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#5 BUILDING MUNICIPAL CAPACITY FOR PSP PROJECTS: LESSONS FROM INDIA

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1. Introduction

The beginning of the 1990s witnessed a number of donor agencies as well as government policies focusing on developing private sector participation (PSP) in urban municipal services as a means of achieving more effective, efficient and financially sustainable service delivery. As in most other developing countries, governments in Latin America, Western and Southern Africa and Asia are trying to comprehend the concepts of PSP and prepare appropriate policies, and are working to mobilize resources for this purpose. In some Indian states that have proactive governments this has been driven by the need to respond to chronic service deficiencies and misuse of funds, as well as municipal systems that were not keeping pace with urbanisation and other developments. However, it appears that Indian municipal governments have not yet absorbed and implemented PSP policy in an institutionally transparent manner so as to bring significant improvements in service delivery. There are some examples of efforts that support municipal governments and some are investing in capacity building to a degree that is, to some extent, commensurate with the changes envisaged.

This paper examines the efforts of the *Growth Oriented Micro Enterprise Program* (GMED) of USAID that is working to develop the capacity of medium-sized and small municipalities so that they can develop PSP contracts for the delivery of performance-based services in waste collection and transport in five Indian states. The Program has also assessed the backdrop against which these private sector services were introduced during the period 2005 to 2008. By looking at the key challenges and opportunities that were addressed and the possible solutions that were suggested, the Program sought to ensure that the much-needed institutional capacity could be built for implementing performance-based contracts in SWM. When it became clear that these capacity development initiatives were oriented towards the involvement of the private sector, there was some concern that local government was abdicating its responsibility for providing public services and allowing the private sector to capture influence which rightly belonged in the public domain. For the traditionally run municipal systems, PSP requires significant structural and procedural changes in order to be able to engage the private sector for creating effective and efficient service delivery mechanisms. There is evidence of a considerable amount of political mistrust of PSP amongst some sections of the municipal administrations, who oppose PSP on the grounds that

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it reduces both employment opportunities and service standards. Municipal labour unions also have a fundamental and ideological opposition to PSP, viewing it as a threat to employment in the public sector. Seen in this context, a key constraint on private sector involvement in municipal service delivery is actually the ability of municipal governments to integrate policies and build institutional capacity so that they can formulate ways of involving the private sector that are pro-poor and also more efficient. This lack of capacity is also an opportunity for developing and modernising local administrations. The case studies that are cited in this paper present some of the lessons that have been learned, which have been formulated in various workshops and evaluation studies and which have guided the development of the tools which can be used to comprehensively strengthen the capacities of the municipalities in India to provide better services in partnership with the private sector.

2. The development of PSP in SWM in India:

The history of PSP in municipal or urban services is not very long and has mostly been focused on the bigger cities in India. Little effort has been witnessed to develop PSP in the medium-sized and smaller municipalities for providing urban services such as solid waste management, road sweeping and drain cleaning. The municipal bodies generally rely on their permanent staff for providing these services, and little or no work is outsourced or contracted out. It was only in the late 1990s that growth in urbanisation and freezes on recruitment caused local administrations to turn to the private sector to provide some of the urban services. In many cities in the developing world the major change that can be observed in the collection, transport and disposal of solid waste is the increased involvement of the private sector, either because of serious service deficiencies or because of the encouragement and promotion by donor or lending agencies, government policy, the advocacy of NGOs and CBOs, or the desire of local authorities to find a new solution. The provision of solid waste management services is no longer a (local) government monopoly but a domain open to various modes of public-private co-operation².

2.1 Experiences with PSP in SWM in India

The initial experiences in PSP were not very encouraging though the involvement of the private sector usually saved money for the municipalities. Had municipalities recruited the required staff to cater to the needs of the growing urban populations, it would have cost much more than outsourcing the same activity to an outside agency. Furthermore, high absenteeism among the permanent staff and corruption increased the attractiveness of PSP models which were initially regarded as being more efficient and less open to corruption. Some successful experiences in bigger cities like Hyderabad, Nagpur, and Viskhapattanam also encouraged medium-sized and small municipalities to start pilot PSP projects with waste collection. These municipalities had little experience in waste treatment and disposal and so this also opened new opportunities – involving the private sector in waste treatment and disposal by means of various kinds of concession agreements (such as like build, own operate (BOO), and build, own, operate and transfer (BOOT). Recently, some state governments

2 Johan Post, Moses Ikiara & Nelson Obirih-Opahere, Planned versus Spontaneous Privatization, CWG paper No 33, CWG Workshop: *Solid waste collection that benefits the urban poor*, Dar es Salaam, March 2003.

have initiated pro-participatory legislation or contracts that encourage the employment (or involvement in other ways) of people who have been working in waste management as private sweepers or informal sector recyclers. The intention of such measures is to improve the living conditions of the urban poor engaged in SWM. Aware of the labour-intensive nature of solid waste management, small enterprises and NGOs as service providers have exploited the potential for generating livelihoods, particularly for the informal sector urban poor.

2.1.1 Lack of Institutional capacity for developing PSP projects

A survey carried out in two states (Maharashtra and Rajasthan) found that in medium-sized and smaller municipalities there was no or little capacity to develop PSP projects in waste collection, treatment and disposal. Those who had initiated pilot PSP projects had simply copied tender and contract documents from another municipality or developed independently contract documents with very little understanding of how to deal with performance monitoring and risk sharing. In fact some of the municipalities simply changed some of the words in tender documents that were used for other kinds of work, such as road construction, drain or toilet construction. None of the contract documents that were analysed in the survey were based on performance. The contract documents used by some municipalities consisted of 2-3 pages whereas others used documents with as many as 30 to 40 pages, mostly copied from other municipalities. They seldom hired experts to prepare tender and contract documents but mostly gave the work to junior staff – for example the head clerk or accounts officer – who had little or no knowledge of PSP.

2.1.2 Subjective monitoring without performance-based contracts

The survey confirmed that none of these municipalities had performance-based contracts in place. Instead the documents provided only a basic outline of what work has to be done and how much payment would be made for the work. Most of the penalty clauses that had been inserted were based on the whims and fancies of the sanitation inspector or the accounts officers who were responsible for making payments to the contractor. Both the selection of contractors and the mode of payment were found to be questionable. The payment and the work depended more on the relationship with the person than on actual measurable performance or outputs.

2.1.3 Lack of quality consultants in smaller municipalities

None of these smaller municipalities had engaged any quality expert or consultant for preparing their tender and contract documents. In fact some of the heads of the municipal staff said that they did not require a consultant to prepare tender and contract documents. They usually looked for a municipality which had outsourced some activity, borrowed a copy of the contract, changed the name of the municipal body and floated the tenders. Hence the tender and contract documents were basically duplicates of contracts from other cities and not tailor-made documents designed to suit the actual requirements of that particular municipality.

2.1.4 Lack of guidelines from state governments for PSP projects

The state governments which fund the municipalities had not provided any specific guidelines for PSP projects in SWM. In most of the meetings and workshops, senior state government officials would argue in favour of PSP, but they neither provided guidelines on

PSP nor sent any experts or consultants to help municipalities prepare for engaging private sector service providers.

2.1.5 Apprehensions regarding PSP projects

The first and major reaction to plans for private sector participation is that it is going to cut down on municipal jobs so that there would be no new recruitment of permanent staff. The lower levels of municipal employees were seldom informed about plans, reasons and developments relating to PSP projects, and this created confusion about what was taking place and about who would benefit or suffer as a result of the project. The first reactions of the elected municipal councillors were also generally negative as they were afraid that PSP projects would be an additional burden on municipal finances so that they would be criticised by the voters. At the initial stage PSP is supported neither by the elected bodies nor by municipal staff.

3. Components of the GMED Intervention

3.1 Preparation of a PSP toolkit for municipalities

After carrying out a training needs assessment survey in connection with PSP, the Growth oriented Micro Enterprise (GMED) Program, supported by USAID, prepared model tender and contract documents. The highlights of these performance-based model contract documents were shared with municipalities in workshops in various states. Those municipalities which wanted to initiate new systems or improve their current systems then invited a GMED team to visit their municipalities and prepare a tailor-made performance-based contract for selected activities. The municipal staff were also trained in how to implement the contract and monitor the services provided by the private sector service providers.

One of the major tasks undertaken by the GMED was the preparation of a toolkit that would help municipalities to provide door-to-door waste collection services. GMED India entered into a partnership with the All India Institute of Local Self Government (AIILSG) for this purpose. A baseline survey was undertaken in two states, Maharashtra and Rajasthan, and, based on the findings, a set of guidelines and a toolkit were prepared for the development of small and medium enterprises (SMEs) in the solid waste management sector. The toolkit contains details of how to prepare tenders and contract documents, and how to select performance indicators for monitoring the service for increasing efficiency. Excerpts of some tender documents were also provided in the toolkit. The toolkit was widely disseminated to urban local bodies, including all that had been involved in the survey and other development work.

3.2 Capacity development of municipalities

It was imperative to provide capacity building support to municipalities so that they would participate and provide some critical inputs for the preparation of a collective strategy. At the start of the project, GMED organized several capacity building workshops in partnership with the state governments in all five states to develop the capacities of Class 1 municipalities especially, enabling them to understand the benefits of the PSP models and how services could be provided by SMEs, promoting sustainable livelihood options instead of using

mechanical methods. Workshops were conducted in all the participating states, with specialized resource persons speaking on various aspects of PSP and SME models. Training workshops on PSP were conducted for many municipal employees, to bring all to the same level of understanding. These workshops were attended both by the municipal staff and by elected representatives.

3.3 Implementation of contracts by Municipalities:

After the workshops, municipalities interested that were interested to proceed further with PSP contacted GMED. The GMED team visited the individual municipalities and did a baseline survey of the requirements for services and their financial strength. Some municipalities decided to outsource one or more components of their waste-related activities (such as door-to-door collection or long distance transport, or road sweeping), whilst others decided to completely outsource newly developed areas where waste and related services were inadequate or not provided at all. Performance-based contracts were prepared according to the requirements of the municipalities, tenders were invited and contracts awarded.

3.4 Active role by the state government

Since GMED had signed a MOU with the state government, the municipalities were more motivated to work with the Program. State governments regularly provide funds to municipal bodies for improving the services in waste management and also monitor the way in which these funds are used. Many municipal authorities are not yet comfortable with PSP as they do not fully understand the extent of their authority to engage private sector service providers. There is, therefore, a need to have a state policy and legal framework to guide the municipalities regarding PSP in the provision of various types of SWM services. Recently the states of Rajasthan and Karnataka declared their state policies on SWM. The states of Gujarat, West Bengal and Kerala, among others, have created high-powered state missions to accelerate implementation of the Municipal Solid Waste (MSW) Rules 2000 (Box 1) in their respective states, and they plan to involve the private sector.

Box 1 MSW Rules 2000

The MSW Rules 2000 were the response to a public interest litigation that was filed in the Supreme Court in 1998. The Court appointed a committee to recommend policies to be adopted for scientific waste management practices. These recommendations, with some changes were officially adopted as the MSW Rules 2000. Amongst other things they call for household segregation of wastes and that landfills should only be used for organic waste if it is treated before disposal

3.5 Promoting SMEs in PSP

Private operators either in the form of small entrepreneurs or as NGOs or CBOs have proved to be able to provide solid waste collection services of a relatively better quality and at comparatively low costs (compared to municipal workforces), leading to better levels of satisfaction among the citizens of the cities where GMED has been working. It is important

to note here that these interventions were made to create new jobs and provide better services and not necessarily as a techno-managerial improvements. It is also pertinent to add that these advantages have been provided through locally grown SMEs using labour-intensive methods and technologically simple modes of solid waste collection, (such as pedal tricycles, auto-rickshaws, and small pick up vehicles without any lifting devices). These experiences reinforce the belief that good quality solid waste collection and transport do not need large contractors or multi-national corporations that prefer using sophisticated, labour-saving technologies (compaction trucks, and bulk container systems).

3.6 Monitoring of PSP projects

There are two levels of monitoring that were developed for the PSP models. One is concerned with the efficiency of the system and improving upon it, and the other is to determine the output of the services provided so that correct payment can be made to the agencies that provide the services. This approach has helped both in improving the efficiency of the services and in making correct payments, thereby conserving the resources of the municipalities and motivating the service providers to perform. The approach was based on performance of defined services (outputs) rather than on activity (inputs). Most municipalities not using the GMED approach had no system of monitoring, and payments were made as lump sums. So the reason for unsatisfactory performance was that there was neither incentive for good performance nor penalty for bad performance, because the payments were fixed. Monitoring of the quality of the waste services provided to the citizens and the number of households covered by these services was a new system for making payments to contractors, which initially was not liked by the contractors.

4 Results of the GMED intervention

By the end of the third year of the program some 30 small and medium-sized municipalities had established PSP models in waste related activities, generating more than 3500 new jobs for the urban poor, and they were still expanding. These PSP models had a ripple impact on other neighbouring municipalities who were copying what they saw without, unfortunately, having done enough initial research. This shows that PSP as an institutional model for service delivery is not yet mature and well understood in the small and medium-sized municipalities and a lot more awareness and capacity development are required to improve waste management in India.

Table 1 shows, for the three states where the GMED program was initially implemented, the number of municipalities involved and the number of jobs created.

Table 1 Impact of the GMED program in three states

	Number of municipalities adopting PSP	Number of PSP contracts	Number of jobs created
Madhya Pradesh	2	4	531
Maharashtra	11	26	649
Rajasthan	10	62	825
Total	23	92	2005

Table 2, on the next page, summarises the situations where GMED became involved and the results that were achieved

It is often said that privatisation needs the ‘guiding hand of the state’ to become effective. The case studies of the three abovementioned states underscore this assertion, albeit in different ways. A crucial role that should be fulfilled by the local authorities includes the protection of the public interest and the promotion of social acceptability. The contracting approach of performance-based models enables the smaller municipalities to keep a firm grip on the entire process through specified contract performance measures, enforceable contract sanctions, rigid performance monitoring and cost accountability. The current approach has gained increasing political and social support too.

5. Lessons learned

- The states need guidelines for preparing PSP projects in solid waste management
- It is essential to develop the capacity of all key municipal staff so that they are able to involve the private sector in a mutually beneficial way.
- All stakeholders (including elected councillors and all grades of municipal staff) should be informed about plans for involving the private sector, to develop a consensus and to involve all of them in the process, in order to avoid or minimise opposition and protests.
- It is necessary for the municipal authorities to change their mentality and role from being a ‘service provider’ to that of a ‘facilitator of services’
- Private sector participation (PSP) can attract finance for the modernisation of SWM services, thereby improving efficiency.
- PSP can result in cost savings as it raises the productivity of manpower and machinery, and as the private sector enjoys more freedom than the public sector from bureaucratic and political interference.
- Private sector participation is an option that seems to very attractive. However, decision-makers should be informed of the potential risks which need to be carefully considered before deciding to tender services.
- A common problem is that work is offered to the private sector without essential preparation work having been done. Public administrations that lack the necessary capacity often copy models and documents from other locations or other fields of activity, and the resulting arrangements are usually wasteful and disappointing. This strategy of hurried copying is often the result of a lack of awareness among decision-makers. The investment of time and money in capacity development and data collection can soon be recovered by savings resulting from efficient, reliable and good quality services.
- Experts with relevant and proven experience should be involved in preparing and reviewing tender and contract documents. The evaluation of proposals submitted by bidders should involve experienced and independent experts.

Table 2 GMED intervention activities

Status before GMED partnership	Gaps filled by GMED, India	Desired status	Concrete outputs
Lack of an adequate database for planning	Preparation of database by undertaking a detailed study to understand the situational and financial capacity of the urban local body (ULB)	Availability of database with the ULB for planning	Involvement of private sector begins in most of the participating municipalities, Technical consulting services Training and capacity development Training also for potential SME bidders
Inefficient services	Development of systems and procedures for municipal services provision Development and designing of service contracts that will improve efficiency Promotion of small and medium enterprises in waste management systems	Improved performance and efficiency of ULBs	Monitoring of services starts
Lack of technical capacity of the municipal staff in SWM	Organising capacity development workshops for elected representatives and municipal officials Providing hand-holding support during follow-up field visit and when requested by ULBs	Enhanced understanding and knowledge about SWM, best practices and latest techniques and technologies.	Capacity development
Little or no private sector participation (PSP) existing in the SWM services	Providing suitable platform for private parties Stimulating interest through designing and promoting the contracts for the ULBs Learning about the capacities of the enterprise by announcing a competitive tender.	Preparation of some workable models of PSP	PSP begins, Increased formal employment, Increased and more stable income for waste workers, better recovery of recyclables
Lack of financial resources	Develop capacities so as to enable access to financial resources Improving the cost effectiveness of services	Mobilisation of financial resources	More innovative PSP models and wider replication, New revenue generation methods adopted