CHAPTER 3

PRIVATIZATION OF PUBLIC SERVICES – EXISTING MODELS AND METHODS
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The objective of this chapter is to overview how privatization has been carried out in some of the public services both inside and outside India. This section commences with a brief review of models of privatization and the forms of contractual arrangements with private sector. In the following section an assessment of the results of the selected case studies of private assistance in providing public services has been made.

MODELS OF PRIVATIZATION

There are four basic prerequisites for successful privatization in public utilities:

   (i) Clear and coherent goals focused on delivering of services,
   (ii) Autonomous management where both managers and employees are responsible and accountable for results,
   (iii) Financial independence, and
   (iv) Good supervision and regulation

The first three of these are inherent in private sector system of management unlike in government system that has to balance different economic, social, and political objectives, meet numerous restrictions on employee accountability and depend on budgetary decisions and pricing decisions driven by politics. On the other hand a survey of forty-four countries with World Bank financed projects designed to improve infrastructure performance revealed the most common problems in six infrastructure sectors are unclear goals, lack of managerial autonomy and accountability, financial difficulties, and wage and labor problems (World Development Report 1994).
There are three instruments that reinforce commercial operations and can improve public sector effectiveness:

(i) Corporatization that gives greater independence and identity.
(ii) Contracts between governments and corporate entities
(iii) Financial independence through pricing aimed at cost recovery.

Corporatization is changing a government department into a joint stock company in order to increase management autonomy. This gives an enterprise an independent status and it will be subject to the same legal requirements as a private firm. Some of the market principles that will help corporate governance are adequate competition, level regulatory playing field, and profit maximization. The issues that raise objections to this are limitation of profit maximization and price regulations either because the services are public/quasi public goods or because governments have objectives other than profit.

Contracts between governments and corporate entities can address the governance problems of the public sector service providers. The approaches to these contracts are (i) performance agreements, (ii) management contracts, (iii) service contracts, (iv) leases, and (v) concessions.

Performance Agreements: These are negotiated between the Government and managers of the organization. The Government retains all decisions. These agreements increase the accountability of employees and managers due to focus on performance expectations, clear roles and responsibilities and explicit performance-based incentives. Some of the major ingredients of these arrangements are (i) information and evaluation systems for performance monitoring with detailed quantitative and qualitative indicators, (ii) specific targets, goals and objectives of performance, (iii) appropriate incentives including managerial autonomy, rewards for workers and managers for achieving agreed performance, (iv) appropriate duration of agreements for effective performance results, and (v) reasonable weight attached to various performance indicators. A case of the success story of performance agreement is of the Korean Electric Corporation (Annexure 12). The rate of return on assets tripled over a period of seven years. In some cases of agreements in Africa failed to address the lack of performance incentives for managers and workers. Some of the other alternatives have proved to be more successful in such situations.
Management Contracting: In this form of arrangement the responsibility for managing, operation and maintenance of public services is vested with the private sector usually for three to five years. This increases the autonomy of management and reduces the risks of political interference. Success of management contracts depends on the degree of autonomy actually vested in decision-making. The management contract signed for a power plant in the Philippines failed within nine months because the owners of the plant prevented the private contractor from controlling key functions affecting productivity and service quality such as staffing, procurement, and working capital. It is also successful when a part of the compensation is based on performance. Fixed fee arrangements are seldom successful. The success story of Electricity and Water Company of Guinea-Bissau (Annexure 13) specified that 75 percent of the remuneration was guaranteed but 25 percent was based on performance. Increased management involvement and accountability have improved project performance. This happens when smaller firms, with more labor-intensive techniques participate in government contracts. This is the success story of Agencies d'Execution des Travaux d'Interet Public (AGETIPs) in West Africa (Annexure 14). Here management responsibilities for urban infrastructure projects have been contracted out to NGO's that in turn contract out the public works. This has lead to 10 to 15 percent reductions in unit costs in local infrastructure projects. However problems became evident in 1994 when the utility was not able to generate revenue to finance expansion. This happened due to large rise in receivables mainly to private sector's fraudulent connections and the government's demand to service critical functions even when payments were not made.

Contracting out Services: This transfers to private providers the responsibility for delivering a specific service at lower costs or for obtaining the skills or expertise lacking in the public sector. It is flexible, cost effective and increases responsiveness. It allows competition among the service providers as they are with short and specific contracts. This form of contracting is most common for maintenance services. The government department sets the terms of reference and performance standards for the service provider, manages bids and supervises performance. This also encourages employees to leave the infrastructure provider and compete for service contracts, which was noted in Santiago's Public Water Company. Where there are major
investment requirements the contracts should be for longer duration and wider scope to justify capitalization.

Leases: Under this the government supplies the major investments for production facilities and the private contractor pays for the right to use the public facilities for providing services. This ensures required investments take place for provision of services which if done by the private sector will result in poor performance due to financial strain as the investments come in infrequent bursts. This will separate responsibility for operations from investments. A lease provides exclusive right for the revenues for a period of six to ten years. The operator usually assumes all or most of the commercial risks. One of the success stories of lease is Guinea’s water supply. Under lease private operators are freed from the many constraints facing the public operator that improves productivity. Leases as such do not provide incentives to private operators to maintain and expand the facilities under their charge. They may also depreciate assets rapidly for short-gain. This can be avoided through specific maintenance requirements written in contracts and through supervision. Also eligibility for renewal can be made contingent on the state of the investments.

Concessions: This incorporates the entire features of a lease and in addition has the responsibility of investment such as specified extensions, expansions or replacement of fixed assets. The terms of a concession should allow sufficient rate of return for investment and adequate incentives for maintenance and provision of services. The norm used in for this is to keep the duration of the concession in relation to the life of the underlying asset. There is always a danger that the terms of a concession will allow investors either too high rate of return or will provide too less to provide effective service. The following are some of the successful methods used in concession:

- Award a concession to the bidder who offers the largest lump sum up front
- Profit-sharing arrangements where project costs and revenues are uncertain
- Award concession on the basis of lowest price charged to the consumer.

Pricing for financial independence: This is the third element in the successful provision of infrastructure services. Revenues need to be directly related to the
service delivered. Some of the ways of motivating providers are reduction in
subsidy, cost reduction, cost recovery, transparency and financial autonomy. A
pricing strategy focuses on recovering the three main cost components: connection,
usage and peak-capacity costs. Connection cost can be recovered as periodic flat fee
for connection and for the maintenance of it. Usage cost is best recovered through
metering. The tariff should not be so insignificant that consumers over use it leading
to wastage. In Bogor, Indonesia, raising tariffs to meet costs reduced water
consumption by 30 percent in less than a year without any obvious impact on health
or economic production. One outcome of the end of subsidies to Ghana’s water
utility in 1988 was an increase in meter coverage from less than 30 percent to 53
percent in 1993, and in revenue collection from less than 50 percent to 91 percent of
billings. Another method of cost recovery is levying a charge based on potential
demand or actual consumption at peak. This method helps avoid power outages and
water shortages. Many governments fear that fully recovering costs will hurt the
poor, which is usually not the case. They often pay much higher prices per unit for
privately provided water and lighting because they are not connected to public service
networks that have lower unit costs, and because they do not benefit from subsidies to
users of the public system. Expanding the public utility network to give the poor
access would mean that they would pay less than they are now willing and able to pay
private providers.

It is important to design tariffs to achieve financial autonomy while addressing
multiple goals. The objective of pricing should be to set prices equal to marginal cost
to recover the cost of production and also to ensure prices reflect scarcity of
resources. The need to jointly address equity and efficiency can be met through
adjustments in the general pricing formula. The public price has to be revised to
cover the cost of providing the service plus a markup, often resulting in multi-part
tariffs and cross-subsidies. The two common options are increasing-block tariffs and
time-of-use rate structures. Under an increasing-block tariff, consumption of services
is priced at a low initial rate up to a specified volume of use (block) and at a higher
rate per block thereafter. The number of blocks varies from three to as many as ten.
The most effective structure is the simplest, in particular when monitoring and
administrative capacities are constraining. Under the time-of-use rate structure, users
pay a premium during periods of high demand. This encourages consumers to shift
demand to the off-peak period and allows the producer to utilize overall capacity leading to increase in profit. Time-of-use rates are practical for infrastructure in which the product cannot be stored cheaply and its use can be partitioned by time slices into multiple products. Tariffs can also be differentiated by region like water in higher region to be costlier.

Types of Private Sector Participation

Private sector assistance can be through two major modalities (i) complete divestment of the activity and (ii) public-private arrangement in which the two parties agree to perform specific functions for providing service or for production. The following are some of the prevailing types of private sector arrangements:

- **Build-Own-Operate (BOO):** Under this arrangement the private entity is responsible for investment construction of the project. It will have full ownership of the project and will be also responsible for running of the project.

- **Build-Operate-Transfer (BOT):** The conditions of BOO are applied but the project is transferred to government at a time as agreed. The private sector ceases to hold any right to the project. Based on the conditions of the arrangement with the government and the private party BOT can have some variations such as build-transfer-operate, build-rent-transfer, rehabilitate-operate-transfer, lease-develop-transfer, lease-develop-operate, etc.

- **Build-Own-Operate-Transfer (BOOT):** Here again the conditions of BOO are applied. In addition to financing

- **Competitive Tendering (CT):** This process seeks a number of competing tenders for a defined service to be performed under a contract.

- **Compulsory Competitive Tendering (CCT):** This is same as CT but enforced by law or procedure.

- **Contracting Out:** Under this process contracts are made with private parties, or other agencies to perform the function for a period for a specified compensation.

- **Cooperatives:** In this process self-help organizations are involved for performing the functions in the interest of the communities they serve.

- **Franchising:** Under this arrangement a private party undertakes the responsibility for operating the service and for collecting charges.
• **Concession:** In this arrangement a private party takes on lease assets from the public authority for a period, provides the service and collects the income. The party also is responsible for new investments during the period. Under the arrangement the assets revert to the public sector at the expiry of the lease.

• **Affermage:** Under this arrangement the public authority controls construction, owns the asset but contracts out operation, maintenance and billing.

• **Leasing:** It is different from concession in the matter that the lessee does not have the responsibility for investment in fixed assets. The private party contracts with the public authority to operate a facility meeting expenses and collecting revenue for a specified period.

• **Management Buy Out (MBO):** Under this management of a service is bought and then it becomes a private venture.

• **Sale:** It is the total sale of the assets and the management of the services.

• **Vouchers:** This enables consumers for concessions and discounts from the public authority, which enables the private party to provide equal service to the affected consumers.

• **Management Contract:** Under this the private contractor has the responsibility for the operation, maintenance and management. Compensation is based on services rendered and for the performance achieved.

**PRIVATIZATION OF MUNICIPAL SERVICES – CASES**

**East Africa**

UNCHAS, (1998), reports about five different modes of privatizing municipal services that have been used in East Africa as each of them has distinct features with regard to ownership and outcome. The modes of privatization are set out in Annexure 15 together with some notes on some important characteristics, common municipal services privatized under each mode and the impact on delivery of services. There are some important points to bear in mind in reviewing privatization of municipal services in East Africa. First, since privatization of municipal services is a new concept and not well developed, the modes used may not be as well defined as presented. Although the municipal council may be privatizing a service using one or two of the modes described in the table, it may not define it as such. Second, two or
more privatization modes may be applied concurrently for the same service. The following conclusions are derived from the East African experience:

- The process of decentralization and privatization of municipal services is in varying degrees relatively recent in practically all the countries under study. In some of the countries, the processes are just in the planning stages or on pilot/trial basis. In none of the countries has there been any municipal service that is completely privatized as yet. The services most experimented with so far are solid-waste management and water supply, but more of the former than the latter.

- Privatization largely takes the form of contracting out provision of services to private sector firms with the municipal government authority retaining overall monitoring and supervisory authority and power in paying the private sector contractor. In some cases privatization has meant commercialization of services or attempts thereof by the municipal service departments.

- Where real privatization of municipal services has actually taken place, it has largely been selectively piece-meal, serving or operating effectively mainly in the middle- and higher-income residential areas that can afford to pay for the services, thus leaving a large proportion of the poor and low-income areas where residents cannot afford to pay for the privatized services. This raises issues of social equity and social integration and remains an unresolved public policy issue, i.e. how to provide such services to segments of the population that cannot afford to pay for private sector provision of such services.

- Overall, preliminary assessment of the privatization of collection and disposal of waste in the countries of the East African sub-region indicates that in areas where it has been applied, it is more efficient than collection by the municipal authorities themselves but this rarely covers the whole city.

United Republic of Tanzania

In the United Republic of Tanzania, several modes of countrywide privatization of municipal services have been attempted as reported by UNCHAS, (1998). These include the following:
• **Open competition:** This is implemented through the provision of licenses to private firms to provide municipal services which are also provided by the Council, such as public transport (e.g. Della Dallas), health services like dispensaries, health centers, pharmaceutical shops and hospitals.

• **Management contracts:** This has been used to award the rights to firms for running parking lots within the city center of Dar es salaam.

• **Franchising:** This has been applied in the privatization of solid waste management in the city of Dar es salaam.

• **Concessions:** These have been used to award management of public toilets in Arusha.

• **Compulsory competitive tendering:** The city council defined the types of work for external competition and awarded contracts on merit. Compulsory competitive tendering has occurred in the privatization of solid waste collection and disposal in the city of Dar es salaam where a number of private firms bid for the award of contract of providing this service, which was otherwise being solely carried out by the Dar es Salaam City Council.

• **Shifting of responsibilities:** This is a situation where services that were once nationalized are re-allocated to the former owners or to a community-based organization (CBO). A number of schools and health facilities that were nationalized in the 1970s have been de-nationalized and returned to the former owners. Shifting of responsibilities has also occurred in the local areas where CBOs have been established and assigned service provision duties. A good example is the CBO involved in the construction of drainage channels and road resurfacing in Hanna Nassif area in Dar es Salaam.

**Local Public Services in Wisconsin: Alternatives for Municipalities**

**Factors influencing privatization**

This was a study conducted by Deller, C. Steven, and et.al. (2001) regarding the factors influencing the decision to privatize services and factors contributing to success. In this study 452 cities and villages in Wisconsin were surveyed and the most frequently mentioned reason for privatizing services (cited by 70 per cent of municipalities as either their first, second, or thirds most important reason) was “internal pressure to increase costs”. Nearly 40 per cent mentioned this as the most important reason for
privatizing, with an additional 30 per cent giving that response as the second or third most important reason. Three additional responses had a combined response total of approximately 45 per cent of responding municipalities: (1) “successful use in other jurisdictions”; (2) “external pressure on finances, including tax restrictions”; (3) “concerns about municipal liabilities.” Intergovernmental mandates were cited by 30 per cent of municipalities. Fifteen per cent gave that as their most important reason and an additional fifteen per cent stated it as their second or third most important reason.

The following are the important reasons for privatization in order of reported priorities:

1. Internal pressure to decrease costs
2. Successful use in other jurisdictions
3. External pressure on finances, including tax restriction
4. Concerns about municipal liabilities
5. Intergovernmental mandates
6. Altered political climate regarding role of government
7. Unsolicited proposals for providers
8. Other
9. Active citizen group favoring privatization

Figure 3: Factors Causing Cities / Villages to Consider Privatization During the Past five Years

Methods for Implementing Privatization

Further by Deller, C. Steven, and et.al. (2001) surveyed on how privatization can be implemented once municipal officials make the decision to privatize or to consider privatizing specific services. The survey sought responses as to preferred methods for implementing the privatization and promoting it to residents. “Analyzed feasibility”
was the most important method of 28 per cent of municipalities, and was cited by an additional 36 per cent as the second or third most important implementation method, totaling 64 per cent. Two other methods were cited by between 40 per cent and 50 per cent of municipalities as one of their top three methods: (1) “Identifying successful uses in other jurisdictions” was the first choice for 13 per cent, and was the second or third choice for an additional 25 per cent, for a total of 43 per cent. Two additional methods were mentioned by nearly thirty per cent of the municipalities: (1) “using privatization only for new or growing services,” and (2) “implementing privatization on a trial basis”. The following methods of privatization were identified in the order of priority:

1. Analyzed feasibility
2. Identified successful use in other jurisdictions
3. Promoted general features of privatization
4. Used privatization only for new or growing services
5. Implemented privatization on a trial basis
6. Kept service compliant mechanism in house
7. Minimized effect of displaced public workers
8. Recommended changes in state and local laws
9. Established citizen advisory committee
10. Other
11. Allowed government departments to compete with private sector in bidding
Factors Contributing to Success

Approximately 69 per cent of municipalities that privatized services characterized the experience as “a success in most cases,” and thirteen per cent as “a success in a few cases.” Only one characterized it as a “failure in most cases.” The factors that made privatization initiatives successful are “Financial considerations” and “quality of work” top the list – 40 and 36 per cent of the municipalities, respectively, cited those factors as most important, and 75 per cent mentioned them as one of the three most important reasons for success. Approximately 40 per cent of municipalities mentioned “responsiveness” and “timeliness” of the privatized services as either first, second, or third most important reason. The following factors have been identified for successful privatization in the order of priority:

1. Quality of Work
2. Financial Considerations
3. Responsiveness
4. Timeliness
5. Flexibility
6. Past experience
7. Monitoring of contract
8. Sensitivity to political situation
9. Other


Reasons for Not Privatizing

They survey also examined reasons why certain municipalities have not privatized services. Nearly fifty per cent noted "lack of evidence on effectiveness of privatization" as a first, second, or third reason, with 21 per cent citing it as the most important reason. The next three most frequently cited reasons were (1) "loss of control (43 per cent), (2) "insufficient supply of competent private deliverers" (37 per cent), and (3) "opposition from elected officials (32 per cent). The following reasons were identified for not privatizing in the order of priority:

1. Lack of evidence on effectiveness
2. Loss of Control
3. Insufficient supply of competent private deliverers
4. Opposition from elected officials
5. Opposition from citizens
6. Restrictive labor contracts and agreements
7. Opposition from unions
8. Institutional rigidities or lack of precedent
9. Other
10. Opposition from dept heads
11. Lack of contract mgmt experience among staff
12. Legal constraints
13. Other from line employees
As one examines nationwide trends in privatization, it is evident that unions generally oppose privatization. Union-related also surfaced in this study as an explanatory factor for not seeking the privatization alternative. “Restrictive labor contracts and agreements” and “opposition from unions” were cited by 24 per cent and 23 per cent of municipalities, respectively.

India Case Studies - Privatization of Municipal Services

Inadequacies in the basic amenities in India are accelerated with the decline in investment and financial support from the central and state governments to the local bodies and the limited capacity of the local bodies for resource generation. This is leading to focus on alternative institutional arrangements specifically towards private sector participation in management of municipal services to bridge the gap.

The most common form of private sector participation is contracting out management of one or a set of services by municipal bodies to private companies. In the name of competition and efficiency it is possible that there could be dilution of social responsibility and exclusion of the poor and vulnerable sections from the formal delivery system. Therefore, there is need for regulatory and supervisor arrangements for monitoring the contracts with private sector.
Some Indian cities have adopted contracting out to private sector as listed in Annexure 16. Since these are relatively new arrangements reliable data on revenue and expenses of the local bodies before and after contracting out are not yet available. An assessment of the success of this arrangement can be made only after evaluating the quality of the services, social responsibility, cost reductions, and sustainability of the system.

There have been problems in the implementation of the contracting out arrangements. In Vadodara the arrangement with a private company for manufacture of fuel pellets from waste was abandoned, as it was not cost effective for the company to collect waste from geographically dispersed areas. It is reported that solid waste disposal arrangements do not reach the poor section of the locality. This leads to the risk of periodic epidemics for the urban community.

Community participation in urban development projects can be seen at different levels and ways. This form of management has evolved in the wake of the failure of public agencies in providing satisfactory service. Residents in the project area involve in the various stages of the project including monitoring and maintenance of services. A network of community groups, enterprises, city agencies and beneficiaries carry out the projects. The pressure of peer groups under participatory arrangements result in better monitoring, engagement of beneficiaries, and recovery of loans to individuals. Slum Networking Projects (SNPs) in Indian cities have been considered as very successful method of community participation. The following case studies are based on UNCHAS and GOI, (2001):

**Ahmedabad Municipal Corporation (AMC)**

In 1994 the Ahmedabad city government embarked on reforms. This involved reforms in the information base, assessment and collection mechanism of octroi and property tax resulting in doubling the revenue proceeds. The Corporation initiated public-private partnerships for improving streets, urban forestry, slum networking project, city cleaning and planning.
Under the Street Improvement Partnership C.G. Road a prime business and commercial artery of Ahmedabad has been redeveloped as a pilot project. This has been taken up by AMC in partnership with the Arvind Mills Limited, which has invested Rs. 35 million. The company will recover its investment from the charges for advertisement and vehicle parking. A committee headed by the Municipal Commissioner and representatives of the company and a project-consulting firm coordinated the project.

Under Urban Forestry or Green Partnership project AMC undertakes urban forestry in its vacant plots in partnership with community-based organizations (CBO). AMC provides land, water supply, fencing and tree plantation. CBOs provide administrative and management expenses and recovers investments through agro-forestry and other remunerative activities at the site.

AMC has undertaken the Slum Networking Project (SNP) through a partnership with NGOs and private agencies. The project aims at improving the quality of slum communities in terms of physical and social infrastructure including health, education, skill up-gradation and access to finance for house improvement and income generation. A pilot project has been successfully implemented at Sanjay Nagar in Potalia ward. The four partners who joined this are The Patani community, Arvind Mills Limited, SAATH, an NGO and AMC. SEWA Bank and HUDCO extended financial support. Arvind Mills promoted a trust – SHARDA to implement the project. All partners played independent roles and exercised joint control. Currently 16 such projects are ongoing supporting 6709 families covering a population of 36,885. In spite of all safeguards this is facing difficulties. Differences of opinion among the partners emerged even in the pilot phase. Three of the four slums scheduled for upgrading did not proceed due to reluctance of their communities to raise funds. Conflicts developed between the engineering wing of AMC and Arvind Mills regarding decision-making procedures. Arvind Mills withdrew from the project and no other private company has participated in the project. The project is being implemented in a selective and less ambitious manner by AMC. If successful, AMC may be able to achieve partial success without achieving the fundamental requisite of SNP project: to make urban development self-financing.
Under the Clean City Partnership for solid waste management a pilot project has been implemented at Ambawadi area in partnership with SEWA an NGO, Clean Green Abhiyan—an initiative supported by Prarthana Group of Industries and Centre for Environment Education. The project aims at improving hygiene and sanitation by reorganizing the solid waste collection and disposal system through neighborhood level collection and disposal.

The Ahmedabad Municipal Corporation took these changes as a challenge and found that the best way to address them was by building innovative partnerships at a wide rage of local governance functions which include poverty eradication, health and social infrastructure, and improved urban governance by mobilizing resources from private sources.

Community Participation in Municipal Corporation of Greater Mumbai (MCGM) in Solid Waste Management

Mumbai City has a population of 12 millions spread over a geographical area of 437sq km. It generates 6,000 metric tones of municipal solid waste (MSW) daily comprising of 60% household waste and 40% soil, silt and debris. MCGM employ about 25,000 staff and spends about Rs. 30 million annually. In order to improve the conditions the concept of Advanced Locality Management (ALM) was introduced with a view to involve citizens in waste management.

Under the ALM concept residents of a building or a group of buildings of a particular locality are organized to be responsible for the cleanliness of their buildings or streets. They are required to segregate the garbage into recyclable and non-recyclable biodegradable constituents with a view to reduce expenditure at later stage. MCGM appoints a nodal officer in the wards at beat level to visit ALM regularly and take a proactive role in addressing complaints. (The city is divided into administrative units called Wards comprising of smaller areas called beats). There are regular meetings of ALM with Officer on Special Duty and the Additional Municipal Commissioner.

The first ALM was found in Joshi Lane in Ghatkopar area of Eastern Suburb in 1998. Currently there are about 700 ALM societies. The ALM concept is also functional in
slums and commercial areas. Airport Hotel Owners’ Association was established in 1999 and there are about 45 associations in slums. They associate in house to house garbage collection and thus improve cleanliness level.

The ALM concept of community participation in solid waste management is gradually spreading to other areas such as road repairs, water supply, check on unauthorized constructions and hawking, etc. This new trend is causing anxiety to civic staff that need to function more effectively due to the vigilance of residents.

**Slum Networking Project (SNP) of Indore**

The project consisted of provision of individual water taps, connection of toilets to a sewage network, installation of integrated drainage and sanitation system and soft landscaping. The project is criticized for neglect of community development activities. Community-level organizations were not created and involved in the preparation and implementation of plans. In the absence of this the project was not sustainable as the project staff were preoccupied with their post-project postings following the termination of the project.

**Privatization of Sanitation through Residents’ Association in Tirunelveli City Municipal Corporation (TCMC)**

TCMC was formed in 1994 extending over 108 sq. km with a population of 0.45 million. This has 55 Councilors, 1500 staff and an annual budget of Rs. 400 million. A need for reform was felt in 1998 after a review that revealed the alarming status of the quality of service provision. This led to involvement of creation of residents, provision of subsidized loans to sanitary workers, and other community welfare improvements.

Under the scheme individual residents’ associations could hire own private sanitary workers based on one sanitary worker per 200 houses. For this Corporation pays Rs. 5 per house per month to the Residents’ Association and withdraws corporation’s sanitary staff. Corporation’s saving on this works out to Rs. 45 per household per
month as follows (monthly payment to each household Rs. 5 and cost of employing sanitary workers Rs. 50 based on Rs. 10,000 for 2 workers for 200 households).

Supervision is constant as residents are aware of services being provided and in addition a sanitary inspector certifies before payment to residents' association. The private worker collects garbage and takes to Corporation's container. Thirteen Residents' Associations with 2000 houses participated in the scheme in three months.

Another project was privatizing garbage collection with the aid of Scavengers Liberation and Rehabilitation Scheme. Dependents of TCMC's sanitary workers availed loans from financial institutions for buying tipper autos. These were hired by TCMC for transportation of garbage at Rs. 75 per ton. As per estimates TCMC saves Rs. 0.45 million annually through this system as it does not incur capital investment and operational expenses.

As a chain action another project was conceived to convert the 200-acre garbage dumping location into a thick forest area. The project of developing a green belt area was contracted out to plant saplings, fence, dig bore wells, install drip irrigation and maintain for two years. Payments are released proportionate to the number of surviving saplings of two years age.

TCMC's privatization project is considered as a success story. The major ingredients of it are (i) involvement of citizens, (ii) financial viability for both the Corporation and the private operators, (iii) involvement of corporation staff as their interests were protected and (iv) commitment and supervision by TCMC.

**Adoption of Micro Management in Surat Municipal Corporation**

The pneumonic plague cases of Surat city of Gujarat state in September 1994 took the local administration by surprise and the most important initiative launched by SMC was to monitor, regulate and streamline garbage collection and disposal.

Some of the issues addressed in the process included improvement in the system of transportation of waste through the policy of 'handling waste once only', reduction of
quantity of waste plying to land fill sites, income generation from waste, safe
disposal, technology up gradation and cost effectiveness.

The key aspects instrumental in achieving the objectives were field work by staff,
close monitoring through daily meetings, efficient grievance and complaint
addressing system, slum up gradation and rehabilitation projects, litter prevention
system, etc. Under micro planning cleaning schedules including night sweeping was
set up, manpower and equipment were allotted under ward system, involved private
sector for movement of garbage, and enforced stringent regulations.

The changes that effected improvements in SMC include, fixing of individual and
group responsibility, computerized evaluation and monitoring, wireless
communication for complaints, creating public awareness, delegation of financial and
administrative powers to zonal chief, 24-48-72 hours and 7 days card system for
complaints addressing, zero garbage road system for 24 hours, solid waste movement
through contractors, night cleaning in busy places, retired sweepers reemployment,
etc.

SMC’s eighteen months experience in municipal management reform leads to
conclusions that constraints could largely be overcome through good governance and
rule of law. Some of the important management tools are decentralization with
accountability, use of information system for decision support and to empower
citizen, transparency through public awareness, etc.

Municipal Management and Capacity Building in Municipal Corporation of
Ludhiana (MCL)

The reforms initiated by MCL aimed at providing efficient services at minimum costs,
strengthening institutional capacity and human resources. This was achieved through
induction of community participation in management, privatization and management
reorganization.

Community Participation: MCL encouraged retired and senior citizens to participate
in the ‘Manage Your Neighborhood’ scheme as ‘Managers without Salary’. This was
required as there were insufficient number of supervisors and managers under MCL. Further this scheme reduced the involvement of MCL staff in management. The three schemes that operate under Community Participation program are Park Management Committees (PMC), Neighborhood Sanitation Committees (NSC) and Neighborhood Tube Well Operator Scheme (NTO). Maintenance of parks was handed over to PMCs who hired gardeners and MCL reimbursed expenses at Rs. 1 per square meter per month. MCL will carry out all construction activities and will provide technical guidance. All Presently there are 427 under the scheme out of 630 parks owned by MCL. To improve sanitation MCL launched NSC under which three responsible citizens from a particular area can get their NSC registered with MCL. NSC hires sweepers per norms and monitors sanitary facilities. MCL partly reimburses expenditure at Rs. 1,200 per sweeper per month in addition to Rs. 2,500 per sweeper per annum for equipment, etc. The community also contributes to meet the expenses. Currently 146 NSCs look after 60 percent of MCL area employing about 2,400 sweepers. Under the NTO scheme local persons at a monthly fee of Rs. 1,500 supervise tube wells. All these schemes are a great success as they have contributed to efficient management and cost saving for MCL.

MCL privatized solid waste management, street light maintenance, water supply from tube wells, chlorinating of water, cleaning of sewers, bill distribution, etc. Advertising agencies operate garbage containers under build, own and operate basis (BOO) in lieu of advertising rights. They maintain the container sites by concealing it by hoarding and preventing garbage spilling by posting a container attendant.

Conclusions

There is as yet, an absence of clear policies on privatization of municipal services as well as absence of appropriate legislation to support privatization of municipal services. Both central and local government authorities are understandably ambivalent about the necessity to privatize certain municipal services. There is some residual resistance or lack of enthusiasm on the part of local/municipal authorities to share responsibilities with private sector enterprises, let alone completely give up these responsibilities, notwithstanding their limited capacities to deliver these services themselves. Privatization of municipal services is seen by them as giving up power,
authority and control by the municipal authorities and their officials and it has not been found easy to do willingly.

Efforts at effective and efficient privatization are also bedeviled by a number of factors on the part of private sector entrepreneurs in the sub-region. These factors include:

- Limited organizational capacities; and
- Financial inadequacy resulting in inability to mobilize the required capital inputs (equipment, technologies and supplies) to sustain the privatization operation;
- Inadequate professional/technical staff trained to monitor and supervise the operation of the various privatized services.

Although privatization is often interpreted as dispensing with the role of the state and the public sector, it paradoxically requires an enlargement and strengthening of the regulatory role of the state to monitor and enforce contracts, the rules of the game, as well as protect overall public interest. Privatization thus requires strong public presence for it to be efficient and effective.

Some conceptual confusion or ambivalence about what privatization actually involves still exists. Some understand it as contracting or leasing out tasks and responsibilities to private sector firms, while the local (municipal) government retains overall supervisory and regulatory control. Some understand it as commercialization of services by municipal departments and some understand it as total and complete transfer of responsibilities for providing the service to private sector firms who set their own prices, etc. This conceptual ambivalence still requires clearer definitions to enable more objective assessment of the efficacy of privatization as an efficient and effective mode for provision of municipal services.

It is not yet possible to render a definitive verdict on the efficacy and effectiveness of private sector's performance in municipal services provision and management. There are still differing perceptions of the concept and its application to privatization of municipal services as a process and strategy. This is mainly due to its relatively recent origin and limited adoption and application in only a few countries, as well as the public policy concerns regarding its impact on the equity.
The system requires a longer period of implementation and practice in more countries
to provide sufficient experiences to facilitate plausible evaluation. Further, properly
done monitoring and evaluation studies are required to arrive at more credible
conclusions about the efficacy of privatization of municipal services.