CHAPTER 7

PRIVATE SECTOR PARTICIPATION IN THE MANAGEMENT AND DELIVERY OF MUNICIPAL SERVICES – A MODEL
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Based on the studies and analysis done in the earlier chapters, an attempt is made in this chapter to suggest a suitable model for providing municipal services through the private sector participation. By and large the finding of this study suggest that private sector participation in the municipal services will make improvement in the delivery of services. Under these circumstances, it is now important to work out details of the model. The most important issue is to formalize the kind of arrangements required for an efficient management model that would be most effective in the present situation.

Management Model

The most critical question is what kind of management model must be adopted, purely private or participatory. By participatory it is meant that the private sector will have executive function of providing the service and the municipal body will perform the regulatory, supervisory and monitoring functions. The contractual arrangements are done through an assignment model. This issue is analyzed in details in relation to various management issues based on the findings of the study. For this purpose the following comparative analysis will be useful to evaluate the options between purely private system model and participatory model:
<table>
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<tr>
<th>Management Issue</th>
<th>Purely Private</th>
<th>Participatory</th>
</tr>
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<tbody>
<tr>
<td>Political will for change</td>
<td>Lesser willingness - as pure privatization will be supporting capitalistic</td>
<td>Greater willingness – as this will be in line with socialistic approach and</td>
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<tr>
<td></td>
<td>approach</td>
<td>regulation is perceived to be effective</td>
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<tr>
<td>Municipal Employees acceptance</td>
<td>This will be resisted considerably</td>
<td>This may have lesser resistance as they can be inducted gradually.</td>
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<tr>
<td>Municipal Organizational</td>
<td>This will require drastic changes and will be difficult as the role of the</td>
<td>This can be easier approached as the organizational role is reduced or</td>
</tr>
<tr>
<td>transformation needs</td>
<td>organization gets affected.</td>
<td>transformed.</td>
</tr>
<tr>
<td>Addressing public grievances</td>
<td>This can lead to monopolistic and autocratic approaches</td>
<td>The existence of the municipal system as monitoring authority will have</td>
</tr>
<tr>
<td></td>
<td></td>
<td>balancing effect.</td>
</tr>
<tr>
<td>Financial Implications</td>
<td>In general there would be reduction in financial commitments compared to the</td>
<td>In addition to the expenses of the private participant municipal systems need</td>
</tr>
<tr>
<td></td>
<td>expenses incurred by municipal corporations.</td>
<td>to meet expenses relating to the supervisory function. This is designed to be</td>
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<tr>
<td></td>
<td></td>
<td>negligible as role is reduced.</td>
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<tr>
<td>Safety Net in case of failure of</td>
<td>It would be difficult and time consuming to bring back the system in place if</td>
<td>With the presence of municipal system in place it would be less probable that</td>
</tr>
<tr>
<td>the private system</td>
<td>there is failure on the part of the private system. There is greater probability</td>
<td>the system fails. Even if there is problem with the ME arrangement MS can make</td>
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<tr>
<td></td>
<td>for failure of the system due to the absence of municipal system.</td>
<td>alternative arrangement to avoid disruption in services.</td>
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A New Model

The objective of this study is to arrive at a model that will be sustainable in long term, practical to implement considering the employment issues of the municipal systems, efficient to bring changes in municipal services to improve daily life of the public, and financially viable. During the process of the study it was realized that any such model that would be proposed should meet the following criteria:
(i) **Need to Induct Specialized Private Entity:** It is assessed that while the governmental system of municipal management is collapsing gradually, the system of private management of similar facilities efficiently seems to be possible. Therefore there is need for inducting private sector in the management of municipal systems. It is not enough to bring in any private sector entity for providing municipal services. The private entities should be specialized to provide municipal services to be sensitive to the needs of a public system. Therefore such entities should be identified, trained, and nurtured for long term sustainable involvement.

(ii) **Need for regulatory/supervisory role of municipal entity:** To prevent private monopolies, it is important to retain the supervisory and regulatory role in the municipal entity. This will provide adequate control and grievance addressing mechanism for the general public and function as the middle person.

(iii) **Reduce municipal entity's presence:** To bring about changes in the provision of municipal services, it is important to reduce gradually the presence and role of municipal entities in the delivery of services and increase its role in regulation/supervision and monitoring. This has to be replaced by the increased presence of the private service provider.

(iv) **Need for delegation of responsibility to the private system:** The system of simple contractual arrangements with private entities will only lead to fulfillment of contractual conditions of providing limited service. On the other hand, the new model envisages that, as in private colonies, the private provider should take over the executive function in providing municipal services. Through this process, greater delegated responsibility will be vested upon the private sector. Ultimately it is the private sector, which runs the show.

(v) **Need for a sustainable system:** The success of the system will depend on the sustainability based on financial viability for both private sector and the municipal entity and operational feasibility both physically, and procedurally. Once the system is financially viable, private sector should not be intimidated by bureaucratic and political interferences and pressures except for regulatory purpose.
Considering the above criteria this study comes to the following conclusion:

A new breed of enterprise system called MUNICIPAL ENTERPRISE (ME) provides municipal services under MUNICIPAL SYSTEM (MS) through an ASSIGNMENT MODEL (AM). It may be called ASSIGNMENT MODEL OF MUNICIPAL ENTERPRISE AND SYSTEM or in short AMMES model.

Features of Municipal Enterprise (ME)

Municipal Enterprises are private entities specialized in provision and management of municipal services. They may or may not be separate legal entities. They could also be separate functional units of a bigger private sector enterprise. It is necessary for such entities to be specialized in the related technical, engineering aspects as well as public relation related issues as they will be providing services to the general public. They should be capable of taking up additional assignments in the related field. This is a long-term strategic requirement to build up such form of enterprises considering the volume of services and the number of urban local bodies in this country. Another important feature of ME is that the specified municipal area is entirely assigned to it by the municipality for provision of services. Municipality will only assist and provide support and ensure that ME is able to concentrate on delivery of services without involving in municipal formalities and procedures.

Features of Municipal System (MS)

Under the proposed model of providing municipal services, the role of municipalities is reduced from the duel role of execution and regulation to the single role of regulation. This, therefore, transfers the responsibility of provision of services in the locality entirely to the ME. MS performs the role of facilitator in various procedural matters ME will require, absorbs the demands raised by political entities, assists in meeting the official orders and above all performs the role of regulator. The newly designed ME will monitor the activities in the locality and evaluate the performance of MS. The strength of the newly designed MS will be its ability to regulate and provide monitoring services. They will report to the political and bureaucratic system and carry orders to ME and ensure that there are no obstructions in the performance of
provision of services by ME. MS thus elevates its status to that of a regulator and supervisor of ME from that of provider of municipal services.

Features of Assignment Model (AM)

In the proposed model, the provision of services by ME under MS is through an assignment model. Under the proposed assignment model a specified locality is assigned to ME by an official order of MS. The locality is to be looked after by ME for municipal services. There will not be multiplicity of bodies to look after the area as far as the services are concerned. There will be complete independence and delegation through a contractual agreement. The duration of an assignment model should be for longer periods so as to ensure consistency, responsibility and credibility. Assignment model is different from contractual arrangements as though bound by a contract ME is replacing the municipalities in the assigned locality as far as provision of services are concerned. Through this model the presence of MS is reduced to the needs of supervision, regulation and provision of assistance and performance monitoring.

Meeting the Management Criteria

The MS and ME’s need to meet the above mentioned criteria to be effective in their functioning. The following is a listing of various requirements to be undertaken by both ME and MS to meet these criteria:

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Requirements by Municipal Enterprise (ME)</th>
<th>Requirements by Municipal System (MS)</th>
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</table>
| Need to Induct Specialized Private Entity | - Develop capacity building for providing municipal services  
- Create separate wings and capabilities for providing municipal services.  
- Plan schemes for induction of ex employees of MS for smooth transition and for retention of experienced personnel. | - Identify need for legal framework for the induction of ME.  
- Identify internal procedural formalities  
- Public information to be given for identification of ME  
- Provide forum for training and information  
- Prepare staff voluntary retirement schemes and |
### Need for Supervisory Role of Municipal System

- Train staff to work under supervisory role of MS which is different from ME role of supervision
- Refer issues related to bureaucratic and political pressures to MS.

### Reduce municipal entity's presence

- Full responsibility comes to ME even for generation and sale of scrap, byproducts, etc.

### Need for delegation of responsibility to the private system

- Manage the affairs of the MS as delegated responsibility
- Assess workload and need for staff and equipment resources
- Prepare work standards and time schedules for efficiency

### Need for a sustainable system

- Prepare cost estimates and administrative details for viability both for ME and MS.
- Determine identifiable geographical locations for provision of services
- Consider cost savings through income generation systems through sale of scrap and generation of byproducts.

### for joining ME.

- Identify minimum level and category of middle management for supervisory role
- Specify the supervisory role and responsibilities
- Assume responsibilities for bureaucratic and political pressures so not to hinder the independent functioning of ME

- MS should plan for complete withdrawal though through a gradual process

- Provide adequate information and expected minimum standards
- Build up and plan for supervisory system with the intention to delegate the execution function to ME

- Prepare feasible and commercially viable geographical localities for provision of services
- All incomes through generation of byproducts and scraps should belong to ME. This will result in cost savings.
- Plan for back up system in case of failure of ME

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**Assignment By Contract**

The contract between the MS and the ME for provision of services should be a deed that formalizes the relationship of the parties. It should not be beginning of a conflict relationship rather it should be a formalization of a set of rules of conduct that assists the two parties to work together and to focus on solving problems when they arise. The terms should be such that the parities are able to respond and adjust to changing
circumstances. This calls for true spirit of partnership in which both parties can communicate and contribute to finding solutions to the problems and issues. The following should include as the specific features of the contract:

- The common objective of the parties to the contract, their risks and responsibilities need to be clearly defined.
- Minimum performance standards need to be established which is practical, measurable, and that can be delegated.
- Public complaint addressing system needs to be established.
- Performance evaluation systems should be established for reviews, on the basis of which renewals, award of additional contracts and terminations can be decided.
- Payments should be made at reasonable intervals to be commercially viable.
- Performance guarantees, deposits and other such financial commitments should be restricted to the minimum requirements; they should not burden the ME unnecessarily.
- Differences should be settled jointly or at most by Arbitrations. Court cases should be avoided.
- The contract needs to be exhaustive to include all conditions with the view to provide clarity.
- The selection process should be transparent and convenient based only on performance capacity and financial considerations.
- The duration of the contract need to be sufficient enough to attract ME process and not longer than the period to develop complacency by both ME and MS.

A proposed format of the contract is provided in Annexure 27.

**Implementation Process**

The implementation process of AMMES model has to go through various stages of introduction, transition, review, wider implementation, and then for inclusion of other services, which can be brought under the model. This is a tedious, politically difficult, and time-consuming process. It will take a few years for full implementation. All the same it can be implemented in isolated cases as models for implementation. These can be used for reviews, improvements, modifications and for wider and emulation. The suggested implementation process is as follows:
<table>
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<tr>
<th><strong>Capacity Building</strong></th>
<th>- MS is freed from employing labor and other human resource related activities.</th>
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<tr>
<td><strong>Fallback mechanism</strong></td>
<td>- This aspect is considered important and a new breed of municipal enterprises is to be developed through training and promotion of the concept.</td>
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<tr>
<td><strong>Unbundling Process</strong></td>
<td>- The model incorporates fallback mechanism through the existence of the MS. In case of failures MS can be revamped to full strength to take of the needs without much delay.</td>
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</table>
| **Quality of Service** | - The model is based on unbundling process as it adopts a bottom up approach. It starts with the area that is affecting the consumer first and the process can be escalated to other levels.  
- The model opts for stage-by-stage approach and further unbundling is to take place based on the visible effects and assessments. |
| **Economic Efficiency** | - The model is bound to improve the quality of service, as the provider and monitor are two entities. Further as the ME is functioning on business model it would make efforts to retain or improve its level of functioning. |
| **Economic Inefficiency** | - This model can be replicated in various locations and the efficiencies can be utilized on a wider scale justifying sunk costs.  
- The municipalities can utilize the savings on infrastructure developments. |
| **Labor Issues** | - The issues related to this are addressed, as no additional costs are required under the model. The issue of additional investment and training of ME can be done out of the proposed savings. |
| **Labor Issues** | - The issues related to labor is crucial as there is need for labor movement. Under the model this is a gradual process. All willing labor can join the ME system and others could be moved to other places under the existing |
municipal arrangements where there are deficiencies.

- As the model gets acceptance more and more employees can join the ME system.
- The gradual process of implementation gives time for labor movements.

**Long Term Implications**

- This model is designed for long-term arrangements. All the same the contractual agreements provide for pre-closure in case of eventualities. There are no long-term commitments with financial or contractual commitments.
- The investments in infrastructure facilities are existing or are provided by MS as such there is no sunk cost for ME.

**Country Conditions**

- The country conditions are favorable as local self governments and municipal corporations are under pressure to improve services.
- The concept of privatization is accepted in the Indian current political and service scenario.

**Marketability of Services**

- The model could be marketed as attractive proposal as the investment requirements are very little. The model can be easily adopted and made successful.
- The scope of the model is large as there are over four thousand municipalities/corporations, and further this could be extended to local self governments in the rural areas and other public services.

**Vision for the Future**

It is envisaged that the AMMES model of managing municipal services, if properly designed and implemented, could have a promising future, which can be emulated in any form of public services with appropriate changes in specifications and details. The scope is unlimited as there are over four thousand urban towns and agglomerations in India where this model could be implemented. Each corporation or municipality will need to appoint a number of Municipal Enterprises leading to a new
breed of enterprise development. This will generate employment opportunities first for the displaced municipal employees. Further, municipal system could concentrate on infrastructure and other facilities and monitor efficiency of services instead of provision of services. In addition municipal system could provide services where private sector is unwilling to provide services. According to the present study this seems to be only way to change the collapsing system of the public services. What we are aiming at is public entity monitored private services. This reduces the role of public system, increasing the role of private system through investiture of the functional responsibility on both the systems for the ultimate benefit of the citizen who bears the cost of the services.