CHAPTER-I

INTRODUCTION

Around the world, a growing crisis of legitimacy characterizes the relationship between citizens and the institutions that affect their lives. The citizens speak of mounting disillusionment with government, due to their concerns about the alarming growth of corruption, lack of responsiveness to the needs of the poor and the absence of a sense of connection with elected representatives and bureaucrats.¹

This disconnect in a sense, is increasingly holding the traditional forms of governance and representation to scrutiny. Along with this are the emergence of new social classes as the ruling class, and a host of change in the setting of the administration of government and corporations put together. All this and many more issues connected to this are also calling theorists of public administration and political science respectively to find answers to the disconnect that the citizens are experiencing. Most of these practitioners, including those engaged in other global agencies of governance being conscious of these changes are in some ways consciously trying to overcome the deepening global inequalities that are persistent and leading to this cognizable divide between the ruled and the rulers.
Several alternative methods are being tried out to find panacea to the growing ills of society through the process of administration, thus trying to satisfy the new generations of population by sharing greater responsibility of governance with them as new partners.

Although this was not new to India as one can find evidences in support of this in the early writing of Kautilya’s Arthashastra and the administration of Maharajas in this country, the Private Partnership Perspective is in the current context seen largely as western initiative. In this sense, Public-Private Partnership which has been around for a few centuries is renewed once again in this country.

In the 16th and the 17th century France, roads, bridges and Canals were built and water was collected and distributed under concessions. By the 1820s, there were six private water companies operating in London. At the beginning of the 19th century, nearly all of the waterworks in the USA were private. Electricity utilities in the 19th century in Brazil, Chile, Costa Rica, and Mexico were private entities. In Argentina, Brazil, and Uruguay, private developers from Britain, France, and the United States built and operated many of the early railways in the 19th and 20th centuries. Similarly in India electricity generating companies were thriving in many parts having partnership with
government building of schools, roads in rural India even in the early years of Independence was a known fact.

In this sense, the present movement of Public-Private Partnership: Perspective, as response to the poor performance of the public sector although, not new, for academic purposes it is taken to have started in the US in late 70s and early 80s.

One of the earliest evidence of contracting out of public services (on a long term basis) is found in regard to implementation of the war on poverty programme of the federal government in the United States of America during the 1960s. Title II-A of the Economic Opportunity Act, 1964 required the people themselves to assume the responsibility, both for planning and implementing the war on poverty at the local level.4

Thus the use of terms such as ‘popular participation’ or ‘participatory development’ first emerged in the development literature towards the end of the 1960s and early 1970s, fuelled by number of forces.5 In response to a dominant top heavy administration a blue print of development process began with the needs and knowledge of the people themselves. Participation proponents often drew upon the work of Paulo Freire, whose book ‘Pedagogy of the Oppressed’, first published in 1970, articulated the fact that
development process is not a gift received from outside, but is a process of transformation gained through critical reflection and action by the people themselves. The Freirean approach was picked up and shared not only by development activists, literacy workers, and national leaders (such as Nayerere in Tanzania), but also by a new generation of academics.

By the early 1980s however, participation gradually began to be seen not as a challenge to a mainstream development paradigm, but as a form of involvement by beneficiaries who could help large plans of development to succeed in order to achieve their goals and better their lives. While opening up space for people’s knowledge and involvement in development planning and implementation, this beneficiary approach still often positioned people more passively as users and choosers in externally defined and led initiatives rather than as makers and shapers of their own policies, programmes or futures.

During the 1990s, with the mainstream arguments in favour of participation of private sectors in large scale development programmes, terms like the excluded or beneficiary began to give way to the development discourse to employ a more neutral term such as stakeholder. Thus, the World Bank Participation Learning Group after considerable discussion arrived at the following definition: “Participation is a process through which stakeholders influence share and have control over development initiatives, decisions and
resources which affect them". During the same time, there was also the lop
sided effect of this initiative which was experienced with the powerful
development actors lobby utilizing this for their benefit. This development in
fact encouraged the proponents of PPP* to bring in the discourse of
participation as a right of citizens, rather than as an opportunity given to
beneficiaries.

A renewed emphasis on the inclusion of the marginalized in
development process thus became a major debate during the 1990's and the
decades that followed. In 2000, for instance Department of International
Development document on realizing Human Rights for Poor People talked
about the importance of enabling people to realize their rights to participate in
and access information relating to the decision-making process which affects
their lives.

Thus, the public-private partnership came to be defined as a
contractual agreement between the public and the private sectors, whereby the
private operator commits to provide public services that have traditionally
been supplied or financed by public institutions. The ultimate goal of PPPs is
to obtain more value for money improved service quality and additional
revenue streams, than traditional public works and services.
The term private in PPP encompasses all non-government agencies such as the corporate sector, voluntary organizations, self-help groups, partnership firms, individuals and community based organizations. PPP, moreover, subsumes all the objectives of the service being provided earlier by the government, and is not intended to compromise on them.

From a theoretical viewpoint, the main justification for the adoption of a Public-Private Partnership is the possibility to employ the management qualifications and the functional efficiency of the private sector without giving up quality standards of outputs assured through appropriate control mechanisms from the public institutions.

In doing so it is also kept in mind that this PPP would take care of the social justice and equitable access to all. To this end, the core principle of PPPs lies in the risk allocation between the two parties. A well designed PPP redistributes the risk to the party that is best suited to manage it and to do it with the least cost not compromising the underlying social philosophies.

Essentially, the shift in emphasis is from delivering services directly to service management, coordination and achieving the pronounced commitments of the government. While in some schemes/projects, the private provider may have significant involvement in all aspects of implementation; in
others they may have only a minor role. Through this approach, the hope is that participation will not only contribute to overcoming the democratic deficit through better governance and a more engaged citizenry, but also that participation will meet the developmental goals of improving communities and service delivery. A resurrection of PPP in the present age validates the twin needs of better provisioning of public services, and optimal allocation and usage of resources. State-society synergy in this regard can be a catalyst for this change. Norms of cooperation on networks of civic engagements among ordinary citizens can thus be good for the achievement of this vision of development. However the fact remains that it needs the fuelling by public agencies and to realize the development needs.

However, it must be noted that it is not the intension of the researcher here to negate/underestimate the role and priority of state or governments. In any developed or developing country, the government has to be present to create an enabling environment, to ensure law and order, and to conduct activities of public good. Another important role for the government is to shed its presence and to empower various agencies within itself and also take care of activities of public good like education and health. While individual effort is crucial, another golden triangle, of industry, government and R&D institutions, really forms the base for the country’s development. The potential benefits expected from PPP therefore could be as follows;
- Cost-effectiveness- since selection of the developer/service provider depends on competition or some bench marking, the project is generally more cost effective than before.

- Higher productivity-by linking payments to performance productivity gains may be expected within the programme/project.

- Accelerated Delivery-since the contracts generally have incentive and penalty clauses vis-à-vis implementation of capital projects/programmes this leads to accelerated delivery of projects.

- Clear Customer Focus- the shift in focus from service inputs to outputs create the scope for innovation in service delivery and enhance customer satisfaction.

- Enhanced Social Service- social services to the mentally ill, disabled children and delinquents, etc. require a great deal of commitment than sheer professionalism. In such cases it is Community/Voluntary Organizations (Vos) with dedicated volunteers who alone can provide the requisite relief.

- Recovery of User Charges-Innovative decisions can be taken with greater flexibility on account of decentralization. Wherever possibilities of recovering user charges exist, these can be imposed in harmony with local conditions.
In order to achieve the above stated potential benefits the Government may collaborate with the private developer/service provider in any one of the following ways:

i) As a funding agency: providing grant/capital/asset support to the private sector engaged in provision of public service on a contractual/non-contractual basis.

ii) As a buyer: buying services on a long term basis.

iii) As a coordinator: specifying various sector/forums in which participation by the private sector would be welcome.11

The funding pattern and collaboration between the public sector and the private sector could take any one of the following forms:

i) Public funding with private service delivery and private management.

ii) Public as well as private funding with private service delivery and private management.

iii) Public as well as private funding with public/private service delivery and public/private joint management.

iv) Private funding with private service delivery and private management.12
Categories (ii), (iii) and (iv) have a special appeal as they promise to supplement government resources through private participation. The Private Finance Initiative (PFI)* in the United Kingdom is stated to have been introduced to make the contractor/concessionaire foot the bill of construction, instead of the taxpayer\textsuperscript{13}.

In lieu of the PFI, the concessionaire conferred the right to recover his cost of construction and maintenance (and profit) through charging rent or imposing tool charges for the use of assets so created. Funding pattern as mentioned under category (i) is, however, the more common one in regard to the social sector; the gain expected nevertheless, is in the realm of efficiency and effectiveness in service delivery. While the Idea that "government is involved", keeps the confidence high among the general public.

Types of PPP Models

One of the acceptable classifications of the various PPP approaches is through types of risk and its allocation between the public party (Principal and the private sector (Agent). The PPP models in practice are in the continuum of less to high risk transfer to the private party. Keeping these important aspects of social commitments of the Indian polity in mind this study is undertaken to
understand how privatization of public services are coping up in an urban set up in Karnataka, India.

Scope of the Study

Globalization, liberalization and privatization are interrelated. However, liberalization has wider connotation and the remaining two flow out of it. Liberalization, summarily describes the progressive reduction in regulatory, promotional and entrepreneurial (i.e. government as producer) role of government in economic and social development. Liberalization has two dimensions internal (domestic) and external. Internal liberalization consists of relaxing the control of government over domestic industry and other economic and social activities and also retreat of government as producer (i.e. privatization) within protectionist regime. External liberalization aims at exposing domestic firms to external competition by drifting away from protectionist policies. It comprises indicatives by nation states in the form of relaxation in regulations governing international trade, international investment, international finance and international technology including services. External liberalization, thus, provides a route for the domestic economy and economies of the rest of the globe for mutual exchange and integration. External liberalization is also promoted under Uruguay Round of trade negotiations culminating in the setting up of the World Trade
Organization (W.T.O.) in 1995. Revolution in information technology particularly Internet has speeded up the process of globalization. Globalization is an umbrella term for external liberalization initiatives. Thus privatization and globalization are inherent in liberalization.

In most countries, particularly those belonging to the developing world, liberalization policy has not been evolved indigenously. It has been adopted under World Bank-IMF combine conditionalities, of which internal and external liberalization policies are integral part.

Liberalization policy in India was adopted during the early 1980s. its pace improved during the mid 1980s however, the liberalization policies of the 1980s were partial in coverage and adhoc in approach. It is from 1991 onwards that a systematic and comprehensive liberalization policy was set in motion. The economic liberalization policy is patterned on the philosophy of allocating scarce resources among sectors, strata and regions largely through market forces.

The Indian economy faced a serious crisis during the middle of 1991. the major component was a severe balance of payment crisis. During this period the economy had lowest foreign exchange reserves bare enough to finance less than 3 week import bill, very high inflation (14 per cent), high
level of gross fiscal deficit (8.4 percent of gross domestic product), lowest rate of growth of the economy (less than 1 per cent) and negative rate of growth of per capita income. Economic crisis, in part, deepened due to political instability in the country. India had two different Governments between December, 1989 and March, 1991. during 1991 crisis the country was ruled by a caretaker Government. The political instability adversely affected the confidence of international investors in the Indian economy. This period witnessed considerable withdrawal of foreign capital particularly by the NRIs and thus perpetuated balance of payment crisis. The day to day foreign requirements were managed by borrowing from abroad against gold. The Congress (I) Government constituted after June 1991 elections approached the IMF and World Bank for a loan to mitigate the crisis. In exchange, these financial institutions imposed comprehensive programmes of stabilization and structural adjustment. The aim of the stabilization programme was to restore stability in the economy by reducing the severity of the balance of payment crisis and inflation. Adoption of appropriate exchange rate interest rate, fiscal and monetary policies were some of the components of stabilization measures.

The aim of structural reform programme was to attain a higher rate of growth on sustainable basis through efficiency and productivity originating from relaxation of government controls over production, investment and prices in the domestic economy and progressively opening up of the Indian economy.
to foreign trade, capital and technology. Public enterprises, taxation, financial and infrastructure sectors and improving public services.

In the area of public enterprises five major reforms have been introduced. First monopoly of the state sector has been drastically reduced from seventeen to four. That is, thirteen industries have been opened to private sector which was hitherto monopoly of the state sector. This is known as disguised privatization. Within existing public enterprises, sweeping changes favoring increasing role of market forces are in progress. These include performance improvement through a Memorandum of Understanding (MOU) system, referring of sick enterprises to the Board for Industrial and Financial Reconstruction (BIFF) for the formulation of revival/rehabilitation schemes or closure and enhanced autonomy to select public enterprises for enabling them to become global and domestic players.

Privatization has not been explicitly referred to in the NIP, 1991. Initially the word privatization, it seems has been avoided partly due to political considerations. In the first budget (1991-1992) immediately after the announcement of NIP, 1991, limited selling of government equity under the name of disinvestments policies was mentioned. The selling of government equity below 50 per cent continued till late nineties. It is during October 1999 budget that a full-fledged privatization policy was announced. Under
privatization policy, 13 public enterprises and 21 hotels owned by the government have already been privatized.

In India 2020-A Vision for the New Millennium, Dr. Kalam with Dr. Y.S. Rajam has outlined various dimensional PPPs in the Indian context. It is at this juncture that a topic for research was chosen as some of the local governments within Karnataka, Andhra Pradesh and Kerala in the southern part of India are experimenting with this initiative Hubli-Dharwad municipal corporation is one such pioneer. It was therefore felt that this was a subject to be investigated keeping in view the future demands of a growing city like Hubli-Dharwad in particular and the Indian society. The statement of the problem of such a topic, for a worthwhile study is in the following paragraphs

**Significance of the Study**

Improving the performance and Integrity of Public Services for the new initiatives include combating corruption of ethical standards and adherence to basic principles of the Constitution in public service delivery, outsourcing of public services and simplification of forms. However, the aim of improving the performance and integrity of public services during the period after accepting liberalization seems far away from reality. Unprecedented number
of corruption cases and deterioration in ethics for public services has been reported. Majority of the responses in this direction has been that this process of privatization of public services has only added to the number of corruption cases in administration.

Outsourcing of services in public organization and simplification of forms fail to improve the performance of public services in the absence of explicit benchmarks against which performance can be measured. Although people agree that this initiative would improve the delivery of public services, the policies it is felt are not intone with improving the performance and integrity of public services.

It is these issues of corruption, performance of public service which are important in delivery systems added to this are of subsequent governments the policy performance that are of growing concern to the research. In order to evaluate these and understand them in a better perspective. Although it is true that case method helps in significantly increasing study in focus, the importance of this study. A look at global experience for Indian initiative will go a long way before concluding the significance of this study.
**Objectives**

When a PPP scheme is adopted, the public in general has to face and solve principal-dilemma i.e. to find the best way to create appropriate incentive: for the (Self-interested) private sector to deliver the desired outputs through the implementation of the contract. In short this implies realigning the private incentives of the private sector with the socially optimal incentives of the Public body. From this standpoint, adopting a PPP approach always implies facing a trade off between the efficiency gains achieved by involving the private sector and the output quality expected by the public party. Thus, the PPP option should be chosen only if the cost benefit ratio of private provision outweighs the results obtainable with traditional government intervention. Hence, even greater costs will be acceptable, if overall net benefits justify the PPP solution. If a good balance is not achieved, this might result in higher costs and the inability of one or both parties to fully deliver the expected outcomes, therefore, the objectives of this study are;

a) To understand cost effectiveness of such an initiative

b) To measure improvements in any performance of traditional government set up due to this initiative

c) To understand the shifts if any in the delivery system at the local government level
d) To estimate the extent of involvement of NGO, Voluntary Groups voluntary organizations and stakeholders in this process and

e) To measure the levels of satisfaction among the public at large in response to this initiative

Review of Literature

There are not many books found on this subject or related ones by Indian authors one of the reasons for this could be the late arrival of this privatization on Indian local government scene. Many of the books found are mostly western experiences. Privatization and liberalization of public services in Europe analyses the effects of liberalization and privatization on productivity and service provision since the authors feel that public service sector is the main source of employment. This in fact gives a comparative perspective of Europe.

Politics of privatization-2 this deals with the and effects and experiences of privatization where nepotism favoritism in contracting another levels of operation takes place in a way this takes a programmatic view of privatization of public services.
Public services through private enterprise privatization for improved delivery schemes the better experiences and sub leasing of privatization experiences with an eye on achieving the desired goal of reaching out the last man in the society are all Mr. Boris Sanfords writing on public management however, none of these carry any material connected to the third world experience with regard to privatization of public services as result one finds a wide gap in literature available in this field.

Apart from this there are some of the writings of Brown, Trevor L., and Mathew Potoski (2003), Clingermayer, James C., and Richard C.Feiock (2001), Feiock, Richard C (2004), Marwell, Nicole P. (2004).** Which are once again western experiences. Hence, this limitation of survey of the literature which is understandable given to the period of privatization of public services operating at local government levels in India.

Hypotheses

The formulation of hypotheses or proposition as to the possible answers to the research questions is an important step in the process of formulation of the research problem Keen observation, creative thinking, hunch, wit, imagination, vision, insight and sound judgment are of greater importance in setting up reasonable hypotheses. A thorough knowledge about the
phenomenon and related fields is of great value in its process. The formulation of hypotheses plays an important part in the growth of knowledge in every science.

Hypothesis is a tentative proposition formulated for empirical testing. It is a declarative statement combining concepts. It is a tentative answer to a research question. It is tentative, because its veracity can be evaluated only after it has been tested empirically. Lundberg defines hypothesis as “a tentative generalization, the validity of which remains to be tested. Goode and Hatt define it as “a proposition which can be put to a test to determine its validity.

The following hypotheses are drawn here for this study;

a) That the process of privatization of public services is still in an experimental stage.

b) That this has left a lot of administrative disconnection between the privatized services and the follow-up action

c) And that due to this the “goal ensuring” of this process of privatization has fallen short of its expected achievement and has thus failed to enthuse the process further.
Research method

The concept of sustainability is closely linked to monitoring and evaluation. A development project is sustainable when it is able to deliver an appropriate level of benefit for an extended period of time after major financial, managerial, and technical assistance from an external donor is terminated. Defined like this, evaluation will help to determine whether or not sustainability is obtained, recalling that monitoring data feed into project evaluation. This is especially so when a traditional political institution is experimenting with a new concept of administration under the weight of a political decision made at an international level.

The concept of sustainability originates from the donor community’s concern about the utility, effectiveness and efficiency of their project and programme interventions. It belongs to ‘development language’ and is liable to the criticism leveled by those who question the spread of the jargon for beyond the aid arena (Arnfred and Bentzon, 1990). Its centrality as a current development issue, however, makes a presentation imperative.

The major international aid donors have agreed with the OECD’s definition (e.g. Danida, 1990a: 10), and have identified a set of main factors of sustainability in case of these newly experimenting institutions. This definition
runs as given below; “A set of factors that influence sustainability, and indicate conditions of implementation precautions for organizations at the national and local levels (they) include, Commitment and government policies, Management and organization in succeeding in the given innovative administrative mechanism”.

The relative importance of the ‘sustainability factors’ cannot be therefore, established a priority. A qualification of the ‘socio-cultural factor’ too emphasizes the centrality of local involvement as a condition of sustainability in achieving this privatization task of public services which is new to the local governments in India:

The involvement of local communities and institutions it is felt, would promote sustainability by building base of support and fostering a sense of local ownership of the programme. Working through local communities, which will take time, makes it easier to take advantage of traditional organizations and indigenous practitioners and benefit from their knowledge of what may work or not work in their society (OECD/DAC, 1989:10)

How development agencies ensure their own demand for community involvement is far from evident in the above stated conditions. A recent
analysis of ‘Institutional Issues in Danida Projects’ reviewing 19 project evaluation reports in India, it was found that:

Capacity building at (the) local level, aimed at increased user group participation in Planning and implementation of project activities and in activities in the existing government administration, did not occur in any of the projects. A few projects relied on user group participation, but it was confined to participation in implementation of decisions already taken (Danida, 1992/6:v).

Thus, it is further concluded that social sustainability was a problem mainly because the users either had not been involved in the identification and preparation of project activities, or because they could not afford the service provided. It was found in the project evaluations that participation of user groups was restricted to involvement in the establishment of some project facilities and in financing services in some projects.

The foregoing report is a response to the recently recognized importance of institutional aspects of development cooperation in general, and to OECD/DAC’s Evaluation Group’s call (1989) for making institutional issues a cross sectoral theme for evaluations during 1990-91, in particular, besides being a screening of 19 projects along four institutional key issues, it
also provides guidelines which are to enhance project integration in and ownership by institutions of the recipient country.

The likely institutional sustainability of project activities may be assessed according to a series of questions, formulated by the OECD/DAC (1992); each of these issues covers a variety of aspects.

The method of analysis is however, based on a number of forms relating to factors of overall productivity increase, a sophisticated and time consuming system basically ment for insiders of the organization.

The other measuring system quoted by Rasmussen has been developed by de Graf. According to him the basic success parameters of any organization relate to their effectiveness, efficiency and survival. A host of parameters and questions condense into an index about which Rasmussen concludes:

Indexes might in very rare cases be considered useful for temporal comparisons of the performance of similar and therefore compatible institutions, e.g. as an allocative criteria for outside resources. In the present form, however, the indexation approach to measuring institutional capacity seems to have too many disadvantages to be of any use for the improvement of capacity. The latter increasingly seems to be critically associated with the
relative ability of an institution or an organization to learn (P.E. Rasmussen, 1992:120)

This refers to the learning process approach suggested by Korten (1980) as an alternative to the blueprint planning approach, with emphasis on detailed pre-planning and time-bound projects. The essential feature is an organizational structure with the capacity to embrace error, to learn with the people, and to develop new knowledge and institutional capacity through action.

In search of a unifying concept for the variety of elements which are used by different analysts to define institutional capacity, Rasmussen applies the concept of organizational ‘competence’. He then tries to deduce the implications of the concept of competence and to turn them into practical principles of organizational learning. Incidentally, he lands on the culinary acronym, the GARLIC principles of organizational learning!

Rasmussen delivers a comprehensive elaboration of the GARLIC principles; Gathering appropriate information, Activating the learning process, Remembering the lessons learned, Linking with local knowledge, Involving those who are concerned, Combining the practice and expert knowledge;
Rasmussen acknowledges that this model still merits empirical substantiation. In the realm of complex developmental issues, challenges to the concepts of the ‘development language’ are necessary, with the risk of head-on collision and contribution to new fads!

It is the GARLIC principles of evaluation that has guided to choose this study. The method adopted here therefore is purely an empirical method to quantity both the institutional sustainability and capacity vis-à-vis is the privatization of public services. It is this evaluative method that constitutes the central aspect of methodology of this study.

**Research Design**

Any research of this kind has to have a minimum of five chapters in the least. As a tradition chapter I is titled as Introduction which basically covers all the components to introduce the research work undertaken. Chapter two deals with History of Hubli-Dharwad Municipal Corporation in brief. Chapter Three, is Privatization; theoretical reflections. Chapter Four, is privatization of public services; Hubli-Dharwad Municipal Corporation experiences and Chapter Five deals with conclusion.
End Notes:


4. Ibid.,

5. This included the capital and market forces. (New Realities)


* Public Private Partnership-henceforth used as PPP


* Private Finance Initiative- henceforth used as PFI


1A. Transperancy international (details)

2A. Book, citation needed

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