing a copy of a marriage license. In a sense, these fees represent the reimbursement of costs from the private sector to the public sector. There is seldom much revenue in recovering these costs, however.
- **Public Prices:** Public prices, on the other hand, include the revenues received by local governments from the sale of private goods and services (other than the cost of reimbursement). All sales of locally provided services to identifiable private beneficiaries –whether they are public utility charges or entrance fees to recreation facilities – are included in the category of public prices. In principle, such prices should be set at the competitive private level with no special tax or subsidy element. Highway tolls, used throughout Europe, the United States, and some parts of Asia, are an example of public prices that are used to pay for roads but also to discourage road use.
- **Benefit Taxes:** The final category of user charges encompasses specific benefit taxes. These taxes are different from service fees and public prices because they do not arise from the provision or sale of a specific good or service to an identifiable private individual. Taxes are compulsory contributions to local revenues. These taxes are, nevertheless, related in some way to the benefits received by the taxpayer. In contrast to general-benefit taxes such as fuel taxes levied on all road users or local taxes in general viewed as a price paid for local collective goods, specific benefit taxes relate to the specific benefits received by specific taxpayers. Examples include front footage levies or special assessments on the property tax to pay for sidewalks or street lighting on a specific street.

#### *Efficiency of User Fees*

Charges lead to efficiency in two ways: first, they provide information to the public sector about the amount that users are willing to pay for the particular service. Second, they ensure that citizens value what the public sector supplies at least at its marginal cost (the cost to serve one additional user). Underpricing a service (by not charging for it) can result in overconsumption of that service.

When users of the service do not have to pay for it and are unaware of the cost of providing it, they will demand more of the service than if they had to pay for it. The resulting crowding may be taken as a signal that government should provide even more of the underpriced service. For example, user fees for water that are based on the marginal cost encourage water conservation, discourage water consumption in low-value uses, and postpone the need for new investment.

User fees for garbage collection give consumers a financial incentive to reduce waste generation by reducing, reusing, or recycling garbage. User fees also ration the use of existing facilities and give appropriate capital investment signals. In other words, they can reduce the demand for infrastructure. In short, municipalities should charge a reasonable fee for local public services, rather than providing them free of cost.

There are cases where charging full user fees may not be appropriate, however. Where a good or service exhibits externalities, pricing at the marginal cost may not be appropriate. Externalities are benefits or costs of services that are not priced and may therefore not be taken into account by the user. Recreation programs for at-risk youth, for example, have significant external benefits in terms of success in school and lower crime rates, for example. When society puts a high value on these positive externalities, then below-cost provision or subsidies are warranted.

Some examples from India where user fees have been effective are:

**Sewerage Charges:** Most cities in India do not levy fees for sewerage and also are unable to provide the service. Several small municipalities in Tamil Nadu structured an innovative mechanism to finance construction of underground drainage systems. Beneficiaries contribute connection fees that share in the capital costs, reducing the debt required. The Alandur Municipality built 120 kilometers of underground drainage and a 24 million-liter-per-day sewage treatment plant by charging a one-time fee of 5,000 or 10,000 rupees (approximately 5,000 or 10,000 Afghanis) per connection for domestic and nondomestic users, respectively. The municipality also fixed monthly sewerage maintenance charges of 150 rupees per household connection, 450 rupees per commercial connection, and 750 rupees per industrial connection (approximately 150, 450, and 750 Afghanis, respectively). The municipalities conducted awareness campaigns to obtain people's support. These programs were supported by the municipalities' elected and administrative officials, as well as by state officials.<sup>8</sup> The Amrawati Municipal Corporation in Maharashtra built a sewerage scheme by levying sewerage charges of 2,019 rupees (approximately 2,010 Afghanis) per year per household. The municipality also used the revenue for debt servicing and operation and maintenance of the scheme.

**State Guidelines for Setting Water Charges:** Municipal water charges are generally very low and rarely updated. The government of Karnataka issued a government order for municipalities to set water charges in line with actual costs. The order requires municipalities to levy minimum water charges that cover expenditures for operation and maintenance and debt servicing.<sup>9</sup>

**Parking Fees:** The Bangalore Municipal Corporation implemented a pay-and-park scheme in the central business district. Parking fees are based on the duration of parking.

**Eco Fee:** The Bangalore council resolved to levy an "eco fee" on persons using the municipal garden. The city collects this fee at the garden entrance. Regular visitors can obtain a monthly pass; children and senior citizens are exempted.

**Charges for Collecting Solid Waste:** Various municipalities levy solid waste charges for the use of public places based on the amount of waste generated. The municipalities decided that organizers of private functions in the city's wedding halls should pay a fee for waste collection. Similarly, some municipalities levy lifting charges to remove debris from construction sites.

**Fees for Faster Delivery of Services:** Issuing birth and death certificates and building permits are municipal responsibilities. To simplify the process, some municipalities in Tamil Nadu decided to mail birth certificates to applicants. These municipalities levy a service charge of 5 rupees (5 Afghanis) per certificate for postal expenses. Some municipalities in Tamil Nadu and West Bengal charge extra for the delivery of this certificate on a priority basis. The Guntur Municipal Corporation streamlined issuance of building plans by offering approval across the counter to any applicant who pays a 25 percent additional fee and provides an affidavit from a licensed surveyor. Many citizens appreciate these convenient procedures and choose faster delivery of services.

**Advertisement Tax:** Bangalore's revenue from the advertisement tax rose from 24.3 million rupees (approximately 24.2 million Afghanis) in 1999-2000 to 40.1 million rupees (approximately 40 million Afghanis) in 2000-2001 due to increased space available from construction of bus shelters and public toilets and other administrative measures. Hyderabad's advertisement income increased with its aggressive auctioning of space on billboards, bus shelters, road overpasses, and footpath railings.

**Cable Charges:** The government of Tamil Nadu allowed municipalities to charge cable television operators for the use of public property. Gobichettipalayam, the first to implement this order, charges cable operators 5.5 rupees (5.5 Afghanis) per year per kilometer of cable. In addition, the council collects from the cable operators a monthly fee of 15 rupees (15

Afghanis) per connection. The total revenue generated from these measures was about 419,000 rupees (approximately 418,000 Afghanis) in 2000-2001.<sup>10</sup>

**Street Tax:** The Pune Municipal Corporation in Maharashtra levies a street tax to help finance a plan to improve traffic and public transportation. The fee is collected with the property tax.

### *Problems with Pricing*

The most important general public concern with user fees is that they have an adverse impact on equity: low-income families cannot afford to pay user fees and will either not use the services or will have to reduce their consumption of other services. Relatively simple pricing systems, such as low initial charges for the first chunk of service use, can deal better with any remaining perceived inequity by introducing more adequate pricing systems. These schemes are used for water, for example.

Some further problems with user fees include the cost of pricing. For example, charging the marginal cost of water requires the metering of water, and the installation of meters has a cost attached to it. There are also costs associated with the cost of information that municipalities need to price services correctly. For example, they need to know long-term capital costs and infrastructure investments. Many municipalities lack the necessary expertise to price correctly.

Once prices are set in the public sector, users believe that they should not increase. Municipalities need to explain to the public the important role of user fees.

## **8.3 Nontax Resource Reforms**

The other reforms recommended for Afghanistan are in the category of nontax resources, which essentially means fiscal transfers. In designing fiscal transfers, governments should adhere to the following public finance principles:

- **Efficiency:** Efficient utilization of grants is possible only when the grant is utilized without partiality toward any particular activity. For example, unless grants are available, a municipality will not be willing to provide the correct level of services where the benefits also extend to people residing outside the municipal limits.
- **Fairness (equity):** Equity dictates that all municipalities should be able to provide an adequate level of service without resorting to unduly high tax rates. To achieve this objective, the transfer to municipalities should vary directly with the fiscal need and inversely with the fiscal capacity of the municipality (capacity to raise own-source revenues).
- **Clear objectives:** Grant objectives should be clearly specified.
- **Accountability:** The donor government should be accountable for the design and operation of the grant program. The recipient government should be accountable to citizens and the donor government for the use of the funds.
- **Transparency:** This principle is an extension of the accountability principle. Transparency is enhanced when the recipient government and citizens/taxpayers have access to information about the grant formula and the allocation of funds.
- **Stability and predictability:** Revenues should be stable and predictable so that municipalities can budget and plan for future expenditures.
- **Revenue adequacy:** Municipal governments should have adequate revenues to carry out their expenditure responsibilities.
- **Autonomy:** Municipal governments should have autonomy and flexibility to set their priorities and not be constrained by grant funding.
- **Responsiveness:** The grant formula should be flexible enough to allow municipalities to respond to changing economic circumstances.

- **Simplicity:** The grant formula should be based on objective factors over which local governments have limited control. The formula should be easy to understand.

If the system of transfers is designed keeping in consideration the above factors, Afghan municipalities will have a better system guiding them in management of nontax resources.

## 8.4 Other Strategies to Improve Revenue Sources

### ***Municipal Asset Management***

Municipalities generally hold a significant amount of fixed assets in real estate. But very few local bodies have exploited the commercial potential of these properties to generate nontax revenues. Most municipalities do not have a proper inventory of assets, nor do they update their inventory regularly.

For example, in India, an asset inventory of the small town of Ramanagaram under the Karnataka Urban Development Project showed that the town has salable assets, excluding public land with encroachments (illegal settlements or structures), worth 160 million rupees (approximately 160 million Afghanis). Indore also prepared a computer database of its 1,150 properties and developed a strategy for optimal use of these assets. The Vijayawada Municipal Corporation's annual revenue from leasing municipal properties is 27 million rupees (approximately 27 million Afghanis), about 7 percent of its total revenue.<sup>11</sup> During 1999-2000, the Surat Municipal Corporation generated 1.82 billion rupees (approximately 1.82 billion Afghanis) by selling a 34,000-square-meter site to a private developer.

### ***Management Information Systems***

Traditionally, municipal records are handled manually, and searching them is time consuming and laborious. Lack of a computerized database also prevents municipalities from estimating their arrears and increasing their tax revenue.

**Computerizing Records:** By computerizing water/sewer and residential property tax billing, payments, and receipts, the Municipal Corporation of Lucknow discovered arrears worth 400 million rupees (approximately 399 million Afghanis). Since 1999, Indore Municipal corporation has computerized records of property tax, water charges, trade licenses, rental properties, and municipal accounts. It contracted with a private computer agency to provide hardware, software, maintenance, and staff training for five years. Using information from the newly computerized records and special collection drives, the Municipal Corporation increased its own revenues by nearly 45 percent from 2000-01 to 2001-02.

The Mirzapur Municipality introduced improvements in its property tax systems by computerizing property tax records. The municipality also surveyed and enumerated its properties, identifying many that had not been assessed before. It created property tax maps for the first time, increasing the number of registered properties by 44 percent. In the first year, tax bills were issued for the first time in seventeen years. By the third year, tax revenue more than doubled.

**E-Governance:** The Visakhapatnam Municipal Corporation (VMC) went a step further by putting its civic services online. Previously, the citizens were required to go to ward offices and meet with tax collectors to calculate the payment due. The entire operation was done manually. In 2000, VMC computerized property assessment records and transferred them to the server in the corporation office. A private company linked local bank branches that volunteered to participate to the main corporation server. VMC issues demand notices to property owners, who bring them to participating bank branches. After entering the assessment number, they see the full record with the updated calculation of the current tax bill and arrears along with the interest due, if any. Once the citizens pay, the bank updates the information on the main server. At the same time, the bank issues a receipt to the taxpayer. The system enables the corporation to receive collections in each ward. The updated information is also on the corporation's website, and individuals can view it by typing in their unique assessment number. Through these efforts, VMC increased its tax collection

by more than 50 percent in one year.<sup>12</sup> The Guntur Municipal Corporation carried out a similar exercise – computerizing its property tax records, linking them with “nodes” in local banks, and posting individuals’ tax information on its website.

Both corporations set up information kiosks where citizens who lack Internet access at home can get online information regarding their property taxes. VMC set up its online “city civic centers” in each ward to be one-stop shops for its services. At these kiosks, citizens can obtain birth and death certificates on demand; register and track progress of building plan applications; apply for water taps, various licenses, and modification of property tax assessment records; and make suggestions or complaints and track the response to them using unique registration numbers. The user-friendly touch screens also provide citizens with information about the corporation and its projects. The popularity of these kiosks can be gauged by the response: approximately 200 citizens use one every day.

### **Other Urban Management Reforms Leading to Improved Revenues**

**Revenue Improvement Action Plan:** The government of Andhra Pradesh, India, issued an eighteen-point Revenue Improvement Action Plan to improve revenues from the internal sources of municipal bodies. The resulting revenue improvement drives focused on both tax and nontax sources. The property tax assessment system was revised to detect unassessed and underassessed properties and buildings that were expanded or changed use. Some cities imposed a vacant land tax or advertisement tax. Others exploited existing nontax sources, such as fees and penalties. Other measures included detecting illegal water tap connections and improving water fee collections; increasing registration charges on transfer of properties; using private sector participation in solid waste management; identifying open spaces with market potential; regularizing unauthorized construction; maintaining parks, public resorts, toilets, and other facilities on a commercial basis; increasing fees for birth and death certificates and marriage registration; and leasing municipal shops and buildings. The municipal resource mobilization measures helped the state’s cities to increase their revenue by 10 to 17 percent.<sup>13</sup>

**Tax Collection Centers:** Municipalities in Tamil Nadu organized special tax collection camps in a group of wards. The councilors took a keen interest in organizing these camps and carried out door-to-door campaigns to inform people about them, urging them to use the facilities and pay their taxes. The Tirunelveli Municipal Corporation opened seventeen unit offices in the city to improve its property tax collection. The corporation publicized this through all available media and fitted corporation vehicles with audio announcements and banners. Due to this publicity, 65 percent of taxpayers paid their taxes early, and the collection was 18.5 million rupees (approximately 18.4 million Afghanis) within six months compared to 20 million rupees (approximately 20 million Afghanis) collected in twelve months the previous year.<sup>14</sup> The Guntur Municipal Corporation also increased the number of collection centers and opened these centers on every second Saturday or Sunday.

**Leasing and Regularizing Municipal Assets:** The Guntur Municipal Corporation regularized all the subleased municipal shops by collecting 30 percent of land and shop construction value. The Vishakhapatnam Municipal Corporation leased out the aquarium and wedding halls by setting daily rents for them. Through this measure, the corporation collected 8 million rupees (approximately 8 million Afghanis) and was freed from the liability and expense of maintaining these properties.

**Tax Courts:** Property tax is often contested, and disputes end up in courts. Delays in resolving such cases result in loss of revenues for municipalities. To avoid delays in settling property tax matters, some municipalities have established special tax courts to resolve tax disputes quickly.

## **8.5 Strategies to Harness Alternative Sources: Accessing Capital Markets**

Capital markets can be divided into two broad streams, equity and debt markets. Though both are new concepts in the Afghan municipal context, their success rates are expected to

be impressive (see Case Study 2, “Ahmedabad Municipal Corporation’s First Municipal Bond,” in Annex A). Approaching the bond market (which is a component of the debt market) encourages municipal governments to reform their managerial and governance structure. Depending on the nature of the project, different kinds of bond structures have been developed.

The option of financing urban infrastructure by issuing municipal bonds is based on the financial position of the municipal body, viability of the project, and market conditions. This option is very useful for municipal bodies that are efficient and financially sound. In this option 100 percent financing of the project is possible. In this type of bond issue, the critical factors are decisions regarding size, tenure, coupon rates, timing of the issue, and interest cost as well as creditworthiness of the municipality. Administering an issue of less than 250 million rupees (approximately 249 million Afghanis) is uneconomical.

## 8.6 Other Ways To Improve Municipal Revenues

### ***Public-Private Partnerships***

In many countries, municipalities have turned to the private sector to deliver and fund public sector services through explicit public-private partnerships (P3s). In a public-private partnership, the municipality and private sector share project development, implementation, construction, operation and maintenance, and risk. The rationale for private involvement in the delivery of local public services is to improve the efficiency and effectiveness of delivery. Municipalities also turn to the private sector, in some cases, because they are not permitted to borrow on the capital market or are not willing to borrow. An enhanced role for the private sector has been most visible in areas such as transportation, water supply, and solid waste management.

A principal advantage of public-private partnerships is that they relieve municipalities of the financial responsibility for upfront capital costs and allow them to build facilities without incurring municipal debt. The operation of facilities and programs by private operators reduces municipal operating expenditures and may enable additional revenue to be collected. Moreover, such operations permit the public sector to draw on private sector expertise. The details that specify how such arrangements are structured and how the risks are shared will determine whether or not they will be successful from a public policy perspective.

### ***Public-Private Partnership Arrangements***

Municipalities considering a public-private partnership should be aware of the full range of possible structures and arrangements. Those structures and arrangements are constantly evolving, and variations arise in response to several considerations. For example, which party owns the asset during the partnership? Which party operates the asset? How are revenues that are generated by the asset shared between the two parties? What portion of the project risks, financial and otherwise, is borne by each partner? What portion is transferred from the public to the private sector, or vice versa? How the parties answer these and other questions defines the structure, dynamics, and, more than likely, the potential for success of the partnership.

P3 structures generally fall on a continuum, with services provided entirely by the public sector at one end and services provided entirely by the private sector with government as the enabler or regulator at the other—with a number of hybrids in between. Here are some of those arrangements.

### ***Passive Private Investment***

Government at all levels relies on private capital to finance infrastructure and other needs that cannot be paid for out of current-year revenues. At the local level, the main instruments for private investment are tax-exempt municipal bonds and notes. Municipal bond investors are passive because they are not directly involved in the day-to-day management and

governance of the public services in question. They simply loan the jurisdiction money by purchasing the bonds, and then expect a return on their investment through periodic interest payments.

#### *Traditional Public Contracting*

Local governments rely on private vendors for a variety of goods and services. In most cases those goods and services are procured through traditional contracting and bidding or through request-for-proposal processes. The government pays for and the private sector provides the services in question, although the private provider plays a limited role in deciding how the service is to be delivered; mainly, it responds to the government's specifications. For infrastructure projects, such an arrangement can include contracts for project design and/or construction of new facilities or other assets. For certain types of economic development services, it might include labor market analysis, website design, and other services in which private partners typically have special expertise.

#### *Operation, Maintenance, and Service Contracts*

The municipality hires a private organization to perform some tasks or groups of tasks for a specified period of time. The municipality is responsible for funding any capital investments needed to expand or improve the system, including traditional leasing for such assets as computer technology or fleet maintenance, and it retains complete ownership of the asset. The private partner assumes the risk that the service cannot be provided at the specified level or quality for the specified price.

#### *Joint Ventures*

In a joint venture, the municipality and its private sector partners form a new company or public authority. Both assume some portion of the ownership and responsibility for the service in question. P3s for pollution remediation, urban redevelopment, and affordable housing projects are often structured as joint ventures.

Joint ventures follow two basic models, with variations. In the first model, public capital is used to procure the land, buildings, and other assets needed to move the venture forward, and the private partner designs the project, secures tenants, and/or manages the operation in exchange for the right to use the facility and, in some cases, some portion of the revenues received from it. In the second model, the private party finances the construction or expansion of a public facility in exchange for the right to build housing, commercial space, or industrial facilities on the site.

#### *Build-Operate-Transfer*

Under a build-operate-transfer arrangement, the private partner takes principal responsibility for funding, designing, building, and then operating a facility. The government retains ownership of the facility and becomes both the customer and the regulator of the service, and formal ownership is then transferred back to the public sector at the end of the agreement.

Most lease-purchase and sale-leaseback arrangements follow this basic model, and a number of variations exist, depending on the private partner's responsibilities.

#### *Concession Agreements*

In a concession agreement the public partner grants the private partner full responsibility for all aspects of the design, construction, maintenance, and operations of the facility in exchange for some or all of the revenues generated by it. The public partner's role is limited to regulating the performance, price, and quantity of the service provided. The facility remains government property, but all maintenance and capital infrastructure investments are the sole responsibility of the private partner.

#### *Passive Public Investment*

Passive public investment includes equity, debt guarantees, grants, tax expenditures, and other public investments in private enterprise. Most local economic development efforts are

of this type. Passive public investment takes many forms—for example, tax credits, tax expenditures, business incubators, and discounted utility rates—and is designed to attract new businesses to the jurisdiction, to prevent existing businesses and industries from leaving, or to encourage existing businesses to expand within the jurisdiction’s boundaries. In these types of P3s, the public partner has no role in operations decisions because the operation in question is retail business, manufacturing, or some other decidedly nonpublic service.

Passive public investment has a major effect on local government capital budgeting and finance because it is intended to expand private enterprise, and new private enterprise places new demands on public infrastructure. This is especially challenging because passive public investments are often made incrementally and/or with limited regard for existing capital improvement priorities or programs. For that reason, effective capital improvement programs include a policy or framework of policies that identifies how and when the jurisdiction will make passive public investments. Such policies can help to impose predictability on the economic development process, which can facilitate more effective capital planning and budgeting.<sup>15</sup>

***What did we learn about in this chapter?***

- *Basic concepts of public finance and municipal financial management*
- *Importance of municipal financial management*
- *Tools and strategies for implementation of a sound municipal financial management system*
- *Concepts of municipal budgeting*
- *How to manage municipal funds*
- *Human resource requirements and roles for municipal financial and accounting functions*
- *Principles of financial reporting*
- *Financing of municipal infrastructure*
- *Taxes and pricing of services*
- *Public–private partnerships.*



## Annex A: Case Studies

### 8.7 Case Study 1: Property Tax Reforms in Ahmedabad Municipal Corporation

#### *Intensive Tax Collection and Monitoring Drive*

##### *Situation before the Initiative*

Property tax accounts for nearly 30 percent of the total tax revenues of the Ahmedabad Municipal Corporation (AMC). AMC has the legal authority to levy property tax on all the buildings and land within its jurisdiction. Before the initiative, the property tax was levied on the basis of the annual ratable value of the property (based on the rent the property was earning or could earn if rented, or the cost of land and cost of building at the time of construction). The collection of property tax in Ahmedabad was relatively poor due to the large number of litigation cases, poor efforts to collect the taxes, and an unfair as well as nontransparent property tax structure.

Analysis of the situation at that time showed the following:

- There were a large number of tax defaulters
- There were a number of court cases against AMC, which were blocking the revenues of the corporation
- Enforcement was poor.

##### *Strategy Adopted*

In 1994, AMC introduced a series of measures to improve property tax collection. These measures included tracking the defaulters and settling the court cases and public complaints.

The measures to track the defaulters included:

- Using a computer database to identify the defaulters and create a list in descending order of amount of tax outstanding
- Focusing attention on recovering the taxes due from the top defaulters
- Disconnecting water supply and drainage lines on the defaulters' premises
- Attaching (taking by legal authority) movable properties and removing them from the premises of the defaulters for recovery of taxes
- Issuing many notices and warrants for payment of property tax
- Attaching immovable properties of major defaulters
- Advertising auctions of property for recovery of taxes
- Declaring the names of major defaulters in the newspapers
- Setting up a "vigilance team" to trace hidden properties as well as undervalued properties.

AMC worked hard to bring the cases pending in the high courts and other courts to resolution and to get decisions in its favor. Settling the court cases and public complaints involved:

- Expediting all the pending cases in the courts
- Establishing special color-coded formats to receive applications from the people who had any complaint against their property assessment. More than 70,000 applications were received, considered, and disposed of, facilitating the recovery of taxes from the settled cases.

*Results Achieved*

As a consequence of AMC's efforts, property tax collection went from 470 million to 740 million (an increase of nearly 65 percent) in one year. By the end of the second year, property tax collection had doubled.

**Modifications to the Property Tax Assessment System***Situation before the Initiative*

- Following on the earlier measures taken to improve tax collection, AMC decided to develop an area-based property tax system in place of the earlier ratable value system.
- The earlier ratable value system was a nontransparent assessment system and suffered from huge variations in the amount of taxes to be paid.
- The collection of property tax in Ahmedabad was relatively poor due to the large number of litigation cases, poor efforts to collect the taxes, and an unfair (as perceived by people) as well as nontransparent property tax structure.
- Many properties (73 percent of residential properties and about 29 percent of non-residential properties) were exempted from paying general tax on account of very low assessment (an annual ratable value under 600 rupees, or approximately 600 Afghanis). There was a big difference between the assessment of self-occupied and tenanted properties. The ratio of the difference was found to be 1:15.
- The ratable values were rarely revised to keep pace with actual market values, resulting in a stiff increase in tax rates and leading to perceived absurdity. In Ahmedabad, the tax rates had risen to 90 percent of the ratable value, which could not be considered appropriate by any standard.
- The assessment was neither transparent nor fair. There was lot of discretion in the hands of lower-level staff, which gave rise to corrupt practices.
- There was no difference in the assessment of properties used for charitable purposes vis-à-vis high-value commercial activities, resulting in discontent among the taxpayers.

*Strategies Adopted*

- In view of the problems faced by the old ratable system, AMC decided to formulate and introduce a new area-based evaluation system in 1999. These reforms were planned to rationalize the existing tax rates and to increase the number of people paying taxes and thus increase the tax returns.
- A team was formed to develop the new system of area-based property tax assessment, and contractors were appointed to survey all properties in the AMC area.
- A series of tasks were undertaken that included:
  - Amendments to relevant legislation by the state government
  - Survey of properties
  - Computerization of data
  - Issuance of special notices and bills
  - Receipt of objections from property owners
  - Hearing of objections by the appellate authority
- A legislative amendment was necessary to accommodate the details of the new system and give appropriate powers to AMC. The amendment also stated the minimum tax to be determined by the corporation and the procedures for rebates.
- The municipal commissioner proposed the amendment to the corporation and the Standing Committee. Objections to the new amendment were invited from the public through newspapers, to be filed within one month.
- The municipal commissioner, after hearing the public objections, submitted the final amendment and details of objections to AMC through the Standing Committee.

- The next gigantic task to be achieved was the survey of each property within AMC limits. AMC employees and contractual employees carried this out. Two-person teams were formed, and 328 such teams went into action. They used instruments to collect measurement details of buildings.
- AMC used to carry out a valuation exercise for one zone every year. But in this case, a survey of about one million properties in the entire city was to be carried out. The task undertaken was a one-time task. On completion of this task, only validation exercises for further additions would have to be made in future. The survey form that was designed was exhaustive and incorporated some details of the earlier system.

#### *The New Carpet Area-Based System*

- The municipal corporation can determine the tax rate per square meter of the carpet (floor) area of the building.
- The corporation can determine one tax rate for residential buildings and another tax rate for non-residential buildings. The corporation can also keep a lower tax rate for residential buildings smaller than 40 square meters of carpet area.
- The minimum and maximum tax rates per square meter have been prescribed for residential as well as non-residential buildings: 10 rupees and 40 rupees (approximately 10 Afghanis and 40 Afghanis) per square meter of carpet area in case of residential buildings, and 20 rupees and 80 rupees (approximately 20 Afghanis and 80 Afghanis) per square meter of carpet area for non-residential buildings.
- The municipality can increase or decrease the tax rates subject to the following factors for residential buildings:
  - The market value of the land in the area of the city in which the building is situated (location factor)
  - The age of the building (age factor)
  - The type of building
  - Whether the building is occupied by the owner or a tenant.
- The municipality can increase or decrease the tax rates subject to the following factors for non-residential buildings:
  - The market value of the land in the area of the city in which the building is situated (location factor)
  - The age of the building (age factor)
  - The purpose for which the building is used (user factor)
  - Whether the building is occupied by the owner or a tenant (occupancy factor).

Apart from this, AMC has been given the power to determine the minimum amount of tax to levy on residential huts and apartments in a tenement building having carpet area not exceeding 25 square meters. This power is subject to the state government's notification prescribing the limit below which AMC cannot levy property tax.

Government buildings are exempted from paying property tax. However, such government properties shall have to pay 80 percent of the amount of the tax payable by any such property in lieu of property tax.

The formula and values for calculating Ahmedabad's new carpet area-based property tax are shown below.

#### **The Formula**

Property tax	= Annual rate x Area x[F1 X F2 X F3 X F4 ] where
➤ F1:	The location factor
➤ F2:	Year of construction (age) factor
➤ F3:	The type of building factor – for residential property Use of building factor– for non-residential property
➤ F4:	Occupancy factor – whether the owner or a tenant is occupying the property.

**The Values attached to each factor are:****F1***For residential Area*

High-rent area	1.60
Good area	1.10
Medium area	0.90
Poor area	0.60

*For Non-Residential*

High commercial potential	1.60
Good commercial potential	1.10
Medium commercial potential	0.90
Poor commercial potential	0.60

**F2**

Under 10 years	1.00
10 to 20 years	0.85
20 to 30 years	0.70
30 to 40 years	0.60
Above 40 years	0.50

**F3***For Residential Buildings*

Huts	0.00
Tenement apartments (under 25 square meters)	0.00
Tenement apartments (above 25 square meters)	0.50
Detached houses	0.70
Flats	0.70
Row houses	1.00
Independent bungalows	1.50

*For Non-residential Buildings*

Type of Use	
Religious places, crematorium, etc.	Exempted
Educational institutions run by charitable trust on nonprofit basis, boarding, lodging, hostels, etc.	1.00
Private schools, colleges, university campus, etc.	2.00
Industrial units & factories	2.00
Banks, hospitals, nursing homes, healthcare establishments, government and commercial offices, etc.	7.00
Shops, hotels, cinemas, etc.	6.00

**F4**

Self-Occupied Property	1.00
Tenanted Property	2.00

**Results Achieved**

- Property tax has been delinked from the Rent Control Act.
- All property holders, big and small, have to pay tax according to the area of the property they hold (except huts and small tenement apartments).
- The number of exemptions has decreased; more properties are subject to taxation.
- The existing large gap in tax between self-occupied and tenanted properties has been reduced.
- The large gap between old and new properties has been reduced, improving equity in assessment.
- Properties in high-rent areas are paying more compared to properties in poor areas.
- Religious, charitable, and educational institutions have to pay less than properties with high commercial potential.
- There is flexibility to increase the tax rate every year.
- While objections and complaints are being regularly sorted out, there has not been a single court case for the ongoing new system of property tax assessment.

## 8.8 Case Study 2: Ahmedabad Municipal Corporation's First Municipal Bond

Since bonds were new to India and people had hardly any faith in the municipal corporation, nobody would have invested their money in municipal corporations, which are nonprofit service organizations and whose financial position is generally in a very poor state.

Accessing the debt market therefore necessitated concentrated effort to raise the credibility of the organization. AMC thus took the following steps to prepare for issuing municipal bonds:

- First, AMC put its finances in order. This was done by rigorous collection of *octroi* (local customs tax) and property tax, by bringing professionals into the municipal administration, and by improving general administration.
- The next step was to get the corporation's creditworthiness rated by Credit Rating and Information Services of India Ltd. (CRISIL), a leading financial institution. An organization's credit rating reflects its financial soundness. CRISIL undertook a study of the city's organizational structure and management, economic scenario, proposed payment mechanism for the instrument, and other factors. AMC, the first city in India to get a credit rating, got an AA(SO) rating from CRISIL. The AA(SO) rating indicated a structured obligation for which octroi collection from ten designated checkpoints was specifically earmarked for servicing the bond and kept in an escrow account.
- The good credit rating helped build confidence in AMC. This rating, coupled with the good work done by the corporation successively for three years, helped AMC in marketing its financial strategy to issue a bond for infrastructure projects. USAID and HUDCO also participated in preparing documents for the bond issue.
- The corporation successfully publicized its strategy for issuing bonds and created an escrow mechanism to ensure returns on the money invested. Revenue collected at specific octroi checkpoints and property tax collected from particular wards were put aside in the escrow accounts.
- AMC registered the city bonds with the Securities and Exchange Board of India. AMC has the distinction of issuing the first public municipal bond in India.
- In January 1998, AMC took out the public issue of one million secured, redeemable bonds. The bonds were of 1,000 rupees (approximately 1,000 Afghanis) each, for a total value of one billion rupees (approximately one billion Afghanis).

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## 10.0 Endnotes

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<sup>2</sup> GASB is an independent U.S. organization committed to improving standards of accounting and financial reporting in U.S. state and local governments. For more information, see "Facts about GASB," 2010-2011, [www.gasb.org](http://www.gasb.org), About GASB/Facts about GASB.

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<sup>15</sup> Excerpted and adapted from Justin Marlowe, William C. Rivenbark, and A. John Vogt, "Public-Private Partnerships," chapter 4 in *Capital Budgeting and Finance: A Guide for Local Governments*, 2nd ed. (Washington, DC: International City/County Management Association, 2009), pp. 93-96. This typology is modified from the United Nations Development Programme initiative on "Public Private Partnerships in Urban Economics"; Mirjam Bult-Spiering and Geert Dewulf, eds., *Strategic Issues in Public-Private Partnerships* (Malden, Mass: Blackwell, 2006); and California Debt and Investment Advisory Commission, *Privatization vs. Public-Private Partnerships: A Comparative Analysis* (Sacramento: CDIAC, 2007).



## Chapter 14: Municipal Accounting

**Summary:** Accounting is a systematic recording of an entity's financial transactions with the objective to present the financial position of the entity in terms of its income and expenditures and the state of affairs of its assets and liabilities. Accounting is an integral component of any public or private sector entity. Every entity has to keep proper accounts of monies earned and expenses incurred based on certain standard applicable rules and methods with universal acceptability. These rules, or basic principles of accounting, when prescribed by an international accounting body are known as Generally Accepted Accounting Principles (GAAP).

**Objective:** The objectives of this chapter are to:

- Explain the various categories of transactions depending on their nature and value.
- Explain the rules to be followed in recording and presenting financial transactions
- Help accountants and other municipal finance personnel understand internationally accepted principles of accounting.

### 1.0 Introduction to Municipal Accounting

Chapter 13 described municipal financial functions. This chapter will guide municipal accountants and other financial personnel in recording those financial functions in a manner that is accepted worldwide. In daily life, people earn money and spend money. A wise person records his earnings as well as expenditures so that he knows how much he actually earned, spent, saved, or lost. This recording function of all financial earnings and outflow is called accounting. "Accounting" is the process of recording, analyzing, classifying, and interpreting transactions that can be measured in terms of money in such a way that it helps the users of the transaction information in making decisions.

Recording of all the earnings, spending, savings, and investment of a municipality is known as municipal accounting. One of the strong characteristics of municipal good governance is good and proper management of municipal entities' financial resources. Proper management of the financial resources means prompt and correct recording of financial transactions and periodic reporting to:

- Those who manage the affairs of the entity
- Those who contribute finance (funding or donor agencies)
- The beneficiaries (who are generally the citizens)
- Authorities at other levels of government (e.g., provincial government, central government).

An understanding of general accounting principles is helpful before proceeding to understand municipal accounting. For an understanding of accounting in the Afghan context, Annex A provides an overview of the current accounting laws and regulations in Afghanistan.

### 2.0 Components of General Accounting Principles

The examples described below are primarily oriented toward accounting that is recorded manually on paper, but the principles also apply to computerized accounting.

#### 2.1 Accounting – A Bookkeeping Activity

The books in which accounting of transactions is done are called books of account, and the systematic maintenance and preservation of those books is called bookkeeping.

The books to be maintained are:

- Books of prime entry (known as journals) and
- Books of subsidiary classification (known as ledgers).

These books may also be further subdivided depending upon the volume, nature, and needs of the entity.

#### ***Division of Prime Entry Book (Journal)***

A journal may be further subdivided into one or more books (e.g., purchase book, sales book, cash book, bank book, petty cash book). The transactions that are not recorded in the other subsidiary books are recorded in the journal known as the journal proper (see Section 4.2).

#### ***Division of Subsidiary Classification (Ledger)***

A ledger may also be subdivided into one or more sub-ledgers (e.g., debtors/sales ledger, creditors/purchase ledger, income and expenditure ledger). Transactions that are not recorded in the above ledgers are recorded in the ledger known as the General Ledger.

## **2.2 Characteristics of Proper Accounting**

- **Understandability:** Account information should be recorded clearly and properly so that it can be easily understood.
- **Prompt recording:** Transactions must be recorded in a timely manner; late recording may leave scope for irregularities and errors.
- **Reliability:** Accounting information should not contain errors, mistakes, or false representation. It should be reliable.
- **Comparability:** Accounting data must be comparable with that of another period, budget, or unit/entity.

Prompt and proper accounting helps in evaluating the performance and assessing the financial position of an entity, better future planning (i.e., budgeting), and improving the efficiency of managers.

## **2.3 Accounting Methods**

There are two logical methods by which a transaction can be recorded: either the cash-basis accounting method or the accrual-basis accounting method.

### ***Cash-Basis Accounting***

In this accounting method, transactions are recorded when the related cash receipts or cash payments take place. Revenue is recognized when cash is collected. Similarly, expenditures on the acquisition and maintenance of assets are recorded when payments take place. The end product of cash-basis accounting is a statement of receipts and payments that classifies cash receipts and cash payments under different heads.

A statement of assets and liabilities may or may not be prepared. The adoption of the cash basis of accounting by municipalities owes its origin to the use of the budget as the principal means of financial control in the government. The budget is seen as a formal document of the objects and purposes for which expenditures should be incurred during a period and the sources from which funds should be raised to meet such expenditures. Cash-basis accounting measures actual expenditures and receipts under various budget heads to facilitate a comparison of actual performance against budgeted targets.

Cash-basis accounting fails to meet many financial reporting objectives. For instance, the timings of cash receipts and cash payments may not coincide with earning of revenues or incurring of expenses. For example, if rent from an office building was due on 1 January

2009, but the cash was received on 10 January 2009, in the cash-basis system, receipt of the rent will be recorded on 10 January 2009, and not when it was due (i.e., 1 January 2009).

Further, the measures of performance in this system are vulnerable even to slight variations in the timings of cash receipts or payments. For example, merely postponing the payment of certain bills by a few days can conceal a budgetary deficit.

Another weakness of cash-basis accounting is that no distinction is made between receipts and payments of the capital account and of the revenue account. That is, no distinction is made between expenditure on the construction of infrastructure facilities such as roads or water distribution systems and expenditure on routine items such as salaries and rents. Similarly, a substantial expenditure on renovating a building that will result in an increase in its life will be treated under cash-basis accounting as no different from the operating expenditure on normal repairs and maintenance. Also, deposits refunded after work is completed are treated no differently from charges for services rendered.

The limitations of cash-basis accounting for the measurement of performance and financial position have led to the adoption of an accrual basis of accounting by the commercial world.

### **Accrual-Basis Accounting**

Accrual-basis accounting attempts to record the financial effects of transactions and other events of an enterprise in the period in which they occur rather than in the period(s) in which cash is received or paid. Accrual-basis accounting recognizes that buying, producing, selling, and other economic events that affect an enterprise's performance often do not coincide with the cash receipts and payments. The goal of accrual-basis accounting is to report an enterprise's performance in a given period by recording the net income as a relationship between accomplishments (measured in the form of revenues) and efforts (measured in terms of costs) rather than merely listing cash receipts and payments. The accrual basis of accounting also recognizes assets, liabilities, components of revenues and expenses for amounts received or paid in cash in the past, and amounts expected to be received or paid in cash in future.

The major difference between accrual-basis accounting and cash-basis accounting is in the timing of recognition of revenues, expenses, gains, and losses. It is possible that cash receipts during a particular period may reflect the effects of activities in earlier periods, and cash payments may relate to activities and efforts expected in future periods. Thus, an account showing cash receipts and cash payments of an enterprise for a short period cannot indicate the true nature of receipts and payments and to what extent the enterprise is successful or unsuccessful.

The essential features of accrual-basis accounting are that:

- Revenue is recognized as it is earned
- Costs are matched either against revenues so recognized or against the relevant time period to determine income for that period
- Costs that are not charged to income are carried forward and are kept under continuous review
- Any cost that appears to have lost its utility or its power to generate future revenue is written off as a loss.

In the same example as above, if the rent from the office building that was due on 1 January 2009, was collected on 10 January 2009, in accrual-basis accounting the entry is made on 1 January 2009 (when it was due), and not on 10 January 2009 (when it was paid). Once either of the above methods is used, the same method must be used throughout the year.

Generally, municipal bodies, professionals (e.g., doctors, lawyers, architects), bodies, charitable organizations, and similar entities maintain accounts on a cash basis. But in the business world, accounts are invariably kept on an accrual basis. Recently, municipal bodies

in India have initiated the process of changing from cash-basis to accrual-basis accounting, a step forward in the direction of good governance.

### 3.0 Process of Accounting and Reporting

- When a financial transaction takes place, it is recorded in various books and registers (e.g., cash book, bank book, ledger).
- A summary of those books is prepared in a systematic manner and further compiled into a statement called a trial balance.
- The items of trial balance are then transferred to two statements known as (1) the income and expenditure statement and (2) the balance sheet.
- Financial ratios are then calculated and shown in a comparative statement to report on performance and results compared with previous periods, other units, and the budget.
- The financial reporting is used to plan for further improvement of the establishment (i.e., budgeting for the next period.).

The above steps are illustrated in Figure 1.

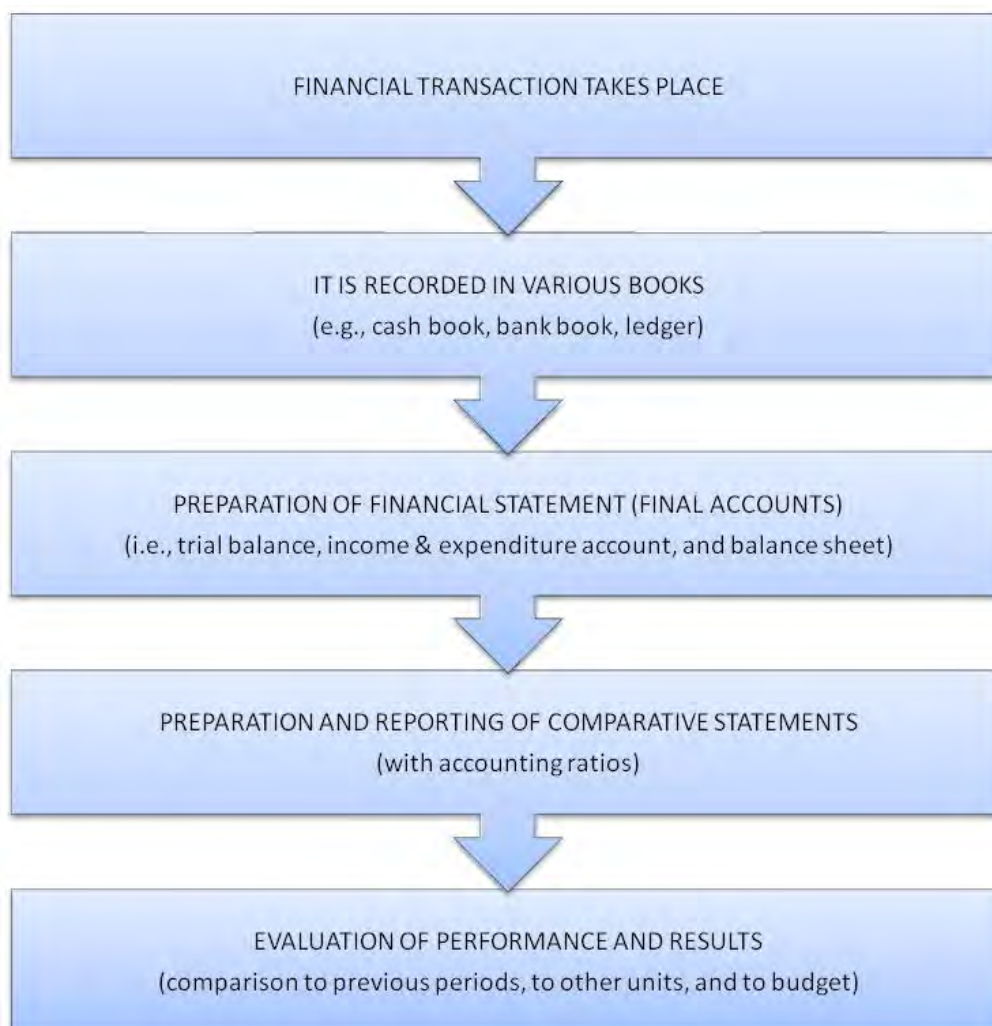


Figure 1: Overall Process of Accounting and Reporting

#### 3.1 Evidence of Accounting Transaction (Voucher)

A transaction means exchanging something between two or more persons or entities. A transaction involving money is known as an economic or business transaction.

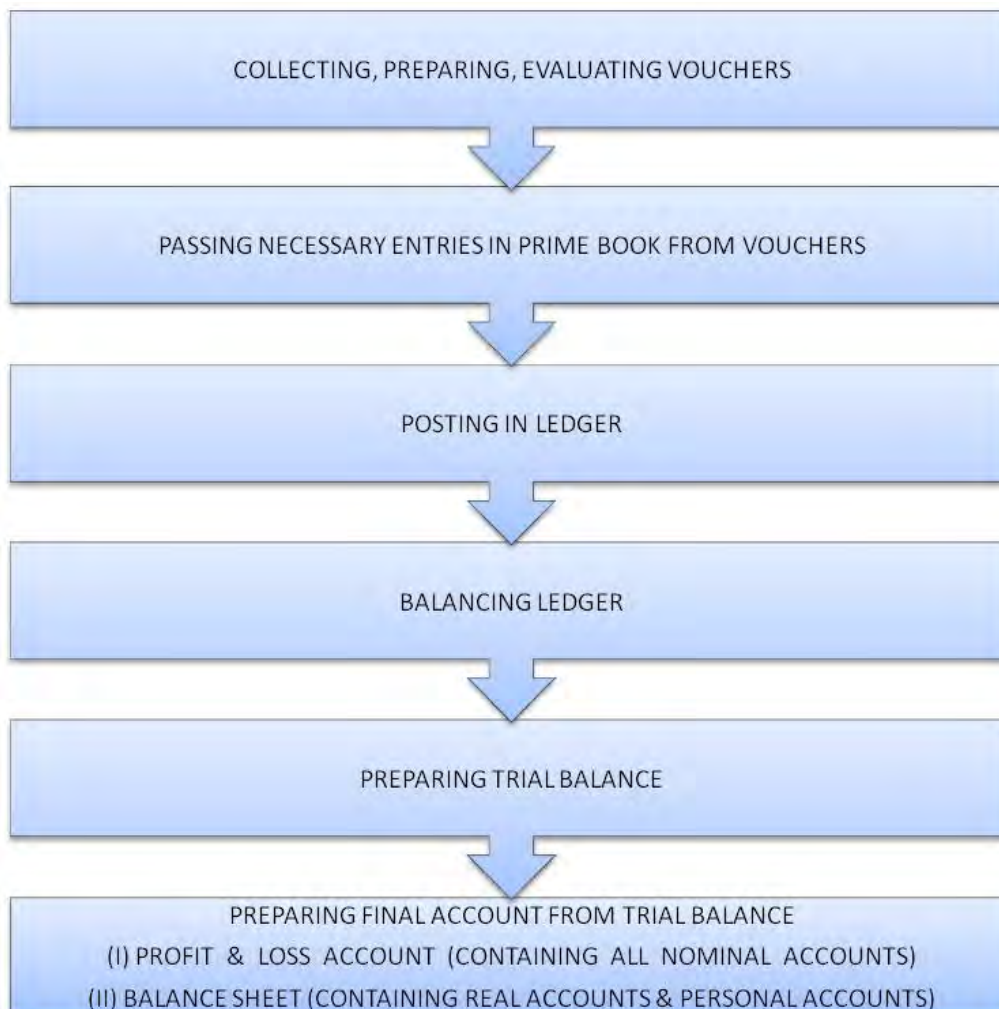
Recording of a transaction begins with a “voucher.” The “voucher” is evidence supporting the transaction recorded in the books of account. Such evidence should be in written form and preserved for the long term as proof of the recorded transaction. Based on vouchers, transactions are recorded in the books of account, and then the accounting process continues.

Vouchers may be external or internal, as follows:

- **External vouchers:** “External vouchers” are supporting documents provided by other entities (e.g., bills, receipts, check stubs, deposit slips, cash memos, credit notes, debit notes, payment orders, salary sheets).
- **Internal vouchers:** Internal vouchers are prepared by the entity itself when there is no support for a small transaction to provide evidence or proof of an entry. For example, one may not have external documents for transportation expenses such as taxi fare; for this purpose, an internal voucher acts as proof of the transaction. The internal voucher should be properly approved to be considered as valid evidence.

### 3.2 Recording of Transactions

This section explains the accounting (bookkeeping) activities along with relevant examples. The process of accounting is shown in Figure 2.



**Figure 2: Accounting Process**

Once the information in the form of vouchers is ready for accounting, the next step is to record that information in the books of account. For this purpose, understanding of the basic rules of accounting is essential.

### 3.3 System of Accounting

#### ***Single-Entry Accounting***

This method of accounting is an old, traditional method that handles only one side of accounting. This method of accounting is slowly disappearing and losing its significance in contemporary accounting practice. The single-entry system is being replaced by the double-entry system of accounting.

#### ***Double-Entry Accounting***

All over the world, the double-entry system of accounting is widely accepted and followed. The double-entry system of accounting does not mean that every accounting transaction is recorded twice. Instead, it means that every transaction has two effects: a debit and a credit.

A debit is recorded on the left-hand side of an account book, while a credit is recorded on the right hand side of the account book. Even though the two effects are opposite to each other, they are always equal in terms of money or amount. For example: If Afs 1,500 in interest is received from the bank, two accounts are affected: the bank account and the interest received account.

The types of accounts that are relevant to understanding double-entry accounting are divided broadly into three categories as follows:

#### ***Real Accounts***

Real accounts are related to goods and assets and can be classified into two types:

- Goods accounts: Accounts that record transactions relating to inflow and outflow of goods. Examples of goods accounts are purchase accounts, sales accounts, goods destroyed by fire, or goods given as charity.
- Assets accounts: Accounts that record items or rights having financial value, owned by the entity, and providing future benefits. Assets are useful for the proper running of the entity. The assets may be fixed assets (recorded in a plant and machinery account) or current assets (recorded in a cash account or stock account).

#### ***Nominal Accounts***

Entities incur expenses for carrying out their activities. They also receive income from activities and investments in the course of their work. Accounts that record such transactions are classified as nominal accounts. Examples are:

- Expenses (e.g., salary, electricity, repairs to roads, development of gardens)
- Income (interest received, rent received, dividend received, tax received).

If a prefix or suffix is added to a nominal account, it becomes a representative personal account (see below under "Personal Accounts"). Example: An interest account is a nominal account, but an outstanding interest account, interest received in advance account, or prepaid insurance account is a representative personal account.

Vouchers evidencing the transaction are recorded in the books of account of prime entry known as the journal or other subsidiary books (e.g., sales book, purchase book, cash book, bank book).

#### ***Personal Accounts***

Credit transactions (transactions not involving cash or a check) are carried out with a natural (living) person, an institution, or an artificial person (a corporation or other legal entity). As a result of such credit transactions, a debtor-creditor relationship arises.

There are three types of personal accounts:

- Natural persons' accounts (e.g., Moustafa's account, Balbir Pasha's account, Moina Begum's account)
- Artificial persons' accounts (e.g., Kabul Municipality's account, Farah State Electricity Board account, Tikrit Mills account)
- Representative personal accounts (e.g., Faroukh's Outstanding Salary Account, Tikrit Mills' Prepaid Rent Account).

## 4.0 Books of Account under the Double-Entry System

### 4.1 Journal

The journal is a book of original entry in the double-entry system in which all financial transactions are recorded chronologically for the first time. The date, amount, and account names involved as well as a brief description of the transaction are recorded in the journal.

**Sample Journal**

Date	Description	Ledger Folio No. (L.F.)	Debit (in Afs)	Credit (in Afs)

For the purpose of recording the transaction, the rule of the double-entry accounting system (that both a debit and a credit of equal amounts must be recorded) is universally applied.

The rules for accounting for the abovementioned categories are as follows:

<b>Personal Accounts</b> Debit: The Receiver Credit: The Giver	<b>Example 1:</b> Cash received from debtor XYZ Ltd. of Afs 5,000 In this case XYZ Ltd. is the giver, and so the XYZ Ltd. account is to be credited.  <b>Example 2:</b> Loan given to Mr. ABC of Afs 7,000 In this case Mr. ABC is the receiver, so his loan account is to be debited.
<b>Real Accounts</b> Debit: What Comes In Credit: What Goes Out	<b>Example 1:</b> Furniture purchase of Afs 10,000 In this case furniture is purchased, so the furniture account is to be debited. The other account involved is the cash account, which is also a real account, so it is to be credited, as the cash is going out.  <b>Example 2:</b> Goods purchased of Afs 4,000 from PQR Corporation In this case goods come in, so the goods (purchase) account is to be debited.
<b>Nominal Accounts</b> Debit: All Expenses and Losses Credit: All Incomes and Gains	<b>Example 1:</b> Salary of Afs 1,000 paid In this case the salary expense is incurred by the entity, so the salary account is to be debited.  <b>Example 2:</b> Dividend of Afs 3,000 received In this case dividend income is received, so the dividend account is to be credited.

Thus, the initial steps involved in accounting are:

- Study the voucher and decide which accounts are involved.
- Categorize the accounts as real, personal, or nominal.
- Apply the rules of debit and credit depending on the type of account.
- Record the transaction in the book with an appropriate debit and credit.

For example:

A cash grant of Afs 50,000 was received on January 11, 2009.

**Step 1:** In this transaction, the entity receives a grant, so one account affected is the grant account. Cash is received, so the other account affected is the cash account.

**Step 2:** The cash account is an asset of the entity, so it is a real account. The grant received is income, and hence it is a nominal account.

**Step 3:** According to the rules of debit and credit,

For real accounts:

- Debit what comes in
- Credit what goes out.

For nominal accounts:

- Debit all the expenses and losses
- Credit all the income and gains.

In this example, an amount comes in to the cash account (a real account), so it is to be debited. The grant account (nominal account) receives income, so it is to be credited.

**Step 4:** The transaction is recorded in the journal as follows:

Date	Description	Ledger Folio No. (L.F.)	Debit (in Afs)	Credit (in Afs)
1/11/2009	Cash A/c Dr. To Grant A/c (for a grant received in cash)		50,000	50,000

Legend: A/c = account; Dr. = debit record.

Now let us take some transactions and record them in the journal for clear and better understanding:

### Illustration 1

Record the journal entries from the transactions below in the books of ABC Municipality:

- Afs 4,000,000 deposited in the bank account for the municipal general fund on December 1, 2008.
- Plant and machinery purchased by check in the amount of Afs 1,000,000 on December 2, 2008, from PQR Corporation.
- Investment of Afs 2,000,000 made on December 2, 2008.
- Interest received and credited in the bank of Afs 80,000 and Afs 20,000 on December 30 and 31, 2008, respectively.
- Tax of Afs 40,250 collected in cash on December 31, 2008, from the public.
- Bank loan of Afs 2,000,000 obtained on December 31, 2008.
- Interest of Afs 25,000 paid on a loan on December 31, 2008.
- Other expenses of Afs 60,000 paid by cash on December 31, 2008.
- Other expenses of Afs 20,000 paid by cash on January 1, 2009.
- New machinery purchased from PQR Corporation for Afs 700,000 on January 1, 2009.
- The machinery was found defective and was returned to PQR Corporation for Afs 50,000 on January 15, 2009.



- Tax of Afs 175,000 collected in cash on January 15, 2009, from the public.
- Salary of Afs 100,000 paid to employees on January 31, 2009, from the bank.
- Other expenses of Afs 30,000 paid by cash on February 1, 2009.
- Tax of Afs 455,000 collected in cash on February 28, 2009, from the public.
- Salary of Afs 100,000 paid to employees on February 28, 2009, from the bank.
- Salary of Afs 100,000 paid to employees on March 1, 2009, from the bank.
- Other expenses of Afs 10,000 paid by cash on March 1, 2009.
- Central government grant of Afs 300,000 received on March 15, 2009, by check.
- Interest of Afs 25,000 paid on the bank loan on March 31, 2009.
- Investments of Afs 2,000,000 made on March 31, 2009.
- Salary of Afs 100,000 paid to employees on March 31, 2009, from the bank.
- Other expenses of Afs 40,000 paid by cash on March 31, 2009.

#### Journal Entries in the Books of ABC Municipality

Date	Description	Amount (Afs)	Amount (Afs)
12/01/2008	Bank A/c Dr. To Municipal General Fund A/c (Check deposited in the bank for the general fund)	4,000,000	4,000,000
12/02/2008	Plant and machinery A/c Dr. To Bank A/c (Machinery purchased from PQR Corporation)	1,000,000	1,000,000
12/30/2008	Bank A/c Dr. To Interest received A/c (Interest received credited in the bank)	80,000	80,000
12/31/2008	Bank A/c Dr. To Interest received A/c (Interest received credited in the bank)	20,000	20,000
12/31/2008	Cash A/c Dr. To Tax Revenue (Income) A/c (Tax collected in cash)	40,250	40,250
12/31/2008	Bank A/c Dr. To Bank loan A/c (Bank loan obtained from the bank)	2,000,000	2,000,000
12/31/2008	Interest paid on loan A/c Dr. To Bank A/c (Interest paid on bank loan)	25,000	25,000
12/31/2008	Other expense A/c Dr. To Cash A/c (Cash paid for other expenses)	60,000	60,000
01/01/2009	Other expenses A/c Dr. To Cash A/c (Cash paid for other expenses)	20,000	20,000
01/01/2009	Plant and machinery A/c Dr. To PQR Corporation A/c (Plant & machinery purchased from PQR Corp.)	700,000	700,000
01/15/2009	PQR Corporation A/c Dr. To Plant and machinery A/c (Machinery found defective and returned to PQR Corporation)	50,000	50,000
01/31/2009	Cash A/c Dr. To Tax Revenue (Income) (Cash received for taxes)	175,000	175,000
01/31/2009	Salary A/c Dr. To Bank A/c (Salary paid for the month of January)	100,000	100,000

Date	Description	Amount (Afs)	Amount (Afs)
02/01/2009	Other expenses A/c Dr. To Cash A/c (Cash paid for other expenses)	30,000	30,000
02/28/2009	Cash A/c Dr. To Tax Revenue (Income) (Cash received for taxes)	455,000	455,000
02/28/2009	Salary A/c Dr. To Bank A/c (Salary paid for the month of February)	100,000	100,000
03/01/2009	Salary A/c Dr. To Bank A/c (Salary paid for the month of February)	100,000	100,000
03/01/2009	Other expenses A/c Dr. To Cash A/c (Cash paid for other expenses.)	10,000	10,000
03/15/2009	Bank A/c Dr. To Central government grant received A/c (Grant received from the central government)	300,000	300,000
03/31/2009	Interest paid on loan A/c Dr. To Bank A/c (Interest paid on the bank loan)	25,000	25,000
03/31/2009	Investment A/c Dr. To Bank A/c (Investments made from the bank)	2,000,000	2,000,000
03/31/2009	Salary A/c Dr. To Bank A/c (Salary paid from the bank.)	100,000	100,000
03/31/2009	Other Expenses A/c Dr. To Cash A/c (Other expenses paid by cash)	40,000	40,000

## 4.2 Subsidiary Books

A subsidiary book is a subdivision of a journal in which a group of repetitive transactions are recorded in one place. The subdivision is made on the basis of the volume and nature of the transactions of the business. A separate book for each subdivision can be maintained.

Types of subsidiary books:

- Purchase Book: Only credit purchase transactions are recorded in this book.
- Sales Book: Only credit sale transactions are recorded in this book.
- Purchase Return Book: Only purchase return transactions are recorded in this book.
- Sales Return Book: Only transactions of the sales return are recorded in this book.
- Cash Book: Cash, bank, and cash discount transactions are recorded in this book.
- Petty Cash Book: Transactions related to day-to-day expenses are recorded in this book (e.g., stationery expenses, courier expenses).
- Journal Proper: Transactions that cannot be recorded in any of the above-named subsidiary books are recorded in this book (e.g., depreciation, closing of the ledger, adjustment entries).
- Accounts Receivable Book: Transactions related to accounts receivable are recorded in this book.
- Accounts Payable Book: Transactions related to accounts payable are recorded in this book.

### 4.3 Preparation of Books of Accounts

Final accounts are prepared to determine the entity's net financial performance for the period and to determine the entity's financial position.

#### Ledger Accounting

Once the transactions are recorded in prime books (e.g., sales book, cash books), the subsequent exercise is to put the transactions relating to a particular group in one place known as a ledger account. It is usually in a "T" shape. The debits are recorded on the left-hand side, and the credits are recorded on the right-hand side of the account. The abbreviation for the debit records is "Dr.," and the abbreviation for the credit records is "Cr." Thus, a ledger account summarizes the position of the transactions in a standard way.

The ledger is balanced periodically (and must be balanced at year end). Balancing is the process of determining the net summary position of the items appearing on two sides of a particular account.

The steps involved are:

- Step 1: Prepare the ledger account.
- Step 2: Post journal entries in the ledger account.
- Step 3: Total each side of the account: the debit side (Dr.) and the credit side (Cr.). Compare the totals and write the higher total on both sides.
- Step 4: Balance the ledger. Put the difference between the higher and lower total as the balance (the net of transactions on both sides) so as to make the total of both the sides equal.

#### Example:

Referring to the earlier Illustration 1, the following shows the process of balancing the ledger:

#### Step 1: Prepare the Ledger Account

Dr.				Cr.			
Investment A/c							
Date	Description	L.F.	Amount	Date	Description	L.F.	Amount
	<b>Total</b>				<b>Total</b>		

#### Step 2: Post Journal Entries in the Ledger Account

Dr.				Cr.			
Investment A/c							
Date	Description	L.F.	Amount	Date	Description	L.F.	Amount
12/02/2008	To Bank A/c	12	2,000,000				
03/31/2009	To Bank A/c	72	2,000,000				
	<b>Total</b>				<b>Total</b>		

**Step 3: Total Each Side, Compare the Totals, and Write the Higher Total on Both Sides**

Dr.				Cr.			
Investment A/c							
Date	Description	L.F.	Amount	Date	Description	L.F.	Amount
12/02/2008	To Bank A/c	12	2,000,000				
03/31/2009	To Bank A/c	72	2,000,000				
					<b>Total = 0</b>		
	<b>Total =</b>						
	<b>Total</b>		<b>4,000,000</b>		<b>Total</b>		<b>4,000,000</b>

**Step 4: Balance the Ledger**

Dr.				Cr.			
Investment A/c							
Date	Description	L.F.	Amount	Date	Description	L.F.	Amount
12/02/2008	To Bank A/c	12	2,000,000	03/31/2009	By Balance C/F		4,000,000
03/31/2009	To Bank A/c	72	2,000,000				
					<b>Balancing</b>		
	<b>Total</b>		<b>4,000,000</b>		<b>Total</b>		<b>4,000,000</b>

Legend: C/F = carried forward.

In this way all the accounts are prepared and balanced. The solution of the above illustration is as follows:

Dr.				Cr.			
Municipal General Fund A/c							
Date	Description	L.F.	Amount	Date	Description	L.F.	Amount
03/31/2009	By Balance C/F		4,000,000	12/01/2008	By Bank A/c	02	4,000,000
	<b>Total</b>		<b>4,000,000</b>		<b>Total</b>		<b>4,000,000</b>

Dr.				Cr.			
Central Government Grant A/c							
Date	Description	L.F.	Amount	Date	Description	L.F.	Amount
03/31/2009	To Bank A/c	72	30,000	03/15/2009	By Bank (Grant Received)	67	300,000
03/31/2009	By Balance C/F		270,000				
	<b>Total</b>		<b>300,000</b>		<b>Total</b>		<b>300,000</b>

Dr.				Interest Received A/c				Cr.
Date	Description	L.F.	Amount	Date	Description	L.F.	Amount	
03/31/2009	By Balance C/F		100,000	12/30/2008	By Bank A/c	30	80,000	
				12/31/2008	By Bank A/c	32	20,000	
	<b>Total</b>		<b>100,000</b>		<b>Total</b>		<b>100,000</b>	

Dr.				Plant & Machinery A/c				Cr.
Date	Description	L.F.	Amount	Date	Description	L.F.	Amount	
12/02/2008	By Bank A/c	12	1,000,000	01/15/2009	To PQR Corporation A/c (Defective returned)	45	50,000	
01/01/2009	By PQR Corporation A/c	35	700,000	03/31/2009	By Balance C/F		1,650,000	
	<b>Total</b>		<b>1,700,000</b>		<b>Total</b>		<b>1,700,000</b>	

Dr.				Tax Revenue (Income) A/c				Cr.
Date	Description	L.F.	Amount	Date	Description	L.F.	Amount	
03/31/2009	By Balance C/F		670,250	12/31/2008	By Cash A/c	34	40,250	
				01/31/2009	By Cash A/c	49	175,000	
				02/28/2009	By Cash A/c	61	455,000	
	<b>Total</b>		<b>670,250</b>		<b>Total</b>		<b>670,250</b>	

Dr.				Interest Paid on Loan A/c				Cr.
Date	Description	L.F.	Amount	Date	Description	L.F.	Amount	
12/31/2008	To Bank A/c	34	25,000	03/31/2009	By Balance C/F		50,000	
03/31/2009	To Bank A/c	72	25,000					
	<b>Total</b>		<b>50,000</b>		<b>Total</b>		<b>50,000</b>	

Dr.				Investment A/c				Cr.
Date	Description	L.F.	Amount	Date	Description	L.F.	Amount	
12/02/2008	To Bank A/c	12	2,000,000	03/31/2009	By Balance C/F		4,000,000	
03/31/2009	To Bank A/c	72	2,000,000					
	<b>Total</b>		<b>4,000,000</b>		<b>Total</b>		<b>4,000,000</b>	

Dr.				Bank Loan A/c				Cr.
Date	Description	L.F.	Amount	Date	Description	L.F.	Amount	
03/31/2009	By Balance C/F		2,000,000	12/31/2008	By Bank	31	2,000,000	
	<b>Total</b>		<b>2,000,000</b>		<b>Total</b>		<b>2,000,000</b>	

Dr.				Employee Salary A/c				Cr.
Date	Description	L.F.	Amount	Date	Description	L.F.	Amount	
01/01/2009	To Bank A/c	35	100,000	03/31/2009	By Balance C/F		400,000	
02/01/2009	To Bank A/c	50	100,000					
03/01/2009	To Bank A/c	62	100,000					
03/31/2009	To Bank A/c	72	100,000					
	<b>Total</b>		<b>400,000</b>		<b>Total</b>		<b>400,000</b>	

Dr.				Other Expenses A/c				Cr.
Date	Description	L.F.	Amount	Date	Description	L.F.	Amount	
31.12.2008	By Cash A/c	34	60,000	03/31/2009	By Balance C/F		160,000	
01.01.2009	By Cash A/c	35	20,000					
01.02.2009	By Cash A/c	50	30,000					
01.03.2009	By Cash A/c	62	10,000					
31.03.2009	By Cash A/c	72	40,000					
	<b>Total</b>		<b>160,000</b>		<b>Total</b>		<b>160,000</b>	

Dr.				Cash A/c				Cr.
Date	Description	L.F.	Amount	Date	Description	L.F.	Amount	
12/05/2008	To Bank A/c	14	200,000	12/31/2008	By Other Exp A/c	34	60,000	
12/31/2008	To Tax-Revenue A/c	34	40,250	01/01/2009	By Other Exp A/c	35	20,000	
01/31/2009	To Tax-Revenue A/c	49	175,000	02/01/2009	By Other Exp A/c	50	30,000	
02/28/2009	To Tax-Revenue A/c	61	455,000	03/01/2009	By Other Exp A/c	62	10,000	
				03/31/2009	By Other Exp A/c	72	40,000	
				03/31/2009	By Balance C/F		710,250	
	<b>Total</b>		<b>870,250</b>		<b>Total</b>		<b>870,250</b>	

Dr.				Bank A/c				Cr.
Date	Description	L.F.	Amount	Date	Description	L.F.	Amount	
12/01/2008	To Municipal Grant Fund A/c	02	4,000,000	12/02/2008	By Plant & Machinery A/c	12	1,000,000	
12/30/2008	To Interest A/c	30	80,000	12/02/2008	By Investment A/c	12	2,000,000	
12/31/2008	To Bank A/c	31	2,000,000	12/05/2008	By Cash A/c	14	200,000	
03/15/2009	To Central Govt. Grant	67	300,000	12/31/2008	By Interest paid on Loan A/c	34	25,000	
03/31/2009	To Interest A/c	72	20,000	01/01/2009	By Salary A/c	35	100,000	
				02/01/2009	By Salary A/c	50	100,000	
				03/01/2009	By Salary A/c	62	100,000	
				03/31/2009	By Salary A/c	72	100,000	
				03/31/2008	By Investment A/c	72	2,000,000	
				03/31/2009	By Interest paid on Loan A/c	72	25,000	
				03/31/2009	By Central Government Grant A/c	72	30,000	
				03/31/2009	By Balance C/F		720,000	
	<b>Total</b>		<b>6,400,000</b>		<b>Total 5,680,000</b>		<b>6,400,000</b>	

Dr.		PQR Corporation A/c				Cr.	
Date	Description	L.F.	Amount	Date	Description	L.F.	Amount
01/15/2009	To Plant & Machinery A/c	72	50,000	01/01/2009	By Plant & Machinery A/c	32	700,000
03/31/2009	By Balance C/F		650,000				
	<b>Total</b>		<b>700,000</b>		<b>Total</b>		<b>700,000</b>

Through computerized accounting, it is possible to avoid a tedious manual process and do the balancing using computers as well. At the end of the year, these balances are combined in one place: a statement known as the “trial balance.”

The balance on the credit side of the account is known as the “debit balance,” while the balance on the debit side shows the “credit balance.” These balances are now to be kept in one statement, the trial balance. The “debit balance” is shown on the debit side of the trial balance, while the “credit balance” is shown on the credit side of the trial balance. As there are two effects for each transaction (i.e., debit and credit), the total of the trial balance must always tally.

### **Trial Balance**

A trial balance is a statement prepared from the balances of the ledger accounts in order to verify whether the accounts are arithmetically correct before preparing the final accounts of the business. The trial balance is not an account; it is the link between the ledger and the final accounts. However, the list of the accounts and balances may not convey the actual financial position of the entity. So for this purpose, one more exercise of finalization of the accounts needs to be performed.

**Example:** Referring to Illustration 1, the trial balance will be depicted as follows:

### **Trial Balance of ABC Municipality for the Year Ended 31.12.2008**

Description	Debit	Credit
Municipal General Fund A/c		4,000,000
Central Government Fees A/c		270,000
Interest Received A/c		100,000
Plant & Machinery A/c	1,650,000	
Tax Revenue (Income) A/c		670,250
Interest Paid on Loan A/c	50,000	
Investment A/c	4,000,000	
Bank Loan A/c		2,000,000
Employee Salary A/c	400,000	
Other Expense A/c	160,000	
Cash A/c	710,250	
Bank A/c	720,000	
PQR Corporation A/c		650,000
<b>Total</b>	<b>7,690,250</b>	<b>7,690,250</b>



#### 4.4 Bank Reconciliation

Most receipts and payments are routed through banking channels for effective cash control and prevention of irregularities in cash management. Bank records of transactions need to be reconciled periodically with the entity's own records to ensure that they match. Bank reconciliation is performed by the accountant responsible for banking transactions to match the bank account balance according to the books maintained at the entity with the balance according to the bank statement or passbook from the bank.

The bank account balance according to the ledger or bank book (if maintained separately as a subsidiary book) on a particular date (i.e., date of reconciliation) may *not* tally with the balance shown by the bank in the bank statement (a copy of the entity's account in the bank's ledger). Possible reasons for a difference in the balance are as follows:

- The entity deposited a check in the bank, but the bank did not credit the check amount to the entity's account by the date of reconciliation.
- The entity issued a check that was not presented to the bank for payment by the date of reconciliation (in other words, the check did not clear).
- A customer made a direct deposit in the entity's bank account, for which the entity did not receive information by the date of reconciliation.
- The bank recovered interest, commission, charges, or other amounts but did not communicate them to the entity by the reconciliation date.
- The bank collected an amount on behalf of the entity but did not communicate it to the entity by the reconciliation date.
- The entity recorded checks in its books of account but did not deposit them by the reconciliation date.
- The entity deposited a check in the bank but did not record it in the books of account.
- The entity issued a check that was presented for payment to the bank, but neglected to record it in the books of account.

The periodic bank reconciliation exercise involves entry-by-entry comparison of the bank account in the entity's book with the bank statement received from the bank. The entity's accountant should determine the items that do not tally in both accounts, prepare a list of the items that do not match, and then reconcile those two balances.

A bank reconciliation statement means a statement showing the causes of the difference in the bank account balance according to the entity's ledger and the balance according to the statement or passbook from the bank. The entity then deals with the differences in the books if necessary. If the differences are only due to a time lag in accounting by the entity and the bank, these differences match later on and do not call for any further accounting treatment in the books of the entity.

The entire process can be explained with the help of the following example:

The bank account balance of ABC Municipality as of December 31, 2008, according to its books, is Afs 575,000, and the balance in the XYZ Bank statement is Afs 592,000.

- Item-by-item comparison of the bank account in ABC's books and the bank statement received from the bank shows the following differences:
  - A check for Afs 22,500 issued by ABC Municipality to PQR Corporation on December 23, 2008, is not found in the bank statement of XYZ Bank.
  - Two checks of Afs 3,000 each, totaling Afs 6,000, were received by ABC Municipality, recorded in ABC's books, and deposited in XYZ Bank on December 28, 2008, but do not appear in the bank statement of XYZ Bank.



**Journal Entry in the Books of ABC Municipality for Difference No. 4**

<b>Date</b>	<b>Description</b>	<b>Amount (Afs)</b>	<b>Amount (Afs)</b>
12/30/2008	XYZ Bank A/c To Interest Received A/c (Bank interest credited by XYZ Bank, recorded while reconciling the bank statement.)	Dr. 1,000	1,000

This exercise may be carried out monthly, biweekly, or weekly, depending on the volume of accounting transactions.

**5.0 Preparation of Final Accounts**

The final accounts of any business organization include the:

- Income and expenditure account for the year
- Balance sheet as of the last day of the year.

**5.1 Income and Expenditure Account**

The entity's accountant prepares the account for the year and titles it "Income and Expenditure Account of ABC Municipality for the year ended..." with the date (see sample).

From the trial balance, all the nominal accounts are transferred to the income and expenditure account to determine the bottom line (surplus/deficit) of the entity. All expenses and losses of the current year are recorded on the debit side of the income and expenditure account, while all income and gains of the current year are recorded on the credit side.

The final result (surplus/deficit) is transferred to the owners' fund or separately shown in the balance sheet as reserves and surplus.

**Income & Expenditure Account of ABC Municipality for the year ended 03/31/2009**

Dr.

Cr.

<b>Expenditure</b>	<b>Amount (Afs)</b>	<b>Income</b>	<b>Amount (Afs)</b>
<b>Total</b>		<b>Total</b>	

**5.2 Balance Sheet**

A statement showing assets, liabilities, receivables, payables, and owners' funds on a particular day is known as the balance sheet. A balance sheet shows owners' funds and liabilities on the left side and assets and receivables on the right side. The real accounts and the personal accounts are transferred to the balance sheet.

Owners' funds and liabilities include:

- **Capital fund:** The corpus of the entity.
- **Reserves and surplus:** The accumulated balance of the surplus of the previous accounting year. The amount of this fund is available for use to strengthen the entity's financial position.

- **Secured loans:** Borrowing from the government or from any other institution that is secured by creating charges on the fixed assets of the entity. Generally, any medium-term or long-term loan, from any institution or bank, that is secured against the entity's immovable or movable property is included here.
- **Unsecured loans:** Loans or deposits that are not secured or that do not carry any security other than the borrower's own promise to pay (e.g., short-term loans or deposits).
- **Other current liabilities:** Amounts owed to creditors for expenses or unpaid amounts for goods purchased or services used (e.g., bills payable, outstanding expenses).
- **Provisions:** Where current liabilities cannot be specifically quantified, the estimated amount is credited as a provision. Under the accrual method of accounting, it is compulsory to make provisions for all known liabilities and any future losses expected (e.g., provision for depreciation, taxes). The estimated amount is based on the past experience and the present circumstances.

Fixed assets and receivables include:

- **Fixed assets:** Movable as well as immovable property that is held by the entity for the operation and maintenance of its business (e.g., land, buildings, vehicles, furniture).
- **Investment:** Investment of surplus funds in stocks, deposits, bonds of the government or any other institution either for the long term or temporarily for effective cash management (e.g., investment in government securities, contributions to retirement savings accounts, purchase of unsecured bonds).
- **Current assets** include the following:
  - **Stock:** Stock of raw materials, work-in-progress, and finished goods
  - **Debtors:** Amount due from the debtor to whom the goods are sold or the services are rendered
  - **Cash and bank balance:** Cash on hand or the bank balance held in a savings or current account in the name of the entity.

Following is a sample balance sheet.

**Balance Sheet of ABC Municipality as of 03/31/2009**

<b>Liabilities</b>	<b>Amount (Afs)</b>	<b>Assets</b>	<b>Amount (Afs)</b>
<b>Total</b>		<b>Total</b>	

As each accounting transaction has two equal and opposite effects (a debit and a credit), each transaction affects both sides of the balance sheet; hence, the totals on both sides of the balance sheet are always equal.

These financial statements are to be certified by accounting professionals such as Chartered Accountants or Certified Public Accountants to ensure that they reflect a true and fair view of the performance and the financial position of the entity.

## 6.0 Reporting to the Stakeholders

There are three main groups of stakeholders or users of the financial statements of municipalities: citizens, municipal officials, and investors and creditors. Key users of government financial information and their information needs are described below.

- **Citizens:** The citizens include taxpayers, voters, and service recipients and are usually represented by the media. The citizens are interested in information on the financial conditions and operational results, as indicators of an increase or decrease in the level of services provided and impending tax burden in future.
- **Municipal officials:** The elected officials are interested in knowing how much money is available for providing services and how to optimize the services so as to keep the taxes low and citizens happy. The head of the municipality has the difficult task of managing financial resources while balancing the dictates of the legislative intent in the budget with political needs of the elected officials, and the need for financial prudence required by creditors and investors.
- **Investors and creditors:** These stakeholders have the simplest and most easily understood objective of all, which is prudent management of resources to safeguard their interests in the entity.

The key attributes of government financial reporting emerge from users' needs. Financial reporting should:

- Provide information on whether the current-year revenues are sufficient to pay for current-year expenditures. It should also provide information on the current financial position and condition.
- Assess whether the government adhered to its legally adopted budget and demonstrate compliance with other finance-related legal and contractual requirements.
- Assist users in assessing the service efforts, costs, and accomplishments of the government entity.
- Allow an evaluation of financial performance for the year showing the sources and uses of financial resources.
- Allow users to determine whether current-year operations resulted in improvement or deterioration in the government's financial position.
- Assist users in assessing the level of services that can be supported by the government.
- Allow users to assess the ability of the government to meet its obligations as they become due.
- Provide information on the government's physical and other nonfinancial resources, including information that can be used to estimate the potential use of such resources.
- Convey the legal and contractual restrictions on financial resources of the government.

## 7.0 Significant Accounting Principles for Municipal Bodies<sup>1</sup>

The significant accounting principles described in this section should be followed in maintaining and preparing accounts of the municipal bodies. The significant accounting principles listed are generic and can be adapted by a municipal body based on its nature and requirements.

The significant accounting principles should be followed consistently each year. The annual financial statements of a municipal body should contain a statement about these significant accounting principles as notes to the accounts highlighting the important accounting principles adopted in preparing and presenting such information. Where any accounting principle adopted by a municipal body in preparing its annual financial statements is not in agreement with the principles prescribed in this chapter and the effect of deviation from the accounting principles is material, the details of the deviation should be disclosed, together with the reasons and the financial effect thereof, except where it is not possible to determine such effect. In case it is not possible to determine the financial effect, either wholly or in part, the fact that it is not possible to determine should also be indicated. Likewise, any change in these accounting principles that has no material effect on the annual financial statements for

the current period, but is reasonably expected to have a material effect in later periods, should be appropriately disclosed in the annual financial statements of the period in which the change is adopted.

### **7.1 General Principles of Revenue Recognition**

The two basic rules to account for revenue in municipal accounting are:

- Income recognized on an accrual basis and not collected for more than three years should be fully provided for (i.e., handled in the provisions)
- Arrears of the previous years that have already been provided for and are collected subsequently should be treated as income from arrears in the year of collection.

#### ***Principles Applicable to Property and Other Taxes***

- Revenue from property and other taxes should be recognized when the bills are issued; that is, in the period in which they become due.
- Revenue from fees and penalties charged should be recognized when the bills for them are issued.
- Revenue from property transfer charges should be recognized on actual receipt.
- The property tax bill issued during the accounting year should be fully provided for to the extent it is not collected until the date of finalization of the financial statements of the municipal body. In other words, adequate provision for uncollected property tax bills should be made in the financial statements.
- Partial payments received for property and other tax levies should be adjusted against the earliest receivables and should be apportioned across the various levies according to the directions of the Ministry of Finance or Independent Directorate of Local Governance.

#### ***Principles Applicable to Various Taxes***

- Tax revenue filed with returns should be recognized on actual receipt.
- Tax revenue arising out of assessment, interest charged, and penalties levied on assessment should be recognized when the bill is issued; that is, in the period in which they become due.

#### ***Principles Applicable to Water Supply***

- Revenue from water tax, water benefit tax, water supply charges, water meter, rent and irrigation charges should be recognized when the bills are issued; that is, the period in which they become due.
- Similarly, revenue from other fees and penalties should be recognized when the bills for them are issued.
- Revenue from water connection and reconnection charges should be recognized on actual receipt, as should water tanker charges, water charges for specific needs, and road digging and repair charges.

#### ***Principles Applicable to Other Income***

- The other types of income for which bills are issued in the regular course of operations of a municipal body should be recognized when the bills are issued; that is, in the period in which they become due.
- Other types of income, which are of an uncertain nature, for which the amount is not fixed, or where bills are not issued in the regular course of operations of a municipal body, should be recognized on actual receipt.
- Revenue related to other fees and penalties should be recognized when the bills for them are issued.

- “Earnest money” deposits and security deposits received should be forfeited and recognized as income in the year in which the right for claiming a refund of the deposit has expired.

### ***Principles Applicable to Health and Sanitation***

Revenue from the following should be recognized on actual receipt:

- Hospital fees, maternity home fees, diagnostic center fees, and clinic fees
- Hospital training fees, rental charges for ambulances, hearses, suction units, meat vans, and road rollers
- License fees
- Sale of fertilizers and waste, sale of animals, and sale of scrap
- Revenue for rental of equipment provided to contractors and deducted from their bills should be recognized when the deductions are made
- All operating expenditures incurred should be recognized when the bills are received and approved by the department.

## **7.2 General Principles of Expenditure Management**

### ***Principles Applicable to Public Works***

Expenditures incurred on repairs and maintenance should be accounted for when the expenditures are received and approved and should be charged to the income and expenditure statement. Since repairs and maintenance expenditures are a period expense, provision should be made for all expenditures incurred but for which a bill has not been received until the respective period-end (i.e., month-end or year-end).

The cost of fixed assets should include the money spent in acquiring, installing, or constructing the fixed asset, interest on borrowings attributable to acquisition or construction of qualifying fixed assets up to the date when the assets were put into service, and other incidental expenses incurred up to that date. Assets under erection/installation of existing projects and capital expenditure on projects (including advances for capital works and project stores) should be shown as “capital works-in-progress.”

### ***Principles Applicable to Stores of Goods***

Expenditures on materials, equipment, or other stores of goods should be recognized on an accrual basis (i.e., on delivery and acceptance of the goods). The stored goods remaining at the period-end should be valued in accordance with the first in–first out method. Revenue from disposal of material should be recognized on actual receipt.

### ***Principles Applicable to Employee-Related Transactions***

- Expenses on salaries and other allowances should be recognized when they are due for payment (i.e., at the month end).
- Statutory deductions from salaries, including those for income tax, retirement contributions, and other deductions, should be recognized as liabilities in the same month in which the corresponding salary is recognized as an expense.
- Contributions due toward the municipal pension fund should be recognized as an expense and a liability at an appropriate proportion of the total monthly salary of the municipality.
- If the contribution made to the pension fund is less than the amount payable toward pensions, the additional amount payable should be treated as an expense in the period in which payments are made.
- Gratuities should be recognized as an expenditure on an actual payment basis.

- Cashed-in vacation time (if an employee receives financial compensation instead of vacation time owed) should be recognized as an expenditure on an actual payment basis.
- Interest receivable on loans to employees should be recognized as revenue at the end of the period for which it has accrued.
- For loans to employees, penalty interest levied on default in repayment of principal or interest payments should be recognized on an accrual basis.
- Bonuses, ex-gratia payments, overtime allowances, other allowances, and reimbursements to employees should be recognized as expenses when they are due for payment.

### ***Principles Applicable to Other Capital Expenditures***

Other capital expenditures should be treated as expenditures in the period for which they are incurred. Any expenditure for which the payment has been made in the current period but the benefit or service is likely to arise in a future period should be treated as expenditure for the period in which its benefit arises and/or services are received. The expenditure for the current period should include the proportionate value of the benefits or services arising in the current period even if the payment for it has been made in the previous period.

### **7.3 General Principles of Investment Accounting**

- Investments should be recognized at the cost of investment. The cost of investment should include money spent in acquiring the investment and other incidental expenses incurred for its acquisition.
- Investments should be classified as current or long-term investments, depending upon the nature of the investment. Long-term investments should be valued at cost in the balance sheet.
- Current investments should be valued at cost or market value, whichever is lower.
- Interest on investments should be recognized when due. At period-ends, interest should be accrued up to the date of the period-end.
- Dividends on investments should be recognized in the year in which they are declared.
- Profit or loss, if any, arising on disposal of investments from the municipal fund should be recognized and credited or debited to the income and expenditure statement.
- Interest or dividends on investments made from the special fund and grants should be recognized and credited to the special fund and grants, respectively, whenever accrued. Profit or loss, if any, arising on disposal of investments made from the special fund and grants should be recognized and credited or debited to the special fund account and grant account, respectively.

### **7.4 General Principles of Fixed Assets Accounting**

There exist divergent views regarding the valuation of fixed assets possessed by government and municipal bodies. In Afghanistan as municipal accounting reforms are in a stage of infancy, the issue of valuation of municipal fixed assets has yet not been completely resolved. The general principles enumerated below are generic and intended to facilitate conceptual clarity.

All fixed assets should be carried at cost less accumulated depreciation. The cost of fixed assets should include money spent in acquiring or installing or constructing fixed assets, interest on borrowings attributable to acquisition or construction of qualifying fixed assets up to the date of commissioning of the assets, and other incidental expenses incurred up to that date. Any addition to or improvement of the fixed asset that results in increasing the utility or economic life of the asset should be capitalized and included in the cost of the fixed asset. Any fixed asset that has been acquired free of cost or for which no payment has been made



should be recorded at nominal (fixed) value. Depreciation should be provided at the rates prescribed.

***What did we learn about in this chapter?***

- *Introduction to municipal accounting*
- *Components of general accounting principles, including accounting methods (cash basis and accrual basis)*
- *Process of accounting and reporting*
- *Maintenance of books of accounts, including preparation of the trial balance*
- *Preparation of final accounts*
- *Reporting to stakeholders*
- *Accounting principles applicable to municipal bodies*

## 8.0 Annex A: Accounting Laws and Regulations in Afghanistan – An Overview

**Afghanistan accounting laws and regulations should endorse the specific use of international accounting standards.** Satisfactory legislative arrangements are in place with respect to accounting and the use of international accounting standards. Implementation of a new finance law is underway. The 2005 Public Finance and Expenditure Management (PFEM) Law is based on Article 75, paragraph 4, of the Constitution. The PFEM Law covers the management of financial affairs; protection of public assets; preparation of budget; and the management of, and reporting on, public expenditure of the state administrations inside and outside Afghanistan. Under the Law, transactions are to be recorded according to budget classification and accounting rules compliant with internationally accepted standards and principles. The regulations should do more to identify the specific standards.

**The integrated financial management system should be run by the Ministry of Finance with the assistance of consultants.** Computerization is proceeding under the broad Public Administration and Capacity Building Program; the advising consulting firm is doing most of the reporting work within the Treasury located in the Ministry of Finance. The accounting package and systems in place are to be enhanced to provide the functionality and geographic spread required to meet the needs of the PFEM Law. There needs to be a concurrent program to strengthen the capacity of the Ministry of Finance staff to run the system and prepare the accounts and reports.

**Afghanistan should adopt the Cash Basis International Public Sector Accounting Standards (IPSAS).** The International Federation of Accountants (IFAC) Public Sector Committee recognizes the right of governments and national standard-setters to establish guidelines and accounting standards for financial reporting. The Public Sector Committee considers the Cash Basis IPSAS to be an important step forward in improving the consistency and comparability of financial reporting and encourages its adoption. The PFEM Law is not explicit about the application of IPSAS but is explicit about the use of international accounting standards. Various articles of the PFEM Law refer to revenue, expenditure, assets, and liabilities items that should be accounted. The Treasury staff and consulting advisors consider that presentation of accounts in accordance with Cash Basis IPSAS could be achieved with current systems. It is recommended that this be done. To enhance this, notes should be used for those accrual requirements of the PFEM Law where accounting information is available. As the components of the accounting system become functional, elements of accrual basis of reporting can be considered.

## 9.0 Endnote

<sup>1</sup> Ravikant Joshi, [www.ravikantjoshi.com](http://www.ravikantjoshi.com).

## Chapter 15: Local Economic Development

**Summary:** This chapter explains why economic development is important. The chapter also explains how municipalities can generate sustainable economic development and improve the quality of life of their citizens. Good governance, transparency, human and social capital, and fiscal and financial management are four main pillars for generating economic development.

**Objectives:** The objectives of this chapter are as follows:

- To explain economic development
- To understand the importance of economic development in good municipal governance
- To describe economic development in present-day Afghanistan
- To discuss how sustainable economic development could be achieved in cities in Afghanistan.

### 1.0 Economic Development in the Context of Cities and Communities

Local economic development is the process by which public, business, and nongovernmental organization (NGO) sector partners work collectively to create better conditions for economic growth and employment generation. The aim is to improve the quality of life for all.<sup>1</sup>

Within a family, the adults are responsible for sustaining the family and improving its quality of life. Income is essential to meet family requirements. The Elders are responsible for providing good education, food, housing, and overall quality of life to their children.

Similarly, municipalities are responsible for developing various sources of income for its citizens. The more sources of income a municipality can develop, the more income citizens can earn, the more taxes are paid to the municipality in return which allows, the municipality to provide more and better services to its citizens in order to improve their overall quality of life.

To generate a good family income, investments to train, educate, and develop the skills and abilities of family members are essential. Acquiring good business, job performance and language skills is important to generate a good family income. Similarly, for municipal economic development, it is essential to create conditions for investments to local businesses, and to provide a pool of qualified people in the community to work and run the businesses.

The following are essential for attracting businesses and investments that improve the local economy:

- Political will and strategic business planning
- Basic municipal and business services
- Transportation and communications infrastructure
- A balanced system of provincial and municipal governance
- Sound financial management and transparency
- Decentralized and effective land management, title transfer process, and permits
- Establishment of an economic development strategy, including the formation of public-private partnerships
- Establishment of an economic development staff, preparation of an economic business profile, and creation of a business retention strategy
- Adding skilled and semi-skilled local labor and workers

- New business marketing and recruitment.

## 2.0 The Importance of Economic Development

Economic development is important for creation of infrastructure, provision of services, establishing a local identity and branding strategy, creation of jobs, city revenue enhancement, attraction of new businesses, and investment. Growth of family income is essential for the development of family members' skills; likewise, sustained economic development is essential for growth and development of municipalities. Vibrant, well-focused economic development increases municipal revenues, which facilitates the provision of more and better municipal services such as:

- Development of infrastructure that facilitates business and community activity and improves environmental quality (e.g., roads, storm drains, parks, and gardens)
- Improved municipal services that progress the health and well-being of the local population and stimulate social and societal development—through greater community cohesion and the development of a local identity (e.g., child care, recreational services, care of older persons).

Cities compete to attract more investments and new businesses essential for creating more jobs. Improved infrastructure, including roads, communications, electricity, potable water, and trash and septic waste collection and processing are important keys to a community's competitive advantage. To retain, grow, or recruit new businesses, cities must provide the best services at the lowest costs possible. Providing effective, efficient, and equitable basic services (such as regular waste collection and reliable utilities) at costs that are rational and transparent (openly published or available for public inspection) is vital for businesses to thrive. Investors are unlikely to consider a community where the cost of public services and the level of taxes and fees are unclear or subject to frequent change, and where the city administration is unable to provide up-to-date, transparent data on its financial status.

Investments in businesses within the city/municipality and region are also essential for increasing economic activities in the local area. Such economic activities can bring economic development. Economic development is very important for reducing poverty and improving the quality of life of local residents. If feasible, municipalities/cities need to work on a regional scale for the competitive advantage of regional cooperation. Such regions can help to a great extent in living standards of local residents by creating more employment opportunities.

Full and productive employment is the surest means of improving the quality of life and integrating weaker sections of society into the mainstream.<sup>2</sup> For productive employment, the use of both physical and human capital is important. A healthy and educated population is not possible without access to health and educational facilities; in turn, the population cannot find productive employment without economic development (i.e., factories and equipment, roads, and railways). Jobs improve the overall wealth of a community, and the resulting taxes allow better services to be provided to citizens.

Jobs = Taxes
Taxes = Infrastructure and Services

For most people, employment is their only source of income. Employment adds to the dignity of people because it shows their value to society. Opportunities for decent work depend critically on the productivity of employment and on government policies of economic development.

## 3.0 Challenges to Municipalities in Improving Their Economy

Economic development and employment conditions differ widely from country to country. Hence, both the analysis of the challenges and the policy responses should vary according to local conditions. Creating an environment and legal structure that allows, promotes, and then generates economic development, full and productive employment, and decent work for all

requires stable, predictable, and sustainable long-term growth under conditions of peace and security, which is currently the biggest challenge for municipalities in Afghanistan.

Institutions that represent laws, customs, and practices in a society are equally important to achieve employment. Strengthening weak institutions and eliminating corrupt practices present challenges. Governments that provide law and order, are accountable to citizens, and are efficient in conducting business are fundamental for creating an environment that generates productive employment and decent work. In this regard, some degree of decentralized authority and decision-making on both a municipal and provincial level, rather than maintaining all control at the national level, is an essential element in Afghanistan's economic development. Another challenge for municipalities in providing productive employment is underemployment—many poor people are trapped in low-skill/low-wage jobs in agriculture and the informal sector. Once again, this means that exercise of local authority and decision-making is essential, including the development and implementation of tailored training programs necessary to develop the skills and abilities needed for the specific applications, such as mining and mineral processing, hydroelectric power development, irrigation systems, and so on.

Regulations concerning minimum wages, severance pay, and other employee benefits may provide incentives for employees, but how to introduce or implement them can be challenging for local governments. Considering available labor locally, achieving full employment should be an overarching objective of the development strategies of cities/municipalities, both as an end in itself and as a critical means to reducing poverty. The development experience over the last decade suggests that more attention should be paid to the balance between capital-intensive and labor-intensive options.

Achieving socially, economically, and ecologically balanced growth is difficult. Inadequate ~~hard~~ infrastructure,” including roads and reliable supplies of water and power, is the biggest challenge to supporting rapid and sustained economic growth. The corresponding limited ~~soft~~ infrastructure,” which includes the human and institutional capacity necessary for an economy to function, is another challenge. Progress in meeting these challenges will also require attention to controlling corrupt practices and providing protection against violence.

#### **4.0 How Municipalities Can Achieve Sustainable Economic Development**

~~Sustainable economic development~~” is a process by which human, natural, built, financial, and institutional resources are brought together in creative and efficient ways to support an area's capacity to increase its level of income and capital (wealth) and to distribute that wealth (through local expenditure and employment) to the community for various purposes.<sup>3</sup> Most importantly, economic development should sustain social development. Expanding opportunities for improved literacy and educational opportunities open to all is key to progress. Also, economic growth should not make extreme demands on the resource base or place unsustainable burdens on ecological systems. Importantly, sustainable economic development should bring overall social development.

Three important pillars of sustainable economic development of any city are good governance, human and social capital, and fiscal and financial management.<sup>4</sup> Good governance is a must to provide a stable, peaceful, transparent, accountable, and participatory environment to attract the investments required for social and economic development even in local-level institutions. Human and social capital implies the availability of trained or professional staff or people to carry out specific work. The use, training, and involvement of human and social capital in the development process boost the economy and help improve the quality of life of local residents. Management of financial, human, and social capital through policies is equally important for social and economic development at both the national and local levels. The following sections describe ways that municipalities can encourage local economic and social development under each pillar.

## 4.1 Good Governance

Good governance (see also Chapter 3, “Good Urban Governance”) is essential for fostering sound economic development.<sup>5</sup> Good governance has the following features:

- Sound financial management, including clear budgeting and expenditures systems
- Transparent decision making, reducing opportunities for corruption
- Proper maintenance of records
- Collaboration among stakeholders
- Encouragement of citizen participation, allowing full participation of local communities, ensuring local ownership of economic and social reforms
- Effective and efficient provision of city services and basic infrastructure, including shelter.
- Delegated or decentralized municipal-level authority and responsibility, including the ability to establish and enforce local laws/ordinances.
- Policies that stimulate generation of jobs or economic activities for citizens.

As mentioned in Section 2.0, the cost of providing public services and the level of taxes and fees should be clear in good urban governance. Also, properly maintained records to provide up-to-date, transparent data on a municipality’s financial status are fundamental for achieving good governance. Such features of good urban governance will help a municipality attract investment and retain businesses, which will lead to sustainable economic development.

Further, municipalities should undertake the following “good governance” activities to attract investment for local economic development:

- Ensure the rule of law, protection of property rights, and political consensus-building
- Increase the capacity to forecast, monitor, and assess development by establishing appropriate institutions and instruments
- Create ethics and professionalism among public servants
- Develop open and inclusive decision-making processes to mobilize stakeholders in economic recovery and development.

## 4.2 Human and Social Capital

A city must have trained professionals and skilled workers if it is to effectively engage in local economic development. Local businesspeople and professionals, with their first-hand knowledge of the community, can also be major assets by acting as advisors to and working for the city. Just as investment in educating and training young members of the family is a big asset for family earnings, managing and developing human and social capital is an essential resource for sound economic development. To compete with other municipalities for investments, municipalities need to develop human and social capital and enhance social equity by:

- Adapting education to the specific needs of weak sectors of economies by incorporating local traditional knowledge and building capacities for implementation of modern technologies and democratic participation. For example, if there are not enough community members who are computer and information technology literate, municipalities can encourage the development more skills in this sector.
- Training public servants to improve their administrative skills and promote democratic practices.
- Developing innovative training for adults and youth to develop their capacity to prevent or minimize the impact of economic shocks.

- Creating incentives for migrants to invest monetary assets, skills, and ideas.
- Developing and implementing clear and transparent rules for social assistance.

To enhance social equity and social capital, municipalities need to give special focus to youth and women. Forty-seven percent of all unemployed people globally are young persons. At the local level, the working conditions of youth, both women and men, could be positively influenced by improving employability through provision of solid formal education, relevant vocational training, and useful labor market information and services. Wide disparities in wages and employment opportunities need to be tackled in all municipalities through a central body of local governments.

### 4.3 Fiscal and Financial Management

Creating an environment that attracts private or external investments is a must for competing with other municipalities and boosting economic development. Attracting investments also requires sound financial and fiscal management, which includes:

- Combining trade and industrial policies and taxes, and encouraging local businesses to reduce economic risks by diversifying production and exports
- Supporting development of markets for equity investments to minimize the need for short-term borrowing for long-term development
- Developing financial institutions, including different forms of microfinance as well as banks and insurance companies, to provide products and services to the poor
- Building sufficient financial reserves as an emergency fund for a serious economic crisis.

## 5.0 A Framework for Initiating Local Economic Development

Afghan municipalities can adapt the following framework, as suggested by the World Bank Primer,<sup>6</sup> to use in initiating local economic development:

### 5.1 Organizing the Effort

Local economic development is a collective effort involving all stakeholders, including public (government organizations), private (businesses), and nonprofit organizations (e.g., NGOs, civil society institutions, *shuras*). A municipality needs to initiate its economic development process by identifying appropriate individuals and institutions that have an interest in the local economy. It is very important that all these stakeholders develop a shared view and contribute to the overall objective of local sustainable economic development. In addition to these “organizing issues,” changes in Afghanistan’s legal structure, including delegating or decentralizing legislative authority and decision-making, are essential enabling issues which must be addressed in order to establish the type of environment necessary for economic development to grow and eventually flourish.

### 5.2 Conducting an Economic Development Assessment

Knowing the context of the local economy is important so that the municipality can prepare appropriate strategies and action plans for the future. The municipality should undertake a preliminary economic assessment using available quantitative and qualitative knowledge of the sources, structures, and trends in production and employment skills. This analysis will give ideas of the kind of projects and programs that are feasible, especially if the analysis is reviewed and discussed in detail with local Citizen Advisory Committees (CACs) and informed local NGOs in order to bring out new ideas and implementation approaches, based on local knowledge of potential economic opportunities. After collecting data, the municipality can also undertake a SWOT (strengths, weaknesses, opportunities, and threats) analysis. The assessment might bring out, for example:

- Strengths: Low wage rates, skilled workforce, presence of educational and research institutions, proximity to raw materials or other natural resources
- Weaknesses: Complex or costly business setup procedures, inadequate infrastructure, high crime rates or violence
- Opportunities: Emerging newer technologies, expanding markets, establishment of new universities or educational institutions
- Threats: Downsizing of global business or loss of markets.

### 5.3 Creating the Local Economic Development Strategy

Identifying the kinds of businesses that can prosper in the local environment, opportunities for clustering (grouping of related businesses that serve each other), and potential sites for development are all critical elements of the local economic development strategy. Creation of the strategy is also linked with the overall strategic planning that the municipality undertakes, whether as part of a Strategic Municipal Action Plan (SMAP) process or as reflected in the form of its Municipal Improvement Plan (MIP). The economic development strategy includes the overall vision, goals, objectives, programs, and action plans.

Forming a local economic development strategy is positive and should be done. The municipality needs to have realistic expectations, grounded in market research, about the likeliest economic opportunities around which to base its strategy. Given current conditions in Afghanistan, the market assessments can be expected to demonstrate business opportunities for small, locally owned and operated establishments selling services or products (i.e., carpets, locally grown vegetables, or other low-priced goods imported from Pakistan, Iran, or other neighboring countries), or selling products into local or regional cooperatives. In some limited cases, municipal market assessments might also demonstrate opportunities that can be utilized to attract larger international companies, particularly those in the business of developing natural resources, hydroelectric power, or other large-scale business enterprises.

### 5.4 Implementing the Local Economic Development Strategy

The municipality needs to lay out the budget, human resources, and projects based on action plans. Figure 1 shows how the economic development strategy can be summarized in terms of its vision, goals, objectives, and projects.

### 5.5 Links with Other Municipal Plans and Strategies

Other parallel plans and strategies within the municipality will influence the economic development strategy. These include:

- The municipal strategic plan (see Chapter 9, Municipal Strategic Planning, for more details)
- The master/development plan (see Chapter 11, Municipal Development Planning, for more details)
- Housing strategies
- Education and training strategies
- Environmental strategies (see Chapter 25, Environmental Management, for more details).

### 5.6 Diagnosis of the Business Enabling Environment within the Municipality

One of the most effective ways municipalities can improve local economies is by reviewing the role that municipalities play in helping or hindering the growth of business. Issues to review include the process of business registration and taxes on businesses, as well as how municipal staff deal with business customers.



The first steps should include undertaking a review of every department in the municipality to determine procedures, rules, and regulations that businesses need to follow and how the municipality manages these, in terms of efficiency, effectiveness, transparency, and so on. While this internal review is underway, municipalities can approach businesses, through a business attitude survey and through focus groups, to learn about their concerns.

**Vision:** *To improve the economic profile of the city by 2011.*

**Goals:** *ABC City will become the leading city in Afghanistan for carpet manufacturing.*

**Objective:** *To support existing carpet manufacturing units and development of new units in the city.*

**Projects:**

- *Project 1: Develop a register of all existing carpet manufacturing units in the city and determine their ownership.*
- *Project 2: Initiate a program to support creation of new carpet manufacturing units through assistance in loan acquisition.*
- *Project 3: Seek cooperative support from the national government and other funding sources to remediate the sites.*
- *Project 4: Undertake a lobbying effort with the national government for setting up a vocational training institute on carpet manufacturing.*
- *Project 5: Dedicate a zone in the Master/Development Plan for carpet manufacturing units.*
- *Project 6: Build a market for the sale of carpets.*

Figure 1: Outline of a Local Economic Development Strategy

## 6.0 Economic Development in Afghanistan

The successful transformation of Afghanistan into a secure, economically viable state that can meet the aspirations of the Afghan people, live at peace with itself and its neighbors, and contribute to regional and international stability will depend on the effective utilization of all available human, natural, and financial resources.

To sustain their capability to provide health and economic well-being for their citizens, it is important for Afghan municipalities to enter into partnerships with international organizations, other municipalities, civil society, and the private sector. In these partnerships, the private sector has a critical role to play. A substantial increase in private investment will be essential if Afghanistan is to make significant progress in meeting its social and economic objectives.

### 6.1 Limitations on Afghanistan's Economic Development Potential

It is not sufficient to rely on the central government and the international community to sustain high rates of investment. Afghanistan has significant potential for sustainable economic development. It has substantial water, agricultural, and mineral resources and is well positioned to become a trade and business hub linking the markets of Central Asia, the Middle East, South Asia, and China. Cities in Afghanistan need to find a niche among these sectors. However, Afghanistan municipalities must address some fundamental limitations in the economic environment if economic development efforts are to succeed:

- The country's *hard infrastructure*, including roads and reliable supplies of water and power, is inadequate to support rapid and sustained economic growth.
- The corresponding *soft infrastructure*, which includes the human and institutional capacity necessary for an economy to function, is also extremely limited. The central

government is giving considerable emphasis to developing capacity in both the public and private sectors and to institutional development, but these efforts will take time.

- Economic governance is weak. The central government is pursuing comprehensive economic reform, including the introduction of new commercial laws and regulations, but the establishment of institutions needed for effective implementation and enforcement are largely lacking and will take years to develop.
- The development of a competitive private sector will depend on establishing access to foreign markets and developing viable export activities; hence, related policies need redevelopment.
- Critical markets for land and finance are largely undeveloped, limiting the ability of private investors to establish and operate businesses. Property rights are often contested or difficult to defend.
- Continued rapid population growth will substantially increase the level of investment that will be required to reduce poverty. Municipalities are already making efforts in this direction.

## 6.2 Linking Growth with Poverty Reduction and Employment Creation

Significantly reducing poverty will require substantially increasing employment, which depends on maintaining high rates of economic growth in the years ahead. Afghanistan has a strong need to link growth with poverty reduction and employment through private sector investments. The results of the World Bank's investment climate assessment in 2005 show that more than half of respondents identify (1) electricity, (2) access to land, (3) corruption, and (4) access to finance as major constraints to private investment.<sup>7</sup>

The following are the key components of the policy framework that Afghanistan has broadly adopted for economic development in urban areas:

- Coordinated poverty reduction programs.
- Public/private sector responsibilities.
- Assurance of food security.
- The restoration and expansion of Afghanistan's lawful economy through the promotion of livelihoods free from dependency on poppy cultivation and trading. (Illegally cultivation of poppies and trading this crop to other countries have negative effects on Afghanistan and on the other countries as well.)
- Land tenure security.
- Development of human resource capital.
- The strengthening of local governance.
- Coordination with other local government institutions.
- Mitigation of natural and man-made disasters.

The policy framework, which is based on and linked to the national-level strategy discussed in Section 7.0, focuses on the following themes for economic development programs in urban areas:

- Local governance
- Agricultural-based production
- Economic regeneration
- Disaster and emergency preparedness.<sup>8</sup>

## 7.0 Facilitating Economic Development in Afghanistan: A Way Forward

National-level strategy related to economic and social development in Afghanistan is very well developed and comprehensive. To meet the national targets and to improve the overall quality of life for people in cities and regions in Afghanistan, municipalities need to work in line with these national-level policies and accommodate their strategy. Figure 2 shows the sequencing of priorities (shown in boldface text) for an integrated approach for local governing bodies.

<b>Priorities for Stage 1 (Stabilization) <i>Achieving Sufficient Stability</i></b>	<b>Priorities for Stage 2 (Consolidation) <i>Basic Service Delivery</i></b>	<b>Priorities for Stage 3 (Transformation) <i>Economic Growth/ Enduring Human Security</i></b>
<b>Rule of Law</b> <b>Governance</b> Health Education Capacity Building Infrastructure Regulatory Framework Regional Cooperation	Rule of Law Governance <b>Health</b> <b>Education</b> <b>Capacity Building</b> <b>Infrastructure</b> Regulatory Framework Regional Cooperation	Rule of Law Governance Health Education Capacity Building Infrastructure <b>Regulatory Framework</b> <b>Regional Cooperation</b>

Figure 2: Sequencing of Priorities for an Integrated Approach

Municipalities should work comprehensively and constantly on strengthening the three main pillars of economic and social development that were discussed earlier:

- Good governance
- Human and social capital
- Fiscal and financial management.

Municipalities need to strengthen these three pillars while overcoming the identified weaknesses of poverty, corruption, instability due to terrorism, narcotics trading, and so on. To do this they must develop effective strategies, generate public awareness and support, and build partnerships. After reviewing the existing challenges and shortcomings identified in various reports, which have been highlighted in previous sections, the following recommendations can be made for local governance strategy planning in Afghanistan. They can be classified according to their priority and importance for fostering economic and social growth as shown in Figure 2. Priorities for stage 1 suggest that the main focus should be on the fundamental needs of establishing the rule of law and a system for good governance.

Priorities for Stage 1 are as follows:

- Commitment by the local government to develop a competitive market economy
- Top-down as well as bottom-up approach
- Introduction of effective laws and incentives for attracting investments and forming private sector partnerships
- Creation of an investor-friendly regulatory framework for private sector operations in developing resources and infrastructure
- Strengthening of good governance: providing leadership; stability; and transparent, accountable, anti-corrupt, ethical, and professional public service and employers, through a participatory approach with international, national, and community organizations and NGOs.

- Identification of appropriate sectors for targeted economic development.
- Establishment of effective fiscal and financial management policies, and improvement of financial management: accounting, budgeting, property tax administration, proper data storage, and regular budget reviews.

Priorities for Stage 2 are as follows:

- Tying economic development to social development. In Afghanistan's present context, tying economic development to social development would go a long way toward achieving sustainable development in Afghanistan. There is a need to develop a pro-poor attitude, build social capital, and develop the health and education sector. The facilitation of increased access to productive assets and the extension of basic services and infrastructure, with a focus on improving the productivity and incomes of the poor should be prioritized.
- Providing access to affordable housing and social facilities.
- Providing "hard" infrastructure such as roads, sewerage, water, energy, transport, and telecommunications. Economic development cannot occur without some basic provision of infrastructure, both directly (to support industries and businesses in the area), and indirectly (to support, educate, and protect the labor population). Municipalities need to improve the present low-quality services and transport infrastructure, as well as communication and transportation links.
- Developing human resource capital: "soft" infrastructure, such as education, health, community services, environmental conditions, and recreational facilities. Local government, in its role as a coordinator, has a key responsibility to ensure that such fundamental requirements for investment are addressed.
- Creating growth and promoting employment.
- Assisting local businesses to increase investment and trading (see box).
- Creating alternative livelihoods to poppy cultivation and trading.
- Providing social protection to women, disabled people, and young people.
- Assuring citizens of employment and fair wages.

#### Efforts to Reduce Extreme Poverty and Hunger

The **Institute of International Social Development**, an Indian NGO, led a baseline survey of talented tribal artisans in the Birbhum District of West Bengal, identifying 300 such artisans who are below the poverty line and helping them to form self-help groups. This collective micro-credit and financing group system secures soft (interest-free) loans for the artisans' businesses and also assures the creditors of the repayment of money, as the responsibility for repayment is collective. The artisans have also received consultation and training on creating market-oriented designs of their tribal craft items; monitoring their marketing in the local, national, and international markets; and maintaining their credit account.

**Worldwide Organization for Women—Africa (WOW-Africa)**, an NGO from Nigeria that also works in Kenya, implemented an innovative program: village women learned to read and write and acquired skills in making soap, beauty products, baskets, bags, and purses to promote family stability. These women also participated in nutrition and hygiene classes, learning about the importance of boiling water and filtration. The program also organized monthly health talks as well as doctors' visits.

Source: NGO/Civil Society Forum, "NGO/Civil Society and Poverty Eradication in Least Developed Countries: Survey Report," Preparatory NGO/Civil Society Forum and Panel for the ECOSOC High Level Segment of June 28-30, 2004, "Resource mobilization and enabling environment for poverty eradication in the context of the implementation of the Programme of Action for the Least Developed Countries for the Decade 2001-2010" (New York: United Nations Headquarters, ECOSOC Chamber, March 18, 2004).

- Making payment of salaries to public sector employees regular, which might help in overcoming corruption in the public sector.
- Building effective, efficient, and project-oriented institutional coordination.
- Building long-, medium-, and short-term strategies according to set priorities and for identified sectors.
- Generating citizen and community involvement in identifying and developing local economic development projects (see box).

Priorities for Stage 3 are as follows:

- Strengthen the regulatory framework for regional cooperation and networking with other municipalities.
- Focus on a regional development vision for long-term sustainability.
- Promote greater diversification and dynamic linkages across economic sectors.
- Collate and provide information and advice to business and industry on the local economy.
- Work with other stakeholders (including neighboring local governments) to establish regional planning frameworks. Municipalities should work with other agencies to establish agreed-upon principles and objectives to facilitate the economic development of their regions to the mutual benefit of communities.
- Invest in local skills and knowledge (particularly within the municipality) of the meaning and importance of economic development.

*What did we learn about in this chapter?*

- *The importance of economic development*
- *Challenges municipalities face in improving their economies*
- *The pillars of sustainability in economic development planning*
- *How to develop a municipal economic development plan*
- *Strategies for economic development planning in Afghanistan*

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## 9.0 Endnotes

<sup>1</sup> World Bank, "Local Economic Development: A Primer on Developing and Implementing Local Economic Development Strategies and Action Plans" (August 2003).

## Chapter 16: Heritage Management

**Summary:** *Human settlements have a wealth of history, art, and culture. Each city or town has its story to share. The lives of people revolve around these elements of heritage. Appropriate development can spur the generation of activities around these elements of local pride and can boost the local economy. When this happens, the conservation of the wealth from the past becomes meaningful to the present. This chapter aims to explain the concepts of heritage management that lead to local economic development. It brings to us tools and best practices to implement measures for heritage management for local economic development.*

**Objectives:** *The objectives of this chapter are to promote a concept of conservation that is relevant to the local population by:*

- *Understanding the importance of heritage management*
- *Understanding the potential of heritage management to support economic, social, and urban improvement in Afghanistan's cities and towns*
- *Understanding the tools and processes for heritage management*
- *Learning about successful heritage management initiatives in other countries.*

### 1.0 What Is Heritage?

Heritage is our legacy from the past, which we live with today and pass on to future generations. Heritage is the full range of inherited traditions, monuments, objects, and culture. Most important, it is the range of contemporary activities, meanings, and behaviors that we draw from them. Heritage includes, but is much more than, preserving, excavating, displaying, or restoring a collection of old things. It is both tangible and intangible, in the sense that ideas and memories—of songs, recipes, language, dances, and many other elements of who we are and how we identify ourselves—are as important as historical buildings and archaeological sites.

As cultures move through a region, they leave their imprints. The art and crafts, dance and music, food, costumes, festivals, language, dialects, literature, and architecture evolve as a result of the social and environmental adaptation of the communities in the region. For example, the location of Afghanistan on important junctions of the ancient Silk Road has made the country a witness to cultures through history. Folk songs, ballads, and regional dances are the soul of Afghanistan's musical life. Kabul has been the regional, cultural, and musical hub of the country. Herat has been closely related to Iranian music. Afghanistan's unique cultural heritage reflects a history that is marked by the encounters between ancient empires such as the Achaemenid or the Persian Empire and Alexandrian Empire (Greece) and is influenced by those who brought in different religions such as Buddhism, Hinduism, and Islam.

Heritage is the subject of active public reflection, debate, and discussion. What is worth saving? What can we, or should we, forget? What memories can we enjoy, regret, or learn from? Heritage is a contemporary activity with far-reaching effects. It can be an element of far-sighted urban and regional planning. It can be a platform for political recognition, a medium for intercultural dialogue, a means of ethical reflection, and the potential basis for local economic development. It is local and particular, and simultaneously it is also global and shared. Heritage is an essential part of the present we live in—and of the future we will build.

## 2.0 What Is Urban Heritage?

The personality and character of a city are the result of centuries of growth, in the course of which new elements are constantly juxtaposed with older ones. Protecting these elements tells the story of how the current culture evolved. It speaks about the journey of the community through time and the effort, values, and hardships that crafted the way the community members live and interact among themselves.

How a building looks; the shape, size, color, details of the surrounding landscape and relationship with other buildings; and how the building is aligned with streets and roads defines what is called the “built form.” The built form is created by the local people to embody their traditions. The architecture and urban form reflect the heritage and cultural values of the local community. The monuments display the “traditional architecture” (i.e., the stylistic elements of architecture incorporated for aesthetic purposes that go beyond a building’s function). The “vernacular architecture” (i.e., the method of construction that uses locally available resources and traditions to address local needs) evolves over time. These forms of architecture show the practices and way of life and are unique to all the experiences of the region.

Afghanistan is a land of rich architecture and art. Some of the Buddhist monuments in Afghanistan are the most impressive in all of western Asia. Intricate Islamic architecture adorns the land of Afghanistan. The great mosques of Herat and Mazar-i-Sharif, the minaret of a mosque at Jam, the Great Arch of Qal’eh-ye Bost; the Chel Zina, the great Buddha of Bamiyan, the “Gates of Victory” in Ghazni, and the Bala Hissar fort in Kabul are some of the architectural gems of Afghanistan. The ruins of the Shahr-e-Zohak (Red Town) were the leading defense for the Bamiyan Valley. This grand fortress was built completely of sun-dried clay.

Often, a human settlement grows around a core area of old buildings or older areas of the city. Even in the present they feature elements of architecture still remaining from the past. Just like cloth begins as individual threads and is woven together over a period of time until a pattern in the fabric emerges, a city is formed over a period of time as elements are added to it. The pattern of the settlement that emerges tells us stories of how the city was formed, how the inhabitants protected themselves from the climate or invaders and what the basis of their economy was. For example, the town of Ghazni, closest Afghan city to Kabul, was important both economically and for military concerns throughout olden times. It is located on the Kabul–Kandahar trade route. Even today, Ghazni is a trade center for sheep, wool, camel-hair cloth, corn, and fruit. The world-famous Afghan sheepskin coats are made in this city. These unique elements of heritage give the residents a sense of identity and a sense of belonging.

The elements of urban heritage are museums and archaeological sites and also include fortresses, citadels, gardens, landmarks, religious structures, tombs, and even roads and markets and core city areas. For example, the Char Suq (four bazaars) in Kandahar is the hub of the city even today and has existed since the eighteenth century, when Ahmed Shah Duranni was crowned as the king. Char Suq is a public square where four main market streets meet. Another example is the Bagh-e-Babur, a picnic park with a swimming pool. It houses the tomb of Moghul Emperor Babur; the garden was created under his rule. The terrace in the garden provides a vista of the entire city of Kabul and is enjoyed as a recreational area.

While heritage conservation deals with the study, analysis, preservation, and protection of buildings and art, sculptures, and techniques, heritage management is the process and decision-making framework for management of heritage properties in a city or region. It is about the integration of the heritage with other elements that surround the heritage, the relevance of heritage for the community, and what is needed to sustain the heritage. This is discussed in detail in Section 2.2, Heritage Management.



The perspective of urban heritage with reference to heritage elements from Afghanistan leads us to understand the principles and approaches for management of heritage and look at initiatives from other countries. These aspects are explained in the following sections to help municipalities look at their own heritage management measures.

## 2.1 The Need to Conserve and Manage Urban Heritage

Settlements tell us about the economic and social setup in the past and how many of those social connections are alive today. It also tells of past citizens' style of living and beautifying their surroundings. It speaks volumes about the community members' interaction among themselves and elements of urban living, and even the importance of religion and nature to the community. Many elements have survived and are still as much a part of the life of the inhabitants today as they are part of the history. The life and livelihood of the local population still revolves around them.

Today, the majority of the old city centers in cities around the world are decaying. The old city centers are looked upon as liabilities rather than assets that represent the history of the family, community, its tradition, art, architecture, and overall planning. Ignorance about the value of these centers and the high cost of conservation make the situation even worse. This leads to the total destruction of our heritage. To avoid the destruction of our past and family and community traditions, we must make efforts to conserve our urban heritage. Building a settlement without regard to heritage may provide all the necessities, but the settlement will lack the finer elements of pride, belonging, identity, ownership, and a sense of connection with the past. The finer elements add joy and meaning to our existence and lead to formation of social connections with other people in our community. When development ignores heritage, the community loses its wealth from the past. It also loses the potential for local economic development and the possible benefits it could provide to present and future generations in passing along the wisdom of the community along with its art and culture. Once heritage is lost, it is very hard to rebuild the connections and revive it. The loss of the vitality of these heritage areas, such as neglected inner city cores, results in urban decay.

Factors that promote the destruction of heritage are linked to various aspects of modern-day urban life. Some of these are briefly listed below:

- Real estate market dynamics
- Established approaches to urban planning
- Outdated and insensitive development control regulations
- Other regulations affecting properties such as regulations for tenancy and usage of property
- Economic condition of the owners and tenants
- Sociological factors such as changing lifestyles and a shift in ownership patterns
- Socioeconomic processes such as gentrification and commercial blight
- Erosion of the community's pride and sense of ownership of their habitat.

Heritage is meaningful to local people, for example in the town of Balkh. Balkh is one of the oldest towns in the world. It is the birthplace of the Prophet Zoroaster as well as the most distinguished Sufi poet, Rumi. The Mosque of Nine Cupolas (No-Gonbad Mosque, also called Khoja Piada) in Balkh is visited by thousands of visitors for religious purposes. The town was along an important trade route in ancient times and even today is a major trading center famous for Karakul, which is the fur from Qaraqul sheep (often made into Karakul hats worn by men) and Turkish carpets made from high-quality and long-staple cotton.

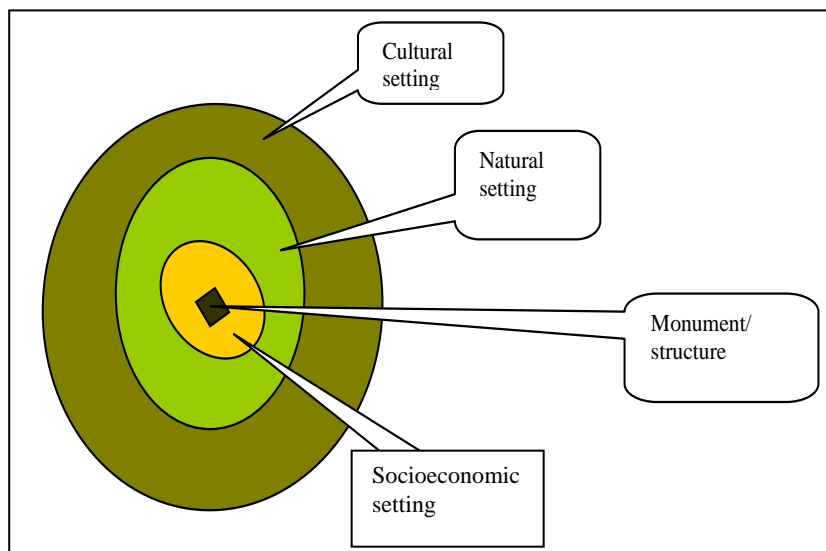
For conservation measures to succeed, these aspects of urban life must be taken into account. Addressing these issues, however, requires interventions at various levels from policy changes at the government level to important tasks at the grassroots level. At every level there are a number of stakeholders with varying, often conflicting viewpoints. The real challenge, therefore, is consensus building and conflict resolution.

## 2.2 Heritage Management

Traditional conservation methods have preserved historical information of political, economic, and social significance revolving around architecture or art. In contrast, heritage management intends to interpret and juxtapose the heritage information with present conditions and channel it to be meaningful to current and future generations.

Heritage management builds consensus among various stakeholders and establishes partner relationships. It allows for the identification of a regional vision, priorities, and strategies related to the historical properties. The process manages expectations of the stakeholders, prioritizes projects, and commits partners. The following sections describe this process in more detail.

## 2.3 Integrated Approach to Heritage Management



To experience heritage in totality, the elements must be viewed in light of their socioeconomic, natural, and cultural setting, as illustrated in the diagram. A historical building by itself is nothing but a structure made of bricks or stone. However, when people attach a use to the building, the building becomes important to them. For example, an old fort with crumbling walls can come to life during a fair, festival, or weekly

market. A palace building can serve as the provincial headquarters or an administrative building. Given a use, a historical building starts to be maintained when earlier it was neglected; often such a building becomes a landmark. Viewing a historical building according to its importance in the life of the people who use it implies viewing the building in its socioeconomic setting as the activities stimulate the economy or provide a livelihood to local residents. For example, a group of traditional weavers or goldsmiths who practiced their vocation for generations and served a local ruler still live and sell their crafts near the local heritage buildings (e.g., old palaces in core city areas), or religious fairs may be held at a certain time of the year at an old mosque or mausoleum.

When the buildings were erected, they were designed in response to the environment or the natural setting. For example, fort walls were built along the ridges of the hills, or palaces were erected at the highest point in the town. All these design elements came into existence as part of the culture of the local region, which is the cultural setting. As explained through the diagram, the circles represent these influences or “layers” and suggest relationships encompassing the structure. To create successful conservation measures, including all these layers in the planning contributes to an integrated approach to heritage conservation and management.

## 2.4 Stakeholders in Urban Heritage Management

Various organizations or individuals represent and manage the concerns of each layer (the cultural, natural, and socioeconomic settings of the structure). These are the “stakeholders” in heritage management. They may or may not have influence over each other even if they represent the same layer. More intriguing is the fact that they are often not aware that their actions influence the urban heritage and the heritage management efforts.

There is another layer, the “administrative setting,” represented by the border around the diagram. This setting encases all the layers with policies and laws. These are intended to protect all the other layers along with the central historical element(s). They also regulate interaction with all aspects of heritage management and the stakeholders. Over several decades, urban communities have accumulated conventions, laws, and procedures concerning the living environment that are complex, insensitive, and ineffective in conserving heritage. These conventions, laws, and procedures have crystallized in the form of administrative and other establishments. However, today we are living in a rapidly changing socio-political environment where old notions are being questioned every day. An effective approach to heritage conservation can evolve if the perspective, experience, and understanding of various constituents of civil society are brought together. This spectrum should include nongovernmental organizations (NGOs); community-based organizations; educational institutions; professionals such as architects, planners, engineers, doctors, lawyers, finance and management professionals; and writers, artists, performers, and the entire intellectual community. The synergy of such a diverse group is the most powerful driving force that the heritage conservation movement can have. (We will discuss the process of identifying stakeholders in detail in Section 6.2.) This administrative setting is often managed by the local governments due to their authority and influence on the related stakeholders. The following section discusses the role of local governments in the process of heritage management.

## 2.5 Role of Local Governments in Urban Heritage Management

Most historical properties lie in the city centers and under the jurisdiction of local governments. The local governments have easy access and can reach all sections of society in a city by virtue of their authority. Local governments can act as facilitators of heritage management. Further, local governments have an advantage in initiating heritage conservation. Local governments can conduct surveys and studies of these areas and put forward innovative ideas for revitalization. They can collaborate with other government, quasi-government, and autonomous or corporate bodies to do this. Local governments also have more access to international funds. Hence, it is the duty of local governments to initiate inner-city revival and urban heritage management.

Every city has its own heritage that should be understood and preserved, including the city's:

- History
- Urban character and its development over time
- Climatically responsive built environment
- Architectural styles
- Elements
- Building types.

These factors should be analyzed and discussed in detail to understand the value of the city's heritage and help identify the exact urban area to be conserved.

## 2.6 Challenges in Conserving Heritage

Some challenges that urban heritage properties face are:

- Rapid urbanization, which creates a demand for new structures and need for greater density; this often results in quick replacement of old structures with new ones, before the local government can react. Poor people's need for shelter results in encroachment in and around heritage areas.
- Decay of the public space with lack of basic services (such as solid waste management and sewerage) and with narrow roads, vandalism, and defacement of heritage properties.

- Overcrowding: Core areas in the old city are densely populated, which creates pressure on services.
- Functioning of such core areas as busy commercial centers with activities such as bazaars and food stalls. Heritage management work in such areas affects the functioning of local businesses, and hence such programs find little support.
- Encroachments by the local land mafia, which uses the lack of ownership of heritage properties and surrounding areas as an opportunity to grab the land.
- Loss of cultural heritage as craftsmen and artists move toward more economically profitable ventures and often migrate to larger cities in search of profitable jobs.
- Social issues and conflicts between commerce and conservation: The inner-city areas are extremely busy with trade and commercial activities around the clock. During the day, trades and business take place; by evening, the place might have a recreational use; and by night, traders receive their stock with intense loading and unloading activities, as trucks may not be permitted in congested areas in the daytime. The businesses do not want to hinder their daily trade activities and resist any activity that might make them lose even a day of business. The municipalities also do not want to interrupt the commerce, as it generates revenue from sales tax. Many old city areas have mixed land use (i.e., residential and commercial, with shops and workshops on the ground floor and residential areas above. This adds to the complexity of scheduling and carrying out construction and restoration work.
- Lack of awareness: Residents who have lived in the area for years and have a strong sense of belonging to the area are often unaware of the city's living heritage and its intrinsic value.
- Inadequate orientation toward tourism and little understanding of the experience the tourist carries with them to a different country and how that affects tourism at large.
- Lack of guided interpretation to make the tourism experience meaningful to people visiting the heritage property.
- Multi-layered and ambiguous institutional and legal framework.

## 2.7 Heritage Management Action Plan

On a citywide scale, there are many heritage elements, many challenges to address (as described in the previous section), and many stakeholders interacting. Furthermore, changes are occurring on a regular basis. The city must balance the need to preserve the past with the need to provide for the present and future residents of the city. A heritage management action plan can address these challenges and manage the complex task of heritage management.

A local heritage management action plan is a system established to efficiently respond to specific conservation needs of a local heritage area. It provides a roadmap to the future and serves as a useful education and marketing tool. The documentation and methods used give credibility to the plan and function as a baseline for evaluation and formulation of strategies. The plan is a valuable tool for stating the consensus the stakeholders have reached through the process of creating the action plan and keeps all parties involved in a common effort.

The components of the heritage management action plan are:

- A heritage inventory.
- A founding vision, mission, and themes.
- Comprehensive policies, goals, strategies, and recommendations.
- Actions and commitments.
- Existing and potential sources of funding.

- Plans for conducting heritage interpretation and for implementing heritage management.
- A business plan.

These elements are discussed in detail in Section 6.0, Tools and Processes for Heritage Management.

Municipalities should consider formation of a heritage management organization or heritage cell that can coordinate and facilitate implementation of their heritage management action plan. A heritage cell is like a project office to support heritage activities.

### 3.0 Heritage and Economic Development

#### 3.1 Heritage and Tourism

Tourism and recreation activities generate significant capital. The expenditures of visitors at heritage properties create associated jobs in hospitality services and commercial outlets. Places of historical importance depend largely on tourism as the economic activity. The challenge here is to provide enough business through tourism to sustain the communities in the region. Scattered historic and cultural heritage in small towns, natural structures, arts and crafts centers, agricultural centers, and trade centers have potential for tourist and economic activity when grouped or linked together as a tourist circuit.

As discussed in Section 2.3, an integrated approach to heritage management is the meaningful overlay of the socioeconomic, natural, cultural, and administrative settings. This integrated approach can be linked with tourism infrastructure to provide an economic opportunity to the region. At the present time, more and more people are traveling, both in-country and internationally, to experience the culture and heritage of a place. Developing countries have retained a wealth of heritage in the form of buildings, old city cores, houses, and structures that have not been replaced by modern buildings and infrastructure as in developed countries. At the present time, there is greater access to technology that enables a historical area to present its heritage across the globe; for example, through websites and promotional advertising on television, radio, and the Internet.

There is much support for conservation measures. International organizations working in the conservation sector, such as the United Nations Educational, Scientific and Cultural Organization (UNESCO), the International Council on Monuments and Sites (ICOMOS), and the Second United Nations Conference on Human Settlements (HABITAT-II), bring recognition to the need, tools, and concepts of heritage management. They also help to source funds and channel them to deserving heritage properties. Support from these international organizations brings the local heritage to the international tourist circuit and results in a boost to the local tourism industry.

When tourism initiatives keep in mind the overall experience of tourists, the opportunity can generate huge success as seen in Case Study 1, “Melaka Conservation Initiatives, Malaysia” (see Annex A). This initiative has been successful in creating and sustaining a better urban environment. It has brought in tourists in large numbers, generating local revenue. The initiative is a well-planned and well-executed model that has involved the local stakeholders in conserving heritage, generating investment for urban improvement, and boosting the local economy through tourism.

To generate a significant volume of tourists that can create potential for local economic development, the heritage management initiative needs a detailed plan. This requires establishing a successful tourist circuit with supporting tourism infrastructure. The promotion of this heritage tourism is the basis for success. The plan must be backed by policies and promotion at the government level. To sustain and grow the tourism potential, this plan must incorporate details that will lead to a noteworthy overall experience for the tourist.

The country and local area must identify the heritage that they want to share with the world and the places that can be a part of the tourist circuit. Attention must be paid to the information that can be imparted through these heritage areas. A palette of varied heritage sites or towns needs to be put together to create interest and awe in the experience. An international tourist might not find it worth the cost to visit just one heritage area that offers a limited experience; hence, smaller areas can be incorporated into the plan to create an overall experience. For example, suppose there is a famous tomb and a palace in a city that is of tourist interest. A smaller town within few hours of from this city has a traditional carpet-making unit. Another nearby town is famous for a style of music and hosts performances by artists living in the town. A natural feature such as a river or mountain is close by for hiking, rock climbing, or boating. These towns can form a tourist circuit (i.e., a travel package). The places together offer a variety of activities, learning avenues, and potential for interaction with the community and can capture the interest of the traveler. The identified heritage areas in the tourist circuit will need to be upgraded with required infrastructure and facilities. The upgrades will provide the smaller towns the opportunity to receive attention and revenue.

Such experiences of combining different activities provide the traveler with a window into the culture. Hence, the tourist areas need to understand, evaluate, and plan for tourists' perception of their experience. Tourists generate promotion on their own when they take back positive travel experiences to their own country and report them to their friends and relatives.

### **3.2 Heritage and the Local Economy**

Inner-city areas have been trade centers throughout history. Even in present times, the core areas of a city have retained trade and commerce as their primary activities. As the modern city areas develop at the periphery, the cores bustle with the trade activities. These inner-city areas are densely populated and have a large transient population (the population that comes to this area temporarily). These areas generally have a mixed land use, with commercial land use on the ground floor and residential use on the upper floors. The infrastructure and services in these areas are old, as are the buildings. Many new activities have been added or have replaced traditional activities. Some businesses are traditional, carried on by families residing in these areas for generations. Some new businesses have replaced obsolete ones according to demand and supply.

The business plan (part of the heritage management action plan discussed in Section 2.7) addresses the linkages between heritage and the local economy, and in particular discusses the revenue sources for the management and maintenance of heritage. Funds are required to sustain the heritage management effort. Initial investment can come from donors, but to operate on a regular basis the activity must be supported by sources of revenue.

Investigation and planning must be conducted to identify the revenue sources that can support heritage management. Further, there is a need for management guidelines to address the commercial aspects. These are documented as a business plan.

### **4.0 Urban Renewal and Social Development**

In today's pace of economic development, historic resources are often perceived as inefficient, unproductive, or merely inconvenient. They are quickly replaced with buildings that appear contemporary and more efficient. Citizens become accustomed to their environment and gradually become less aware of it. The city becomes a habit. Herein lies the need to make the citizens aware of the importance of their built environment and to help them develop a harmonious and contemporary relationship with it. In a sense, urban renewal does not just rebuild the city; it rebuilds people's relationship with the city.

## 4.1 Urban Renewal

The specific use of historic properties may have to be reconsidered and appropriately altered. Land use and zoning regulations around the historic environment affects heritage properties. These regulations need to be assessed and changed or retained accordingly. Service provision to all areas, including historic neighborhoods, is the responsibility of local governments, whereas care of the recognized heritage properties is the responsibility of the state archaeological departments. The water supply, electricity, sewerage, and transportation infrastructure are provided and maintained by different departments. The multiple departments serving the area have different goals and do not work in conjunction with each other when servicing the area. A coordinated effort to provide infrastructure and services to support heritage conservation is essential. Further, the institutional capacity of the local government to address heritage conservation needs to be enhanced.

Many properties and areas that have heritage value, or areas around historic places that contribute to the experience of the historic area, are often neglected because they have not been identified. Hence, when addressing urban renewal, the areas around heritage properties have to be studied, analyzed, and inventoried. Heritage inventories are further discussed in Section 6.1, Comprehensive Listing.

The private sector drives the economic activities around the historic environment, and hence a public-private partnership could sustain the revitalization over time. The role of the local government is that of a facilitator, whereas the private sector is the driver of the physical and economic revitalization.

Individual urban revitalization programs must be tailored to each city's particular circumstance. To be successful, they should include the following components:

- Heritage-sensitive zoning and building regulations that stimulate urban renewal and growth in local income and that promote adaptive reuse of historical structures
- Funding mechanisms for financing the upgrading of public infrastructure and supporting rehabilitation of private housing
- Funding mechanisms for supporting overall economic development of the heritage area in question.

## 4.2 Social Development

Heritage conservation can create social cohesion and reinforce a sense of identity among the local citizens.

In reorganizing the urban area, new relationships form with the changing urban form, and social change emerges. This change can also be articulated, for example, by providing spaces for women-owned businesses, reserving space for disabled persons as a prerequisite of certain certificates, or demanding a certain education level or competency when applying for competitive space or registering a business. These types of stipulations can create a shift toward the change sought.

When basic infrastructure, services, and the economy are adequately supported, the heritage and pride of the community is recognized, and it becomes easy to influence social development. The local government gains knowledge of the practices, sensitivities, shortcomings, and traditions of the community members by working with them.

To transform the dilapidated historic environment into an asset for social development and urban renewal, a strategy is required.

## 5.0 Heritage Management Strategy

Heritage management for social development and urban renewal requires strategic intervention to:

- Instill a greater sense of pride and belonging, leading to better upkeep of the community
- Identify specific sites for restoration and develop a mechanism for the restoration
- Prepare an action plan
- Generate resources within the community for improvement
- Mobilize voluntary initiatives.

The heritage management strategy is prepared by the local government in alliance with community-based organizations, nongovernmental organizations, or academic institutes or individuals working in the heritage management sector. The strategy can be implemented through the heritage cell in the municipality. For some of the activities, the municipality could function as a facilitator and enable other organizations or agencies to provide the services, such as conducting heritage walks. The strategic intervention should include:

- Survey and research the heritage zone: The entire area needs to be surveyed to identify priority places, buildings, and neighborhoods. This survey must be supported by analysis of available literature. Archaeologists, historians, architects, and other professionals should be consulted for the survey and determination of the heritage zone.
- Conduct meetings in community groups and neighborhoods: Officials should conduct meetings with people of different community groups and neighborhoods in their neighborhoods and at a time convenient to them. The topics discussed should include the heritage value, importance of conservation, general issues, methods that can be adapted, and citizen involvement. These meetings can be supported with slide shows, audiovisual aids, exhibitions, group discussions, seminars, etc.
- Organize cultural walks: A group of people, including local citizens, elected officials, local government staff, NGO staff, professionals, and students, should be taken for a walking tour of the key historical places. This can be done in two parts. The first part will include occasional walks on important occasions such as the birthday of an important cultural leader of the city. The second part can be a daily excursion for tourists (both local and foreign) to the heritage zone on a preset route. Trained guides should lead this walk.
- Mobilize the community and ensure participation: Heritage management programs, like any other programs, can be successful and sustainable only if the community comes forward to support them and initiate new programs at the community level. Social and cultural festivals should be used to mobilize these communities. They must be made aware of the importance of such initiatives and ensure their participation in different stages. Providing incentives for repair and restoration projects can be offered as an incentive to invite more participation.
- Use community knowledge and resources: The indigenous knowledge and techniques followed by the communities for community welfare and sustainability should be studied and used for conservation activities. The physical and economic resources of the communities should be pooled through participatory methods on a mutually beneficial basis.
- Undertake various initiatives: A number of activities are to be undertaken to support the efforts of comprehensive revitalization schemes. These should respond to the local needs and traditions and should be helpful in increasing approachability to people and places.
- Publicize the heritage management initiative: Extensive publicity is essential for making the program successful. Participation from local elected officials, state ministers, political and cultural leaders, renowned professionals and academics, and others can attract the mass population. This will ensure wide coverage in television, radio, daily newspapers,



and other media. Booklets on the initiatives, importance, and implications should be published and distributed.

## 6.0 Tools and Processes for Heritage Management

Local governments can adopt any existing heritage management processes or develop their own process for heritage management. A starting place is a charter for heritage management. Charters are principles laid down by an overarching body related to management of heritage. The charter document offers a consistent and comprehensive set of codes to which professionals and heritage organizations can commit themselves or on which they can base their own, more stringent codes of practice. Ideally, a country adopts or frames such a charter and then directs the related organizations, including local governments, to refer to the standard principles stated in the document when managing their heritage resources. An example of a heritage charter adopted by a country is described in Case Study 2, “Indonesia Heritage Management Charter” (see Annex A). In the absence of such a charter at the country level, a local government can adopt or frame a charter as part of its heritage management strategy.

Many international forums on heritage conservation have suggested processes that can be adopted for heritage management. For example, the “Sequence of Actions as Suggested by the Burra Charter, ICOMOS” (see Annex B, Section 9.1) provides guidelines that cover three broad areas of action, in a sequence of steps:

- Understand the significance of the heritage properties being conserved and managed.
- Develop a policy.
- Manage the heritage properties.

Common processes suggest that the first important step is to identify the heritage components and to outline the significance the community at large attaches to them. A city or state can identify criteria through a consultative process to understand what heritage means for the local people. Some tools, such as a comprehensive listing of heritage properties, stakeholder identification, and policy-level initiatives, are the backbone of heritage management and are discussed in the following sections.

### 6.1 Comprehensive Listing

#### *Heritage Inventory*

After the criteria are identified, identifying what needs to be conserved is the next step. Just as a trader makes a list of the items he has that he can offer for the next trade, in the same way the heritage stock needs to be inventoried. A heritage inventory is preceded by a preliminary list of places with potential or known historical significance that need to be documented, assessed, and, if appropriate, entered into a heritage inventory.

To conserve heritage it is essential to understand the significance of the property or area on the basis of its history, urban character, development over time, building typology and the built environment, architectural styles, and elements.

A detailed survey of the heritage to create a heritage inventory is the starting place for a city’s heritage conservation measures. When such data are available, they can be analyzed to identify properties and delineate the specific areas and properties to be conserved. A heritage inventory can help to categorize, for example, properties that require similar work, properties from the same historical period or same building material, and properties with similar structural systems. An example of a data entry form for a heritage inventory is provided in Annex B (Section 9.2, Table 1).

### **Land Use and Economic Surveys**

Along with the inventory of the heritage stock, land use and economic surveys in the vicinity of the heritage property are very important. When related vocations, arts and crafts, and dependencies on the specific heritage property are revealed, programs to address their preservation can be formulated. For example, building workers who know a traditional coloring, sculpting, or plastering method depend on the works created on the heritage properties. These building workers have supported the old buildings for generations with their art and skill. Greater monetary returns cause the present generations of these masons and artists to turn their attention to new construction, while the community loses the traditional skill, knowledge, and craftsmanship forever.

An example of data entry forms for conducting land use and economic surveys is provided in Annex B (Section 9.2, Tables 2 and 3).

Once the land use and economic surveys are completed, the heritage inventory contains detailed information about the heritage stock that can be presented and analyzed on comprehensive maps or with the use of software tools such as geographic information systems (GIS). Case Study 3, “GIS-Based Listing of Heritage Properties, Surat, Gujarat, India,” (see Annex A) describes a successful endeavor to capture the heritage information of the city of Surat for analysis with the help of GIS. GIS is a software tool for analysis of location-based data. It enables the understanding of overlays or layers and analysis of the cumulative effect of various factors acting on the same local area. The visual representation helps in spatial analysis and in interpretation of factors such as movement of traffic through the area; connections with the larger city; and interaction with natural features, topography, and services.

Land use studies must consider whether zoning the heritage area as a “historical land use” will help in restoration of the property and whether redefining or altering the land use will lead to justifying maintenance of the property for conservation benefits. For example, if weavers hawk handmade cloth around a dilapidated heritage property, this might present an opportunity to convert the property into an interpretation center for the traditional weaving activity. This would create an educational resource and formalize the weaving and hawking activity, while providing a basis for maintaining the property.

Another example of land use change is restoring the use of the green areas around a heritage building. For example, near old forts in South Asia, the gardens often deteriorate because revenue to maintain them is lacking. Research into their historical land use reveals that the gardens were originally traditional orchards. The local residents grew trees of indigenous species or herb gardens with medicinal plants exclusive to the region. The proceeds from the sale of fruits and medicine supported the livelihood of the community members, who took care of the orchard and also prevented the place from encroachment. The system was self-organizing and self-conserving and was a product of the local environmental and social conditions.

During recent conservation measures, the trees were cut down to be replaced with lawns and gardens with exotic species that are difficult and expensive to maintain. These lawns and gardens are not an original part of the design. The traditional orchards with their rainwater harvesting and water conservation systems are lost to time. Replacing the gardens with the traditional orchard/herb garden would allow people to experience the fort in its original form and natural beauty, and would be easier to maintain.

Economic surveys reveal the dependency of specific communities on the building or area. The list of activities gives an understanding of the effect that the existence of the property or resource has on a community and tells how the heritage property affects the community members’ daily lives. This increases sensitivity in planning for the people dependent on the heritage property. The economic survey shows that when the heritage property provides a source of income, these people protect it and support restoration; hence, the well-being of the property depends on these people and vice versa. The survey demonstrates the need to

involve these local economy generators in conservation measures. The economic survey helps the community plan and find solutions to augment the average earning of the households dependent on the property and the best time to implement programs such that the economic activities are least affected.

Case Study 1, “Melaka Conservation Initiatives, Malaysia” (see Annex A) describes the successful heritage management initiative in Malaysia. The Action Plan for Cultural Heritage Tourism in Melaka Historic City discusses the surveys of communities and their culture conducted by way of a “participant-observer approach” (i.e., the surveyors lived with the community to gain more knowledge about their practices and values through observation).

## 6.2 Stakeholder Identification

Stakeholders are individuals and organizations that are actively involved in heritage management projects, or whose interests may be affected as a result of project execution or completion. They may also exert influence over the objectives and outcomes. The municipality’s heritage cell must identify the stakeholders; determine their requirements and expectations; and as much as possible, manage their influence to ensure a successful project.

Stakeholders have different levels of responsibility, authority, and influence over a project, and these levels may change during the life of the project. Stakeholders’ responsibilities and authority range from occasional contributions for surveys and focus groups to full project sponsorship, which includes providing financial and political support. Stakeholders may have a positive or negative influence on a project. Positive stakeholders are those who would normally benefit from a successful outcome of the project, while negative stakeholders are those who see negative outcomes from the project’s success.

Key stakeholders of a heritage site may include:

- Local government
- Other government agencies
- The owner
- Building users and community members dependent on the site
- The community surrounding the site
- Private sector investors
- Architects, contractors, masons, and other workers
- Donor agencies
- International organizations
- Conservation experts/archaeological department
- Environmental organizations
- Research institutes
- Tourists
- Tourism agencies.

Making a comprehensive list helps in identification of stakeholders. Involving the stakeholders during project initiation generally improves the probability of shared ownership, outcome acceptance, and stakeholder satisfaction.

Case Study 4, “Bringing the City Back to Its People – Ahmedabad, Gujarat, India” (see Annex A), tells about the conservation efforts of the inner-city area of Ahmedabad. This initiative was mobilized by stakeholders and then adopted by the local government. The

Ahmedabad Municipal Corporation, a local government that manages Ahmedabad city, now has a heritage cell.

While cooperation of the project stakeholders is of prime importance, the local government authority provides support to a heritage cell. The functions of a heritage cell can be to:

- Manage the implementation of a pilot project that forms the basis for further work.
- Review the existing legal/regulatory frameworks and recommends any required rationalization and updates.
- Evaluate the existing institutional framework and recommend the appropriate organization for the management of the historic core area.
- Manage communication with the stakeholders.

### 6.3 Policy-Level Initiatives

At the state level, a policy statement is the starting place for institutionalizing conservation. It defines the values the state strives to conserve and the process it advocates the local governments pursue with regards to the state's heritage. The policy sensitizes local governments to the value the state places on heritage in its development policies. The state can formulate its own unique policy statement or can adopt an existing one through its administrative process. Such a policy focusing on the outcome a state strives to reach helps local bodies to identify gaps in their current efforts. The policy serves as support to the local governments for allocating resources and pursuing conservation measures.

#### Heritage Management: Top Ten Tips for City Governments

1. Intervene strategically.
2. Start with available resources.
3. Elicit support of local architects, professionals, and NGOs.
4. Involve local citizens.
5. Identify implementable projects and celebrate your successes.
6. Involve elected officials.
7. Coordinate with other government and non-government agencies.
8. Set up a heritage cell in your city government and allocate funding.
9. Sensitize your employees to heritage work.
10. Recognize and cooperate with international bodies and coordinate activities.

A policy statement becomes a baseline document for heritage conservation. It defines the assessment criteria of values that the city will strive to conserve, the level of significance, and categories of heritage property that the city will use to assess historical and cultural heritage. The policy must be sufficiently detailed and must also allow flexibility to incorporate changes and local conditions. This policy should give directions for new developments and settlements along with corrections to the existing approach.

For example, a city's heritage policy statement provides guidelines to assess heritage values. It enables identification of properties for conservation. The assessment of heritage values provides the order in which the municipality will implement conservation among all the heritage properties. This order can be based on conditions such as the number of criteria that the property meets from the following list of assessment criteria:

- **Aesthetic Value:** The property exhibits creative or design excellence, contributes to the quality of its setting, is a landmark, or contributes to important vistas.
- **Historic Value:** There are events or cultural phases associated with the property that have played an important part in local history and that the town strives to retain in its future; the property is an example of technical or creative achievement from a particular period. For example, some buildings were built in Islamic architecture during a particular ruler's reign or in another time were built with Greek influence during the Greek rulers' reigns, thus creating different cultural phases.

- **Scientific/Research Value:** The property is a standing structure or archaeological deposit, is an important benchmark or reference site, provides evidence about past activity, or demonstrates technological innovation or achievement.
- **Social Value:** The property is associated with a community or cultural group in the local district for social, cultural, educational, or spiritual reasons; or contributes to the local “sense of place” and local identity.

The degree or level of significance associated with the heritage value can be classified as high, medium, or low with reference aspects such as rarity, condition, and authenticity in ascending order. Priority levels define the order in which the local body will implement the conservation projects. A sample matrix for analysis of the heritage stock, used for setting the order of conservation measures based on the policy adopted, is provided in Annex B, Section 9.3.

The municipality’s heritage cell must also refer to policy statements when planning for new development or changes in development. The following section describes the importance of heritage management in urban planning.

## 7.0 Urban Planning and Heritage Management

The urban form that emerges with centuries of growth does so in response to the socio-political conditions, local topography (natural and manmade features on the land surface), and climatic conditions to sustain the life of the local population. The culture adds to the urban character and creates vibrancy through the activities it generates and speaks volumes about an accepted way of life. The old street patterns and layouts tend to create continuity and knit the entire settlement into a single entity in contrast to the fragmented sections of modern layouts.

Heritage elements such as inner city cores, main streets, and heritage properties need to be preserved to retain the continuity, sense of belonging, and identity of a settlement. Conservation goes beyond mere buildings; it is the protection of the values of those buildings and spaces in the life of the people.

Urban planning gives a legal and administrative backing to create spaces, layouts, and buildings that are in context with a community’s values; hence, the planning process must include heritage management planning. The policy statements adopted by a state serve as standards the community would like to achieve, and the planning process translates the standards into actions and plans. The urban planning process revolves mainly around ownership, land division, zoning, land use, infrastructure, services, and geological and environmental concerns, with the core aim being to provide for the community’s goals. Heritage properties are affected by all these factors. At the same time, urban planning can benefit from integrating conservation into the planning process by including the heritage elements in the design of the urban area. Hence, heritage management is an important aspect of planning. It is supported by various international charters and conferences such as HABITAT-II. The Global Habitat Agenda’s mandate to preserve heritage is discussed in Annex C.

**What did we learn about in this chapter?**

- *The importance of heritage and urban heritage management*
- *The stakeholders of urban heritage and processes of involving them*
- *The use of heritage management as a tool to assist in local economic development, urban renewal, and social development*
- *The importance of heritage management in urban planning*
- *The processes that can be used to manage heritage*
- *The tools that assist in management of urban heritage*
- *The support from the international community for heritage management*
- *The principles and processes behind successful implementation of heritage management initiatives through case studies.*

## 8.0 Annex A: Case Studies of Heritage Management Initiatives

### 8.1 Case Study 1: Melaka Conservation Initiatives, Malaysia<sup>1</sup>

A year after being declared a World Heritage City, Melaka is looking to host almost 8 million visitors in 2010. Streets that were once ridden with filth have been resurrected. The river that meanders through the city and was largely septic with sewage water has turned blue and contains freshwater fish. This was possible because “Visiting Malacca Means Visiting Malaysia” became the main catch phrase for the government.

#### **Description**

Melaka and George Town, historic cities of the Straits of Malacca, have developed over 500 years of trading and cultural exchanges between East and West in the Straits of Malacca. The influences of Asia and Europe have endowed the towns with a specific multicultural heritage. With its government buildings, churches, squares, and fortifications, Melaka demonstrates the early stages of this history, originating in the fifteenth-century Malay sultanate and the Portuguese and Dutch periods beginning in the early sixteenth century. It constitutes a unique architectural and cultural townscape without parallel anywhere in East and Southeast Asia.

The implementation of the Action Plan of Cultural and Heritage Management of Melaka is summarized as follows:

#### **Statement of Significance and Vision Statement**

- The statement of significance was based on “the ideal of racial tolerance and harmonious living that Melaka wants to share with the world.”
- The common vision or development was “to protect the unique cultural heritage resources of Melaka Historic City by fostering a healthy collaboration among the various stakeholders in the development of a sustainable tourism industry.”
- According to the Draft Melaka Structure (Review) Plan, the main policy on tourism development is “to consolidate cultural heritage tourism as the Unique Selling Proposition (USP) for the three districts in Melaka.” The structure plan also recommends the active involvement of the local communities in product development, emphasizing development programs to revitalize local culture.

The following Action Plans were formulated for specific areas:

#### **Action Plan for Cultural Heritage Tourism in Melaka Historic City**

This was prepared for the Melaka Museums Corporations (PERZIM). The aim of this action plan is to preserve the present culture and revitalize lost skills and practices. The study area extended from the conservation area to the enclaves at the city fringe. A complete inventory of the cultural resources of the main communities was carried out. The research instruments used in the study were a combination of semi-structured interviews with the community leaders, focused group discussions with local committees. The main technique used was participant-observer, in which the researchers stayed at the homes of the community leaders/elders to gain insight into their present and lost cultural resources as well as the community’s aspirations. The researchers put forth a list of recommendations to revitalize the various cultural resources.

#### **Action Plan for Cultural Tourism along Harmony Street**

This action plan is a follow-up study in the form of a pilot project for cultural revitalization and tourism. The action plan recommended using the places of worship as interpretive centers for each community. Besides providing information on the local history and heritage of each community, the interpretive centers should also “ lure” tourists to visit the enclaves of each community.

### ***The Draft Melaka Structure (Review) Plan, 2000–2020***

The Structure Plan provides a legal document to implement land use policies concerning a myriad of activities including conservation and tourism. The Draft Melaka Structure Plan has given special attention to the preservation of the cultural heritage within the old part of Melaka. The plan has designated a conservation area surrounded by a buffer zone; recommended land use policies to protect the cultural heritage resources within this designated area; and formulated general guidelines for the protection of the monuments, sites, and cultural resources within the conservation area.

### ***Action Plan for the Melaka Historic City Conservation Area***

This is the most important flagship action plan to be carried out in the effort to protect the cultural heritage resources within the conservation area.

Essentially, the objectives of this action plan are:

- To carry out a detailed inventory of the buildings in the conservation area and to recommend specific guidelines to protect the heritage value of the buildings.
- To recommend the adaptive reuse of buildings in the conservation area appropriate to their heritage value.
- To recommend an efficient scheme for internal traffic and pedestrian circulation.
- To formulate guidelines for the improvement of the visual quality within the conservation area in terms of building maintenance, urban landscape, street furniture, advertising, and urban amenities.

The methods used in the action plan include:

- A detailed inventory of the building façades, building condition and structure, past and present use, land and building ownership, and historical/cultural significance of the buildings (using 1:100 façade photographs and 1:50 measured drawings)
- Study of the conservation area's history and urban morphology
- Study of land use activities within and adjacent to the conservation area
- A traffic study including data on traffic circulation, parking, and pedestrian flow
- An urban design and visual impact study
- A tourism impact study
- A study of the effectiveness of existing incentives.

The expected output from the action plan will be in the form of the following:

- Conservation guidelines to protect the streetscape and urban context in accordance with the role of the conservation area as a cultural heritage area containing a high level of cultural significance.
- Specific guidelines for buildings with historical/cultural significance, presented in the form of a design brief. This covers building maintenance, restoration, reconstruction, and adaptation.
- Development guidelines covering new infill developments.
- An area improvement program to create a harmonious and vibrant setting for the residents and visitors alike.
- Recommendations to improve the institutional framework within the Melaka Municipal Council, including personnel recruitment, establishment of an advisory center, strengthening of the enforcement unit, training, and the formulation of incentives. The action plan provides the Melaka Municipal Council with the legal instrument to enforce its conservation legislation and guidelines.



- A State Conservation Committee and Melaka Municipal Council Conservation Committee have been set up to oversee the State's conservation efforts.

This report suggests that the flagship actions have created opportunities for the provision of community education and skills training, leading to employment in the heritage conservation and culture tourism sector. The cultural preservation/revitalization programs at the community enclaves have benefited the local youth and artisans. Besides rediscovering their roots, they now have a steady income and have become a role model for their community. Revenue captured from tourism (from parking tickets) has allowed the community leaders at Ujong Pasir, a neighborhood in Melaka, to buy computers for the local children, hence improving their socioeconomic status, an important catalyst for social cohesion and organization. Various training programs for local professionals, local contractors involved in conservation works, local guides, and publication of tourist brochures are being implemented.

## 8.2 Case Study 2: Indonesia Charter for Heritage Conservation

During the international seminar on heritage conservation held in Bali, July 9–14, 2000, the representatives of heritage conservation organizations from various regions in Indonesia agreed to establish the “Indonesian Network for Heritage Conservation” (JPPI) as a communication forum. Among various activities, JPPI organized the Indonesian Heritage Year 2003-2013. After participating in long discussions in the cities, Yogya, Jakarta, Kaliurang, and Ciloto, JPPI together with NGOs, universities, the Ministry of Culture and Tourism, ICOMOS Indonesia, and relevant government agencies launched the “Indonesian Charter for Heritage Conservation” on December 13, 2003.

The text of the Indonesia Charter is presented below as an example of the language and contents of a charter for heritage conservation that a country or region can adopt or frame.

### “Preamble

We, the advocates and practitioners for the conservation of Indonesian heritage, praise God Almighty that Indonesia, the world's largest archipelago, is endowed with the diversity and abundance of extraordinary nature and cultures that provide divinely inspired creativity, imagination, and vitality. Awareness, concern, and efforts for conservation have begun and need to be strengthened and continued. In the framework of Indonesia Heritage Year 2003, we have composed this charter affirming efforts for heritage conservation in Indonesia.

### Understanding

We share the understanding that:

1. The heritage of Indonesia is the legacy of nature, culture, and *saujana*, the weave of the two. Natural heritage is the construct of nature. Manmade heritage is the legacy of thought, emotion, intentions, and works that spring from over 500 ethnic groups in *Tanah Air Indonesia*, singularly, and together as one nation, and from the interactions with other cultures throughout its length of history. *Saujana* heritage is the inextricable unity between nature and manmade heritage in space and time.
2. Cultural heritage includes both tangible and intangible legacies;
3. Heritage, bequeathed from the generations that precede us, is the a vital foundation and initial capital for the development of the Indonesian nation in the future, and for these reasons, must be conserved and passed along to the next generation in good condition, without loss of value, and if possible with an enhanced value, to form heritage for the future.
4. Heritage conservation is the management of heritage through research, planning, preservation, maintenance, reuse, protection, and/or selected development, to maintain sustainability, harmony, and the capacity to respond to the dynamics of the age to develop a better quality of life.

### **Concern**

We share concern that:

1. Much irreplaceable Indonesian heritage is degraded, damaged, destroyed, lost, or threatened through neglect, ignorance, incompetence, and mismanagement, for short-term gain, and by special interest groups;
2. Much irreplaceable Indonesian heritage is degraded, damaged, destroyed, lost, or threatened due to neglect, ignorance, incompetence, and mismanagement, for short-term gain, and by special interest groups; [sic]
3. There have been trivialization and impoverishment of culture and the weakening of creativity, initiative, and self-confidence urgently needed to face turbulent global change as well as to independently define the future of the nation;
4. There remain many social, political, economic, and resource allocation imbalances and a lack of clear frameworks. This is not favorable for heritage conservation efforts in Indonesia.
5. Opportunities within local, national, and global dynamics are not well recognized and utilized for social and economic transformations to enhance national development and heritage conservation in Indonesia;
6. Traditional ethnic groups, minorities, and certain communities are marginalized due to lack of understanding and appreciation of diversity, and the importance of weaving the diverse resources into symbiotic interactions of brotherhood.

### **Action**

We, the advocates and practitioners of Indonesian heritage conservation, are determined to work hard together in healthy partnerships for a holistic, systematic, and sustainable heritage conservation through fair, democratic, and harmonious processes and mechanisms supported by clear and consistent laws.

We appeal to all parties to:

1. Take up an active role in heritage conservation through preservation, restoration, reconstruction, revitalization, adaptive reuse, or selected development.
2. Take immediate measures to save endangered heritage from damage, ruin and extinction;
3. Improve the capacity, principles, processes, and techniques of conservation in systematic, comprehensive ways appropriate to the Indonesian context;
4. Raise the awareness of all parties (government, professional, private sector, and community, including youth) on the importance of heritage conservation, through education (both formal and non-formal), training, public campaign, and other persuasive approaches;
5. Raise institutional capacity; develop management systems, as well as role-sharing and responsibility that are fair and inclusive of all people, so that conservation efforts can be carried out effectively with synergy.
6. Expand networks of cooperation and develop resources including means of funding to support heritage conservation.

7. Reinforce legal oversight, control, and enforcement through the development of regulations, the legal system, mechanisms that are clear, fair, consistent, and the strengthening of social control;
8. Understand and recognize the rights and potentials of marginalized people as well as to assist and empower the community in the conservation and stewardship of their heritage for sustained prosperity.

### **Closing**

This charter is the result of discussions among heritage conservation organizations from various regions, universities, bureaucrats, professionals in heritage conservation, and representatives from the community at large. The charter will be completed soon with a clear plan for realization.

We believe that heritage conservation in Indonesia will help to affirm the nation's identity in the world's very diverse and dynamic community, enhancing the quality of life, and to provide valuable contribution to the world community. We pray that our Creator will shower an abundance of strength, ability, and wisdom upon our nation and its leaders so we can achieve these goals.

We, the signatories below, are of one accord on the Indonesian Charter for Heritage Conservation and are determined to carry out together the Action Plan in the Indonesia Heritage Decade 2004–2013."<sup>2</sup>

### **8.3 Case Study 3: GIS-Based Listing of Heritage Properties, Surat, Gujarat, India**

Surat is one the most dynamic and fastest-growing cities of India in terms of its economy and culture. The city also has a magnificent heritage value as one of the oldest port cities and with a history of business linkages with more than 84 countries. Surat is the ninth largest city in the country and the second in Gujarat state. The city of Surat has a glorious history that dates back to 300 BC. The origin of the city can be traced to the old Hindu town of Suryapur during 1500–1520 AD. The neighboring port, Rander, flourished earlier than Surat. Around 1512 AD Surat and Rander are said to have been raided and burned by the Portuguese many times. In fact, because of this devastation of the Rander port due to frequent raids, much traffic was transferred to Surat port. Arabs who settled here were enterprising navigators. These successful merchants traded with Malacca, China, Tenasarim, Pegu, and Sumatra (the latter three are part of modern-day Burma and Indonesia) in spices, silk, musk, porcelain, and other commodities.

The Urban Management Centre (UMC), an organization involved in technical assistance to local governments, was invited by the Surat Municipal Corporation (SMC) to prepare a comprehensive listing of the heritage properties in Rander and the Central Zone. The listing was for institutional and residential buildings.

This is one of the first comprehensive surveys conducted across the city. Almost 3,000 heritage properties were identified. The listing and documentation exercise identified living heritage assets and undertook detailed documentation of them. The survey also identified issues related to conservation of such heritage assets in urban areas.

GIS was used as a tool to record the heritage property information and present the spatial information. With GIS, it becomes easy to organize information, represent the morphology, and present the interrelation of layers of information of the entire area. This facilitates spatial analysis through queries.

Besides the elaborate monumental buildings, the morphology and architecture of the closely packed residential units form a distinct historic precinct, which is rich in character. For any conservation intervention it is essential to list all structures in Rander that are responsible for creating the historic matrix. A separate study for understanding the various built typologies of Surat was also undertaken as part of the project. Different plan forms, elevation, and

relationships with the street edge were also studied. The areas seemed to follow definite planning principles.

The documentation process for the heritage properties was as follows:

- Meeting and holding workshops with various stakeholders and eminent citizens to understand their idea of the living heritage.
- Developing the methodology for conducting reconnaissance surveys to identify heritage properties.
- Developing a comprehensive questionnaire for surveyors to document each building in detail.
- Preparing a training manual for surveyors.
- Developing the methodology for conducting detailed surveys for identified heritage buildings and training programs for the survey team.
- Conducting ward-level meetings with councilors and citizens to brief them about the documentation process.
- Compiling secondary sources from history books on Surat.
- Publishing a public notice from SMC in local newspapers to inform the citizens of the survey and appeal for cooperation.
- Meeting with other eminent citizens from the city from diverse walks of life to track the cultural and historic activities in the city.

The survey process identified 4,450 properties in Rander and the Central Zone of Surat. A detailed screening process based on the photographs taken and a detailed survey of 2,417 properties in central zone and 574 properties in Rander were conducted.

The entire database of the results of the documented properties has been maintained in a Microsoft Excel format. The results of the survey process have been mapped using the GIS platform. The base map was provided by SMC. After the documentation process was undertaken, these buildings were categorized to receive appropriate technical assistance for conserving these buildings.

SMC is finalizing a heritage management policy for the city. The policy will state the overall framework and methodology for heritage management in the city of Surat.

#### **8.4 Case Study 4: Bringing the City Back to Its People – Ahmedabad, Gujarat, India**

Ahmedabad Municipal Corporation (AMC) set up a heritage cell in 1996 with the intention to create awareness among the citizens and to develop a comprehensive plan for conservation of the walled city of Ahmedabad.

The mission of the heritage cell is to enable communities to take pride in their traditional built form and thus get involved actively in the process of its revival and to put a stop to decay in the old city.

The objectives of the heritage initiative are to:

- Create awareness regarding heritage resources.
- Promote traditional built forms.
- Support participatory action programs.
- Coordinate efforts of different disciplines, stakeholders, and authorities.
- Undertake tasks related to the promotion of traditional built forms, mobilizing financing and resources that would not otherwise have been available to the area.
- Act as an interface among concerned citizens and the public and private sectors.

To create citizen awareness, documentation, preparation of models, and organization of street exhibitions and community meetings were required. For this, the following activities have been carried out:

- A guided Heritage Walk was introduced in 1997 to unveil the art, culture, traditions, and explicit built forms of the walled city.
- Special plaques with names of the *pol*s (historical neighborhoods) were put up at their entrances to enhance the identity and create a sense of pride and belonging among the neighborhoods.
- Foundations for formation of *pol*s were celebrated, which aimed at bringing back pride amongst the residents of the *pol*.
- Traditional street theaters were organized, through which the history of Ahmedabad was narrated to the local people by traditional means.
- Interactive games and pictorial storybooks related to the issue are planned, to create awareness among children.
- A city museum for Ahmedabad has also been set up by Vastushilpa Foundation, to familiarize the population with its traditions and history.
- Exhibitions were set up in the old city to raise awareness, such as the *Aapnu Amdavad* Exhibition during World Heritage Week.

### **Restoration Efforts**

For the restoration efforts AMC commissioned detailed surveys, mobilized resources, identified and commissioned expert advice, provided technical assistance, initiated a community-based restoration process, trained volunteers, and initiated citizen/NGO actions. The specific actions are:

- Restoration of *chabutras* (bird feeders), which are a part of the identity of the *pol*s. The municipality, together with the Jain religious community and a group of inhabitants, has initiated the restoration of these *chabutras*.
- Façades and heritage buildings within the walled city area of Ahmedabad are being restored. Several buildings have been restored and are now being used adaptively, such as the Conference Center of CHETNA (an NGO active in health issues) at Khadia.
- Redevelopment of the *Dalpatram Chowk*. The house of the famous Gujarati poet and social reformer *Kavi Dalpatram* has been redeveloped as a memorial, to recognize his immense contribution toward the Gujarati language and culture.
- Revival of the *tankas*, which were the traditional rain water harvesting system in the old houses in the walled city, is in process. A few *tankas* have actually been revived.
- The lighting of monuments and other historic structures in the old city has been enhanced, making these places suitable for community interaction.
- The *Panch Kuva* building and the step-well along the fort wall have been restored. The *Panch Kuva* building has been restored to house the *Khadia* municipal ward office.
- A heritage gate for the Collectorate office has been designed to create an identity and develop a concern for conservation.
- *Dwarkadheesh Temple* is being restored. The temple has also been nominated by the World Monument Fund as one of the 100 endangered sites in the world. Funds are also being generated for the restoration work.
- The historic *Hatkeshwar Mahadev Temple, Khadia*, is being restored.
- Heritage artifacts have been prepared to display the wealth and diversity of the art and architecture from Ahmedabad.

- The *Manek Burj*, which stands at the southwest tower of the old city wall, is associated with the ceremony of the founding of Ahmedabad. A project has been initiated for the restoration of the ruins.
- Special small fire engines with a high-power pressure pump have been designed and incorporated into the fire brigade, to achieve access to inner areas of the city with narrow streets.
- AMC's heritage cell is carrying out repairs of earthquake-damaged municipal school buildings.
- *Auto rickshaws* are a common means of transportation in Ahmedabad, and their drivers are trained and supplied with maps and photographs. The drivers can drive the visitors around the city and guide them. This training is organized in conjunction with the municipality, tourism department, and auto rickshaw association.
- The Ahmedabad Heritage Centre has been established with assistance from the government of France, which has provided an experienced team to help the residents of the walled city obtain guidance regarding the restoration of their traditional houses.

### **Government Facilitation**

Specific actions are:

- An association of old-house owners has been set up and meets to examine the possibilities for revival, restoration, and reuse of heritage properties.
- City Heritage Awards are being given to recognize and encourage the efforts of individuals and organizations that have made a significant contribution to conserve and restore structures of heritage value in the city.
- A project to revive the local self-governance mechanism, called the *panch*, in the walled city with the help of public participation was initiated in collaboration with the Ahmedabad Community Foundation.
- The Housing and Urban Development Corporation (HUDCO) allotted a special fund for surveying the structural conditions of the residential buildings in the walled city after the devastating earthquake of 2001.
- A training program was organized for training of city administrators, in collaboration with the Sardar Patel Institute of Public Administration.
- A series of workshops (the *Sambhav* Initiative) was initiated in 1998, with the joint effort of the Indian National Trust for Art and Cultural Heritage, the Indian Institute of Management in Ahmedabad, and the government of France.
- After *Sambhav* II, AMC and the government of France signed a memorandum of understanding (MOU) for carrying out activities to revitalize the walled city area. At *Sambhav* III, the analysis of the survey and its recommendations were approved. To implement these recommendations, the Ahmedabad Heritage Centre was established.
- Heritage Finance: As an effect of the second phase of implementation of the Indo-French collaboration, the government of France, AMC, and HUDCO signed an MOU in 2003. The MOU specified that buildings that are more than 15 years old can get loans for restoration works at low interest rates, which has provided a unique opportunity to the homeowners for restoring their heritage buildings.
- Additionally, a heritage toolkit is a part of the Jawaharlal Nehru National Urban Renewal Mission (JNNURM) package, thereby mainstreaming the process of heritage conservation within the greater urban agenda. The political support was achieved by the initiation of the Heritage Program within the framework of the AMC. The Ministers and representatives of the political parties inaugurated many of the above events, thereby involving them with the process.

During the whole process, public participation has been undertaken as an important tool to keep the efforts going. People themselves have acted as leaders and taken responsibility for many of the projects. Various projects were undertaken with the funds raised by the local community itself.

## 9.0 Annex B: Specific Heritage Management Tools

### 9.1 Sequence of Actions as Suggested by the Burra Charter, ICOMOS

The cultural significance of a place and other issues affecting its future are best understood by a sequence of collecting and analyzing information before making decisions. Understanding of cultural significance comes first, then development of policy, and finally management of the place in accordance with the policy.

The policy for managing a place must be based on an understanding of its cultural significance. Policy development should also include consideration of other factors affecting the future of a place such as the owner's needs, resources, external constraints, and the physical condition of the place. The Burra Charter defines the basic principles and procedures to be followed in the conservation of Australian heritage places.

In 1979, the Australia ICOMOS charter for the conservation of places of cultural significance was adopted at a meeting in the historic mining town of Burra, South Australia. It was given the short title of the Burra Charter. The Burra Charter was written in a form that would be practical and useful in Australia. The Charter was revised in 1999.

The process suggests three broad areas of action:

#### ***Understand the Significance of the Heritage Properties***

- Identify the place and its associations. Secure the place and make it safe.
- Gather and record information about the place, sufficient to understand significance.
- Assess the significance.
- Prepare a statement of significance.

#### ***Develop a Policy***

- Identify obligations arising from the significance of the place.
- Gather information about other factors affecting the future of the place.
- Develop policy: identify options, consider options, and test their impact on the significance of the place.
- Prepare a policy statement.

#### ***Manage***

- Manage the place in accordance with the policy: develop strategies, implement strategies through a management plan, and record conditions at the place prior to any change.
- Monitor and review the policy.

The entire process is iterative. Parts of it may need to be repeated, and further consultation may be necessary.<sup>3</sup>

### 9.2 Sample of Survey Tables

These survey tables are examples of survey templates for data collection. These can be used to create a heritage inventory for conducting a land use survey and local economic survey. These are examples from actual surveys that can be modified to capture information according to the analysis required.

Table 1: Heritage Inventory

Name of Area							
Property Identification Number	Name of Historical Building	Street Address	When Property Was Built	Owner	Current Use	Historical Significance	File Number (Detailed Documents of Property)

Table 2: Land Use Survey in the Area of the Specific Heritage Property

Name of Heritage Property				
Distance from Heritage Property	Property Identification Number	Street Address	Land Use	Historical Land Use

Table 3: Economic Survey in the Area of the Specific Heritage Property

Name of Heritage Property							
Activities Related to the Building	Time Sensitivity of Activity (Specific Duration)	Seasonal Sensitivity (Specific Months)	Name of Community Supporting the Activity	Place of Residence of the Community	Average Earning		
					Daily	Monthly	Annual

### 9.3 Matrix for Analysis of the Heritage Stock Based on Policy

The degree or *level of significance* associated with the heritage value can be classified as high, medium, or low with reference aspects such as rarity, condition, or authenticity in ascending order. The *priority levels* define the order in which the local body will implement the conservation projects. A sample matrix is provided below.

Name of Heritage Property	Level of Significance	No. of Criteria Met	Desired Outcome	Priority Level
W	High	2	The aesthetic value of the place should be retained.	A
X	High	3	Reinforce the historic character by removal of modifications cropped around the building.	A
Y	Low	0	The site has been totally replaced by development; pictographic evidence should be conserved.	C
Z	Medium	1	The place is of importance to local people, though actual site is in ruins. It should be zoned as a community place in the local development plan.	B



## 10.0 Annex C: The Global Habitat Agenda: Conservation and Rehabilitation of Historic and Cultural Heritage

The Habitat Agenda is the main political document that came out of the Habitat II conference in Istanbul, Turkey, June 3 to 14, 1996. Adopted by 171 countries at what was called the City Summit, it contains more than 100 commitments and 600 recommendations on human settlements issues. The outcome of the summit includes commitments and recommendations for addressing historic and cultural resources. This establishes the acceptance of the concept of heritage conservation as a concern while managing human settlements. Some of the recommendations are quoted below:

–To promote historic and cultural continuity and to encourage broad civic participation in all kinds of cultural activities, governments at the appropriate levels, including local authorities, should:

- Identify and document, whenever possible, the historic and cultural importance of areas, sites, landscapes, ecosystems, buildings, other objects, and manifestations and establish conservation goals relevant to the cultural and spiritual development of society
- Promote the awareness of such heritage in order to highlight the value and the need for its conservation and the financial viability of rehabilitation
- Encourage and support local heritage and cultural institutions, associations, and communities in their conservation and rehabilitation efforts and inculcate in children and youth an adequate sense of their heritage
- Promote adequate financial and legal support for the effective protection of cultural heritage
- Promote education and training in traditional skills in all disciplines appropriate to the conservation and promotion of heritage
- Promote the active role of older persons as custodians of cultural heritage, knowledge, trades, and skills.”<sup>4</sup>

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<sup>1</sup> UNESCO, "Cultural Heritage Management and Tourism: Models for Co-Operation among Stakeholders, Case Study: Melaka Historic City, Malaysia," UNESCO-Norway Cultural Heritage and Tourism Project, Lijiang, China, October 8–18, 2001, [http://www.unescobkk.org/fileadmin/user\\_upload/culture/Tourism/7.pdf](http://www.unescobkk.org/fileadmin/user_upload/culture/Tourism/7.pdf).

<sup>2</sup> ICOMOS, "Indonesia Charter for Heritage Conservation," <http://www.international.icomos.org/charters/indonesia-charter.pdf>, 2003.

<sup>3</sup> Australia ICOMOS, "The Burra Charter (The Australia ICOMOS Charter for Places of Cultural Significance)," [http://australia.icomos.org/wp-content/uploads/BURRA-CHARTER-1999\\_charter-only.pdf](http://australia.icomos.org/wp-content/uploads/BURRA-CHARTER-1999_charter-only.pdf), 1999.

<sup>4</sup> Florian Steinberg, "Revitalization of Historic Inner-City Areas in Asia, The Potential for Urban Renewal in Ha Noi, Jakarta, and Manila," Asian Development Bank, 2008, Chapter 2, Box 2.

## Chapter 17: Urban Poverty Alleviation

**Summary:** This chapter explains the linkages between sustainable development, concepts of inclusion, participatory democracy, and the human right to equitable services to reduce poverty. It explains the strategies for urban poverty reduction that Afghanistan can adopt while framing its strategies for urban development. The chapter provides a range of case studies to explore the relevant best practices in urban poverty alleviation.

**Objectives:** The objectives of this chapter are to promote an integrated approach to urban poverty alleviation by:

- Understanding the approaches to development that counter poverty.
- Recognizing the international support to poverty alleviation in the development process.
- Understanding the opportunities for alleviating urban poverty in the context of specific development challenges in Afghanistan.
- Studying relevant tools that help in supporting and understanding the urban poor.
- Learning from results-oriented programs for urban poverty alleviation.

### 1.0 Basic Characteristics of Poverty

Poverty basically means having very little money. When there are very few Afghanis in one's pocket, one can buy little food. Even a farmer needs money to buy seeds to grow food just for his own family. One manages with few clothes. There may be a roof over one's head, but the holes in it are expensive to repair. When getting basic necessities fulfilled becomes a struggle, healthcare and education also become luxuries. An Afghan proverb rightly says, "When poverty walks in through the door, happiness flies out of the windows."

Poverty makes sending children to school unaffordable. The bright minds that could be shaped by education become hands that labor. The young boys migrate to cities in search of income to support themselves and their family. In the cities, they live in shanties or move in with a relative who lives in an already crowded house. Sanitation and clean water are scarce, and poor health conditions abound. All the boys' time and energy is spent earning some money or dealing with the problems created by their financial condition. In society, they lose the courage to give their opinion. They have no choice or power; their situation is like a chain reaction arising from low income but with other conditions resulting from it and also adding to it.

Poverty is a human condition that is not only characterized by low income, but also associated with other conditions such as limited access to basic necessities; poor living conditions; poor health; lack of voice; and deprivation of capabilities, choices, and power that are necessary for the enjoyment of fundamental human rights. Thus, poverty is multidimensional in character. The theoretical definitions of poverty are provided in Annex A, Section 5.1.

### 2.0 Definition of Urban Poverty

The basic condition of poverty is similar in rural and urban areas. The urban poor seem to have better access to infrastructure and services, and higher income than the rural poor. However, the cost of living in urban areas is much higher than in rural areas. Because of their large numbers, the urban poor influence local politics and decision making. But the stronger among them (in terms of social connections, community influence, knowledge, or other types of power) have the say, which may not address the concerns of the poorest of the poor.

Since the living conditions and earning opportunities are different in urban areas from those in rural areas, poverty affects the urban population in a different way. Low income levels and

higher cost of living initiate a chain reaction of poverty conditions. In terms of their physical environment, the urban poor have limited access to urban services such as sanitation, clean water, housing, or transportation. Their choices for housing are limited, and they have to live in informal settlements (slums or slumlike conditions). Because the informal settlements cannot access public infrastructure and services, these areas are characterized by unhygienic and difficult conditions. Lack of education and training limits employment opportunities. The poor do work that others do not want to do, further exposing the poor to many risks. They are left with no choices, a limited voice in society, discrimination, and loss of economic opportunity. These social aspects work against the urban poor and limit their chance to improve their conditions.

To curb urban poverty, it is important to provide services and economic opportunities in rural areas, as rural poverty contributes to urban poverty. Lack of work in the rural areas and the perception of better opportunities in the cities are the major causes of migration. The costs associated with migration to the cities are high, and savings constitute a major portion of the money used to migrate. Large numbers of migrants are landless and homeless when they arrive in the city. Once in the city, migrants spend a significant portion of their earned income on basic necessities of living (housing, food), and therefore they accumulate little. The theoretical definitions of urban poverty are discussed in Annex A, Section 5.2.

## 2.1 Urban Poverty in an International Context

Poverty is an international concern. Many countries are addressing this issue in small or widespread areas. The first of the Millennium Development Goals promoted by the United Nations (UN) itself is to “eradicate extreme poverty and hunger.” The 192 member countries of the UN have agreed to these targets to be attained by 2015, against a baseline of 1990:

- Target 1: Halve the proportion of people whose income is less than one U.S. dollar a day
- Target 2: Achieve full and productive employment and decent work for all, including women and young people
- Target 3: Halve the proportion of people who suffer from hunger.

The following example illustrates the lifestyle of a typical poor urban boy in Afghanistan. He is ten years old and was forced to move to Kabul in search of an income to provide for his mother and sister after his father’s untimely death in the war. He has no education or training; he is too young to be employed for any work. He washes cars at a traffic signal. By the end of the day he probably manages to clean two cars. After a day’s labor he gets twenty Afghanis. With this he can buy two naans at the price of ten Afghanis each, to take home for his family. With his stomach barely full, how can he attend to other needs? He manages with very few clothes. Due to a relative’s kindness, he and his family have a roof over their heads and can squeeze into a corner, but whether they will be able to live in the house next month is uncertain. Their mother is sick and cannot do any work. They have no idea what the next day will bring. The house is dirty, it stinks, there are rodents and insects, and the roof and walls can barely keep the cold away. The sister stands in line for a pot of drinking water. The family manage their daily toilet needs in unhygienic pits and drains. They are barely surviving. This kind of dismal picture is seen in the slums and informal settlements in other countries as well.

## 2.2 Urban Poverty in Afghanistan

Urban poverty conditions in Afghanistan are similar to those in other countries; however, conditions are made worse by the insecurity, instability, and vulnerability of war. War has left many young boys and girls to deal with poverty. A finding by the Afghanistan Research and Evaluation Unit in 2005<sup>1</sup> highlights how rural-to-urban migration is an outcome of prevailing rural poverty. Migrants to urban areas perceive an improvement in their economic situation, but migration actually shifts rural poverty to urban settings. Most migrants do not return to their home villages. With very few savings, they also find surviving in cities a constant struggle. The migrants face lack of access to urban labor markets, as the labor markets do

not expand in proportion to accommodate the increasing flow of migrants to the cities. This rural-to-urban migration trend is aggravating the complexity of poverty.

It can take around three weeks for migrants to get any type of employment in the city. Even though they possess the skills for certain jobs, daily wage labor and unskilled work at construction sites are the main sources of employment for new migrants. Unemployment in cities remains high, and there are no formal opportunities for workers to gain skills that would help them graduate to more secure employment. For women, in particular, support from social connections is crucial to finding a job. For the few who can venture into self-employment, it takes an average of two years to start a business. The financial capital needed (an average of 170 U.S. dollars) is sourced from savings or social connections.

A large segment of the Afghan population faces poverty conditions. The children in poor families have limited access to schooling. Many aspects of urban infrastructure and access to services affect poverty or add to the poverty conditions. Spatial factors and the geographical situation have an impact on livelihoods. The unhealthy living environments and the illegal status of informal settlements facilitate deprivation, which usually goes along with poor access to services.

For example, a study describing the conditions and factors that affect the urban poor in Kabul<sup>2</sup> reveals that the location where a person lives impacts access to job opportunities, services, and sanitation conditions. In Kabul, the life of urban poor is characterized by poor housing and tenure insecurity, limited access to safe water, lack of public transportation facilities, lack of electricity, bad sanitation and waste disposal, very limited basic education, and restricted job opportunities. Harsh winters in Kabul pose additional threats to livelihood security for the poor.

The long periods of war, conflicts, and instability have deeply affected the economy of Afghanistan and the bulk of the Afghan population. This “hopeless economy” is characterized by:

- A widespread struggle for survival
- A high-risk environment
- Child labor, at the cost of the health and education of the country’s future
- Unemployment and a subsequent loss of income
- Insecure and expensive housing
- Food insecurity
- Lack of long-term investment and tenure rights.

### **2.3 Causes of Urban Poverty**

From the descriptions above, we understand the effects of poverty and how poverty conditions look. To bring a whole settlement out of poverty, we have to go into greater detail and address the root causes. The following scenario explains this idea further: when a sick person goes to a doctor, the doctor observes the symptoms, but he also measures the patient’s temperature or may do a blood test to diagnose the disease (i.e., to identify what the disease is, what is its extent, and what is causing it). He treats the patient to cure the disease and not just the symptoms. He administers medicine according to the age of the patient and severity of her condition. A good doctor also talks to the patient to find out what is causing the disease, so she can avoid getting it again in the future. If a whole neighborhood gets the disease, responsible authorities have to undertake a focused effort to deal with the situation.

In the same way, to be able to do something about poverty we need to identify the causes of poverty. We have to understand whom it affects, so that we can make specific programs available to specific segments of the population. In Afghanistan, large populations live in the dire conditions described in Section 2.2. To be able to help the people living in such

conditions, we have to understand their specific needs and problems, and the root causes of the problems, so that the solution is effective.

The characteristics of the coping economy described in Section 2.2 are the symptoms of poverty. The primary reason for poverty is low income, which is caused by lack of earning opportunity, lack of effort, loss of income, or poverty-like conditions due to inadequate resources. The underlying causes for these conditions are one or more of the following:

Lack of earning opportunity:

- Improper education and training
- Disability or sickness
- Traditional place in society
- Corruption
- Poor economic infrastructure: low productivity and employment opportunities
- Participation in the informal sector, which offers lower wages than the formal sector
- Gender inequality.

Lack of effort:

- Acceptance of poverty
- Psychological damage.

Loss of income:

- Natural disasters and war
- Debts
- Indulgence in social ills such as drugs or gambling
- Theft
- Lack of awareness of the rightful amount to demand (fair market wages).

Inadequate resources:

- Exclusion (i.e., not recognizing the needs of the poor)
- Improper provision of infrastructure
- Mismanagement of resources
- Lack of access to services
- Rapid urbanization
- Informal settlements, which lack legal status and infrastructure and services needed for adequate economic development.

## **2.4 Identification of the Urban Poor**

The following example explains why we need to identify the poor or measure poverty. Say a settlement is affected by an earthquake; emergency personnel identify which structures are mildly affected, moderately damaged, or severely damaged. They identify if a particular group of residents is in danger from one or more conditions such as structure collapse, fire, inundation, theft, or general panic. They give aid accordingly and create relief programs for immediate assistance. Soon, the settlement starts permanent reconstruction while planning for safety from all the dangers and future earthquakes. Experts from various fields get involved to tackle each condition. Soon, the settlement emerges stronger than before.

In the same way, to provide relief from poverty, we have to assess poverty and understand who is affected and to what extent so that we can design programs accordingly and target them to the right people. Hence, we need to measure poverty.

A common measure is the *poverty line* or *poverty threshold*. It is the minimum level of per-capita consumption expenditure at which the members of a household can be expected to meet their basic needs (comprised of food and nonfood consumption).

Another example is the *Below Poverty Line* (BPL) measure used by the government of India (see Annex A, Section 5.1). It is used to identify individuals and households in need of government assistance and aid.

The national average poverty line for Afghanistan is 1,255 Afghanis per person per month, representing the typical cost of attaining 2,100 calories per person per day and of meeting some basic nonfood needs (see Annex A, Section 5.3).

The overall headcount rate for Afghanistan is estimated at 36 percent of the total population (i.e., 9 million Afghans are not able to meet their basic needs). (See Annex A, Section 6.3.)

The *headcount rate* or poverty incidence is the proportion of the population whose per-capita consumption is below the poverty line.

The *poverty gap index* is a measure of the “depth of poverty” and provides information about the extent to which individuals fall below the poverty line. The poverty gap ratio is the same as the poverty gap

index and is an indicator to measure progress toward Millennium Development Goal Target 1A.

### 3.0 Development and Governance Concepts and Urban Poverty Alleviation

As shown above, poverty is multidimensional, and poverty alleviation interventions have to address a range of issues in order to have an impact. The following sections explain how urban poverty alleviation is enhanced when related concepts play a role in the approach to development. Adopting a sustainable development approach and strengthening good governance principles such as equity, participation, and inclusive development support urban poverty alleviation efforts in creating better conditions for the poor and increasing their opportunities.

#### 3.1 Sustainable Development and Poverty Alleviation

The idea of sustainable development grew from numerous environmental movements in earlier decades and was defined in 1987 by the World Commission on Environment and Development as “development that meets the needs of the present without compromising the ability of future generations to meet their own needs.”<sup>3</sup>

Sustainable development involves the simultaneous pursuit of economic prosperity, environmental quality, and social equity—known as the three dimensions or “triple bottom line.” In the context of ensuring sustainability, international conferences such as the “Sustainable Development in Human Settlements” conference that produced the *Agenda 21* document (see Annex B, Section 6.2), have identified that information, integration, and participation are key building blocks to help countries achieve development and thus alleviate poverty. The onus of implementation of the key objective of Agenda 21, sustainable development, has been placed on municipalities and their constituent communities. Agenda 21 stresses the need to change from old, sector-centered ways of doing business to new approaches that involve cross-sectoral coordination. Such discussions reflect the mandate of countries worldwide to call for the integration of environmental and social concerns into all development processes.

Integrating environmental concerns into development processes is important for poverty alleviation. There is a belief that for poor countries to develop, environmental concerns have

to be sacrificed. On the contrary, natural resources provide access to economic opportunities and sustain quality of life. Wasting natural resources adds to loss of income and opportunity and hence to poverty.

### 3.2 Human Right to Equity

*Human rights* are the rights possessed by all persons, by virtue of their common humanity, to live a life of freedom and dignity. In the context of urban development, human rights extend to equitable distribution of infrastructure and services, equal social status, freedom to participate in decision making,<sup>4</sup> and access to economic opportunities across the society. *Equity* involves justice and fairness. It is concerned with fair distribution of benefits in the society (–who gets what”). This ensures that all citizens have equal access to decision making and basic necessities of urban life. It also contributes by reducing crime and can increase economic productivity.

Gender inequality is an important characteristic of poverty in Afghanistan. Very few women participate in paid economic activities, making them highly dependent on their husbands or families. In spite of this, women (especially in rural areas) actively contribute to the household income through employment (often unpaid) in agriculture and livestock activities. Nevertheless, the gender gap remains large:

- The literacy rate for women (19 percent) is much lower than for men (40 percent).
- The net primary school enrollment rate for girls (ages six to nine) is around 21 percent while higher for boys (28 percent).
- Female-headed households are closely correlated with poverty due to a lack of education and employment opportunities.

To eliminate gender inequality and provide social equity, there is a need for policies and programs that bring women up to par with men. Women’s lack of access to employment contributes to poverty in female-headed households. This lack of access has to be addressed by specific programs that create employment opportunities and support to enable women to make a living. Program administrators need to ensure that women are not deprived of service allocation or economic opportunities due to social disparities.

To achieve equity, municipalities have to eliminate the conditions creating urban poverty for women and other disadvantaged populations. Everyone needs access to employment opportunities and income, housing, services, social protection, and health and education facilities. To ensure equity, more resources may have to be directed to the poor or underprivileged. Low-income households have a greater need for certain public services, as better-off people can obtain those services from private resources. For example, allocation of more public transportation facilities to serve poor settlements achieves equity of access to transportation. Similarly, greater risk to poor health in slums may indicate greater need for provision of sanitation infrastructure and hence allocation of more funds to slum areas. Here, though the local authority is giving “more” service, and directing more funds to these areas, the effort is to ensure equity in the provision of sanitation and make the access to service equal.

The service standards that a municipality adopts can support this goal of equitable distribution through adopting appropriate units of analysis, a range of permissible variation, or indicators of service for equitable service provision. For example:

- Units of analysis used for allocating services are a household, neighborhood, or service district as a unit of measurement (e.g., weekly primary collection of solid waste per 1,000 households or per 600 low-income households).
- Range of permissible variation: The range of permissible variation can support provision of different service frequencies for different areas yet maintain a standard (e.g., frequency of bus service at 30 minutes in areas of greater need and at 2 hours in areas of lesser



need). So a frequency of 30 minutes to 2 hours as a standard for bus service becomes the range of permissible variation for bus service.

- Indicators of service: Equal response time is an example of a service standard that reflects the municipality's commitment to equity. Another example would be equal collection rate for solid waste management in all areas of the municipality.

The geographical distribution of services is an indicator of the reach of services to residents. For example, a practical tool for municipal administrators is a map that shows actual settlements and the facilities provided by the municipality such as schools, parks, water mains, sewerage, bus stops, and roads). Such a map can clearly show if all areas are receiving equal services or not.

Equitable distribution of services allows municipalities to maintain an environment within which all persons, regardless of their personal characteristics, feel that they are well provided for and are treated with dignity and respect.

### 3.3 Participatory Democracy in Governance

Good urban governance principles place high importance on achieving participation and inclusion. Participation means that all stakeholders<sup>5</sup> take part in decision making. The stakeholders of an urban area or a project know what does and does not work within their communities; using participatory processes, the municipality applies local knowledge from stakeholders so that development projects actually meet the stakeholders' needs.

Participation is not mere contact with the local population to confirm the integrity of a preconceived idea. For example, let us look at a municipal water supply project for a slum area. The municipality engages a water supply expert to design the water supply plan. Before the plan is designed, the municipality can organize a survey of actual needs of the local people. The municipality organizes public discussions to gather opinions, study current usage patterns, and learn about the needs of the users of the service. The municipality collaborates with a community-based organization to form small groups of residents to participate in these discussions. The groups can be based on specific needs; for example, many residents might leave very early for work (and thus need water service at early hours); some might have small businesses in their homes (and thus need water service during the day, when other residents are away at work); or some primary water users might be women and not comfortable communicating in the presence of men (and thus they need to participate in discussions with women facilitators). The water supply expert understands from interviews, models, and graphics the actual needs and details of the kind of output that the people require. The expert then designs a solution and presents it to these groups and the local people for assessment of its appropriateness. The presentation is through visual aids and communication tools in the local language. There municipality makes efforts to ensure that the people understand what the expert is designing and incorporates their views and requirements. This kind of participatory approach aims to ensure that the schedule of water supply, location of taps, size of taps, and drainage from the taps caters to the needs of the people.

Participation conserves resources and directs them wisely, making development sustainable. The process of participation itself empowers disempowered stakeholders when they design solutions for themselves.

Participatory democracy goes beyond a simple participatory exercise to a process or methodology for promoting social learning, active citizenship, and social accountability. Participatory democracy reflects the relationship of municipalities with their citizens. It opens new ways of direct participation that complement traditional forms of representative governance. Participatory democracy is direct democracy, in the sense that all citizens are actively involved in all important decisions.

The importance of democratic, participatory, and inclusive processes in management of urban settlements has been accepted internationally. The Habitat II conference also discussed this concept (see Annex B, Section 6.1).

### 3.4 Inclusive Development

While “participation” means taking into account the view of stakeholders, “inclusion” means ensuring that all segments of society are part of the stakeholder group. Many people are excluded from development because of their gender, ethnicity, age, sexual orientation, disability, or poverty. Inclusive development incorporates the interests of the poor or disempowered. Development can be inclusive and can reduce poverty only if all groups of people contribute to creating opportunities, share the benefits of development, and participate in decision making. Inclusive development integrates the principles of participation, nondiscrimination, and accountability.

Well-designed *fiscal policies* (i.e., the way a government collects and spends public resources) can play a major role in stimulating growth and reducing poverty. One of the many vital elements of inclusive development is creation of productive and gainful employment for the poor. When paired with effective and efficient social safety nets<sup>6</sup> to protect those who cannot work or who earn too little, this type of development “includes” the poor in the mainstream economy. An example of such a program is illustrated in Case Study 1, “Livelihood Opportunities: Government of India Programs” (see Annex C).

### 3.5 Engagement of the Poor

Engaging the poor requires special orientation and communication tools anywhere in the world. The poor are fearful since they live in informal settlements, and encroach or access services informally to fulfill their needs. They are often at the mercy of local powerful people who might harm them if they provide information that works against those powerful people. The poor might fear that speaking up may attract undue eviction, job loss, or social or physical harm. Municipal officials have to assure the poor that no harm will come to them because of their sharing of information. Giving information to as well as getting information from the poor requires communication in the local language, in a style that they easily understand with graphical representation and illustrations. Participatory tools for engaging the poor can be elaborate and time consuming. A municipality may not have the capacity, time, or resources to undertake this type of exercise. In that case, the municipality can accept help from community organizations, nongovernmental organizations (NGOs), or academic institutes that can work with the poor. Case Study 2, “Making Services Work for the Poor in Indonesia,” illustrates this idea and describes these kinds of participatory tools in greater detail (see Annex C).

## 4.0 Strategies for Urban Poverty Reduction

*Urban poverty alleviation* or *urban poverty reduction* is the term for all the efforts put together to reduce poverty and poverty-like conditions in urban areas. Urban poverty alleviation makes efforts to bring the urban population above an accepted poverty line and is reflected by a reduction in the headcount rate. The efforts can range from enhancing opportunities for economic activity, enhancing access to information and education (addressed in the section on enhancing livelihood opportunities), and providing adequate infrastructure and services (addressed in the section on upgrading informal settlements), to improving the poor’s social and psychological well-being (through enhancing livelihood opportunities and legal backing).

Population groups affected by similar causes of poverty need solutions tailored for their needs and limitations. For example, a person whose poverty is caused by a disability needs life skills training and the right equipment to perform his daily activities. He also needs training in a job skill that he can perform to earn a decent living despite his disability. To address poverty in female-headed households where young boys are the main wage

earners, adult women need to be empowered to earn, and young people need incentives to go to school. Microloans can be made available to those lacking the financial capital to start a business enterprise. The municipality can work through community-based organizations or NGOs to address these needs of different groups of people.

To reduce urban poverty, municipalities need to identify programs that empower the poor to create their own opportunities and support their access to assets, and to develop enabling policy and an institutional framework. The design of effective policies for urban poverty reduction requires a good understanding of the causes, conditions, and dynamics of urban poverty as well as accurate data that present its trends and conditions. Analysis of the factors that affect livelihood can help municipalities create appropriate programs relevant to the local conditions:

- What are the desired livelihood outcomes?
- What is the status of access to social, human, physical, financial, and natural capital or assets, and how well is the local population equipped to put these to productive use?
- What strategies do the local citizens adopt in pursuit of their priorities?
- Which policies, institutions, and processes shape citizens' access to assets and opportunities?

The poor often lack the capability to tap into economic growth potential, and this gap in the capability of the poor needs to be addressed by municipalities through a policy intervention." A policy intervention can be described as a plan of action that leads a motive to be accepted as a guideline for administration. When the policy is backed by law, implementation becomes easy. Policies are needed to address access to infrastructure and services by the regularization of the informal sector and informal settlements. The economic policies must be simple and keep the interests of the poor in mind without creating further obstacles for the poor. Complex policies and laws work against the poor and result in strengthening the informal sector.

The poor need support to improve their productivity and increase their income. Any program has to keep in mind the context in which the local citizens live and the factors affecting their vulnerability to shocks and stresses. The approach to poverty reduction needs to be people-centered, responsive and participatory, multi-level, conducted in partnership, sustainable, and dynamic. One such effort is described in Case Study 3, "Integrated Poverty Alleviation Strategy in Santo André, Brazil" (see Annex C). The purpose of Santo André's poverty alleviation strategy is to establish new ways of managing local public policies and to bring the poor population into mainstream society.

Approaches that municipalities can use to reduce urban poverty include enhancing livelihood opportunities, supporting the informal sector, and upgrading informal settlements.

#### **4.1 Enhancing Livelihood Opportunities**

Engaging the citizens excluded from livelihood opportunities with vocational training, primary education, and skill enhancement programs enhances these citizens' chances of finding meaningful employment. Both the private and public sectors can implement programs to enhance livelihood opportunities for the urban poor.

##### ***Private Sector Engagement***

In partnership with the private sector, municipalities can create programs to enhance skills and connect the skilled workers to jobs. Such programs can provide support to establish skilled workers in a profession or employment. An example of engaging the private sector to this end is described in Case Study 4, "The Umeed Initiative, Gujarat, India" (see Annex C). This initiative has been successful in creating skills that are relevant to the market and in securing private sector employment for the trainees.

Municipalities can design or support relevant programs after identifying occupations that are currently expanding or have the potential to absorb the skilled workers. Municipalities can give incentives to participating businesses to legalize their informal endeavors by giving them access to assets that can assist the businesses in scaling up their operations; for example, providing legal space for manufacturing or for selling produce, a vehicle, business license, or access to training or loans. The resulting improved access to markets can create employment and spur local action. For example, the municipality can partner with a local food processing company (even if it is barely profitable), give the company land and funds to scale up its operations, and give it assets for marketing its products on the premise that the company will employ a small group of candidates who have received relevant job training. Providing such assistance to a participating business creates an environment of mutual support and might encourage other businesses to participate in creating similar employment opportunities.

### **Public Sector Investment**

Public infrastructure investment is crucial for local development because it generates economic activity and social inclusion for a wide segment of the population. The many types of investments that the public sector makes include:

- Building physical infrastructure (roads and bridges)
- Developing social infrastructure
- Protecting the natural resource base (forestation and environmental protection)
- Establishing public enterprises such as large manufacturing units, mining activities, and agricultural cooperatives.

An example of intervention by the public sector is described in Case Study 5: “Government of Gujarat’s Housing and Habitat for the Urban Poor” (see Annex C). This state government program has been successful in creating infrastructure for the poor.

## **4.2 Supporting the Informal Sector’s Transition to the Formal Economy**

The economy does not divide neatly into the “formal” and the “informal” sector. Rather, the presence or absence of the different sectors, such as manufacturing, tourism, services, and construction, contribute to creation of the informal sector. For example, certain activities in the tourism sector might be formal (i.e., on the books), whereas other activities in the sector might be informal. Some of the formal sector activities might be supported by the informal sector; for example, the sale of craft items might not be on the books if the trader procures them at very cheap rates from manufacturers in the informal sector. The informal sector includes the urban poor, who depend on informal subsistence activities for their livelihood. It also includes higher-income people who enter the informal economy as a way of supplementing declining formal sector incomes or of increasing profit margins.

Unemployment in the formal sector, along with complex and unclear laws, contributes to the growth of the informal sector. Informal operators offer pro-poor employment that is convenient to many citizens. Home-based work is convenient for many women and men; most of this work remains invisible to the formal sector, and often generates small incomes. Many women find it convenient to be able to combine working, caring for children, and caring for the home. Informal sector workers<sup>7</sup> are trying to make a living by performing trade or providing a service that is outside the tax and administration structure. They often do not know how to enter the formal sector due to lack of education or awareness or the plight of their situation. Thus, identifying informal sector workers and activities, and understanding their needs and limitations, can help in addressing the needs. Municipalities can design solutions to bring informal sector workers inside the tax and administration structure as well as to create safety and hygienic conditions.

Surveying and understanding informal sector activity is essential to form a policy framework that supports the formal and informal enterprises. Policies can address legal security and incentives, property rights, land use, physical infrastructure, and social infrastructure.<sup>8</sup>

- **Legal Security and Incentives:** The people engaged in informal sector activity may resort to bribery in order to avoid costly punishment or to obtain certain services and protection. They do not calculate these costs when they initiate their informal activity. They may not know about their rights and the procedures to formalize their trade or about laws that can benefit them. Simplifying business permitting and licensing procedures and making them affordable are measures that municipalities can use to bring informal sector businesses into the formal economy. Similarly, adopting a tax system and giving incentives that promote profitable economic activity combined with providing legal security, business development systems, micro-finance, and skills training can assist these businesses to be successful in the formal sector.
- **Property Rights:** Secured, clearly defined, and effectively enforced property rights greatly encourage any economic activity, in both the formal and informal sectors, and facilitate the conversion of private assets into productive capital. Without legally protected private property rights, entrepreneurs constantly face the risks of confiscation, forced relocation, and harassment. In addition, they have few incentives to train personnel or purchase machines and other equipment in order to improve productivity and undertake larger-scale and longer-term investment. Insecure property rights also damage economic performance in other ways: obtaining water, electricity, and telephone services usually requires a property title, which means that entrepreneurs without secure property rights will not receive these services, and their productivity will thus be lower. The same is true for access to finance and banking.
- **Land Use:** The informal sector often occupies vacant land, encroaching and creating slums close to the workplace. The urban poor tend to look for trade and enterprise around the movement of people, such as at bus stations, railway stations, and bazaar areas. This tendency places a burden on the traffic and transportation sector, causing undue congestion and encroachments that create bottlenecks and traffic jams. Municipalities can also formalize informal sector activities by applying more realistic land-use standards and providing public land for enterprises and markets.
- **Physical Infrastructure:** The provision of minimal, well-maintained infrastructure for transportation, telecommunications, water, and electrical power is essential for economic growth and the expansion of employment in both the formal and informal sectors. Besides adopting more realistic land-use standards and providing public land, municipalities can actively support the informal sector by developing a basic infrastructure (such as electricity or water) for informal enterprises, which will spur productivity. The same is true of transportation: a lack of access to transportation discourages mobility and limits access to markets and inputs for production, and thus it affects productivity and profit margins in a negative way.
- **Social Infrastructure:** The strengthening of self-help grassroots organizations and informal entrepreneurs' associations supports participation in the shaping of policy and lawmaking processes. It provides an impetus for pursuing the informal sector's interests and rights.

### 4.3 Upgrading Informal Settlements<sup>9</sup>

Upgrading informal settlements is not a stand-alone activity. It has to be viewed in the context of addressing poverty and the socioeconomic conditions that create informal settlements, and on the basis of reliable and up-to-date information about the community and the linkages to livelihoods. Participation of the community throughout the entire upgrading process enhances the chances of success. The following approaches successfully support the upgrading of informal settlements:

- **Community Participation:** Government efforts undertaken in partnership with community organizations, NGOs, and multilateral organizations have better chances of succeeding; hence, municipalities must promote formation of community organizations and put procedures in place to facilitate real partnerships. The community should be involved in not just the decision making but also the implementation of the actual project (e.g., construction of infrastructure, housing, and facilities) and provision of ongoing maintenance of the area (e.g., refuse removal and maintenance of roads and community facilities).
- **Tenure:** Individual ownership is expensive and complex; hence, municipalities should explore flexible tenure options. The range of interim tenure options includes moratoriums on evictions, temporary occupation licenses, and community and individual leases. A degree of decentralized community control of the tenure system is important.
- **In Situ (Onsite) Upgrading:** Upgrading in place is always preferable to relocation, in order to maintain social and economic links and networks. In the case of temporary structures, rollover upgrading may be appropriate, but municipalities should minimize the negative impacts of temporary relocation. In situ upgrading requires the development of flexible standards and regulations. For example, road widths and space standards for facilities are particularly important to enable higher densities and thereby minimize relocation.
- **Protection from Commodification:** Municipalities must minimize the negative impacts of the commodification of housing (i.e., displacement of the poor through downward raiding). One approach to prevent this can be through collective forms of tenure.
- **Housing Strategy:** Upgrading of informal settlements always needs to be part of an integrated housing strategy that includes a range of delivery options to meet different housing needs and that has clear resource allocations and timeframes. An integrated housing strategy needs to include a managed land settlement strategy, in which people can get rapid access to land with basic services, in order to pre-empt the formation of new informal settlements.

An example of strategies that municipalities can adopt for practical implementation of settlement upgrading projects is described in Case Study 6: “Provision of Housing to the Poor, India” (see Annex C). This program highlights a two-pronged approach of providing housing through (1) sites and services programs to improve living conditions and enable creation of suitable housing and basic services and (2) provision of permanent housing to low-income groups.

*What did we learn about in this chapter?*

- *Poverty conditions in Afghanistan*
- *Causes of urban poverty*
- *Governance and development concepts relating to poverty alleviation*
- *Strategies for urban poverty reduction*

## 5.0 Annex A: Definitions and Poverty Data

### 5.1 Definitions of Poverty

The existing conceptual classifications of poverty can be simplified into three groups.

#### **Quantitative Definitions of Poverty Based on Income and Consumption**

Most countries and international agencies define poverty as a relationship between income and a minimum socially acceptable level of consumption. This implies that society agrees that certain goods and services are necessary to sustain human and social life, and that the inability of some of society's members to obtain them regularly is the expression of a social ill. The income required to purchase those necessary goods defines a poverty line that separates the poor from the nonpoor. It also provides a headcount rate to establish the level of poverty of a specific country at a particular time. The establishment of poverty lines creates uncertainties given the different meanings of income, and given consumption patterns and values in different countries, and as a result most countries define national poverty lines according to their circumstances. International agencies such as the World Bank, however, have promoted the use of standardized lines for specific regions, changing them from region to region. In addition, the relationship between income and consumption is also used to define and measure specific aspects of poverty; for example, absolute poverty, relative poverty, and ultra-poverty.

The government of India uses its own "Below Poverty Line" or BPL measure. The BPL is an economic benchmark and poverty threshold. It indicates the extent of economic disadvantage and is used to identify individuals and households in need of government assistance and aid. It is determined using various parameters, which vary from state to state and within states. The thirteen most common parameters are:

- Size of operational land holding
- Type of house: homeless, kutcha, semi-pucca, pucca, urban-type
- Average availability of normal-wear clothing (per person in pieces): less than 2, 2–4, 4–6, 6–10, >=10
- Food security: less than one square meal per day for a major part of the year, normally one square meal per day but occasionally less than one square meal, one square meal throughout the year, two square meals with occasional shortage, adequate food throughout the year
- Sanitation
- Ownership of consumer durables
- Literacy (education): up to primary, completed secondary, graduate/professional, post-graduate
- Literacy status of the most literate adult
- Status of the household labor force
- Means of livelihood
- School attendance of children five to fourteen years old
- Type of indebtedness
- Reasons for migration for a migrant household.

#### **Definitions Based on Social Indicators**

The search for social indicators reflects the notion that income and consumption might not embody the whole reality of poverty, and also accepts an awareness of the complexity of this condition, its multiple dimensions and attributes, the interaction of its many factors, its diversity, and its relativity. In this sense, the social indicators approach marks a movement toward a more qualitative understanding of poverty. It does use quantification as an instrument for comparison and assessment of poverty variations. This quantification has led to the development of a number of indices expressing specific aspects of deprivation that are

considered more inclusive than income, such as life expectancy, infant mortality, nutrition, food consumption, literacy, school attendance, and access to health and to safe water (Wratten, 1995).<sup>10</sup> Thus, the development of composite indices that combine weighted variables has been a step toward capturing the multidimensionality of poverty. For example, the United Nations Development Programme's Human Development Reports for 1997 and 1998 analyze poverty conceptually, advocating a qualitative approach, and produce a Human Poverty Index (HPI) to define and compare poverty conditions in the world. While the HPI is not claimed to give a fully comprehensive account of the whole complexity of poverty, it has considerably broadened and refined the previous perspectives; it is multidimensional; and, most importantly, it can report on some specific conditions of the poor. However, a major problem remains, which is the uncertainty created by indices defined outside those deprived communities without the participation of the poor, or in some cases, defined just by consulting them.

### **Qualitative Multidimensional Definitions, Based on Participation**

Qualitative and participatory approaches and definitions of poverty have been a response to the growing recognition that poverty is complex and varied. Proponents of these approaches do not ignore the merits of statistical quantification for specific policies, but they question its validity and usefulness to understand poverty. Poverty is understood as a multidimensional situation, affected by cultural, local, and social conditions; interpreted subjectively by the people living in poverty; lived differently by people according to their gender, age, ethnic origin, and abilities; and including many forms of income and consumption that escape the concept of poverty lines. The condition of poverty is lived by the poor in such a variety of forms that it becomes nearly impossible to define a concept of poverty, and a strategy for its eradication, without the participation of the poor themselves in these processes.

## **5.2 Definition of Urban Poverty in the International Context**

Many writers have contested that urban poverty is no different from rural poverty or poverty in society in general. However, two writers, Wratten and Amis, in separate works have explored ways to identify the features of urban poverty. Four features of urban poverty are:

- Environmental and health risks
- Vulnerability arising from commoditization
- Social fragmentation and crime
- Negative contact with the state and police (though noting that they are not exclusively urban attributes).<sup>11</sup>

Alternatively, Amis<sup>12</sup> identifies ten specific characteristics of urban poverty as:

- The importance of position within and access (both social and physical) to labor markets. Employment is thus identified as the most important determinant of urban poverty, while labor markets in poor countries are characterized by strong rigidities defined by education, ethnic origin, neighborhood, and such.
- The limited ability of the informal sector to absorb unemployed workers.
- Vulnerability to changes in market conditions, with increasing exposure to changes in food prices and wages and a decreasing ability to retreat into subsistence.

Urban poverty is a multidimensional phenomenon. The urban poor live with many deprivations. Their daily challenges may include:

- Limited access to employment opportunities and income
- Inadequate and insecure housing and services
- Violent and unhealthy environments
- Few or no social protection mechanisms
- Limited access to adequate health and education opportunities.

But urban poverty is not just a collection of characteristics; it is also a dynamic condition of vulnerability or susceptibility to risks.

Source: World Bank,  
<http://go.worldbank.org/19N9ZIG9K0>.



- The critical importance of female-headed households in the composition of the poor (with women being disadvantaged by cultural barriers, lack of assets, and domestic responsibilities, and being under-represented in well-paid employment).
- A tendency toward more expensive services and more Westernized tastes (a lack of resources and access to services results in the poor making small-scale purchases and having to pay intermediaries; thus, they pay more than the rural poor and relatively more than urban middle-income groups).
- Fewer “coping strategies”; in particular, an absence of common goods and a greater reliance on state provision of basic goods.
- The individualization and private nature of much urban poverty, determined by shocks (loss of employment, ill health) that affect individuals rather than communities.
- The critical importance of assets and debts as strategies to survive shocks. A lack of communal assets to fall back on makes individual assets and debts critical as strategies to withstand shocks.
- Greater exposure to environmental risks in terms of human pathogens and industrial toxic compounds.
- The importance of links to the rural economy for survival and in seasonality in urban poverty (in many regions links with rural areas remain as part of urban survival strategies, and urban remittances are important components of rural economies).

### 5.3 Urban Poverty Assessments in Afghanistan

#### ***National Risk and Vulnerability Assessment***

The 2007 National Risk and Vulnerability Assessment (NRVA) indicates that the overall headcount rate for Afghanistan is estimated at 36 percent of the total population (see Figure 1). The study indicates that some 9 million Afghans are not able to meet their basic needs. The national average poverty line is 1,255 Afghanis per person per month, representing the typical cost of attaining 2,100 calories per person per day and of meeting some basic nonfood needs. A breakdown of the poverty incidence reveals that the incidence is high in any part of the country, but large differences exist by residence and regions. Whereas poverty in the rural population is close to the national average (36 percent), the incidence in the urban population is relatively low (29 percent) and very high (54 percent) in the Kuchi population (the Kuchi people are Afghan Pashtun nomads). The corresponding figures for major regions range from 23 percent in the Southwest to 45 percent in the East and West-Central (see Figure 1).

The depth of poverty is a considerable 8 percent, which indicates that when averaged over the total population, there is an 8 percent gap between the poverty line and consumption levels (treating the nonpoor as having a gap of zero).

Alternatively, when focusing on the population of poor people, the ratio of the poverty gap to the headcount rate reveals that the average consumption level for poor people is 22 percent below the poverty line. The sum of all differences between the cost of basic needs (CBN) poverty line and the consumption level of poor people provides a measure of the total consumption shortfall. In terms of first quarter 2007 prices, this gap is about 28.4 billion Afghanis (or approximately 570 million U.S. dollars). The poverty gap index across residential groups reveals the same pattern as that of the headcount rate for urban and rural areas: the rural figure is almost identical to the national rate (8 percent), and the urban rate is lower (6 percent). Because the poverty gap is lower in urban areas, but in the same proportion to the headcount rate, the urban poor are on average just as poor as the rural poor. In contrast, the poverty gap for the Kuchi is relatively higher at 14 percent, which indicates that the Kuchi not only suffer from a higher prevalence of poverty, but the Kuchi poor are on average also poorer compared to other groups.

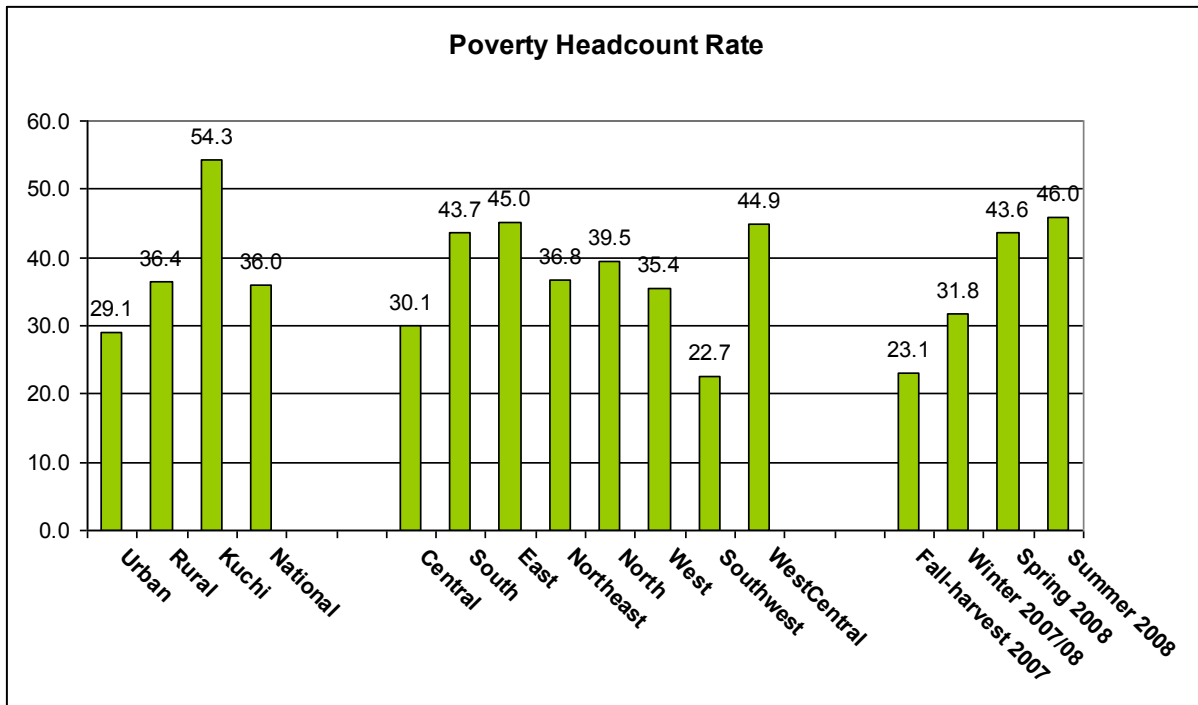


Figure 1: Poverty Headcount Rate in Afghanistan by Residence, Region, and Season

### ***Afghanistan National Development Strategy***

The Afghanistan National Development Strategy reports that many informal settlements around major cities have been built in order to accommodate migrant workers, returnees, and others. For years, these suburbs have been some of the largest neglected pockets of poverty. A number of recent studies have concluded that low-paying employment does not guarantee that citizens live above the poverty line. Due to poor daily wages many urban workers fall into the category of the “working poor.” Insecurity of employment leads to income irregularities and to a chronic shortage of money. Many urban poor households lack savings to pay for consumption during periods of irregular income and are forced to take short-term loans to pay for basic needs such as food and rent. Income fluctuation, job insecurity, and high indebtedness are core characteristics of a typical “poverty trap” for the urban poor.

## 6.0 Annex B: International Conferences

International conferences guide and stimulate local action by drawing upon the experience of worldwide cooperation without prejudice to national policies, objectives, priorities, and programs. These reflect the mandate of all the countries to address issues of universal concern and to support action by creating targets and validating issues. They give a common platform to discuss successes and bring forward solutions for the benefit of all participant countries.

### 6.1 Habitat II<sup>13</sup>

The Habitat II Agenda addressed two themes of equal global importance: “Adequate shelter for all” and “Sustainable human settlements development in an urbanizing world.” Human beings are at the center of concerns for sustainable development, including adequate shelter for all and sustainable human settlements, and they are entitled to a healthy and productive life in harmony with nature.

As to the first theme, a large segment of the world’s population lacks shelter and sanitation, particularly in developing countries. Access to safe and healthy shelter and basic services is essential to a person’s physical, psychological, social, and economic well-being and should be a fundamental part of our urgent actions for the more than one billion people without decent living conditions. The objective is to achieve adequate shelter for all, especially the deprived urban and rural poor, through an enabling approach to the development and improvement of shelter that is environmentally sound.

As to the second theme, sustainable development of human settlements combines economic development, social development, and environmental protection, with full respect for all human rights and fundamental freedoms, including the right to development, and offers a means of achieving a world of greater stability and peace, built on ethical and spiritual vision. Democracy; respect for human rights; transparent, representative, and accountable government and administration in all sectors of society; as well as effective participation by civil society are indispensable foundations for the realization of sustainable development. The lack of development and the existence of widespread absolute poverty can inhibit the full and effective enjoyment of human rights and undermine fragile democracy and popular participation.

The Habitat II Agenda brings to light that empowering all people, especially those belonging to vulnerable and disadvantaged groups (in particular people living in poverty), to participate equally and effectively in all activities related to human settlements is the basis for civic engagement and should be facilitated by national authorities.

The Habitat II Agenda provides a framework to enable people to take responsibility for the promotion and creation of sustainable human settlements.

### 6.2 Agenda 21<sup>14</sup>

The United Nations Conference on Environment and Development—the Earth Summit—held in Rio de Janeiro, Brazil, in 1992, produced Agenda 21. At that conference, the international community agreed on a framework for the “Sustainable Development of Human Settlements.” It reflects a global consensus and political commitment at the highest level on development and environment cooperation. Agenda 21 is a blueprint for sustainable development in a document format, with forty chapters in four sections. It deals with:

- Social and economic dimensions: developing countries; poverty; consumption patterns; population; health; human settlements; integration of environment and development.
- Conservation and management of resources: atmosphere; land; forests; deserts; mountains; agriculture; biodiversity; biotechnology; oceans; fresh water; toxic chemicals; hazardous radioactive and solid waste and sewage.

- Strengthening of the role of major groups: women; children and youth; indigenous peoples; nongovernmental organizations; local authorities; workers; business and industry; farmers; scientists and technologists.
- Means of implementation: finance; technology transfer; science; education; capacity building; international institutions; legal measures; information.

Local governments and their constituent communities have responsibility for implementation of the key objective of Agenda 21, sustainable development. Agenda 21 recognizes that local authorities construct, operate and maintain economic, social and environmental infrastructure, oversee planning processes, establish local environmental policies and regulations, and assist in implementing national and subnational environmental policies. As the level of governance closest to the people, they play a vital role in educating, mobilizing and responding to the public to promote sustainable development.”

Agenda 21 recommends that “Each local authority should enter into a dialogue with its citizens, local organizations and private enterprises and adopt a local Agenda 21.” Through consultation and consensus-building, local authorities would learn from citizens and from local, civic, community, business and industrial organizations and acquire the information needed for formulating the best strategies. The process of consultation would increase household awareness of sustainable development issues. Local authority programmes, policies, laws and regulations to achieve Agenda 21 objectives would be assessed and modified, based on local programmes adopted.”

Agenda 21 directs governments to combat poverty by enabling the poor to achieve sustainable livelihoods to support sustainable development. Governments can increase options for resource-poor people by developing adequate infrastructure, marketing systems, technology systems, credit systems and the like, and the needed human resources. Agenda 21 places high priority on provision of basic education and professional training; it advocates promoting economic growth and strengthening employment and income-generating programs. Agenda 21 describes guidelines for action that include:

- Consider strengthening and developing legal frameworks for land management, access to land resources and land ownership (in particular, for women), and the protection of tenants.
- Implement mechanisms for participation (particularly by poor people, especially women) in local community groups to promote sustainable development.
- Actively seek to recognize and integrate informal sector activities into the economy by removing regulations and hindrances that discriminate against activities in those sectors.
- Consider making available lines of credit and other facilities for the informal sector and improved access to land for the landless poor so that they can acquire capital and reliable access to natural resources.
- Provide the poor with access to fresh water and sanitation.
- Improve the collection of information on target groups and target areas in order to facilitate the design of focused programs and activities, consistent with the target group’s needs and aspirations.

## 7.0 Annex C: Case Studies

### 7.1 Case Study 1: Livelihood Opportunities: Government of India Programs<sup>15</sup>

The Swarna Jayanti Shahari Rojgar Yojana (SJSRY) program began implementation in December 1997 with 75 percent national funding and 25 percent state funding. The objectives of this program are:

- Gainful employment of the urban poor, unemployed, and underemployed.
- Setup of self-employment ventures and provision of wage employment.
- Community empowerment through creation of suitable community structures.
- Capability building of groups for women business owners and of women's thrift and credit societies.

SJSRY has two key components: the Urban Self-Employment Programme (USEP) and the Urban Wage Employment Programme (UWEP).

#### **Urban Self-Employment Programme**

USEP provides the following:

- Assistance to individual urban poor beneficiaries for setting up gainful self-employment ventures.
- Assistance to groups of urban poor women for setting up gainful self-employment ventures.
- Training of beneficiaries, potential beneficiaries, and other persons associated with the urban employment program for upgrading and acquisition of vocational and entrepreneurial skills.

The components of USEP are as follows:

- **Micro-Enterprises:** This component encourages underemployed and unemployed urban youth to set up small enterprises relating to servicing, petty business and manufacturing, for which there is a lot of potential in urban areas. Local skills and local crafts are encouraged for this purpose.
- **Development of Women and Children in Urban Areas (DWCUA):** This component is distinguished by the special incentives extended to urban poor women who decide to set up self-employment ventures in a group as opposed to individually. A group of urban poor women take up an economic activity suited to their skill, training, aptitude, and local conditions. Besides generation of income, this group strategy strives to empower the urban poor women by making them independent and also providing a facilitating atmosphere for self-employment.
- **Thrift and Credit Groups:** If groups of women set up thrift and credit groups, they are eligible for a lump-sum grant of 25,000 rupees (almost 26,000 Afghanis) as a revolving fund with a maximum loan amount of 1,000 rupees (approximately 1,035 Afghanis) per member.
- **Training:** In this component, members of families below the poverty line can receive free training for trades such as computer repair, beautician, driving, tailoring, electrician, or fashion design. This training helps the beneficiaries to find employment as well as set up a self-employment venture.

#### **The Urban Wage Employment Programme (UWEP)**

The UWEP program seeks to provide wage employment to prospective beneficiaries living below the poverty line within the jurisdiction of urban local bodies. UWEP does this by using beneficiaries' labor for construction of socially and economically useful public assets.

Under this program, there are no restrictions on educational qualifications. This program applies to urban local bodies having population less than 50,000 as per the 1991 Census. The prevailing minimum wage rate, as notified from time to time for each area, has to be paid to beneficiaries under this program.

## 7.2 Case Study 2: Making Services Work for the Poor in Indonesia: A Qualitative Consultation with the Poor at Eight Sites<sup>16</sup>

This case study demonstrates that in order to engage the poor, municipalities need special orientation, tools, and graphical methods that the poor can relate to. Graphics and pictures help in conveying queries.

Engaging the poor is a focused task. It is easy to miss the real poor while carrying out community-level consultations or research. The poor, who are at the bottom of the social ladder, rarely attend community meetings. They cannot afford to take time off from work, and often they are not invited to meetings. From past experience, the poor have no reason to trust outsiders and talk freely about their experiences, which are often very different from the glossed-over versions repeated by formal leaders. This could mean that there is a need to establish procedures that allow the poor to seek and obtain pro-poor services on their own without having to depend on community leaders or service providers for procedures to access services. Generally, poor people will not come forward to report poor service performance without concrete proof that it is worth their while to do so and that it is risk free.

–No one had asked the poor about their views regarding basic services before. They were at first surprised, and then expressive in their assessments and explanations. As work progressed, visual analysis tools attracted participants and attendance grew. No incentives were offered for participation and none was needed. The group sessions resembled enjoyable social events which lasted late into the evening.”

Source: Nilanjana Mukerjee, “Voices of the Poor: Making Services Work for the Poor in Indonesia” (World Bank, 2006).

To engage the poor in a qualitative consultation, four research teams of four people each spent four to five days in each community. Research methods in this study included the use of participatory analysis tools and focus group discussions with poor men and women, and in-depth interviews with individuals selected for case studies. A total of 450 people were consulted. The tools were designed to address the communication barriers described above and gather views, assessments, and experiences of the poor. The participatory analysis tools used in the consultation exercise are described below.

### **Welfare Classification**

The researchers used this tool to elicit local criteria by which people are classified as poor, middle class, or rich/well off. This tool produced site-specific descriptions of poverty, as well as the means to identify community households with whom to engage for further research activities. This was done to analyze local livelihood patterns using available village maps to identify areas where most poor households are clustered and livelihood activities in which they engage.

### **Social Mapping**

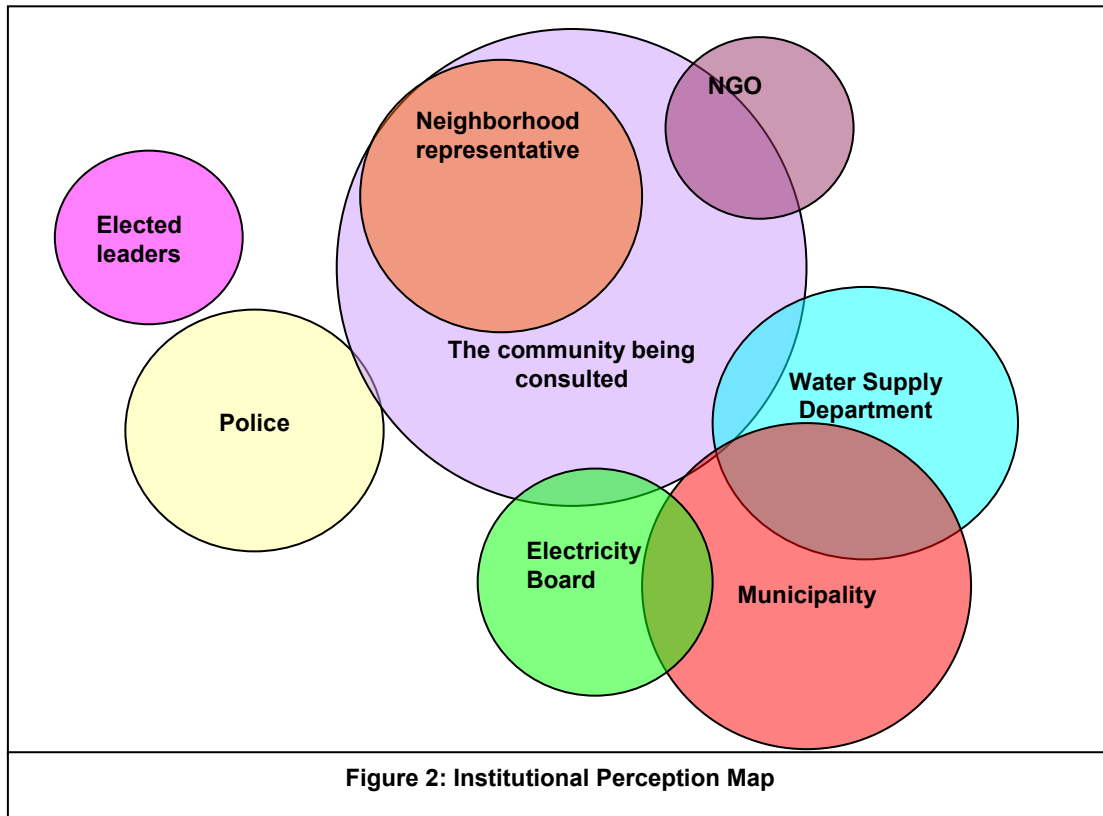
This activity located poor households in relation to other households, infrastructure, and other basic services available in the community on a map. The researchers used this map for more detailed analysis, such as the Health Transect Walk.

### **Health/Environmental Transect Walk**

Using the Social Map and a checklist for environmental observation, researchers walked around the community to assess environmental, health, and sanitation conditions; visit the poorest clusters of households; meet poor women and men; and set up appointments for group discussions or house-to-house interviews.

### ***Institutional Perception Map/Venn Diagramming***

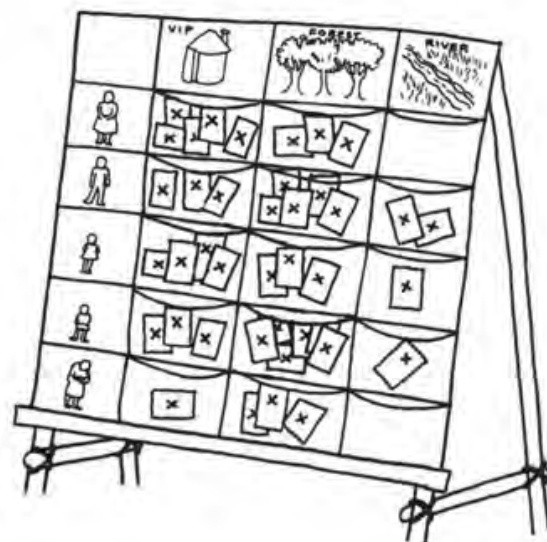
This tool helped the researchers understand the institutions that are important in poor people's lives as well as those that are irrelevant or unimportant to them, how much each institution affects their lives, and their reasons for their assessments. To create the Institutional Perception Map (see Figure 2), the researchers gave circular cards of different sizes to the community members participating in the consultation. Different sizes of cards represent the relative degree of importance (low, medium, or high, with the smallest card representing low, and the largest card representing high). The community members arranged these cards around a central card (that represents the participants themselves) on a large piece of paper or on the ground.



One dimension of the Institutional Perception Map is the accessibility, as perceived by the participants, of the institutions and institutional resources that affect their life. The participants placed each card a distance from the center that reflected this accessibility. For example, the participants felt that elected leaders were inaccessible and not very important to them.

### ***Pocket Voting***

The researchers used this tool to understand the choices available to the poor at each site with respect to providers of different types of services, and the extent to which the poor were using each type of provider. Pocket charts (see Figure 3 for a representative example) are a participatory method that can help to



**Figure 3: Pocket Voting**

examine an affected community's practices more closely and to monitor progress. This exercise can be conducted in various ways. A local tailor can make a pocket chart from cloth, or people can vote using cans or pots as the "pockets." The participants place drawings or photographs showing selected behaviors on the pocket chart. Each participant is asked to vote accordingly and as privately as possible. If privacy is not ensured, participants may change their vote to please others. After the votes are cast, they are collated and the results discussed with the group.

### Rating Scales

The researchers used graphic scales of standard length to elicit people's satisfaction levels with services. The two ends of the scale represented "no satisfaction at all" and "full satisfaction," with mid-points and quarter points also marked.

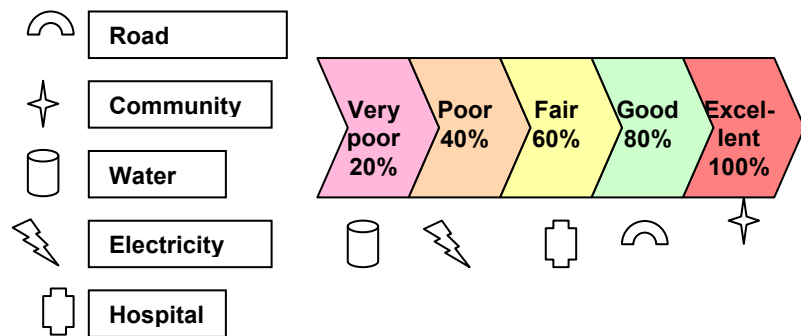


Figure 4: Rating Scale

### 7.3 Case Study 3: Integrated Poverty Alleviation Strategy in Santo André, Brazil<sup>17</sup>

Santo André, with a population over 600,000, is part of the São Paulo Metropolitan Area, one of the largest mega-cities in Latin America. Developed as a center for industrial production some 30 years ago, Santo André has been dealing with a large crisis, generated by the crash and substitution of its original economic model. As a result, during the last decade, the living conditions for the majority of the population have decreased, and a number of *favelas*, areas of extreme poverty, have appeared in the city. The municipality is promoting an Integrated Program of Social Inclusion as a strategy to alleviate poverty; its purpose is to establish new ways of managing local public policies addressing social inclusion.

Although the area's service sector has been expanding consistently in the last few years, the associated income and employment generation in this sector has not been sufficient to compensate for the losses in the industrial sector. In addition, the labor market has been characterized by increasing flexibility of labor contracts, higher staff turnover, and casual and informal labor.

Santo André's 123 slums house approximately 67,000 people or more than 10 percent of its total population. The majority of these slums have no basic infrastructure or services such as water, sanitation, drainage, and solid waste collection. The municipality intends to combine its sectoral strategies into an integrated poverty alleviation approach for the São Paulo Metropolitan Area in two stages.

#### Stage I

The approach was tested in four slum areas facing different socioeconomic and spatial conditions, together constituting a pilot intervention for around 4,000 families. The Integrated Program addresses decentralization and participatory management and is comprised of projects spearheaded by the municipal administration. Four priority groups were chosen to develop the Integrated Program of Social Inclusion as a pilot project. The four slums are Sacadura Cabral, Tamarutaca, Capuava, and Quilombo II. Their population is 16,042 (50.72 percent male and 49.28 percent female), with half the population being unemployed or underemployed. The income of many female-headed households (which constitute 57.6 percent of households in these slums) is less than half the minimum wage.

These areas were characterized by poor infrastructure, lack of access to basic services, and exposure of children and adolescents to crime. The objective of the pilot project was to integrate community participation in the local implementation of social policies, giving the



slum population an opportunity to develop social inclusion strategies through integrated activities.

Both the partner organizations and community agents participate directly in the Integrated Program's management tiers. In the case of urbanization, for example, the entire process is decided step by step, with the residents of these low-income neighborhoods collectively determining issues ranging from project schedules to naming of streets. The emergence and strengthening of community leaders has been demonstrated by greater participation by these communities in the city's debate and decision-making forums, with the community representatives making choices that take the gender perspective into account. The project has seen the improvement of basic services in some of the worst regions in the area. Micro-credit facilities have been made available to small-scale entrepreneurs, while health care is more accessible from community health agents appointed to provide medical attention within neighborhoods. Recreational facilities have also been made available, and open spaces have been designated as playgrounds. An index has been developed to measure social exclusion/ inclusion, and data are collected on a regular basis.

The results obtained from Stage I of the Integrated Program are:

- Development of a social mapping tool to monitor urban poverty at the city level.
- Administrative reform: the social inclusion program became an "inter-secretariat" and "inter-agency" activity under the leadership of the mayor. Resources for anti-poverty programs have been optimized and focused.
- Improvement of the life of the 16,000 inhabitants of four favelas through integration of all innovative and conventional national, state, and municipal programs. Improved water supply and sanitation, drainage, and home improvements are among the concrete benefits.
- Relationships between citizen organizations and local authorities were strengthened through the work of the "Nucleus for People's Participation."

### **Stage II**

The pilot will serve as a basis for a broader Integrated Action Plan to eliminate poverty and social exclusion. For this, authorities in Santo André decided to carry out a series of city consultations to support the development of an integrated, multisectoral approach for poverty alleviation. The consultations began in 1998, and the expected results include:

- A system of indicators on social exclusion/inclusion, poverty, and participatory governance
- A model for inter-sectoral and participatory management of municipal integrated policies and programs (including conceptual, methodological, and operational aspects).
- A map of social exclusion/inclusion based on participatory diagnosis in four slum areas. The map of inclusion/exclusion will use all available indicators, identifies the "best" and "worst" neighborhoods, and indicates where public investments should concentrate.
- An integrated municipal action plan for the eradication of poverty and social exclusion.
- A documented request for financial support to implement the action plan.
- The systematic documentation of the experience.
- An international roundtable to exchange experiences on integrated poverty alleviation programs.

City consultations have been carried out with the participation of concerned representatives from the public, private, civil, and voluntary sectors. The representatives involved in the consultations have included members of the municipal administration, Participatory Budget Council, Tripartite Sectoral Councils, and other local bodies. It is through the various municipal councils that members of the local community have become involved in the

process. City consultations have also allowed the participation of eight NGOs whose activities are directly related to the implementation of poverty alleviation policies and of eleven NGOs working with children and adolescents. Experts from the Brazilian Institute for Municipal Administration, the School of Government and the Social Policies Unit of the Catholic University of São Paulo, and the United Nations Centre for Human Settlements' Urban Management Programme have also been involved in the consultations.

#### 7.4 Case Study 4: Umeed Initiative, Gujarat, India<sup>18</sup>

In 1994, Saath, an NGO based in Ahmedabad, Gujarat, initiated its livelihood creation efforts, which aim to increase the earning capacities of the slum residents by enhancing their skill base and making critical interventions in the employment market. Saath, the Gujarat State government, and local bodies are jointly implementing Umeed, a program designed to assist marginalized and underprivileged youth (see Figure 5).

The program's first job training and placement center was established in Behrampura under the name "Ek Mouka Udaan," which was a joint venture between Saath and the Ahmedabad Municipal Corporation. Through this initiative, 1,200 youth found employment in 2005. In February 2007 the program was taken over by the government of Gujarat and renamed Umeed.

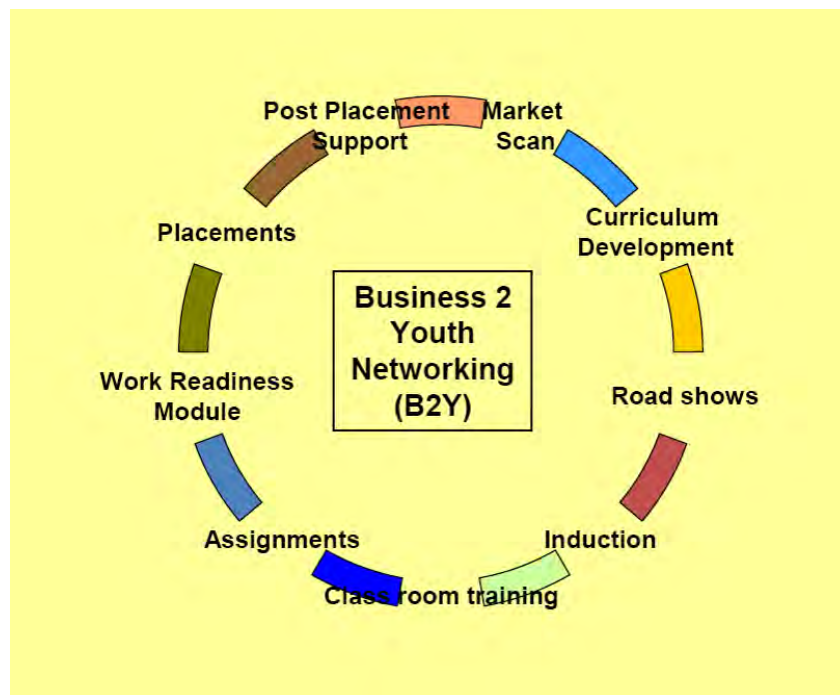


Figure 5: Umeed Process

Umeed has helped 783 slum-dwelling youth gain access to respectable and sustainable sources of employment and livelihood by providing professional training to the students to cater efficiently to the growing demands of the service sector. Of the trained students, 540 have been placed with monthly salaries ranging from 1,500 to 6,080 rupees (1,555 to 6,305 Afghani).

A total of forty-four Umeed job training and placement centers exist today, and the four Urban Resource Centers reach one million slum dwellers.

The Umeed training courses run for ninety days, and the components covered are life skills, basic computer knowledge, and English communications combined with a selected course. The courses offered are Information Technology Enabling Services (ITES), Computer Hardware, Customer Relations & Sales (CRS), Office Administration, Hospitality Management, Bed Side Patient Assistant (BSPA), Tally, Business Process Outsourcing

(BPO), Electrical, Driving, Logistics, Multi-Skill, Hotel Management, Automobiles, and Digital Photo Studio Work.

Umeed also operates a Livelihood Resource Center (LRC). Its aim is to support youth from underprivileged backgrounds as they navigate the professional world. The LRC targets students after they have finished their training and provides the youth with post-placement support.

### 7.5 Case Study 5: Government of Gujarat's Slum Networking Project

The Slum Networking Project, known as "Parivartan," is based on the concept of transforming the slum environment through a unique partnership between the Ahmedabad Municipal Corporation, NGOs, communities, and the private sector. The approach for provision of a package of basic infrastructure services at the household and slum level in an affordable and sustainable way, along with social components of providing employment opportunities, has evolved since it was first introduced in Ahmedabad as a partnership project with the private sector in 1995. (See Case Study 2 in Chapter 18 for more details.)

### 7.6 Case Study 6: Provision of Housing to the Poor, India<sup>19</sup>

Governmental agencies in India play a strong role in supporting the provision of housing for the poorer sections of society, including allocation of land. Over the years there has been a gradual shift in the role of the government from a "provider" to a "facilitator," ensuring access to developed land, basic services, building materials, technology, construction skills, and finance so that housing can be undertaken as a people's program. The facilitating approach aims at fostering strong public-private partnerships with the provision of appropriate incentives to the private sector; promotion of housing finance institutions; propagation of alternate building materials and technologies; and extension of support to NGOs, community-based organizations, cooperatives, and the private sector.

In the past, the government of India and state governments used a *sites and services* approach to housing development. Under sites and services, government agencies provided basic infrastructure facilities (e.g., drinking water, internal roads, approach roads, drainage, community toilet) to develop layouts. The beneficiaries also received construction assistance for erecting a small shelter.

The *permanent housing program*, which has replaced sites and services, was initially confined to those beneficiaries who could take advantage of loan facilities. Later, the government of India made several modifications to the program to address the housing needs of different target groups. The broad elements of the government of India's approach to housing the poor are:

- Special programs or targeted subsidies to the poor and vulnerable groups
- Loan assistance to governmental agencies and beneficiaries at a below-market interest rate for housing and at a normal rate for infrastructure through the Housing and Urban Development Corporation (HUDCO)
- Creation of housing assets as part of employment and income generation programs
- Promotion of cost-effective and environmentally friendly building materials and technologies
- Creation of an enabling environment for private sector initiatives.

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<sup>2</sup> Stefan Schütte, “Livelihoods of the Urban Poor in Afghanistan” (2005).

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## Chapter 18: Services for Informal Settlements

**Summary:** This chapter explains the need for services in informal settlements and the initiatives and approach to make basic services available to informal settlements. The chapter explores the community participation mechanisms that support the provision of services and build the capacity of local people.

**Objectives:** The objectives of this chapter are to understand the issues of service provision in informal settlements by:

- Explaining the need for improvement in services in informal settlements
- Explaining the barriers to service provision in informal settlements
- Presenting the concepts that build support for improving services such as policy, legal framework, and identification of need for services
- Studying relevant initiatives that have provided services for informal settlements.

### 1.0 Services for Informal Settlements

In a planned city, the city planner can estimate how many people live in the city, where they live, and what their daily needs are. In a planned scenario, such as in a master plan, a city can project its pattern of growth and make allocations for the future. However, it is challenging to allocate appropriate resources and make provisions when the relevant numbers are unknown. A vast majority of urban residents in Afghanistan are living in “informal settlements.” Informal settlements, often referred to as squatter settlements or shanty towns, are dense settlements comprising communities housed in self-constructed shelters under conditions of informal or traditional land tenure. As such, they are characterized by a dense proliferation of small, makeshift shelters built from diverse materials; degradation of the local ecosystem; and severe social problems. These urban residents in informal settlements are not addressed in the existing outdated municipal master plans or maps.

The indicators database for the United Nations’ Millennium Development Goals estimates that 4.95 million people lived in informal settlements in 2006, as compared to 2.58 million people in 1991. In Kabul, about 68 percent of houses are in informal settlements, with 49 percent on flat land and 19 percent on slopes.

Afghanistan has suffered from more than three decades of war. The destruction of existing infrastructure, along with the standstill in housing production and insufficient formal housing delivery mechanisms, has added to the difficult situation. The housing supply has not been able to match the influx of people migrating to cities for better earning opportunities.

The emergence of informal settlements results from need for access to certain benefits such as work availability, easy transportation, and location near resources. Another factor leading to the spread of these settlements is the presence of community ties such as friends and family or other sources of compassion that allow people in similar distress to huddle together for survival. This implies that the location of the informal settlements has a basis. This basis is an important factor in the process of deciding whether the city can move residents of informal settlements to locations with better infrastructure or there is a need for in situ upgrading (providing services to existing informal settlements without displacing the population).

### 2.0 Need for Improvement of Services in Informal Settlements

Informal settlements represent a significant percentage of the urban housing stock in Afghanistan and tend to accommodate the most vulnerable groups (i.e., the low-income households and recent migrants). While the municipalities undertake the time-consuming

process of facilitating better housing, services, and infrastructure, the inhabitants in the informal settlements need to fulfill essential daily necessities such as excretion and personal hygiene. The unhygienic conditions that arise from the absence of facilities for these basic necessities lead to unhealthy conditions and environmental hazards. For example, the shallow wells used for drinking water are often polluted by human waste. The unhealthy conditions in the settlements emphasize the need for improvement of services in informal settlements.

The high population density of urban areas is characterized by inadequate sanitation and by overcrowding (with as many as six people sharing a room in informal areas), which leads to unhygienic living conditions and poor health. The diarrhea and disease caused by unsanitary urban environments, airborne pathogens (microorganisms that cause disease, such as bacteria or viruses), and indoor air pollution (from use of traditional heating appliances and one-room living, which affects more than 80 percent of vulnerable households)<sup>1</sup> contributes to Afghanistan's high (under-five) infant mortality rates.<sup>2</sup>

When a large segment of the cities require upgrading, it is overwhelming even to identify where to start. Further, when the communities have poor access to all services, deciding which service is most needed is challenging. The collection of population data, mapping, and surveys are a good place to start. This also helps in identifying the needs for services.

The challenges of service provision in informal settlements are discussed in the following section.

### 3.0 Barriers to Service Provision in Informal Settlements

Afghan municipalities are responsible for basic services in their jurisdiction. The services are typically roads, drainage systems, solid waste collection and disposal, and sanitation. However, the informal settlements that have arisen in response to the coping strategy of people in the aftermath of war are not accounted for in the municipal master plans. The unaccounted-for nature of these settlements is the foremost challenge.

The additional barriers to providing services to informal settlements are:

- The house rents in the cities have become a burden for the displaced or migrant population. Unable to afford the rents, the displaced people have encroached on public land. Many of the squatter settlements are in the hilly areas, where providing services is difficult due to the terrain.
- Providing services in encroached settlements with questionable legal possession might support land grabbing, encroachment, and market-driven eviction. For example, if a settlement is upgraded, people who have power and want to make money might threaten the owners to sell the land at a low price to them. In this case, the owner is forced to find another informal squatter settlement in which to live, while the upgraded settlement is sold for a higher price to someone else.
- Upgrading infrastructure increases rents and displaces the poor, and thus fails to benefit the urban poor.
- Due to the absence of legal land tenure and property rights, municipalities lack comprehensive and up-to-date information on the numbers of people for whom they need to plan.
- The illegal nature of informal settlements leads to the potential threat of eviction, which discourages people from improving the infrastructure.
- The general unplanned nature and proximity of the houses to each other, and the lack of building standards, prevent the reach of services and provision of roads and footpaths.
- The spatial rearrangement for service provision requires extensive intra-community negotiations, which are time consuming and process oriented.



- Poor financial condition of the residents, lack of assets, and access to credit for home improvement from banks is virtually nonexistent.
- The residents' perception that the municipality might develop informal areas and in the process evacuate the residents from their current locations leads to the fear that improvements made by the residents themselves will be a waste.
- Urban poverty and lack of income sources prevent homeowners from upgrading the conditions.
- Municipalities lack policies or have lopsided policies that fail to support upgrading and provision of services in informal settlements.
- Municipalities are hampered by corruption and poor governance.
- Lack of education supports unfounded fears (e.g., that the officials in the municipality will not help, or that the residents will invite attention from officials and get themselves into further trouble) and the basic inability or lack of understanding as to how to reach out to municipalities for support or access benefits and services.
- The perception that the urban poor cannot pay for services hinders municipalities from planning for providing services. On the contrary, the urban poor actually pay a high rate for essential services from the market and receive lower-quality service.

To ensure that the informal settlements benefit from service provision, municipalities need to undertake appropriate analysis of the barriers and address them.

## 4.0 Support for Improving Services

Addressing the abovementioned barriers and challenges requires interventions to enable the municipality to provide services in informal settlements. Many perceptions and fears are unfounded and perpetuated by the corrupt to exploit the poor. Strong leadership, appropriate policy, community participation, and binding legal arrangements can overcome these negative perceptions and unfounded fears, and ensure the provision of services in informal settlements.

### 4.1 Political Support

Political support ensures that the local population and stakeholders alike will align with the goal and work toward achieving the desired results. Political support is a strategic intervention for sustaining initiatives. It ensures the commitment of municipal agencies to the process. Political support protects an initiative from being adversely affected by the local powerful and influential people. In local governments the decisions about budget allocations and resource allocations have to be approved by the councils or representatives of the people. Without this allocation of resources, the municipalities cannot take projects further.

To create political support, someone has to approach the leaders about the issue, along with relevant data and solutions. The leaders also have to be convinced that those solutions can benefit the people. The people judge the effectiveness of their leaders by the improvements they make. This affects the future of the political parties as well. However, to ensure improvements in informal settlements no matter which political party is in power, policy and legal frameworks are required.

### 4.2 Policy and Legal Frameworks

Both the policy and legal framework create ground rules for enabling the improvements. Afghan municipalities currently have no binding provisions or guidelines to provide facilities for informal settlements.<sup>3</sup> A policy provides the principles to guide decisions and achieve rational outcomes regarding service provision to informal settlements. For example, providing the service might require a different set of standards from the rest of the city. It is important to follow this set of standards consistently in the informal settlements. Policy helps municipal

agencies deal with the issue of service provision in informal settlements vis-à-vis the situation of not having any agency taking ownership and there being no principles regarding the action needed. Policy can guide relevant action for identifying which settlements will qualify for in situ upgrading; or what conditions identify a current settlement as at risk, unsafe, or difficult to service and will require resettlement to another area; or what action will be taken in areas where the people are well settled but need better services.

For example, municipalities can supply services in bulk and the internal distribution can be community driven for water, electricity, or even distribution of biogas for cooking from the community toilets. However, the policy has to ensure that the municipality is not institutionalizing informal settlements or accepting them as a norm but committing to improvement in people's living environment. For example, a resident might argue that since he has been receiving water supply from the municipality in his squatter settlement, he is the owner of the land.

The legal framework supports the policy decisions, helps in implementing the policies, and ensures that the benefits are enjoyed by the rightful people. The legal framework helps in making decisions regarding land acquisitions or property rights. For example, a municipality may pass a law that forbids the sale of property for ten years after upgrading the settlement. Or there could be a policy that supports community land tenure and a legal document that institutionalizes the arrangement. In this example, the community could approach banks to access loans for building a road using this community land tenure as a security. Also, a legal framework can empower a local community to make decisions regarding sharing of resources.

### **4.3 Creation of the Right Environment**

To create a favorable environment for upgrading or service provision, municipalities have to address the barriers (see Section 3.0). The task of providing services is daunting and almost impossible for the government to undertake on its own. Service provision requires community participation, stakeholder coordination, creation of a politically favorable environment, and assistance from the private sector. Service provision also requires mechanisms that support microfinance or mechanisms that enable the community to form a separate body to receive loans and ensure that the banks support the endeavors. The efforts should not further support illegal activities but instead harness positive change. Additional components of a favorable environment for upgrading and service provision are committed action, information, surveying and mapping, and understanding of the realities on the ground. For example, the communities do not have the skills required for forming a joint agency or building and maintaining a toilet facility; hence, the right kind of capacity building has to be made available to them. Thus, creating the right environment for the upgrades is crucial to the success of service provision in informal settlements.

## **5.0 Participatory Approach for Service Provision in Informal Settlements**

Community action and participation has spearheaded change and can be a solution for improvement in services. Participation does require investment of a great deal of time, thought, and effort in building organizational, financial, managerial and negotiation skills, and capacities of communities as well as their leadership. By the articulation of their problems and survival strategies, and the interaction with local officials, the urban poor begin to explore possible solutions, test out options, and see themselves as important agents of change.

Mobilizing the community and communicating with the urban poor needs special tools, which are discussed in Chapter 17, Urban Poverty Alleviation. Forming cooperatives, federations, and credit groups helps communities to find solutions together with the municipalities. For example, municipalities can provide land, secure tenure, capital costs, water, and electricity, and the community can design, construct, and maintain toilet blocks or other facilities.

Also, one settlement community can learn from another and emulate successful practices. When communities can organize themselves at the grassroots, the upgrading or improvements in infrastructure and services are easier to implement. Case Study 1, “Community Toilets, Pune,” described in Annex A, discusses successful implementation of a sanitation program with community participation.

### 5.1 Data Collection, Mapping, and Surveys

Collection of population data, mapping, and surveys of settlements are critical to the process of service improvement in informal settlements. Using the abovementioned tools and encouraging community groups to collect all details related to housing, sanitation, water and income at the individual, household, and settlement level is a starting place. Municipalities can play a facilitating role in mobilizing communities to take action.

The central idea is that communities themselves must be involved in collecting this information about themselves and using these findings to explore solutions and negotiate with relevant authorities. Moreover, the activity of collecting and processing data by and for a community generates the understanding that many problems can be dealt with only through collective effort. Thus, data gathering and analysis are not detached, mechanical exercises done by third-party professionals. The settlement dwellers themselves decide what information is needed and for what purpose, and in this process, surveys and other types of data gathering become powerful tools in strengthening group bonds.

With detailed information about their settlements in hand, the communities soon discover the power of this information when they are able to speak from a position of knowledge to which authorities have less or no access. Consequently, they are in a much stronger position to negotiate for their rights with the government.

### 5.2 Financial Strategies

An effective financial strategy is to encourage formation of community credit groups. The members can start saving on a daily basis to provide credit for crises, consumption loans, and income-generation loans through this credit group.

This financial strategy fulfills two main objectives: (1) it builds the asset base of communities with savings that can eventually be used to act as collateral or a down payment when applying for a housing or service improvement loan, and (2) it establishes a regular habit of savings, which demonstrates creditworthiness and financial reliability. These are necessary to prove when applying for a loan from formal institutions.

This community credit group can provide support to a member in crisis, which supports community ties and builds social cohesion. Further, formation of a credit group builds the financial capacity of the community members, which goes a long way in building their confidence.

The Ahmedabad Municipal Corporation (AMC) has launched a variety of programs to provide infrastructure services to slum dwellers, such as the 90-10 Toilet Scheme and Nirmal Gujarat Sanitation Programme, that aim to improve poor households’ access to safe sanitation. Similarly, another program aims to help slum residents acquire a “No Objection Certificate” (NOC) with a payment of 500 rupees (570 Afghanis). With an NOC, slum residents can apply for legal individual sewage and water connections to their house. Based on the applicability of the programs and the needs of residents, the Mahila Housing Trust (MHT), an Ahmedabad-based nongovernmental organization, serves as a community mobilizer, provides information to the slum residents, and motivates and mobilizes them to access the benefits of the program. MHT also supports residents’ access to microfinance for water and sanitation, encourages formation of community-based organizations (CBOs), and provides training to these CBOs as well as residents for monitoring the program efficiently. MHT has also built the capacity of the CBOs so that they can interface with the urban local bodies, and procure and maintain improved infrastructure services. See also Case Study 2, Ahmedabad Electricity, in Annex A.

### 5.3 Training of the Community Groups in Construction and Service Provision

The community credit group members can receive further training in construction, building of roads and toilet blocks, and pipe laying. This builds their technical as well as financial skills such as learning to make forecasts based on savings and credit behavior, learning about costing of materials, maintaining detailed accounts of cash income and flow, and so on. Such activities enhance their skills, and they can find appropriate jobs based on this learning experience.

### 5.4 Approaches to Upgrading Informal Settlements

#### *In Situ Upgrading*

Because it does not displace the population, in situ upgrading tends to retain the linkages of community, work-place relationships, and proximity to resources that caused the informal settlement to form. Even though in situ upgrading does not require residents to move to a new area, it may still require spatial rearrangement and resizing of roads, footpaths, and lot size.

#### *Resettlement*

When the conditions are inappropriate for the informal settlement to be allowed to exist at the same location due to safety considerations or potential risk, the settlers can be relocated to another location where appropriate infrastructure and services have been provided.

#### *Regularization of Well-Settled Areas*

Certain informal settlements have appropriate safety and community linkages, good size of houses, and facilities such as roads and basic infrastructure. Such settlements can be regularized by provision of tenure rights and bulk services for distribution through community arrangements.

#### ***What did we learn about in this chapter?***

- *The need for service improvements in informal settlements*
- *The barriers to service provision in informal settlements*
- *The political, policy, and legal support needed to provide services in informal settlements*
- *The participatory approach and community involvement that are successful in providing services to informal settlements*
- *The tools for enabling communities to identify their needs; map their present conditions; and build both financial and technical capacities*
- *Successful community participation initiatives for service provision in informal settlements.*

## 6.0 Annex A: Case Studies

### 6.1 Case Study 1: Community Toilets, Pune<sup>4</sup>

Pune has 2.8 million inhabitants, two-fifths of whom live in more than 500 –slums.” Various local government bodies such as slum boards, housing authorities, development authorities, and municipal corporations are meant to provide and maintain public toilets in these settlements. But provision is far below what is needed; indeed, for much of the 1990s, the city of Pune failed to use much of the budget allocated for public toilets. In addition, in those settlements for which toilet blocks were built, there was no consultation with the inhabitants regarding the location, design, and construction, and the agencies responsible for construction and maintenance had little accountability to the communities in which they were located. There was no sense of ownership by local communities. The quality of toilet construction (undertaken by contractors) was often poor and the design often inappropriate—for instance with limited water supplies and no access to drainage. The municipal staff, whose job was to clean the toilets, did not do so—or communities had to pay them extra to do the job for which they were already being paid. The toilet blocks often fell into disrepair and disuse, and the space around them became used for open defecation and garbage dumping.

#### ***Community Participation for Better Sanitation***

Charitable trusts and other Indian nongovernmental organizations (NGOs) have built better-quality, better-maintained public toilets, and while these work well in public places such as railway stations and bus stops, the prices charged—typically one rupee (one Afghani) per use—make them too expensive for slum communities.

In 1999, the Municipal Commissioner in Pune sought to greatly increase the scale of public toilet construction and to ensure that more appropriate toilets got built by inviting NGOs to make bids for toilet construction. Between 1992 and 1999, only 22 toilet blocks were constructed; the new program planned to build 220 blocks during 1999–2000 and another 220 during 2000–2001. The contracts were not only for building toilets but also for maintenance. In awarding contracts, priority was given to settlements with more than 500 inhabitants and no toilet facilities and, after these, to areas where facilities were so dilapidated that they needed replacement. Bids from eight NGOs were accepted, after a review of their track record.

One of the NGOs that received contracts, the Society for Promotion of Area Resource Centers (SPARC), had long had a partnership with two people’s organizations, the National Slum Dwellers Federation and Mahila Milan (a network of savings and credit groups formed by women slum and pavement dwellers). The three institutions had been working in Pune for five years prior to this, supporting a vibrant savings and credit movement among women slum dwellers, which had included experiments with community toilets.

This alliance of three institutions became one of the principal contractors and constructed 114 toilet blocks (with a total of more than 2,000 toilet seats and 500 children’s toilet seats). The institutions designed and estimated costs for the project. The city provided the capital costs, and the communities developed the capacity for management and maintenance.

In many places, the inhabitants were involved in the design and construction of these toilets. Some women community leaders took on contracts themselves and managed the whole construction process, supported by engineers and architects from SPARC. It took a while for the (usually) illiterate women in each community to develop the confidence that they could manage this process, but eventually they were successful.

## Design

The design of the toilet blocks introduced several innovations:

- Unlike the previous models, they were bright and well ventilated, with better quality construction (which also made cleaning and maintenance easier).
- They had large storage tanks to ensure that there was enough water for users to wash after defecation and to keep the toilets clean.
- Each toilet block had separate entrances and facilities for men and women.
- A block of children’s toilets was included, in part because children always lose out to adults when there are queues for a toilet, in part because many young children are frightened to use conventional latrines. The children’s toilets were specially designed for children’s use—including smaller squat plates, handles (to prevent overbalancing when squatting) and no large pit openings.
- In many toilet blocks, there were also toilets designed for easier use by the elderly and the disabled.
- Toilet blocks also included a room where the caretaker and their family could live—which meant lower wages could be paid for maintenance, thus reducing the running costs.
- In some toilet blocks, where there was sufficient space, a community hall was built; small fees charged for its use helps cover maintenance costs, and having a community hall right on top of the toilets also puts pressure on the caretaker to keep the complex clean.

## Cost

Despite these innovations, the actual cost of the toilet blocks was 5 percent less than the Pune city government’s costing. The Alliance of SPARC, the National Slum Dwellers Federation, and Mahila Milan promoted a system whereby each family pays for a pass costing 20 rupees (21 Afghani) a month. This is much cheaper than the 1 rupee (1 Afghani) per use charged by other public toilets, which for a family of five would cost 150 rupees (156 Afghani) a month even if each household member only used the toilet once a day.

- This program brought about a reconfiguration of the relationship between the city government, NGOs, and communities.
- The city government recognized the capacity of community organizations to develop their own solutions, supported by local NGOs.
- The city authorities changed their role from serving as a toilet provider to setting standards, funding the capital cost of construction, and providing water and electricity.
- This program displayed transparency and accountability. Weekly meetings brought all stakeholders together to review progress and identify problems to be addressed. All aspects of the costing and financing were available for public review.
- The access that community organizers had to senior officials, through the new relationship that was formed, kept petty corruption in check.<sup>5</sup>

## 6.2 Case Study 2: Ahmedabad Electricity – the Slum Networking Project

The Ahmedabad Municipal Corporation (AMC) initiated the Slum Networking Project (SNP) in 1998 in collaboration with local NGOs. The scope of the SNP involved an integrated approach to improving the physical infrastructure of slums in the city by undertaking a collaborative approach with city utility providers, urban local bodies, community organizations, and key individuals. This case study provides specific insights into the provision of electricity service to slum consumers.

Torrent Power AEC Limited (AEC) transmits and supplies power to some 1.26 million consumers in the Ahmedabad and Gandhinagar area, covering 293 kilometers. AEC was interested in developing a pilot project that addressed distribution losses to slum settlements

in and around Ahmedabad. Urban and peri-urban Ahmedabad contains a significant population living in slum settlements that do not have access to legal electricity connections.

The main reasons for this lack of service are:

- The lack of tenure rights required to obtain a proper electricity connection.
- AEC's lack of willingness to provide power services due to perceived high technical and non-technical losses in service provision. (Technical losses refer to electrical energy lost due to technology or equipment.)
- Utility staff had doubts about the billing and collection process.
- The general difficulty in construction and commissioning of electricity services in dense areas that are not properly zoned or marked.

### ***The Institutional Process***

AEC and AMC were well aware that there were a number of illegal connections and unsafe services across many settlements. AEC and AMC recognized that dealing with increased theft and unsafe electrification among slums and informal settlement dwellers was essential and high priority. AMC developed a process to screen and prioritize settlement areas where there was a consensus that improved service was beneficial—criteria included the overall livelihood level, income level, and willingness to follow rules and abide by AEC service standards.

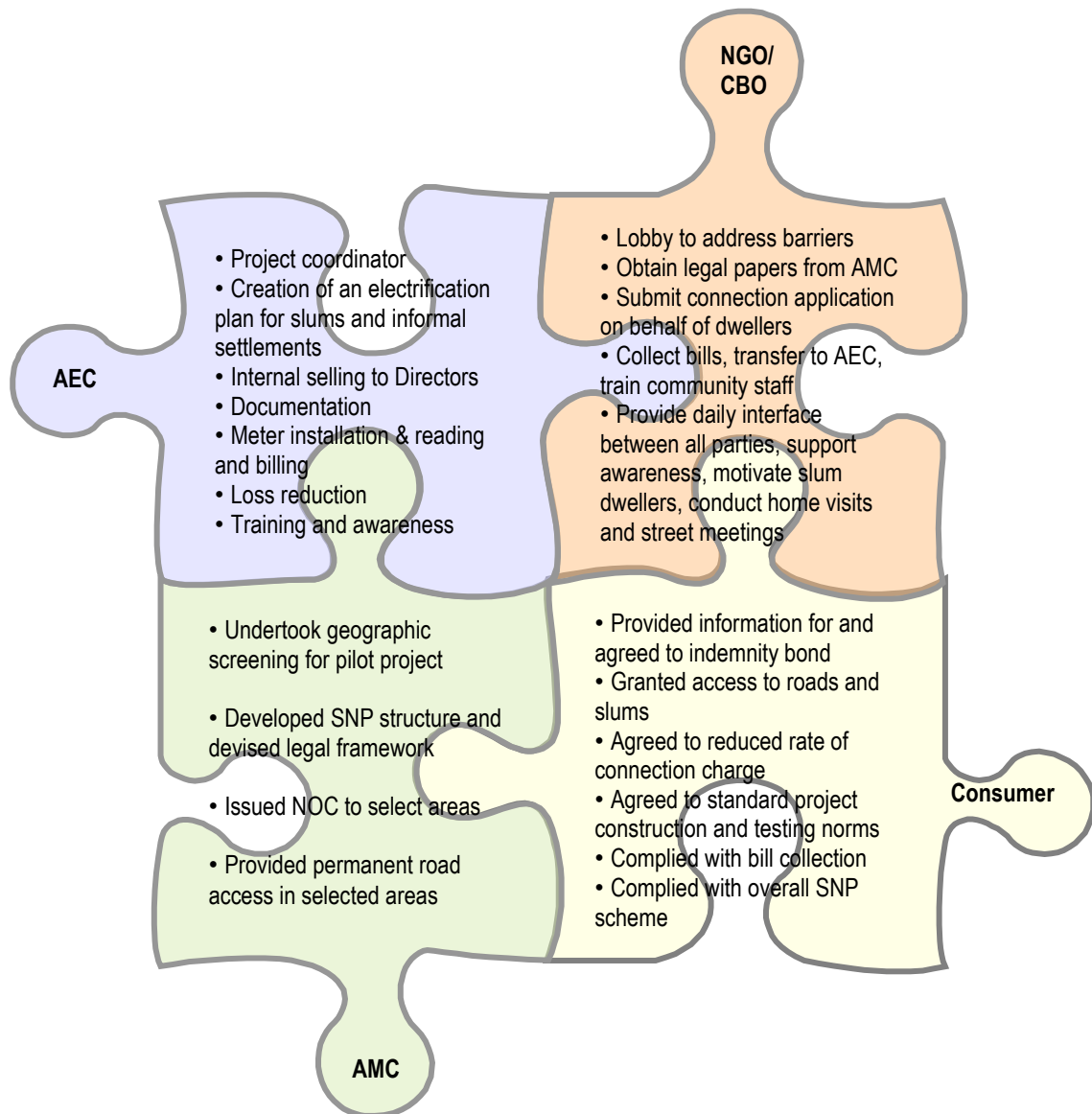
The main barrier for the slum settlement dwellers was meeting the prerequisites for obtaining a legal electricity connection from AEC. The multiple and simultaneous steps involved were:

- AMC screened each slum and informal settlement to assess whether it was built on public or private lands and assess whether the effort in that particular slum could be part of another AMC program under which AMC and AEC agreed to work in public land areas that are likely to be designated as slums for the near future.
- AMC identified individual areas, exempted them from any possible eviction for at least ten years, and provided a list of them to AEC for prioritization and inclusion in the SNP.
- NGOs (Self-Employed Women's Association and Saath) mobilized efforts to get AEC and AMC to agree on the benefits and desire to extend power supply with certain conditions.
- AMC drafted a viable No Objection Certificate (NOC), a legal instrument issued by AMC to trigger compliance with AEC's requirements.
- Once the Slum Networking Project achieved initial success with improved electrification, AMC and the partner NGOs decided to scale up the project. AEC took the initiative to expand the program and replaced the standard NOC with an indemnity bond that addressed the utility's concerns, including specifying that (1) service would be disconnected if all terms and conditions of supply were not met, and (2) the presence of an electricity connection in no way affected the land tenure status of the consumer.
- Conducted an internal project feasibility study that covered connection charges, capital costs, operation and maintenance costs, site construction issues, and financial parameters including billing.

### ***Collection and Investment Payback***

During the pilot project design, surveys showed that AEC's standard electricity connection charges were a legitimate barrier to customer affordability. This constraint was overcome in the pilot project by grant funds from USAID/India. The pilot project was followed immediately by large-scale implementation and internalization of the pilot project by AEC management. Based on the pilot experience, AEC made extensive changes to its internal organizational structure, including staff bonus incentives, increased engineering support, and program monitoring.

Figure 1 explains the activities of the organizations and community and the complementary nature of delivering shared responsibility that made the initiative possible.



**Figure 1: Complementary Role of AMC, AEC, NGOs/CBOs, and Consumers in Making the Initiative a Success**

### **Achievements**

The SNP's main achievements have been:

- An integrated slum upgrade (physical rehabilitation of sanitation and toilets, energy, and water).
- For providers reduction in commercial electricity and water loss; regularization and legalization of users; and development, over the long term, of a commercially viable consumer base.
- Design and then drafting of an institutional framework that works. Getting a NOC from AMC for tenants was essential.
- Use of a connection subsidy incentive to gain initial acceptance from demonstrably low-income consumers. AEC negotiated a reduced electricity connection rate for slum consumers, approximately 50 percent lower than standard published rates of some 6,000 to 9,000 rupees (6,200 to 9,300 Afghani). In some cases a 75 percent reduction in rates



was achieved. After the initial pilot study phase, the connection charge was standardized uniformly across all slum areas at 5,200 rupees (approximately 5,400 Afghanis).

- Execution of the health and hygiene element (sanitation) was critical to getting overall consumer buy-in to catalyze the whole project. As part of the overall SNP, some 11,000 slum households received individual-level water supply and basic sanitation (individual toilets).
- Improvement in power service delivery. Fewer interruptions and increased hours of service reinforced success, leading to the ultimate expansion of the pilot project.
- Willingness to look at slum consumers as “real” consumers,” thereby creating a legitimate new consumer group—and increasing the number of consumers receiving a bill.

### **Project Expansion**

Once the commercial viability of the pilot project was established, AEC’s management was interested in moving into large-scale implementation. AEC’s internal organization changes now include:

- A single window at the company office that is dedicated to slum consumers—for application form review, connection paperwork, billing and collection, and registration of installment payments.
- Project site offices to expedite connections.
- Expanded outreach to consumers targeted to illegal connections and loss reduction. As of early 2006, AEC claims to have connected 200,000 slum dwellings in its service area.

Since the SNP, the single biggest change in the legal environment governing new electricity connections is the Indian Electricity Act of 2003. Under this act, power distribution utilities have a “duty to supply on request” and hence must provide a legal electricity connection to any potential consumer who demonstrates proper proof of residency. Hence, utilities can no longer discriminate against consumers based on their land tenure status. Some privately owned and operated distribution companies also require an NOC from the local urban body or municipality or an “indemnity bond” that declares that the electricity connection has no legal implications on the consumer’s land tenure status.

### **6.3 Case Study 3: Bangalore Water Supply and Sewerage Board – Connecting the Slums<sup>6</sup>**

Bangalore Water Supply and Sewerage Board (BWSSB) provides water and wastewater services to Bangalore (India’s fifth largest city) with a population of about six million. BWSSB, which was formed in 1964 by Karnataka State statute, has an obligation to provide drinking water and sanitation services to every citizen in the metropolitan area of Bangalore.

Some 400 officially recognized slums house 20 percent of Bangalore’s population. These slums coexist with well-developed areas. Most of these areas have large deficiencies in water supply, environmental, and sanitation infrastructure services. In addition to “recognized slums,” a large number of poor households live in mixed settlements and in “un-recognized” low-income settlements.

Three events set the stage for increased BWSSB interest in increasing and improving water service levels in slums and informal settlements:

- **Master Plan Results:** BWSSB management commissioned a master plan effort, resulting in a pilot project designed to assess whether slum and informal consumers would pay for metered supply.
- **Increased Commercial Discipline:** The municipality stopped paying for public water taps, triggering BWSSB to rationalize supply quality and begin converting a culture of free water through public taps to a more commercially sound structure of metered supply.

- **Natural System Expansion:** As the city expanded, new construction of infrastructure continued with municipal funding. The construction of a “packaged program” of piped network was carried out on a large scale by three contractors, resulting in distribution mains being installed at virtually every major street. BWSSB took this opportunity to address demand through legal, metered connections rather than be forced to confront illegal taps and unauthorized suppliers.

Next we discuss the starting conditions in more detail, as they shed light on the institutional barriers and process issues.

### ***The Institutional Process***

BWSSB undertook a master planning project with Australian AusAID funding during the 2000-2002 time frame. The project supported a community development component to develop a roadmap and define success factors for increasing service levels and coverage among the city’s slums. The project aimed to examine and test options for improved water and sanitation services to the urban poor on a pilot basis. Three slums were selected as demonstration sites. Each pilot project provided BWSSB with an opportunity to plan and implement innovative options for delivering services to the urban poor and work out suitable strategies to reach these disadvantaged communities.

### ***Approach***

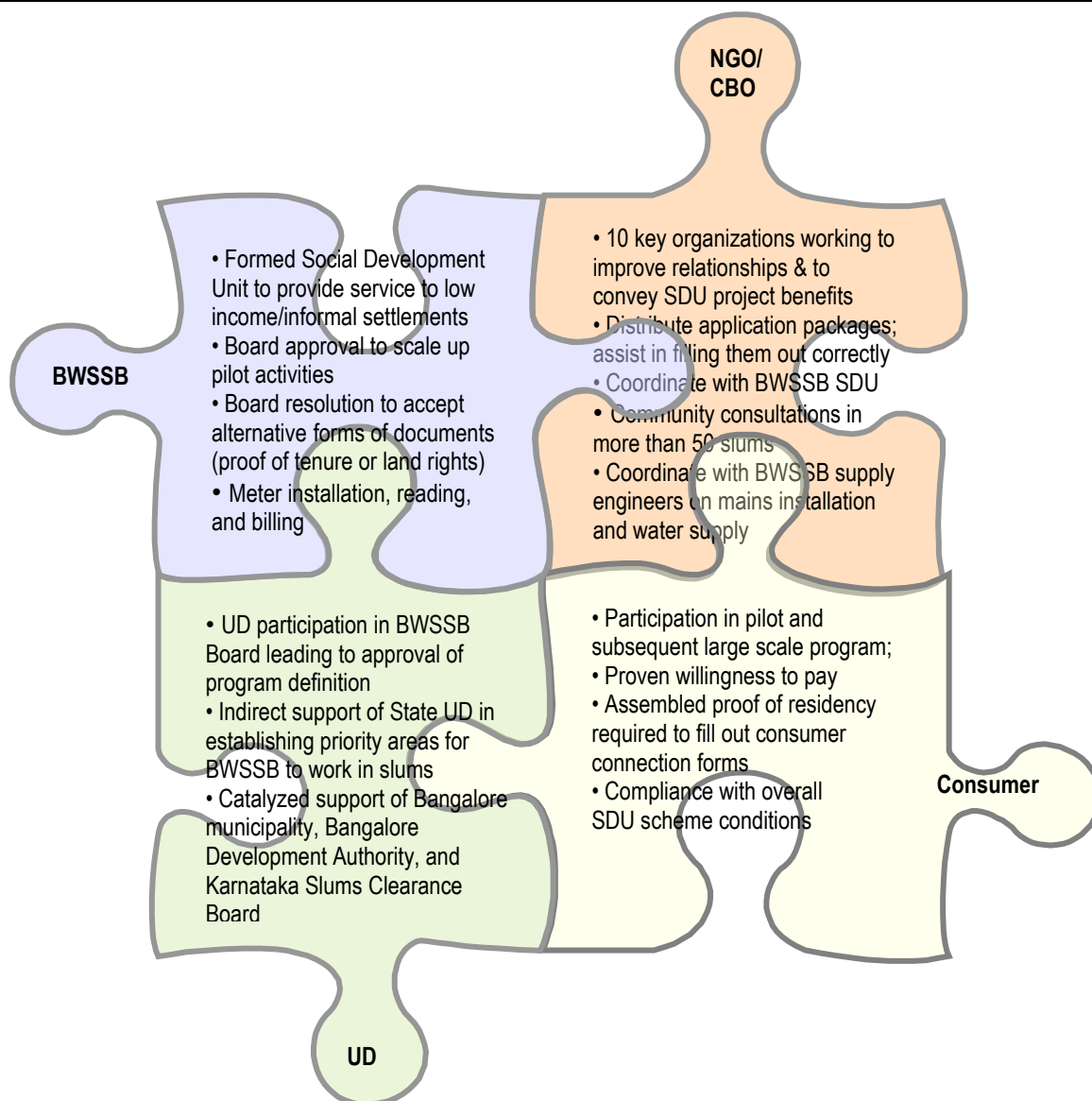
BWSSB adopted an approach of offering different service levels to the two categories of slum dwellers as follows:

- Individual metered connections for those with proof of legal tenure and with space for a connection
- Community-level meter and connections for those who do not have land tenure and for larger communities without secure tenure.

### ***Steps***

The steps in the implementation process were as follows:

- Simplified connection procedures for slum dwellers to apply for a connection. Any proof of residence (such as a ration card, election identity card, or identity card issued by the Karnataka Slums Clearance Board) along with the water supply application served as adequate documentation to qualify for a connection.
- Meetings of relevant staff with NGOs and CBOs that have convening power in designated areas.
- Meetings with the community and initiation of community mobilization efforts to build trust and sell the concept.
- Site visits with NGOs and concerned public works and maintenance engineers to assess current infrastructure.
- Planning and development of appropriate technical options.
- Provision of infrastructure and improvements to existing infrastructure.
- Discussions with the area maintenance engineer regarding mobilization of connections (to work out dates and other details) and planning of appropriate service options.
- Distribution of connection application forms to the community.
- Collection of completed connection applications.
- Issuance of meters to individual consumers once applications are approved.
- Completion of individual household plumbing work.
- Trial run of water quantity and quality evaluation.



**Figure 2: Complementary Roles of BWSSB, the Urban Development Department (UD), NGOs/CBOs, and Consumers in Making the Initiative a Success**

### **Achievements**

The main achievements of this pilot project have been:

- Commercial loss reduction and development of a legal, commercially viable consumer base.
- Drafting of a clear institutional framework that works. Working with various Bangalore agencies and establishing the tenure status of slums (by assessing their position in the process of a formal “declaration” of their tenure) was critical. Once slums began to get connected to water service, political interference decreased.
- Improved sanitation. Ultimately, 11,000 households in informal settlements including slums received individual-level water supply and basic sanitation (individual toilets).
- Creation of a legitimate new consumer group and increase in the number of consumers receiving a bill.
- Other tangible social benefits—improved community relations and long-term progress toward social integration and improved upward mobility.

### **Project Expansion**

With BWSSB stepping up network expansion and installation of mains, and discouraging the use of public taps, the preference for metered connection is increasing. BWSSB has initiated work in 25 slum and informal settlements in different parts of the city with the help of eight NGOs and CBOs, and the goal of adding 10,000 new consumers is a reality.

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## Chapter 19: Tenure Security and Land Titling

**Summary:** *Tenure security is often cited as the core necessity for municipalities to be able to provide infrastructure and services in their jurisdiction. This chapter explains the basics and the system of providing tenure security and land titling. To illustrate the importance of these, the chapter relates the socioeconomic impacts of lack of tenure security. This chapter explains the initiatives being taken in Afghanistan to provide tenure security and discusses experiences from other countries to help understand the underlying issues and the possible solutions that can address tenure security and land titling barriers.*

**Objectives:** *The objectives of this chapter are to present solutions for providing tenure security and land titling by:*

- *Explaining the basics of tenure security and land titling.*
- *Explaining the barriers to providing tenure security and land titling.*
- *Studying the impact of lack of tenure security and land titling.*
- *Studying the land and housing market impacts of not having tenure security.*
- *Detailing the current initiatives in Afghanistan.*

### 1.0 Introduction

Land is the most valuable natural resource. The relationship of people to land is fundamental to human existence. Land planning and development offer major prospects for increases in people's output and incomes, especially for those who are near or below the poverty line. For efficient land planning and optimum use, clarity and certainty about title to land are essential. Population growth and environmental stresses have worsened the perception of land as a dwindling resource, tightening the connection between land and violent conflict. Land is often a significant factor in widespread violence and is also a critical element in peace building and economic reconstruction in post-conflict situations.

Land tenure refers to rights of access and rights to use, control, and transfer of land, as well as associated responsibilities and restraints. Land tenure is the relationship, whether legally or customarily defined, among people, as individuals or groups, with respect to land. Rules of tenure define how property rights to land are allocated within societies. In simple terms, land tenure systems determine who can use what resources for how long, and under what conditions.

There are three kinds of property rights:

- **Use Rights:** Rights to use and enjoy the land.
- **Control Rights:** Rights typical of custodianship; the right to make decisions about how the land should be used.
- **Transfer Rights:** Rights typical of ownership; the right to sell or mortgage the land, to convey the land to others through intra-community reallocations, to transmit the land to heirs through inheritance, and to reallocate use and control rights.

In a single piece of land these rights may be held by three different parties. Land tenure systems determine who can use resources associated with land for how long, and determine the conditions of the use. Violation of insufficiently protected land tenure rights can lead to conflict and violence. People with insecure tenure rights are often randomly and forcibly removed from their land. For example, people ravaged by war move to a nearby town, to a lot that gives them access to employment and a place to exist. The settlers set up infrastructure and a network of services to support their existence. Soon, a warlord finds the land a valuable asset and a probable source of easy money, with a group of people that he can

dominate. He may not own the land he is “ruling” over. He threatens the settlers and demands rent, and if he does not get it he forcibly throws them out. With a constant fear of being forced to leave their land, ordinary people are still in survival mode.

Land tenure security is often seen as synonymous with regularization and titling. However, they are different issues. Titling is about the legal ownership of the land. Often, a landowner returning after a long absence finds that land has been sold many times over, and it is unclear who has the right to it now. Such conflicts are common in Afghanistan.

Tenure insecurity is a common crisis in post-conflict situations, with people often having competing claims to the same plot of land. Afghanistan has been going through such a crisis since late 2001, after the ousting of the Taliban regime from Afghanistan. Kabul City, for example, has grown from approximately 500,000 people in 2001 to an estimated 3,000,000 at the end of 2004.<sup>1</sup> Kabul’s rapid urbanization, much of it informal and haphazard, has many causes: a severe drought, unemployment, fighting and insecurity, rural land disputes, and land grabbing by the powerful.

When almost 50–60 percent of the city’s settlements are informal, attending to the situation is complex. Doing anything about the situation is like trying to bring the ocean to a boil. It sounds impossible, and it is difficult to know where to begin. This chapter tries to give an insight into the possible solutions and the approaches that municipalities can try.

## 2.0 Provision of Tenure Security

Tenure security is the certainty given by a government that a person’s various rights to land will be recognized by others and protected from violations. Security of tenure is taken for granted in the West, as Western citizens are well protected by law and business practices. In developing countries, however, millions of people face the risk that their land rights will be threatened by others, and even lost as a result of eviction. The layers of complexity and potential for conflict are compounded when, for example, the state suddenly claims ownership of land long held by certain people through custom and tradition. Officially, these people have become landless. But these “landless” poor care deeply about their property.

Even if they are not legally registered owners, some of the poor people invest in turning a tin-sheet house into a concrete house and upgrade their properties. Thus, their wealth becomes tied to the land and the housing. Because of these ties, the security with which people hold their lands is crucial for the world’s landless poor. Ownership is not as great a concern, because the poor residents’ most immediate worry is forced eviction, whether by the state or someone else. Unfortunately, in the developing world, the time and expense of issuing and registering titles often undermine the goal of secure tenure for the poor. Confusing “ownership” with “security of tenure” results only in delays in extending effective security of tenure to those who need it.

Tenure insecurity is generally addressed through tenure clarification, land titling, and registration initiatives. Responses to tenure insecurity vary according to local contexts: the size and nature of land invasions and informal settlements; national political leanings; and pressures from civil society, nongovernmental organizations (NGOs), and the affected people. One approach is to conduct tenure regularization based primarily on the issuance of individual titles, but sometimes also based on public acts and private deeds. Another approach is to emphasize administrative or legal protection against forced eviction. Unlike complicated, expensive, and time-consuming programs for formal tenure regularization, this approach can provide security of tenure by establishing simple regulations or norms.

Authorities should also give thought to promoting upgrades and shared holding for economic activities; for example, giving a legal owner incentives to upgrade a space that he/she possesses and rent it out to individual commercial tenants, on the condition that the tenants will not be evicted for a specified period of time and will abide by the specified terms of use of the space. For example, a room with basic services can be shared by four fruit sellers, with a

counter for each to use. The space is not mere shelter; it is a security and means of livelihood that thrives on stability. The benefit of this kind of approach to land tenure is that the owners will invest in upgrading infrastructure while supporting the local economy.

Some of the measures suggested by various experts include:

- De facto recognition, but without legal status, such as an anti-eviction measure
- Recognition of security of tenure, but without any form of tenure regularization (the authorities certify that the settlement will not be removed)
- Provision of temporary occupancy permits
- Provision of temporary, nontransferable leases.

### 3.0 Land Tenure Systems

Land tenure systems are diverse and complex. They can be formal or informal; statutory or customary; legally recognized or not legally recognized; permanent or temporary; of private ownership or of common property; primary or secondary. Tenure systems in many developing countries have been influenced by former colonial land policies that overlaid established patterns of land distribution. Thus, many national and local systems are made up of overlapping (and, at times, contradictory) rules, laws, customs, traditions, perceptions, and regulations that govern how people exercise their rights to use, control, and transfer land.

There is no single “land” issue and there are many forces that bear upon the access to and control over land among poor women and men. The issues vary from region to region, from country to country, within single countries, and from one community to the next. Measures to strengthen land tenure security must be complemented by pro-poor policies, services, and investments that reduce vulnerability and enable people to make the best use of their access to land (see Chapter 17, Urban Poverty Alleviation, and Chapter 18, Services for Informal Settlements).

Afghanistan has a strong religious and customary legal system, which regulates the relationship of land with both individuals and communities. Any political and administrative decision related to land ownership and its distribution must take into consideration Islamic principles and traditional practices, which are the basis of civil law and are engraved in the collective mind of Afghan civil society, and differing provincial and regional practices.

### 4.0 Land Titling

The term “land title” has different meanings in different countries, from full individual freehold to occupancy licenses and even customary and group forms of title. Land titling refers to the process of delivering rights (such as ownership titles or leases) to occupants of land or property: squatters on public or private land, commercial occupants, personal rights holders, and customary rights holders.<sup>2</sup>

When designing solutions to tenure insecurity, authorities must keep in mind the advantages and disadvantages of regularization. The advantages of tenure regularization are:

- Full individual rights
- Security and access to a formal credit system
- Improvement of general living conditions
- Transformation of public perception of formalized neighborhoods from previously undesirable to attractive neighborhoods
- Increase in land and property values for both economic and tax purposes
- Established basis for a comprehensive land register
- Increased accountability of public authorities.

The disadvantages of tenure regularization are:

- The increase in rent levels may lead to displacement of existing tenants.
- The neighborhood's social coherence will decrease as higher-income groups come to live there.
- Full tenure is not a sufficient incentive to stimulate housing improvements if the target population's income is too low.
- Loaning institutions may not rely on public authorities' guarantee because of high risks.
- Tenure regularization may encourage formation of other informal settlements.

Land tenure security is not simply an issue of title, and land tenure reform requires more than donor technical assistance for land registration and surveys. It is also an issue of social welfare and equity. Therefore, tenure security and access rights need to be addressed in land policy, and land administration systems must encourage sustainability.

## 5.0 Tenure Security: Social and Economic Impacts

Land ownership provides social status and economic security, and hence access to power. Land occupied, legally or through invasion, by the poor represents their only chance of gaining a foothold in the urban economy. To the extent that such ownership is "illegal," "non-confirming to the Master Plan," or "imperfect," it creates a deep sense of insecurity in the occupants, one of the worst causes of social exclusion.

A person occupying land that is not his own may not be an outlaw, he may just not know another way to deal with his own problems of being poor, landless, or homeless. If the encroacher fears authority or if local warlords convince him that they care more about the people than the municipality, or that he is safer following the warlords' guidelines, he might like to keep his distance from any "official" institution. He deals with shame and disgrace in his own community and distances himself from old friends and extended family, leaving him more vulnerable to powerful people. It is essential for authorities to understand the dynamics that are going on in individual communities and settlements. Without the community's involvement in practical solutions that work around these issues, sustainable solutions cannot be worked out.

In post-war Afghanistan, women's ownership of land has become critical. For example, if a widow is unable to get the rights to her husband's land from his family, she cannot give her children their due stability and economic or social benefits, such as education and healthcare. Women in general enjoy lesser inheritance rights, making land access a special problem for widow-headed households. Widows are also encouraged to remarry, and marry the husband's brother. The roots of this practice may be traditional practices in property and land management.

The general administrative breakdown in the country has created a backlog of land dispute cases that cannot be resolved on purely legal grounds. The volume of cases makes it overwhelming to promote good governance and to protect individuals' right to own property. The usual top-down approach where the authorities prescribe a solution might not work for resolution of land disputes in Afghanistan. The process that might work is one that finds solutions through community participation.

Municipalities are at a loss to provide services to areas of insecure tenure and areas of land dispute as there are no guidelines. This denial of services due to the lack of tenure documents often creates social and economic exclusion and is unproductive. Often, residents have baseless fears that the municipality might evict them for upgrading services or concern that the municipality will force them to settle elsewhere. These fears add to the social and economic problems of insecure tenure.



Land tenure security or land possession gives social stability and chance for economic growth. To deal with the social and economic impacts of insecure tenure, municipalities can take an incremental approach that allows learning by doing. Municipalities can start by:

- Studying patterns of ownership and tenure in local areas, economic reasons for settling in the area, and economic activities in the settlement.
- Providing security from state eviction (i.e., setting a policy that the municipality will not evict the residents).
- Addressing women's rights to land tenure security and ownership.
- Creating incentives for infrastructure improvement.
- Building trust through community-based organizations and NGOs.
- Removing the land tenure requirement from service provision policy.
- Creating mechanisms of conflict resolution through localized, community-based processes.
- Creating mechanisms that promote joint ownership and community ownership for promoting economic activities. Mechanisms must be based on good urban governance principles (they have to be consistent, transparent, and fair and promote equity).

## **6.0 Land Titling: Land and Housing Markets**

### **6.1 Land Value**

Efficient and adequate services make urban life not only convenient but also more productive, because urban productivity depends on such conveniences. Since urban services are expensive to provide, scarcity of serviced land is unavoidable. Activities on the land surrounding a plot directly affect its value; for example, land adjoining a slaughterhouse generally has a lower value than land adjacent to a well-maintained park. This relationship also suggests that the urban land market is always active, with land changing hands as richer households take over preferential locations. In this process, poorer households (whether new migrants or original residents) are pushed into locations that are more expensive to service and often less suitable for development. This dynamic population displacement affects the distribution of land across the community, in the process creating a number of economic and social problems. Since urban land is an expensive and valued commodity, landholding constitutes a primary form of asset for the rich and the poor alike.

### **6.2 Multiple Owners**

The prolonged war has brought several obstacles to the smooth functioning of both formal and informal land markets. The fact that the land administration system was in disuse for more than twenty years means that most transactions went unrecorded in this period, and even when they were recorded there was no clear title. As well, many landowners left their land unattended only to find, on return, that in their absence it had been sold many times over, and is now occupied by someone else. In some cases, land that was left under the custody of relatives or the government is no longer available to the original owner because another owner has built a house on it. Illicit land sales by unauthorized persons are a common phenomenon in the absence of an updated land information and record system.

### **6.3 Urban Poor and Informal Settlements**

Increases in urban land prices, coupled with the slow delivery of residential plots through formal channels, have made titled property unaffordable to the urban poor and an increasingly less attractive option to middle-income groups in many developing countries. When the supply of land for development is constrained in expanding cities, middle-income groups often buy out poorer families living in informal or squatter settlements in a process

known as “downward raiding.” Thus, there is a much greater diversity of economic sections living in squatter settlements in many cities today. However, the implications of rising middle-income involvement in an informal land market are not fully understood. Furthermore, little is known about the actual role of particular social groups in the purchase, development, and sale of plots and how this affects overall access to plots, particularly for the urban poor.

Most people enter the informal market in one of three ways:

- Informal rental agreements either with the landowner or a caretaker
- The purchase of land use rights from the “user” of the land
- Encroachment on marginal areas such as river banks or pavements.

Land right purchase is the most common form of informal land acquisition. However, little is known about the actual dynamics of informal land trading such as the nature of plot purchase; price setting; and, in particular, how different income groups profit. What is known is that the poor look to sell their land to get money for economic ventures or attend to basic needs. Also, the poor often price their lands lower than other income groups would, and thus it becomes easier for people to buy land at a lower price from the poor.

Some successful initiatives that address the need for formal tenure rights as a barrier for service provision are discussed in Chapter 18, Services for Informal Settlements (see Case Study 2, “Ahmedabad Electricity – the Slum Networking Project” and Case Study 3, “Bangalore Water Supply and Sewerage Board – Connecting The Slums” in Annex A). The policy and legal frameworks adopted and community-driven development approach are excellent examples of approaches that can be useful in finding appropriate solutions for informal settlements.

#### 6.4 Issues That Affect Property Transactions

1. Lengthy and complex official transaction procedures. Lengthy procedures and ambiguous information create opportunities for manipulation of the transaction process, provide little protection for applicants, and lead to informal and unofficial transactions. For example, an uneducated citizen wants to buy a property. He finds the official process too tedious and beyond his understanding. He may want a quick solution, for which he approaches unofficial property dealers. These dealers assure the buyer that they will make the process simple for him. They, on behalf of the applicant, obtain eligibility certificates for a considerable and unofficial sum. In many cases, dealers prepare fake stamps and false documents such as confirmation papers from the municipal authorities. The complexity of official procedures thus promotes corruption and creates opportunities for cons.
2. Rapid integration of different groups. Conventional tenure regularization tends to lead to market-driven eviction, causing diverse groups to settle in a place in a short time. This change in a community’s population hinders social cohesion, dissolves social links, and promotes segregation.
3. Conflicts and multiple ownerships.
4. Lack of information on the following:
  - Informal land development processes
  - Land transactions: prices, volume, locations, and uses
  - Informal transaction and transfer processes
  - The financing and approach of the municipality’s current land development projects.
5. Absence of a land information and record system. Property registration systems operate throughout the world as the legal infrastructure for officially recording title and other legal rights and interests in land. Such systems are necessary for conflict-free property

transfers, for the operation of a robust mortgage market, and for protection of citizens through economic and social stability. Land and buildings attached to land account for between half and three-quarters of the wealth of most countries,<sup>3</sup> making secure property rights a key element of market-based economies, sustainable economic development, poverty reduction, and good governance. Wealth represented by land cannot be effectively realized without effective registration systems.

6. Inaccurate or error-prone manual databases that have not been updated. Computerizing data can help reduce errors, enable faster service, and provide an efficient archival system that can be searched easily. The benefits and the process are described in Case Study 1, “Computerization of the Document Registration and Land Records in Maharashtra” (see Annex A). This study describes the simplification of the land registration process, customer orientation, and computerization of land records by the state of Maharashtra, India.

## 7.0 Property Registration

Land has a variety of characteristics and qualities. Land has a physical reality, it has economic value as the basis of production and the creation of wealth, it is the legal embodiment of an abstract set of property rights that govern the way it can be used, and it is a source of cultural and national identity. In the modern world, with competing interests for ownership and control of property, land cannot fulfill any of these functions efficiently without a proper land administration system. Property registration is the core function of a land administration system.

The previous section explored the issues of property transactions. The root of many of the issues is the lack of transparency of land information, of a valid system and of a registration process. Good land registration promotes an active land market and productive land use. It makes possible the security of tenure and the development of a mortgage market on which a functioning economy depends. Looking into the property registration process further, the following section explains approaches to property registration.

### 7.1 Practical Purposes and Policy Objectives

Property registration is by necessity a complex, expensive, labor-intensive service. This service is provided by a national or subnational government agency. The reasons for providing an efficient property registration system (also called a land registration system or title registration system) are discussed in detail below:

- The land registry document provides a complete and transparent record of title and other interests in land and immovable property.
- It establishes the legality of title or other interests.

#### Benefits of an Effective Land Registration System

- Guarantees ownership and security of tenure
- Serves as the basis for land and property taxation
- Provides security of credit
- Guarantees the result of judicial procedures relating to land rights, including rights of repossession of land
- Reduces land disputes
- Develops and monitors land and mortgage markets
- Protects state lands
- Facilitates land reform
- Promotes improvement of land and buildings
- Facilitates reliable land use records
- Improves urban planning and infrastructure development
- Supports environmental management
- Produces statistical data as a basis for social and economic development.

*Source:* United Nations Economic Commission for Europe (UNECE), “Guidelines on Real Property Units and Identifiers” (2004).

- It provides constructive notice to third parties of title and other interests.
- It helps avoid conflicts and ownership disputes.
- It is self-proving, providing a presumption of accuracy and, in many cases, protection against errors.
- It protects subsequent owners through a complete and transparent chain of title.
- It gathers data about real estate markets.
- It provides data to help government determine rational land use policies.
- It supports the property tax system, which is often the principal revenue source of local governments.

## 7.2 Legal Principles

The modern title registration system introduced a number of legal principles that are common in all modern property registration schemes:

- Interests pass upon registration and not upon the execution of the transfer instrument.
- Priority dates from registration and not from the time of execution of the transfer.
- The registered owner, except in the case of his own fraud, holds free from all interests not noted on the title, subject in some cases to statutory reservations such as taxes.
- A purchaser from a registered owner is not, except in the case of his own fraud, affected by any notice of another person's equitable or unregistered interest in the same land.
- The system is operated by a government agency, and financed by a combination of registration fees and government funding.
- In many countries, the state guarantees title once it has been registered.
- The registration entry contains sufficient information to indicate the current owner and previous owners in a "chain of title"; persons or entities who hold other interests in the land; and the location, description, and boundaries of the property.

An example of a modern title registration system is the Torrens system, which is explained in the glossary.

## 7.3 The Importance of a Simple Registration Process

Much of the difficulty and delay in land registration systems is caused by overly complex procedures. Not surprisingly, numerous studies show that complexity and cost are directly related. Countries with the simplest procedures require the applicant only to pay fees and register the transfer. Norway and Sweden combine these two steps. Another fifteen countries have three or fewer steps. Others, especially poor countries, require a bewildering set of procedures—government approvals, notarizations, documentation, inspections, clearances, and payments. In those cases, applicants are more likely to avoid registration or pay a bribe for assistance and faster service.

The World Bank/International Finance Corporation (IFC) "Doing Business" program, which studies business procedures (including property registration) in many developed and developing countries, has found a strong correlation between the percentages of properties registered and ease of registration. Ease of registration is measured in cost, time needed, and number of procedures. For example, in Namibia, where registration involves nine procedures, takes an average 23 days, and costs at least 9.6 percent of the property value, only 8 percent of properties are registered. In Norway, where virtually all property is registered, registration of a transfer is accomplished in one day by submitting an application form at the land registry. The forms are available online and in bookstores as well as at the registry, and the person registering the property pays 0.5 percent of the value in stamp duty.

In Sub-Saharan Africa, it costs an average of 9.9 percent of the property's value to register it.<sup>4</sup>

The cadastre and the registry are separate and are manually updated. In this manual process, the changes in the registry are subsequently reflected in the cadastral map, which being a graphical exercise takes longer to perform, leading to lapses in synchronization of the two documents. An important step in simplifying the property registration process is to combine or at least link the registry document and the cadastre (i.e., the official record of the dimensions and value of land parcels, used to record ownership and assist in calculating taxes and land and building registries). This increases consistency and accuracy of records, as well as reducing cost and time to register and maintain the systems. It is preferable for these functions to operate under one agency.

#### 7.4 Registration Initiative in Afghanistan

The Land Titling and Economic Restructuring of Afghanistan (LTERA) Project,<sup>5</sup> funded by USAID and implemented by Emerging Markets Group (EMG) from 2004 to 2009, undertook the following land titling and economic restructuring efforts:

- Development of a land registration system
- Development of a mapping and land information system
- Tenure regularization
- Development of a policy and legal framework for land titling
- Release of public land.

The project rehabilitated and reorganized deeds in Provincial Court archives, although little progress was made in simplifying land titling procedures, clarifying the property rights legal framework, reducing the cost of transactions, or reorganizing land administration agencies.

The project is described in further detail in Case Study 2, "Efforts to Upgrade Informal Settlements in Kabul Districts 7 and 13" (see Annex A).

#### ***What did we learn about in this chapter?***

- *Land tenure, property rights, and tenure security*
- *Land tenure systems*
- *Social and economic impacts of tenure security*
- *Land titling systems and land and housing markets*
- *Issues that affect property transactions*
- *Property registration*
- *Registration initiatives in Afghanistan*

## 8.0 Annex A

### 8.1 Case Study 1: Computerization of the Document Registration and Land Records in Maharashtra<sup>6</sup>

Maharashtra is the second most urbanized state in India. The state has 291 urban local bodies with 19 municipal corporations, 224 municipal councils, and 4 *nagar Panchayats* (*village councils*). Maharashtra is perhaps the only state in the country where the rural land records, urban (city survey) land records, and the registration process have all been computerized (i.e., the process is now supported by computers and appropriate software).

The Registration and Stamps Department (R&SD) is the second highest revenue-generating department for the government of Maharashtra, with a revenue collection of 28.7 billion Indian rupees (approximately 29 billion Afghanis) in the year 2002–03. The department contributes nearly 15 percent of the state's tax revenues. The office has 410 registrar offices across the state. The department performs five functions: registration of deeds, revenue collection, valuation of properties, preservation of documents, and transaction searches.

Prior to computerization, the department faced problems such as poor citizen satisfaction. The department has direct interaction with citizens; nearly 7–8 million people visit the department's offices annually to register about 1.5 million documents. Citizens were dissatisfied owing to certain processes and poor practices such as the sub-registrar enjoying discretion vis-à-vis registering the document, ascertaining the value of the property and returning the original document to the party in a timely manner. As a result of these practices, the registration of a land or property transaction took weeks, and the original document could not be returned for years. A review in July 2000 revealed that more than one million documents had not been returned to applicants from 1985 onwards.

The turnaround within the department started with process changes followed by computerization. The department saw computerization as an excuse for a full review of its processes and functioning. Client satisfaction was the main motive behind all these changes.

#### ***Issues and Objectives***

The process followed by the sub-registrar was thoroughly studied. The study revealed the following issues behind poor citizen satisfaction:

- Space – appearance of the office
- Discretion of the sub-registrar
- Completion of the registration process
- Valuation
- Return of documents
- Evasion of government dues because of geographical boundaries
- The Ready Reckoner (guide for the market price of residential and commercial properties) and the discretion of the sub-registrar to decide valuation and the applicable stamp duty
- Lack of uniform procedures
- Lack of time standards
- Laborious back-office work
- Document preservation problem
- Lack of transparency and service norms
- Lack of accessibility
- Lack of information provided to users.

The objectives for undertaking computerization were as follows:

- Develop a simple, speedy, and reliable registration process.
- Build consistency and uniformity into the process.
- Provide transparency in the valuation of properties.
- Automate all back-office functions.
- Remove discretion by automation of scrutiny, valuation, and checking for supporting certificates.
- Provide systems to cut down on evasion, thereby leading to revenue growth.
- Provide an easy, reliable, and cost-effective archival system.
- Provide an effective search facility for transactions in the previous twelve years.
- Set quality and time standards and establish a system of evaluation of offices/officers on the basis of these standards.
- Provide backward and forward linkages with the land records and revenue department.
- Make information freely and easily available to users.

### **Changes in Business Processes**

Changes at the workplace were the important first step in the process of change. The R&SD motivated the sub-registrars across the state to give a clean, green, and neat look to the registration offices.

The R&SD handed out a list of standard information boards to be displayed in all sub-registrar offices:

- Citizens Charter
- Areas where the Urban Land Ceiling Act is applicable
- List of areas where the Maharashtra Re-settlement Act for project-affected persons is applicable
- Ready Reckoner
- List of support documents
- List of villages in the jurisdiction of the sub-registrar office
- List of senior officers with their contact numbers
- Letter about the *Sulabh & Saman* (Simple & Uniform) registration process.

The R&SD initiated the following changes:

- Simplifying and demystifying the complicated process of registration.
- Defining a “complete” document that can be legally registered and then deciding upon time limits for registration and return. The principle adopted was the *Sulabh & Saman* (Simple & Uniform) system.
- Accepting only complete documents.
- Returning incomplete documents immediately and giving reasons in writing.
- Deciding time limits for every activity. The time standard for returning a document after registration and back-office work was fixed at twenty-four hours.
- Introducing input forms.
- Introducing market value charts based on land-parcel numbers, for a quick and transparent system of property valuation.
- Removing all backlogs.

### **Software Development and Computerization**

The software for the R&SD was developed in nine modules:

1. **Registration:** This module takes care of the entire registration process. The software takes care of collection of party details, embossing of five stamps, auto-calculation of registration fees, calculation of document handling charges, and capture of thumbprints and photographs. The Registration module generates a fee receipt that auto-calculates and prints the time by which the document will be ready for issuance to the party. The Cash Book, Day Book, Management Information System (MIS) Reports, Inspection Reports, and Vendor Management System are automatically updated and generated.
2. **Valuation:** This module does all the calculations at the back end and arrives at the appropriate valuation. The data entry operator just keys in the parameters required for valuation, and the value generated is not editable.
3. **Scan & Archival:** This module scans the registered document, archives the scanned document on CDs, and retrieves the archived documents quickly.
4. **Networking:** This module establishes a wide area network across the state for instant access to transaction data, documents, or MIS reports. It also provides an online facility to check out event and transaction logs at any sub-registrar office through dial-up connectivity.
5. **Website:** A department profile, online valuation and generation of a valuation slip, frequently asked questions, forms for download, and a members' area are features of the department's website (<http://igrmaharashtra.gov.in/default.aspx>).
6. **Search:** This module enables searches from a database of more than ten million records. The search is based on thirteen parameters. The time required for a search has been reduced from two weeks to two minutes.
7. **Vendor Management Software:** This module covers all supervision over the activities of the private partner. This was added to the system later.
8. **Utilities:** This module handles system administration rights and related issues.
9. **Reports:** This module generates MIS, nonconformance, and penalty reports.

In consideration of an amendment requiring a photograph of the party to be attached to the document, a web (computer-attached) camera has been installed in every sub-registrar office. The camera takes onsite photographs of parties and saves the public's time as well as money. A thumbprint scanner was also installed in every sub-registrar office to take electronic thumbprints of the parties.

The Stamp and Registration software, code-named SARITA (Stamp and Registration with Information Technology Application), delivers the following:

- Complete computerization of the existing registration process (five stamps).
- Automatic generation of property value on the basis of a predefined template.
- Ready Reckoner creation.
- Adjudication, or legal approval.
- Receipt generation.
- Generation of a pending list.
- Issuance of notices to parties.
- Scanning of registered documents and a secure document archival technique with a backup facility.



- Generation of all types of MIS reports (periodic and miscellaneous) at all levels of the department's hierarchy.
- Electronic generation of all indexes.
- A decision support system at all levels in the hierarchy, which will facilitate the officers' prompt finalization and implementation of their strategies.
- A master database of all the villages in the office's jurisdiction. This database will also incorporate absolute security and the flexibility to add or delete villages.
- A master database of records of Index-II, prepared in all sub-registrar offices in the state for the last twelve years to enable searches of the records.
- Registration of marriages under the Special Act and the Bombay Marriage Act of 1953 as well as generation of marriage certificates.
- Presentation of a consolidated picture to higher-level authorities.
- Detailed documentation and help.
- User interface in the Marathi language.
- A gateway screen with pendency status.
- Quick services to citizens related to search reports, registration, and certified copies of the registered documents.
- Remote access for citizens to the Web-enabled software application system called InfoBase.
- Vendor management software.

The software was developed as a public-private partnership. The concept was to bring in a private partner who would install, operate, and maintain the hardware across all offices and recover his investments from service fees charged to the client offices in return for provision of high-quality services.

#### Role of the R&SD:

- Provide software
- Issue various copies
- Complete the registration process
- Conduct searches
- Issue Index-II
- Conduct valuation
- Issue various copies on demand.

#### Role of Private Agencies:

- Provide, install, and put into service all the hardware and peripherals required to meet the desired service standards.
- Provide furniture as per the standard design and layout.
- Provide consumables as per requirements.
- Keep the setup at all locations functional.
- Install all requisite software at various locations necessary.

In addition, the agency will provide support personnel at the front end who will handle:

- Data entry
- Scanning of the original registered document

- Archiving on CDs at predetermined intervals
- Other related activities, such as capturing thumbprints with a thumbprint scanner, digital signatures, and photographs of the parties with web cameras.

### **Results**

The initiative has been successful across India and has been the basis for replicating the computerization processes at the registration offices in the states of Rajasthan and Karnataka. Benefits of the initiative are:

- The registration process is now quick and transparent, with a turnaround time of around 30 minutes and *zero pendency*.
- Web-based valuation facilitates valuation from home.
- Downloadable web-based forms have reduced the number of visits to the sub-registrar's office.
- Original documents are returned to parties within the stipulated time.
- Transparency and accountability have increased.
- The role of middlemen and agents has been reduced.
- The copying process has become fast and efficient.

### **8.2 Case Study 2: Efforts to Upgrade Informal Settlements in Kabul Districts 7 and 13<sup>7</sup>**

Two community development councils in two *gozars* (neighborhoods) in Districts 7 and 13 participated in the settlement upgrading effort under the USAID-funded Land Titling and Economic Restructuring of Afghanistan (LTERA) Project. These neighborhoods were selected because the community had already established representative bodies (*shuras*) and because both residents and the municipality were willing to participate in the project. Although the *shuras* had been involved in previous upgrading projects, the issue of tenure security had not been addressed prior to this project.

In District 13, newly established land clarification boards review property deeds presented by the informal settlers. Ninety-five percent of these are informal, customary deeds. Disputes settled at the community level avoid the bureaucratic and uncertain procedures of the Kabul courts. Once the community reaches consensus about who lives where or who has the right to live where, the LTERA project team requested that the municipality issue a "certificate of comfort." While not a property deed, it is a valuable form of tenure security. Out of this pilot effort to formalize informal settlements, the LTERA team developed preliminary proposals to create a legal basis for regularizing tenure in other such contexts.

The LTERA team developed a replicable and cost effective methodology that upgrades basic services, regularizes tenure, and formally integrates informal settlements into the municipality's urban planning process. The pilot efforts in Districts 7 and 13 tested an incremental, community-based method of upgrading and tenure regularization. These neighborhoods were chosen because their problems were obvious. Informal settlers lived in fear of forced eviction and therefore had no incentive to improve their dwellings, start businesses, or upgrade their neighborhoods.

The Cooperation for the Reconstruction of Afghanistan (CRA), an Afghan NGO that was familiar with the techniques and philosophy of community action planning, conducted a 2006 preliminary study of the LTERA project in District 7. CRA identified the possibility of improved tenure security in terms of increased business activity and housing construction, especially where improvement in security of tenure was accompanied by community organization and the physical upgrading of the district's streets and drainage systems. Interviews with community leaders and residents also showed that people's perception of tenure security and

general community conditions had improved significantly since the implementation of the project. The study identified the following project results:

- **More Construction:** Forty-six houses had either been reconstructed or extended in the pilot area since the implementation of the project. This represented 9 percent of all houses in the area. All but one of these houses was constructed of brick and concrete, a substantially greater investment than the usual mud construction.
- **More Businesses:** The number of business activities increased from 117 to 126, an increase of 7 percent since the last survey was undertaken ten months previously, in November 2005.
- **Increased Prices of Vacant Land:** Although house prices appeared to have stabilized and, in some instances, decreased in value, the price of vacant land had increased by as much as 50 percent since the project was implemented. There were fewer houses on the market than before the project started. There were fewer properties for rent, and rentals had increased by an average of 30 percent during the last year.
- **More Tenure Security:** Thirty residents were interviewed regarding their knowledge and understanding of the LTERA upgrading effort. All but one felt more secure as a result of the project and believed that the area would eventually be formally incorporated into the city plan. Three respondents noted that the mere fact that roads and drains had been constructed had resulted in improved perceptions of secure tenure.

## 9.0 Endnotes

<sup>1</sup> Dr. Annette Ittig, "Urban Development in Kabul: An Overview of Challenges and Strategies," [http://www.institute-for-afghan-studies.org/Contributions/Projects/Dr-Ittig/UrbanDev.htm#\\_ftn1](http://www.institute-for-afghan-studies.org/Contributions/Projects/Dr-Ittig/UrbanDev.htm#_ftn1).

<sup>2</sup> Alain Durand-Lasserve and Geoffrey Payne, "Evaluating Impacts of Urban Land Titling: Results and Implications: Preliminary Findings" (World Bank Study Paper, 2006).

<sup>3</sup> R.G. Ibbotson, L.B. Siegel, and K.S. Love, "World Wealth: Market Values and Returns," *Journal of Portfolio Management* Vol. 12, No. 1 (1985): 4-23.

<sup>4</sup> The World Bank Group, "Registering Property," *Doing Business 2005*, World Bank/IFC Doing Business website, [www.doingbusiness.org](http://www.doingbusiness.org) (accessed August 1, 2010).

<sup>5</sup> Emerging Markets Group, "Land Titling and Economic Restructuring in Afghanistan," June 2007, [http://www.cardno.com/pdfs/economic\\_afghanistan.pdf](http://www.cardno.com/pdfs/economic_afghanistan.pdf) (accessed August 25, 2010).

<sup>6</sup> "A New Land Title Registration System for Delhi" (study by UI/ICMA/UMC for USAID under the India Urban Initiatives Program, 2007).

<sup>7</sup> Dr. Yohannes Gebremehdin, "Preliminary Assessment of Informal Settlements in Kabul City" (USAID and Emerging Markets Group, March 2005), [http://www.terrainstitute.org/pdf/Informal\\_settlement\\_yohannes.pdf](http://www.terrainstitute.org/pdf/Informal_settlement_yohannes.pdf) (accessed September 2010).