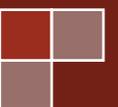


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The Local Economic Governance Program: Notes for Practitioners

By Verité Research
Citizen Friendly Payment Systems



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Introduction

The 'Citizen Friendly Payment System' was an initiative to improve efficiency and introduce a customer service orientation to local authorities through shifting from manual systems to faster and more transparent automated payment systems for tax payments. The system was developed under the supervision of The Asia Foundation (TAF) in accordance with Local Authorities' (LAs) preferences.

The pre-existing manual payment system was hampered by both inefficiency and inaccuracy. This has a particularly significant impact on compliance with regard to tax payments made on a regular basis such as assessment taxes, paid by most residents in a LA either monthly or quarterly. The willingness of citizens to pay regularly and promptly is reliant on the ease of making the payments and the transparency of the process. Lengthy and inefficient procedures caused inconveniences to the LA staff and citizens warranting the need to modernise the payment system. The evidence of interventions carried out suggest that improving payment systems' efficiency can enhance the willingness of citizens to pay taxes which in turn is crucial for the success of own-source revenue generation by the LA.

Purpose/Rationale of Tool

Purpose/Rationale of Tool for LAs

The rationale for a LA to enhance the payment system through the leveraging of ICT includes:

- Greater accuracy in comparison to manual systems.
- Enhances transparency and acts as a check on potential corruption improving LA revenue collection. In the previous system a file had to move from desk to desk through different hands for approval and action. The elimination of such intermediaries can reduce opportunities for bribery and corruption.

- Helps track tax payments and pending arrears accurately and in real-time. This identification process helps LAs hold tax payers liable, and when the tax payer is aware that the LA is more easily able to identify arrears, it increases incentives for compliance.
- Is user friendly and reduces the time required to process payments. The re-engineered processes increase internal efficiency and productivity. Therefore, rather than limiting the focus of tax collection to a 'manageable number' of taxes, LA staff time is freed up to engage in more comprehensive tax collection. The resources being freed up can be diverted to better monitoring, tackling tax evaders and improving services provided. The system also helps in monitoring employee's productivity better and easily identifying pressure points for delays and corruption.
- Results in cost reductions of storage space and processing times. Under the previous system LAs had rooms allocated to store ledgers, books and files from previous years.
- Better manages data; entry, editing, accumulation and accessing data are easier and faster. Data can be easily mined for policy analysis and data can be sorted and shared across agencies and departments faster and over the internet/ in an electronic form.¹

Purpose/Rationale of the Tool for Citizens (Residents and Local Businesses)

The rationale of modernising the payment system for citizens includes:

- Ease of compliance due to faster payment process
- Greater assurance of transparency through digital record keeping
- Reduced scope for corruption

The Implementation Process

The 'Citizen Friendly Payment System' was developed by TAF in collaboration with partner LAs. The cloud based software development cost Rs. 3 million with costs borne by the Local

¹ Bhatnagar, S. (2004). *E-government*. New Delhi: Sage Publications.

Economic Governance (LEG) programme and subsequently made available to LAs free of charge. Subsequently, LAs signed an annual agreement with the software developer, eGait, where the LAs agreed to bear the annual licensing and maintenance cost at Rs 150, 000 per year from the second year onwards. The agreement also includes with visits by the developer to the LA at least once in a month and maintaining a backup of the LAs' data.

The software is cloud based and comprises of the following functions²:

- Create and edit/update ward, road and property data
- Enter owner/tenants information and edit/update as required
- Set, edit and update Tax Rates
- Set, edit and update Arrears
- Five different methods of searching properties
- Customer credit account management
- Four types of report generation
- Issue and cancel receipts
- Segregation of duties
- Accretive user interface

TAF provided free training for LA staff, preparing them to use the new payment system. Capital investments in hardware and front office renovation suitable for the new system were co-funded at differing levels based on LA requirements by TAF and the LAs.

Case study - Chavakachcheri Urban Council

Prior to 2011, the Chavakachcheri UC were interested in computerising their payment system but did not have the capacity to implement it on their own. The UC had tried unsuccessfully to obtain support and eventually used an internally created Ms Excel based interim system.

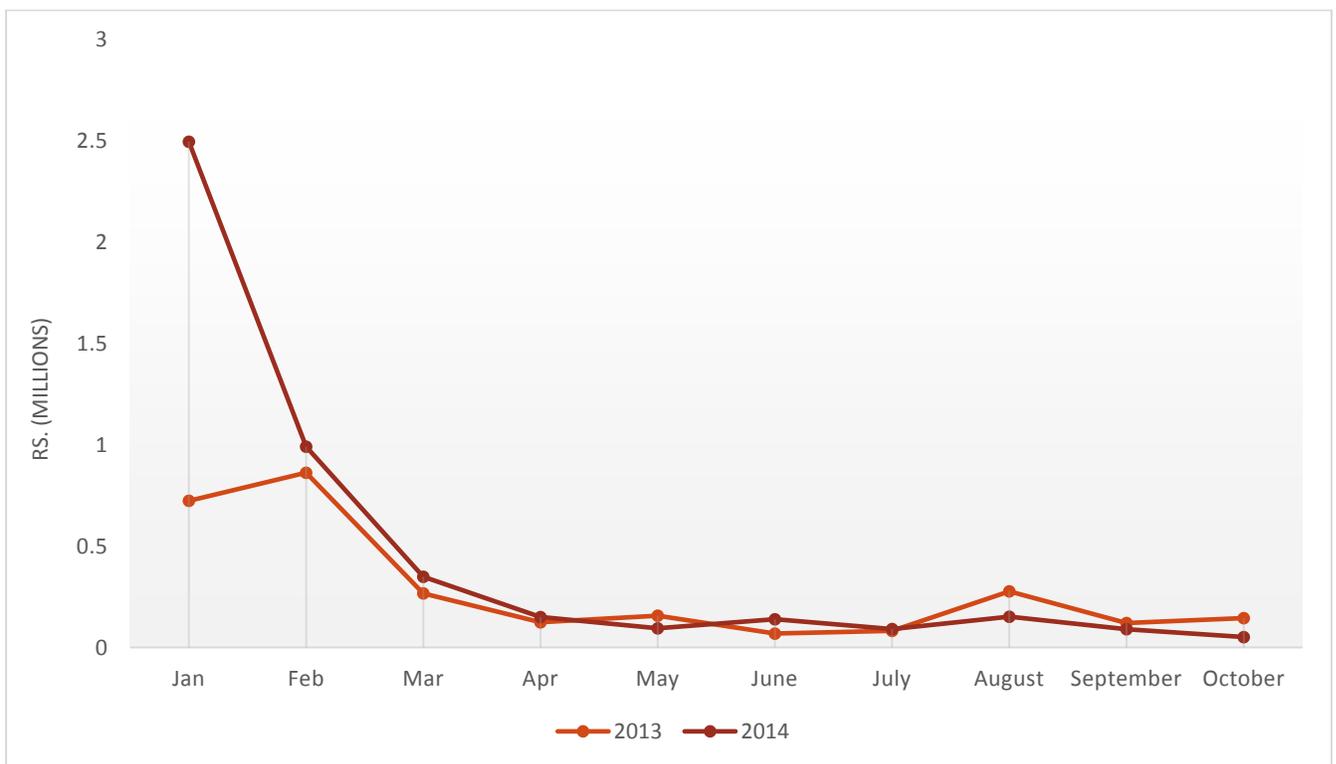
In 2011, Chavakachcheri UC learnt that TAF had introduced an automated *Citizen Friendly Payment System* at Jaffna MC. A few members of staff from the Chavakachcheri UC visited the Jaffna MC to assess the Citizen Friendly Payment System. Soon after, the Chavakach-

² e-Gait Automated Payment System User Guide V2.0. (2011). e-Gait.

cheri UC contacted the TAF and expressed their interests in adopting a similar system in their UC. TAF visited the UC to assess the current position and advise them before implementing the new payment system.

TAF launched the Citizen Friendly Payment System at Chavakachcheri UC, bearing the cost of the software and staff training. TAF introduced the Chavakachcheri UC to the software developing firm, with whom the LA signed a 3 year agreement; which includes paying Rs 150,000 annually and the developer visiting the UC twice a year. Renovating the front office and hardware costs were borne by the UC.

Exhibit 1: Assessment Tax Revenue Collection, 2013-2014



Source: Chavakachcheri Urban Council

The UC computerised the K Form in December, 2013. The computerised payment system does not allow the tax payer to pay current year taxes unless arrears have been settled. Thus, in January 2014, the assessment tax revenue increased by more than 3 times. Exhibit 1 shows the increase in assessment tax which includes arrears and current year tax for the

years 2013 and 2014. Assessment taxes, often paid in the early months of the year increased nearly fourfold year on year in January 2014 when compared with January 2013 from 0.72 million rupees to 2.49 million rupees.

Some of the benefits of the Citizen Friendly Payment System outlined by the UC staff³ include:

- The time taken to process a request has reduced considerably and so has the possibility of errors.
- Previously, different Council areas were handled by a specific clerk, whereas now any clerk is equipped to process requests on any area.
- Customised reports can be created effortlessly, for example, according to different categories, types of properties, areas and time periods.
- Accountants, clerks, council chairman and other administrative users can operate the system simultaneously. Under the manual system, the specific books had to be consulted and explanations of entries by clerks to other officials or councillors were often required to understand records.
- Even minuscule amounts such as cents are carried forward whereas under the manual system such small amounts are lost and accounts may not balance at the end of the year.
- Searching for properties by road/lane and house number is straightforward. For example, when a citizen returns after a substantial period of time and he only has a deed of his property where the deed is in his name but the property is registered in the ledger under his parents' name, with the Citizen's Friendly Payment System, searching for the property is easier.
- Properties can be searched according to National Identity Card (NIC) numbers.
- Changing names of owners or tenants is monitored. The user must log in to the system with their specific username and password to make changes and this reduces fraudulent alterations. Under the manual system, changes could be made as long as it was accompanied by an approving signature, which had a risk of being forged.

³ Revenue Team, Chavakacheri Urban Council, (2015). *Automated payment systems - group interview.*

- K-Forms are filled on the system and printed which is clearer and has greater detail.
- The computerised system does not allow the payer to pay current year taxes unless arrears are settled.
- The software developer maintains a backup of the UC's data.
- A person lacking ICT knowledge can be trained to use the system.

Some of the drawbacks of the Citizen Friendly Payment System as noted by the UC staff included the following observations:

- The system permits a particular bill to be printed multiple times, even if the payment has been made. This feature was viewed as disadvantageous due to potential confusion.
- The UC does not backup data internally and does not have the facilities to do so. Data is backed up only by the software developer.

Chavakachcheri UC was an example of 'demand driven' intervention that resulted in a highly successful shift to automating and introducing a citizen friendly payment system. The move has seen similar successes in Jaffna MC.

Some LAs such as Kalmunai and Batticaloa opted for a more limited automation process utilising a hybrid system of part computerisation and part pre-existing manual processes. Only the K-Form for assessment taxes has been computerised in these LAs.⁴

Limitations

TAF staff noted that the new payment system is a tool that is limited in scope of usage. Just like the Revenue Management Tool that focuses only on revenue management, the payment system only focuses on payment collection and monitoring. Difficulties in developing a uniform system that fits differing LA uses and capacities, large data entry requirement by LAs to update records and more complex training requirements have made such piecemeal approaches more practicable, but as noted by TAF staff the ideal shift would be to a fully integrated financial management system.

⁴ Valeeth, M. (2015). *Kalmunai Programme Officer Interview*.

Lessons Learnt, Potential for Sustainability and Institutionalisation

As this system is directly related to revenue collection, the willingness of the LAs to adopt and continue using it is high. Since TAF has already paid for the development of the software and the LAs only have to pay the licensing fees, costs of adopting the system in comparison to doing it on their own are much lower. The agreement between TAF and the software developer also enhances the sustainability of the platform offering more security to LAs that a transition to an automated system does not need to be temporary or result in incurring excessive maintenance costs. Costs borne by the LAs have included hardware, internet and renovating the front office suggesting a significant buy-in from the beneficiary LAs. Replicating the process in other areas is easier as the software is already available and the receiving LAs only have to pay for maintenance.

Replication may however need to be a slow process. Although the payment system does not require prior ICT knowledge to use the system, training is necessary. Therefore, access to a cheaper software solution alone cannot guarantee mass replication. Institutionalising the training process at provincial level may be required to facilitate such replication and will also assist in dealing with the problem of staff transfers.

Context specific difficulties may also arise in implementation. For example, some factors noted as problematic when implementing an automated system point to limitations in staff capacity which would need to be overcome. LAs noted problems in searching for data due to 'not having a standard way of saving data'. Searchability in the payment is based on how the data has been saved: it is sensitive to caps, zero preceding numbers, and symbols. Such issues are not a result of inherent weaknesses in the system but highlight implementation difficulties in staff capacity. Similarly, LAs highlighted the need for reliable electricity and internet for the system to function and that female staff find after hours training inconvenient or difficult. Factoring in these concerns are also necessary and may restrict the pace of implementation.

Overall, despite the above mentioned limitations, improving tax payments through 'citizen friendly payment systems' have high potential to be a popular intervention with both LAs

and citizens. Its positive impact on revenue generation and management also create strong incentives for sustainability by the LAs.

List of References

e-Gait Automated Payment System User Guide V 2.0. (2011). e-Gait.

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Valeeth, M. (2015). *Kalmunai Programme Officer Interview*.

Annexure 1 – Semi-Structured questionnaire for TAF staff

1. What was the primary purpose and expected outcome of introducing the tool/s to local authorities?
2. What was the response of local authorities to the tool?
3. What was their level of enthusiasm when the tool was first introduced? (scale of 1-10, 10 the being highest value)
4. Where was it implemented? Please list all locations
5. What was the level of implementation at each location? Please list appropriate level for each location (early stages/partially implemented/fully implemented)
6. Please list out the implementation process followed at each location.
7. What were the main changes and outcomes to the LA as a result of implementing the tool? Please list any empirical evidence to support the changes and outcomes mentioned.
8. What were the major challenges to implementing the tool
9. On a scale of 1-10 (10 being the highest) how would you rate the success of the tool and why?

Annexure 2 – Unstructured Case Study Questionnaire

A. Case Study Objectives:

1. Getting to a comprehensive understanding of how The Asia Foundation (TAF) has navigated the complexities and realities of politics in the Local Economic Governance (LEG) Project. (This includes all three strands/domains being addressed in the Practice Notes).
2. Unpacking the dynamic nature of the institutional and organizational structures and processes (political/social/economic/legal/other) at the sub-national level that have facilitated (or failed to facilitate) TAF's key objectives of institutionalization, innovation, replication and sustainability.
3. Exploring how political and economic incentives were built to provide citizen-centric services.
4. Documenting/highlighting the value-addition that the LEG Project provides to the existing body of conceptual and empirical knowledge.

B. Questions for Unstructured KPIs and FGDs:

1. Has TAF's LEG Project (and the three strands/domains embedded in this Project) been successful in terms of its stated objectives (as set out in Case Study Objective 2 above and as reflected specifically in the sub-objectives underpinning the three strands addressed in the Practice Notes)? Has the Project failed to realize these objectives?

- a) Please identify the key supply and demand-side enabling factors that have contributed to the success of the Project. These factors may include political/social/legal/economic/technical/other institutional/organizational structures and processes at the sub-national/LG level and in the relevant public policy space (such as factors associated with national/provincial gov-

ernment, donor practices, other development partners such as the private sector/Regional Chambers, citizen groups, etc.).

- b) Please identify the key supply and demand-side factors that have undermined the success of the Project.
 - c) Please identify key procedural elements that stand out as innovative/novel in the LEG Project.
1. How have the strategic political economy approaches and tools adopted by TAF in the LEG Project worked in practice?
- a) What are the political incentives that have worked to make the Project a success?
 - b) What are the political disincentives that have undermined the success of the Project?
 - c) To what extent has the strategy of working closely with political actors (including “political champions”) been useful in terms of realizing the objectives of the LEG Project? Explain for instance, how these “champions” have negotiated the challenge of getting broad buy-in/political ownership for the reform process. Has political competition and comparison played a role in shaping the incentives and behavior of these political actors?
 - d) To what extent has the strategy of working closely with political actors (including “political champions”) led to new risks that have in turn undermined the success of the LEG Project?
 - e) How has the role of bureaucrats (as distinct from politicians) been balanced and contextualized in the Project?
 - f) Has the existing political context had an impact in terms of the success/failure of the Project? If so, how (explain the dynamics of the link between the political context and the success/failure of the Project)? Explain how the specifics of Sri Lanka’s sub-national/LG context have impacted on the LEG Project. Explain how the Project has addressed issues such as rent-seeking/corruption and political favoritism. Explain how the LEG Project has

navigated institutional realities during and after the civil war (including the nature of the state, of the state-citizen nexus, of the role of other development partners- for instance, the private sector and the donor community).

- g) Explain how the LEG Project has addressed the issue of trust deficit in Sri Lanka's civil society and facilitated and embedded citizen "voice" mechanisms (and the active participation of citizens in the broader socio-economic development and political governance process) – particularly in relation to the empowerment of vulnerable and marginalized communities.
 - h) How has the politics of governance been blended with the imperative of economic growth in the Project?
2. To what extent can the strategic political economy approaches and tools underpinning the LEG Project be replicated – in other localities in Sri Lanka/by TAF in future programs/by other donors?
- What are the key "good practice" lessons as well as major shortcomings that may be useful for practitioners (Sri Lankan policy makers, the donor community, other key actors in this particular public policy space, etc.) attempting to replicate this "model"?

