PRIVATE SECTOR PARTICIPATION
IN THE
MANAGEMENT AND DELIVERY
OF
MUNICIPAL SERVICES

Background

The present study, 'Private Sector Participation in the Management and Delivery of Municipal Services' is about finding how best the private sector could be inducted for providing municipal services in the Indian context. It is the general impression that the municipal services currently provided by municipal systems are below the standard requirements, and unsatisfactory to the public who pay taxes to meet the expenses of the services. Further, though not well publicized, the municipal system is also collapsing due to staff indiscipline, lack of motivation, and highly bureaucratized set up. This could lead to a catastrophic situation in the Indian context considering the anticipated acceleration in urbanization. Therefore, the immediate need is to augment the management capacity in the Indian urban towns and agglomerations and thus preparing them for the urban growth. On the other hand, there is a general apprehension that private sector's involvement would not be sustainable, as its participation will escalate costs due to profit maximization motives, and due to the fears of failures. In the absence of an appropriate model, notable full fledged experiments have not been carried out in the past except for minor contractual arrangements and community participation which have not been found as sustainable.

This study makes an effort to design an appropriate model for the induction of private sector in the management of delivery of municipal services. The model is expected to protect the interests of all participants, the municipal system, the private sector participant, and the general public as it proposes a practical, gradual, and properly sequenced implementation process. It avoids any sudden and radical changes in the present municipal system.
Significance and Relevance of the Study

Provision of municipal services is a vast and voluminous task involving huge amount of public finances. At the same time there is a high degree of public dissatisfaction towards the delivery and quality of the services provided through the municipal system. All the same very little attention has been given to this issue for improving the condition. The dilapidated state of management of municipalities and the near total collapse of municipal capacity have led many policy makers and managers to propose improvements. As a consequence, some experiments have been initiated in a few cities to improve the system through contracting out certain municipal services to private parties and through community participation. But an all out effort has not been made to develop a sustainable model for improving management in the municipal system as was done in the private sector townships. The main cause for this is the urban local bodies (ULBs) in India lack the required skills to manage massive urban growth, provide services at appropriate levels due to lack of institutional capacity, training, and the capacity to make appropriate management changes. It is generally observed that the deployment of staff in the ULBs is on an ad-hoc basis and in many cases, most of the ULBs are either overstaffed or understaffed, leading to inefficiencies. It is not enough to advise municipal systems to change from their inherited old and outdated system. There is a need for induction of outside skills into the municipal system to bring about changes. In the changing context, the municipalities need to transform from being providers of services to regulators and monitors of the services. Private sector needs to step in as the provider of urban services where desirable and feasible.

How to bring about this change is the challenge of this study. Private sector participation is a relatively new concept in the Indian municipal systems. It is important that lessons are learnt from the experiences of the privatization models practiced both outside and inside India. The contribution of this study for improving the management of municipal system is to provide a method and a model for the municipal system to adopt for inducting outside management capabilities. The model needs to be simple to implement and meets the conditions of the existing municipal functioning. The implementation should not cause undue labor concerns and should be cautious in complicated and difficult matters like cost recovery, pricing of services,
etc. The system should be designed to be cost effective and at the same time improves operational efficiencies. Above all, the model needs to be collaborative with the existence of both private system and the municipal system working together guaranteeing sustainable improved services to the consumer.

Objectives, Extent and Limitation of the Study

The study focuses on the major issue of the private sector management and delivery of some of the municipal services currently provided through the public system. It is usually at the consumer end of the provision of services that things go wrong and the efficiency of the system is judged by the effectiveness of delivery. Therefore the delivery of municipal services is the subject of the study. It suggests a 'bottom-up' approach to the delivery of services. The main purpose of this study is to identify management techniques for improving quality of services provided by municipal systems in the Indian context. This study is based on a framework that private sector should be the executor and the municipal system should be supervisor and regulator. The following are the specific objectives of the study:

1. Evaluate the status of provision of various urban services in India and assess the magnitude of issues affecting the management efficiency of urban services.
2. Take stock of privatization process carried out in various places and evaluate the efficacy and sustainability of these in formulating the management model for municipal systems.
3. Assess the functioning of a purely privately operated system and examine the scope for its replication in municipal systems.
4. Assess the functioning of municipal services in a municipal colony and formulate solutions.
5. Validate the solutions in another municipal colony of different population density and socio economic setting and record new findings.
6. Based on the above develop a sustainable model of management, which is acceptable to citizens, attractive to the municipal system and staff, that ensures better financial and operational efficiency.
It is hoped that the study will not lose its relevance in the future, as there will be a need for constant review and improvement in the services provided to people by the public systems. It could include functions where direct contact with the general public takes place in areas such as infrastructure services, social sector programs, city management, rural development, delivery of services through panchayats and municipalities, enforcement of law and order, collection of government revenues, monitoring of the corporate sector, etc. Changes in emphasis and procedures may be required in future to make this relevant to the particular service and needs of consumers and social values.

The study is exploratory in nature, the private sector case it examined is also new in the area of provision of municipal services. In the absence of earlier experiments and limited knowledge in the area in India context, this study has the following major limitations:

(i) A survey was done in two different colonies under Municipal Corporation of Delhi (MCD). Although general conditions of municipal services are similar under MCD there could be variations in other municipal systems in matters related to work culture, efficiency levels of services, and cost factors. Therefore the applicability of the implementation model needs to be modified to meet the local conditions of the particular municipality.

(ii) The number of private service providers is very small especially in large comparative colonies. The selected private sector service provider is functioning for over ten years. The assessments are based on the current level of operations. The operational parameters could change with congestion.

(iii) There are no reported cases of private sector looking after colonies under the supervision of municipal systems as suggested in the study except for contractual arrangements, which are for specific isolated services only. These too are recent arrangements and there have been cases of success as well as failures. Regulation is essential but no models are available for examination by this study. Regulation of private utilities is a recent
phenomenon in India. This began to happen in the electricity and telecommunications sectors. Effective privatization of municipal services depends very much on supervision and regulation.

Overview of Literature

Privatization is a subject of great current interest in many places. International development institutions have undertaken major studies and provided technical assistance to develop conceptual and policy framework for privatization in developing countries. The United States Agency for International Development held a conference on privatization in Washington, D.C. in February 1996. In the past several years, interest in privatization - which means contracting with or selling to private parties the functions or firms previously controlled or owned by governments - has been growing in both developed and developing countries.

World Development Report (1994) examines the link between infrastructure and development and explores ways in which developing countries can improve both the provision and the quality of infrastructure services. The report identifies the basic cause of poor past performance as inadequate institutional incentives for improving the provision of infrastructure. To promote more efficient and responsive service delivery, incentives need to be changed through commercial management, competition, and user involvement. A regional seminar on Mega cities Management in Asia and the Pacific Region held in Manila, Philippines in October 1995 was co-hosted by the Asian Development Bank and the United Nations/World Bank Urban Development Program for Asia and the Pacific. The seminar report, Mega city Management in the Asian and Pacific Region, provides an in depth look at private sector participation among other major themes (Asian Development Bank (1996)).

Asian Development Bank (1998) provides a description of the urban situation in India, highlighting the principal problems associated with urban growth in the face of deficiencies in the infrastructure and municipal services. Asian Development Bank Institute (1999) concludes that there is no single model, which will work everywhere. The differences that will matter in privatization are the political system, capacity and efficiency of the private sector, relations between the public and private sectors, etc.
Department for International Development (1998) provides a summary of cases where the role of consumers in decision-making and financing the provision of municipal services was tested with varying results. Welch, Dick and Fremond, Olivier (1998) recommends in a case-by-case approach to privatization as it allows governments to resolve the policy issues relating to regulation and labor matters attached to privatization.

At national level, the 73rd and 74th Amendments to the Constitution have mandated a third level of governance in the country. The local level governance is expected to improve education, health and other developmental programs and provide assistance to public administration. These amendments triggered a number of studies on urban management by the National Institute of Urban Affairs (NIUA). The Human Settlement Management Institute (2001) state the current status of political and functional empowerment in urban governance and provides some of the International and Indian experiences of good urban governance in matters related to participative planning and management. NIUA (1991) reviews the municipal services in selected localities and makes recommendations regarding options for private provision of services. NIUA, (1998) provides a comprehensive review of the salient aspects of urban sector in India. Particular emphasis has been laid on the issues related to urban development financing and capacity building needs of the urban local bodies. The report outlines numerous issues confronting the urban sector, more important among them being the policy initiatives and guidelines required to address the sector problems relating to urban growth, institutional capabilities at various levels of urban administration, and urban governance. NIUA, (1990) heralds a beginning in efforts to understand the complex issues involved in the pricing of urban services. NIUA (1986) attempts to determine the management and organizational problems that are encountered by the urban local bodies in their attempts to deliver urban services efficiently and the factors responsible for this. NIUA (1997) attempts an analysis of the existing institutional arrangements, particularly private sector involvement, in the provision of four municipal services – water supply, sewerage, solid waste and roads. It recommends the type of public-private partnership arrangements that the local governments could adopt for improving the provision of these services. NIUA (1999) presents some of the innovative initiatives taken by the local governments of selected
cities of India to improve solid waste management through various measures including improving efficiency, finding administrative and technical solutions to improving waste collection and disposal, involving the private sector and NGOs in improving the service, and exploring new ways of financing investment.

Outline of the Research Methodology

Municipal Corporation of Delhi was selected for conducting the study as it is one of the biggest municipal systems covering 1397.29 sq. km. of area and providing services to 13.3 million population. Moreover, due to its importance in taking care of the capital city of India, it is expected to be the model municipal system of the country. A survey was conducted to understand the various issues affecting the efficiency of the municipal delivery system as reported in various dailies and articles. As a significant part of the study, a field survey was done to assess the municipal service delivery system in the residential colonies of “Vasant Kunj” and “City Zone” under the Municipal Corporation of Delhi. Further, a field study was also undertaken to assess the civic services delivery system in Sushant Lok, a township run by a private sector Company in Gurgaon, near Delhi. A comparative assessment was made to understand the various aspects of a purely government system and a purely private system. The results of this study are based on these original investigations. Efforts are made to study the following aspects of the selected civic services/functions for drawing out generalizations and inferences:

- Expectations of consumers and the existing satisfaction level
- Existing systems of functioning and causes of failures
- Extent of centralization/decentralization
- Degree of delegation
- Effectiveness of existing control and monitoring mechanisms
- Areas where services of the private sector could be inducted for greater operational efficiency
- Failures expected from the operations of the private sector
- Control mechanisms for inducting private sector participation
- Remuneration criteria for sustained participation of the private sector
• Possible objections from the municipal employees who will be affected by privatization.

Data are collected from both primary and secondary sources as follows:

(i) Details regarding the functioning of a private colony namely, Sushant Lok at Gurgaon, near Delhi were obtained through fieldwork. This colony is under the maintenance management arrangement with Star Estates Management Limited, the maintenance company of the developer of the colony, Ansal Properties & Industries Limited. Discussions were held and inquiries were made with the concerned official and their records were reviewed for collection of information in terms of services provided, deployment of personnel, efficiency issues, cost factors, etc.

(ii) Discussions were conducted with the members of the Resident Welfare Association, and the recorded minutes of Association's meetings were obtained for collection information regarding complaints and issues related the performance of the service provider.

(iii) Two residential colonies under the Municipal Corporation of Delhi (MCD) were subjected to study namely, Vasant Kunj and City Zone. The two localities are very different in their nature and composition in terms of geographical location and size, spatial facilities, age, economic activities in the location, population density, and the quality of infrastructure facilities, etc. These differences have contributed to additional findings and improved the quality of the study.

(iv) General complaints regarding the functioning of the municipal services provided by MCD in different parts of the city were collected from newspaper reporting.

(v) Data related to the provision of services were obtained from the discussions held with the concerned senior MCD officials of the two
localities and records in terms of services provided, deployment of personnel, efficiency issues, cost factors etc.

(vi) Results of data analysis were again taken back to the MCD officials and the private sector provider and were validated regarding applicability of the findings of the study.

Data Analysis

(i) The private sector services were evaluated to assess the satisfaction levels of the residents through the survey of the documents of the minutes to the meeting of the Resident Welfare Association. The issues related to the dissatisfaction and complaints were gathered and analyzed.

(ii) The issues and problems of the MCD colonies were identified and were analyzed to mitigate them in the new method of service provision.

(iii) Using the operational and efficiency parameters relating to labor, material and equipment and input output ratios observed in the privately managed colony of Sushant Lok, a counter factual analysis of service levels, costs and efficiencies was made for the two selected municipal colonies of MCD. The unit costs of the private sector were applied to the MCD areas to arrive at the estimated costs of maintaining. While analyzing this some of the existing standards of MCD were retained to accommodate the local requirements. Analysis also was made for the variations in the requirements of the two MCD colonies. This indicates the need for case-to-case approach to privatization.

(iv) A management model was developed for the introduction of private management for the provision of services in municipal systems in general.

(v) As the new model could not be tested for practical purposes this was again subjected to discussions with and study by both MCD officials and the private service provider.
Findings and Conclusions

The findings of this study are twofold: (i) the municipal system left to itself will collapse as there is neither organizational commitment nor employee motivation for committed delivery of services, and (ii) the private system left to itself cannot provide a sustainable long term service as it will be driven by profit motives and lack of social commitment leading to monopolistic approaches. Further, the finding that private sector can provide more efficient similar service at lower cost compared to the municipal system of delivery is very significant. Therefore the conclusion of this study is that private sector could run the municipal colonies with full delegation under the supervision and regulation of municipalities. The following are the major findings:

Deficiencies observed in Purely Private System

The present study analyzed the problems faced by the residents based on the records of and the feedback received from the Sushant Lok Resident Welfare Association (SLRWA). The following are the major issues and deficiencies that may be faced when the private sector runs the municipal system:

1. The most crucial deficiency of the private system, when they run services is the profitability criteria attached to many of their actions. It is therefore possible that the system may suffer due to profit motive through reduction of quality and quantity.
2. Monopolistic attitude of the private sector can be a major cause of consumer dissatisfaction. This attitude will be developed in the private service provider in gradual process, in the absence of a monitoring and regulatory authority.
3. The monopolistic attitude may be expressed in diverse ways like non-provision or reduction of services, arbitrary revisions in prices, reduction in the quality of services.
4. The service provision may not be sustainable depending on the permanency and stability of the employees and the service provider.
5. The quality of the service also could be affected depending on the employer’s capabilities and attitudes.
Deficiencies of the Municipal System

The Municipal system faces major problems related to staff discipline, quality of staff supervision and motivation, bureaucratic system, financial system, poor public image. The following are the findings of the study in these areas:

**Staff discipline**

1. The rate of absenteeism is about 40 percent. This affects the functioning considerably as information is available only during the course of the day whereby no reallocations are possible and this causes the neglect of the required functioning.
2. Many of the laborers are beyond the actual age of 60 as there are no real records about the actual age. This reduces the effectiveness of the personnel in their performance.
3. The condition of job security associated with government employment has brought in complacency, which deteriorates efficiency at work.
4. Trade Union activism up to non-technical (mates) level has promoted labor aggression and indiscipline.
5. Integrity rating of the MCD staff is at its lowest level creating lack of respect causing degeneration of interpersonal relationships.

**Staff supervision and motivation**

1. Supervisory effectiveness is reduced as disciplinary actions are cumbersome and may be counterproductive.
2. As the service conditions are stable and as efficiency at work has no real bearing on salary increases or promotional avenues there is no motivation for effectiveness.
3. There is greater pressure and stress at higher levels than in lower levels mainly due to the inefficiency of the lower levels.
4. Disciplinary actions generally has the boom-rang effect on the supervisor.

**Bureaucratic system**

1. MCD is highly a bureaucratic organization causing delays, red
2. There is high level of interference from political persons whereby priorities are shifted based on pressures placed by politicians and senior level officers.

3. Ingenious ways are not initiated due to need for approvals and the long procedures to be followed.

4. There is no organizational attachment and faithfulness leading to lack of commitment.

Financial system
1. The payment procedures are cumbersome in the name of controls resulting in delayed allocation of funds and payments. This results in delayed actions.

2. Payment to contractors is delayed up to two years. This results in over-quotes for projects resulting in cost escalations due to cost of funds.

3. Methodologies are not explored for revenue generation from the various activities as these have go through various approval procedures.

Poor public image
1. MCD organization and staff as such suffer from degraded public opinion for various reasons, which affect peoples’ daily life. This is a de-motivating issue leading to spiraling vicious cycles.

2. This has lead to insensitivity to public needs and does not appreciate the concerns of the public.

Conclusions and Recommendations

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:

**Need to Induct Specialized Private Entity**
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. Further this is necessary to identify, train, and nurture such private entity for long term sustainable involvement.

**Need for regulatory/supervisory role of municipal entity**
Having assessed the issues relating to the monopolistic approaches adopted by the private sector, it is important to retain the regulatory and supervisory role of the municipal entity. This will provide adequate control and grievance addressing mechanism for the general public and function as the middle person.

**Reduce municipal entity’s presence**
To bring about changes in the provision of municipal services, it is important to reduce 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.

**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 what is envisaged by the new model is, 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.

**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 it is financially viable, bureaucratic and political interferences and pressures should not intimidate private sector. The presence
of the municipal entity should be able to absorb such interferences. Considering the above findings and based on sound management principles 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 ENTERPRISES AND SYSTEMS or in short AMMES model

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:

Stage I: Introduction
Inform and introduce the concept of AMMES model in the MS and to the public at large and to prepare for implementation. During this stage important issues to be considered are the enactment of appropriate municipal laws for introduction of the concept, marketing of the concept within the MS and the private sector community. The various actions to be taken include, transparent municipal employee transition plans, formation of municipal task force committed to the new concept, community awareness programs, etc.

Stage II: Model Case Implementation
Begin the process of implementation of AMMES model and to establish the model as a practical way of improving municipal services. Plan for failure preparedness of the model due to any eventuality. The various issues to be considered include, identification of a geographical area/s for a model case, ME concurrence,
performance evaluations and fallback system. The various activities to be undertaken include, preparation of appropriate documents and procedures for selection of ME, final contract documents, and agreements, consensus on the terms of reference and conditions, selection of additional geographical areas for implementation of the model during this stage to give further momentum to this process and fallback system to be in place to overcome the failures and difficulties if any. This could be through alternative arrangement with another ME or through fallback on the MS. This process should be allowed to go on for from the 2\textsuperscript{nd} to the 7\textsuperscript{th} year giving about three contracts of two years each to assess effectiveness.

**Stage III: Review of the Model Case/s**
Review and evaluate the implementation of the AMMES model undertaken in Stage II. This will provide an opportunity to improve the process of AMMES model implementation based on public feedback and performance. The various issues to be considered during this stage include, evaluation of the AMMES model, status of municipal employees and downsizing plan and capacity building of ME. The actions to be undertaken during this period include evaluation of the model by all stakeholders to provide different views of the effectiveness of the model, preparation of models for reorganization of the municipal systems through engagement of management experts and preparation for wider implementation. This process should be undertaken from the 3\textsuperscript{rd} to the 6\textsuperscript{th} year to make decisions in the 7\textsuperscript{th} year.

**Stage IV: Policy Based Full Implementation**
This is the stage to firm up policies for full implementation after the initial experimentation till stage III. The various issues to be considered during this period include, formulation of firm policy for AMMES model, identification of additional geographical areas and services for AMMES model inclusion, municipal employee transition and capacity building of ME and MS. The various actions to be undertaken include, legal enforcement of AMMES model on a full scale, revamping of municipal matters related to employees and reduced functions, and capacity building up of ME organizations.
Stage V: Inclusion of Other Municipal Services under AMMES model

After the eight years of experiment with the AMMES model in different services and geographical areas it may be implemented in all urban local bodies, in a phased manner, not only in some municipal services but also in other municipal functions such as property tax collection, management of municipal schools and health centers, etc. which will require different skill mix. The various developments would include city-state- nationwide implementation, inclusion of additional functions under the AMMES model, reduced role of municipal systems and growth of Municipal Enterprises.

Vision for the Future

The AMMES could be universally applicable to all public services by making appropriate variations in the details of the service and other terms of reference. Urban Local Bodies could be the major users of this model where private sector would have attraction due to financial benefits. The pillars of the AMMES Model are delegation of the whole responsibility to the private sector and vesting of supervisory role on municipal system. As the study involves transition from the existing municipal systems there is need for great caution with regard to acceptance from employees and political fronts. Political and bureaucratic commitments are important requirements for the success of implementation.

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 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 the 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 placing the functional responsibility on both the systems for the ultimate benefit of the citizen who bears the cost of the services.

As the implementation process is through five stages, Introduction, Model Case Implementation, Review of Model Case, Full Implementation, Wider Implementation, the study provides actions to be taken in each stage for various important issues to avoid pitfalls. This is tedious, politically difficult and time-consuming process. But once started it could pick up momentum.