

TECHNICAL ASSISTANCE COMPLETION REPORT¹

Division: SAUD

TA No., Country and Name TA 4497-IND: Capacity Building for Municipal Service Delivery in Kerala			Amount Approved: \$800,000	
			Revised Amount:	
Executing Agency Local Self-Government Department		Source of Funding: DFID-UK	Amount Undisbursed: \$110,877.81	Amount Utilized: \$689,122.19
TA Approval Date: 17 Dec 2004	TA Signing Date: 21 Dec 2005	Fielding of First Consultants: 01 Nov 2006	TA Completion Date Original: 31 Jul 2006 Actual: 15 May 2008 Account Closing Date Original: 31 Jul 2006 Actual: 30 Nov 2008	
Description. The TA aimed to help urban local bodies prepare and implement a carefully coordinated package of capacity-building activities required to enhance the efficiency and autonomy of local self-governments. The TA assisted the municipal corporations and selected municipalities to (i) improve their capacity to organize, record, update, and manage financial and other information on a routine basis; (ii) increase the efficiency and integrity of the data being collected; and (iii) promote good governance in relation to financial management. This initiative would help ensure the sustainability of the investments under the Kerala Sustainable Urban Development Project (Loan 2226-IND), a \$221.2 million loan approved by ADB on 20 December 2005 and became effective on 19 March 2007.				
Expected Impact, Outcome and Outputs.				
(i) The TA's expected impact was to increase the transparency and improve the financial governance of urban local bodies in Kerala. Its outcome was to help five municipal corporations and two municipalities organize record, update and manage financial information on a routine basis using accrual-based double-entry accounting.				
(ii) The outputs would be (a) use of a consistent methodology for valuing assets and liabilities in the financial statements of five municipal corporations and two municipalities; (b) staff trained in double-entry accounting in five municipal corporations and two municipalities; (c) accounts audit manual; (d) training manual and module for rollout to other municipalities; and (e) synopsis of study tour highlighting lessons learned from the implementation of double-entry accounting in other cities.				
Delivery of Inputs and Conduct of Activities.				
(i) Initial Start-up Delay. Commencement of the TA was delayed by one year, as the Department of Economic Affairs (DEA), Ministry of the Finance, the Government of India requested ADB for an assessment of the TA scope, comparing with the government of Kerala's initiative on computerization of urban financial management. ADB reexamined the scope, and reported that there would be no duplication in the TA activity. The TA Letter was finally signed in December 2005. The TA completion date was extended to 15 October 2007.				
(ii) Increase in Scope. The design of the TA initially envisaged the recruitment of a domestic consulting firm with a total of 124 person-months inputs. The bid prices were substantially lower than the TA paper estimate due to good level of competition. The original scope mainly focused on replacing the cash-based accounting with the accrual-based accounting through (a) preparation of municipal accounting system software with user and technical manuals, (b) municipal accounts manuals, (c) municipal financial audit manual, and (d) municipal budget manual. During implementation of the original scope, the EA felt it could expand the TA activity using the remaining TA fund by (a) increasing coverage of urban local bodies (ULBs) from five to seven; (b) developing an additional module for accounting software; and (c) giving additional duration of consultant assignments for handholding capacity building at ULBs till closing of one financial year. To accommodate these activities, which the EA strongly requested, the TA closing date was extended to 15 May 2008 and the duration and scope of consulting firm's assignment were likewise extended. The final person-month was 305.				
(iii) Coordination with ADB-Financed Project. It was also determined that capacity building was required for the project management unit (PMU) and the project implementation unit (PIU) staff to interface the new accounting system with the Project accounts at the state and municipal levels. A minor change in the TA's scope and implementation was made to recruit an individual domestic implementation capacity building specialist with 12 person-months input.				
(iv) ADB's Review. During TA implementation, ADB conducted an inception mission in November 2006 and three review missions in March, July and November 2007.				
Evaluation of Outputs and Achievement of Outcome. The TA produced the following outputs:				
(i) Kerala Municipal Accounting System (KMAS) software and demand collection balance (DCB) module which were designed, developed and installed at all pilot ULBs;				
(ii) Revised Kerala Municipal Accounts Manual, Kerala Municipal Financial Audit Manual, Kerala Municipal Budget Manual, KMAS user and technical manuals, and DCB module user and technical manuals;				

¹ In preparing any country program or strategy, financing any project, or by making any designation of or reference to a particular territory or geographic area in this document, the Asian Development Bank does not intend to make any judgments as to the legal or other status of any territory or area.

- (iii) Workshops and on-the-job trainings for revenue, accounting and audit staff in pilot ULBs on accrual-based double-entry accounting system; draft Accounting Rules, Accounting Policies and Coding Structure; manuals listed in item (ii) above; KMAS; and DCB module; and
- (iv) Draft annual financial statements for fiscal year (FY) 2007-2008 and budgets for FY 2008-2009 for each of the seven pilot ULBs using the new software.

The Mission evaluates that the TA produced all necessary outputs at reasonable quality. The consultants performed extremely well in identifying and reporting the issues promptly for ADB and the EA's attention and decision. This qualifies the highest tier of 'satisfactory' rating in ADB's performance evaluation report system. The outputs are fully utilized by the five municipal corporations and two municipalities. As a result of continuous recording, updating and managing financial information on a routine basis using accrual-based double-entry accounting, they managed to publish their financial statement regularly. Therefore, the outcome was achieved.

Overall Assessment and Rating. Based on observation and feedback received during site visits at pilot ULBs and the above evaluation, the TA is considered successful. The financial statements of the ULB are now posted on the EA's website and newsletters, and regularly updated. This contributed in good governance through higher financial transparency (see some examples), and opens a way to the next stage —'management accounting.'

http://www.corporationofcochin.net/financial_stm.html

<http://www.corporationoftrivandrum.in/ml/pages/general.php?p=276>

Major Lessons.

- (i) Development of accounting system software was not a difficult assignment for consultants. There were two challenging tasks: (a) before software development, the EA must adopt a new legal framework which the new accounting system will follow (such as a new accounting policy, and new accounting, auditing and budgeting manuals), (b) after software development, accounts officers in ULB needed hand-holding daily support by software developer on how to use the software and to close accounts in the end of one financial year. Handholding support at each location required a substantial amount of person-months for the junior level accountants/consultants.
- (ii) When preparing policy and entering data, there are some grey areas which consultants cannot make any decisions but the EA. During the EA's regular steering committee meetings, the Secretary of the Local Self Government Department provided prompt responses when consultants sought the EA's guidance. Such EA's commitment, decisiveness and cooperation helped smooth implementation of the TA.
- (iii) Accounting system alone does not do anything – it is just software. It became meaningful when the necessary financial information is entered in accordance with the new accounting policy. The necessary financial information includes the past income and expenditure, assets and liability, and cash flow statement for the last five years. In ULB, there are backlogs in accounts for four to five years. Recovery of the backlogs and data entry tasks absorbed enormous amount of ULB staff's and consultants' time.
- (iv) Feeding income and expenditure information can be computerized by connecting the accounting system with the Payroll module and the DCB module. Staff salary is the largest expenditure item in the ULB and computerization by the payroll module will bring efficiency in accounts work. The DCB module compares (a) demand: how much to be collected, (b) collection: how much actually collected, (c) balance: how much is still due. This will help ULB in capturing the amount of the uncollected in tax and charges for urban service delivery, which is a good start for 'management accounting.' However, the amount of data entry is the same as the number of households in one ULB—again, this requires enormous amount of time and labor.

Recommendations and Follow-Up Actions

- (i) During the TA fact-finding, it is highly recommended that the Mission assess:
 - (a) The level of backlogs in ULB's accounts;
 - (b) Whether the EA can instruct the ULB to recover the backlogs in their accounts while ADB recruits a consulting firm (which may take three to six months)
 - (c) The size of potential data entry work and the unit cost;
 - (d) The government intention to issue a government order for introduction of new accounting policy at ULB, once a new policy is prepared by the TA;
- (ii) For the future similar TA, it is highly recommended that the TA include:
 - (a) Development of the DCB and payroll modules;
 - (b) Handholding support at each location for at least one financial year after development of accounting software;
 - (c) Adequate provision for data entry.
- (iii) The EA will expand the accounting reform to the remaining 46 ULBs of Kerala by tapping into the experience of lessons learned from the pilot ULBs. As this requires substantial level of financial resources, the possibility for obtaining further support from ADB or other agencies may be explored.