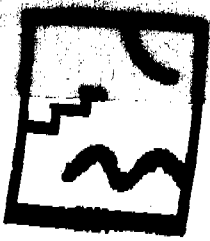


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PUBLIC-PRIVATE PARTNERSHIPS IN URBAN INFRASTRUCTURE SERVICES

Philip Gidman with Ian Blore, Jens Lorentzen and Paul Schuttenbelt

January 1995

**UMP Working Paper
Series**

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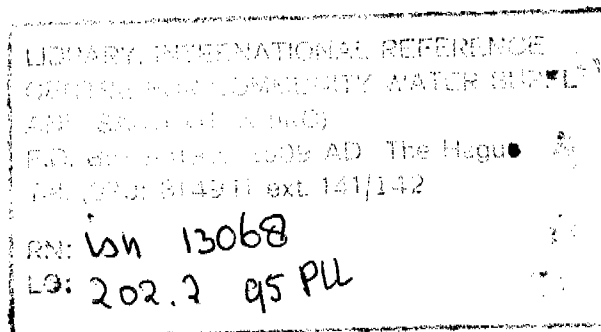
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Philip Gidman with
Ian Blore, Jens Lorentzen
and Paul Schuttenbelt

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FOREWORD

This working paper has been prepared by the Urban Management Programme (UMP) - a ten-year global technical cooperation programme designed to strengthen the contribution that cities and towns in developing countries make toward human development, including economic growth, social development, and the reduction of poverty.

The programme is a partnership of the international community: UNCHS (Habitat) is the executing agency; The World Bank is the associated agency and UNDP provides the core funding and overall monitoring. Bilateral donors, multilateral agencies such as the World Health Organization and Non-Governmental Organisations (NGOs) provide various types of support.

The ultimate beneficiaries of the Programme are the citizens who live in and use cities and towns, particularly the urban poor, who will receive better-managed services and more accountable, participatory, and transparent management as a result of the programme.

The Urban Management Programme

Through its regional offices in Africa, the Arab States, Asia and the Pacific and Latin America and the Caribbean, the UMP seeks to strengthen urban management by harnessing the skills and strategies of networks of regional experts, communities and organisations in the public and private sectors. The goal of the programme is to strengthen this local and regional expertise.

- **City and Country Consultations.** The UMP brings together national and local authorities, the private sector, community representatives, and other actors within a country to discuss specific problems within the UMP's subject areas and to propose reasoned solutions. Consultations are held solely at the request of a developing country and often provide a forum for discussion of a cross-section of issues generally resulting in a concrete action plan for policy programme change.
- **Technical Cooperation.** The UMP uses its regional networks of expertise to sustain follow-up to the consultations by providing technical advice and cooperation to facilitate the implementation of action plans and to mobilise the resources needed for their implementation.

Through its Core Teams in Nairobi and Washington, D.C. the UMP supports the regional programmes and networks by synthesising lessons learned; conducting state-of-the-art research; identifying best practices; and disseminating programme-related materials.

The UMP Dissemination

The UMP produces a number of publications which present the findings of specific research activities, summarize the results of case studies, research, and the insights and broad recommendations developed under the work of the UMP to date, and illustrate instruments, techniques, or procedures, the UMP has found useful in addressing the issues surrounding the five components.

The UMP's Working Paper Series

The working paper series has several objectives. The **content** of the series seeks to highlight examples of good and best practice in the various components of urban management or give an overview of main issues and options in a particular field of urban management. This will range from case studies and training materials on one or more aspects of urban management in a particular city to regional and even global syntheses of experiences. Much of the latter will increasingly be drawn from the UMP's regional programmes. The **timeliness** of the information in the series is an important objective. Hence, the review and production processes for issuing the series have been streamlined to allow for rapid publication and dissemination. The **sources** of material that will be published in the series are intended to be diverse. Authors will be drawn from the UMP's regional coordinators, Programme consultants, members of the UMP's regional networks, UMP core team members, and others.

The **audience** for the working papers will also be diverse, varying according to publication. The series should be of use to urban managers, urban policy makers at different levels of government, External Support Agencies (ESAs) that provide support for urban development, community and non governmental organisations, academics, and the media.

In parallel, the UMP also issues a formal publications series that consists of discussion papers, policy framework papers, and management tools. A list of titles that have been prepared in the formal series and working paper series is attached at the end of this paper.

Many of the formal series publications are available in English, Spanish, and French. The working paper series is available only in English though translations could be available at a later date.

ACKNOWLEDGEMENTS

Philip Gidman drafted the main part of this paper as a consultant to UNCHS (Habitat). Ian Blore of the School of Public Policy at the University of Birmingham contributed substantively to the paper (these contributions were sponsored by the UK Overseas Development Administration through the Urban Management Consortium). The UMP Regional Seminar on Public - Private Partnerships in Municipal Infrastructure Services held at the National Institute of Urban Affairs, New Delhi, February 1994, provided case material and substantive comments which were invaluable in completing this paper. Jens Lorentzen and Paul Schuttenbelt of the UMP core team at Habitat provided substantive and editorial inputs to the finalisation of the paper and included the contributions of the New Delhi seminar.

Useful comments on earlier drafts of the paper and case study examples were received from Pura Abdullah, Jorge Gavidia, Rita Hilton, Frannie Humplick, Christine Kessides, Kyung-Hwan Kim, Michael Klein, Josef Leitmann, Mary McNeil, Ahoka Mody and Clarence Shubert.

INTRODUCTION

This paper has been prepared to provide urban managers and other interested parties with an overview of issues and options in the development of public - private partnerships in the management of urban infrastructure services in developing countries. The paper explores the use of public - private partnership arrangements as a means of obtaining greater value for money in the provision of infrastructure services. It does this by identifying the actions needed to prepare and implement partnership arrangements. Private sector involvement in public service provision is now firmly established in most industrialised countries and the increased use of such arrangements in developing countries could aid service delivery. There are now many examples of how public - private partnerships have been used in developing countries and some of these are mentioned in annotations.

The paper provides a general background to the introduction of an approach which is geared towards providing quality services at the cheapest possible cost. It examines the context of public-private partnerships in relation to national policy, and discusses the various forms of partnership arrangements, from the traditional direct provision through to privatisation, competitive tendering and management buy-outs.

Reference is made to an important paper in the UMP formal paper series #13 "Private Sector Participation in Municipal Solid Waste Services in Developing Countries, Vol. I The Formal Sector" by Sandra Cointreau-Levine. Vol. II being prepared by UNCHS (Habitat) will address the Informal Sector and is due to be published in the first half of 1995.

Another paper, planned to be published by the UMP in 1995, elaborates issues and options available to enhance user involvement and community participation in the management of urban infrastructure services in developing countries. Since the present paper generally focuses more on partnerships with the formal private sector, these two papers are mutually complementary. Between them they elaborate issues and options in institutional arrangements for urban infrastructure management - within the policy framework defined in UMP#17 "Strategic Options for Urban Infrastructure Management".

ABBREVIATIONS

BOO	Build Own and Operate
BOT	Build Operate and Transfer
CBO	Community Based Organisation
CCT	Compulsory Competitive Tendering
CT	Competitive Tendering
DLO	Direct Labour Organisation
DSO	Direct Service Organisation
ESA	External Support Agency
MBO	Management Buyout
NGO	Non Governmental Organisation
PI	Performance Indicator
SLA	Service Level Agreement
UMP	Urban Management Programme
UNCHS	United Nations Centre for Human Settlements (Habitat)
UNDP	United Nations Development Programme
VFM	Value For Money

EXECUTIVE SUMMARY

The inability of cities to provide and maintain adequate infrastructure severely affects the productivity, and the living and working environments of their populations, especially the urban poor. The traditional supply orientation to infrastructure policy has tended to produce an overemphasis on facilities rather than a focus on services, emphasis on public sector provision (which often requires the coordination of many institutional actors), and excessively politicised decision making regarding types of investments and pricing of services. These developments, in turn, have resulted in inadequate operations and maintenance, non-sustainability and unreliability of services, constraints to economic productivity, and environmental degradation.

Experience of the past decade confirms that the solution to these infrastructure problems is not merely to expand capacity by making new investments. The key to reforms in infrastructure policy is delivering infrastructure services to meet users' effective demand. Infrastructure service delivery through orientation on the demand side needs institutions that have the capacity to effectively identify demands from all user groups and provide services that these users are willing and able to pay for. All this requires a management capacity and level of investment, which is often beyond the reach of Government in a developing economy. Urban authorities are therefore increasingly looking more to the private sector and to Non Governmental Organisations (NGO's) and Community Based Organisations (CBO's) as a source of investment and improved efficiency for their infrastructure services. Services should be provided by the most effective means, whether this is from the authority's own resources, or through partnerships with other groups.

The following four different groups of actors are relevant in public - private partnerships:

- government at the national, regional and local level;
- NGOs and CBOs
- the formal private sector
- the informal private sector

One of the important differences between the public and private sector in the provision of services is that the public sector is publicly accountable and responsible for ensuring that the needs of different population groups are treated equally. The private sector is responsible to its clients, shareholders, or owners. When a suitable private sector organisation appears interested and able to provide a specific urban infrastructure service, there is every reason to explore the possibilities of a partnership arrangement. However, the public agency has a public responsibility to ensure that any contract awarded actually is the best option to achieve optimum value for money, and that the chosen private partner is a bona-fide organisation. Public agencies contemplating to develop partnership arrangements with the private sector should be cautious that, in any case, they do not create a private monopoly situation.

The level of private sector involvement in service delivery may vary from contracting a civil engineering task to total transfer of responsibility for service planning, delivery and fee collection. Even when the whole operation is privately run, the public agency retains a responsibility, since the continuing public interest has to be safeguarded. Not only private commercial enterprises, but also non governmental and community organisations can play

a role in partnership programmes. Partnerships between these organisations and the government can reduce construction costs, increase cost recovery, promote sustainability and respond better to the needs of users.

A number of definitions are set down related to the various management systems and techniques. These definitions are not exhaustive but fall into one of two categories; those that a) deal with the various methods of private sector involvement (see 2.2) or b) identify organisational processes and activities which may lead to the more orderly administration of an urban authority in a commercial environment (see 2.3).

- Contracting Out. The placing of a contract by a public agency to an external private company.
- Franchising/Concession. A private partnership takes over responsibility for operating a service and collecting charges and possibly for funding new investments in fixed assets.
- Affermage. Public authority controls construction and owns the fixed assets but contracts out operations, maintenance and collecting service charges.
- Leasing. Making use of equipment/assets without purchasing but by paying a lease.
- Privatisation. Public service is entirely sold to a private partner.
- Management Contract. Private organisation takes over responsibility for managing a service to specified standards by using staff, equipment etc of public authority.
- Build Own and Operate (BOO). Partnership between public and private sectors whereby the private firm may build, own and operate the asset/service.
- Build Operate and Transfer (BOT). Same as BOO but the asset/service will be transferred to the public sector after a period of time.
- Management Buyout (MBO). The management of well run internal functions negotiate the purchase of that function and becomes a private venture.
- Co-operatives. Self governing voluntary organisations designed to serve the interest of their members, working in partnership with public authorities.

The use of partnerships has been common practice in the provision of infrastructure services in most countries. However the most practised partnership option has been contracting out. Increasingly, based on a conscious policy decision in many countries, there is an increase in the range of partnership options practised. This implies a significant client/partner role for both national and decentralised government.

However, many countries still experience strong opposition to the increased involvement of the private sector to provide services. Among the most frequent concerns are:

1. Public suspicion of, or hostility to private sector participation in service provision.
2. Political opposition from unions or powerful interest groups.
3. Opposition by leaders of non-governmental organisations and other advocacy groups who fear that the poor will be excluded from services or will not have the income to pay for adequate services at market prices.
4. Inability or lack of interest of the private companies to provide needed services and infrastructure at affordable prices.
5. Insufficient private sector management skills to provide services efficiently and effectively.

6. The fear of converting a public monopoly into a private monopoly.
7. The fear of losing public control over essential public services.

One problem with partnership arrangements may be that elected officials will still be held accountable for infrastructure services over which they may no longer have direct control. However, local authorities must still play an important role in partnership arrangements and this role should include to initiate, facilitate and monitor the partnership and evaluate the performance of the private partner.

In many cases, although there is a general perception of the need to ensure efficiency, the greater force can be the fear of change and the effects that this might bring. The central authority may be left with three options to implement partnership programmes. The central government can leave the initiative to the local government (voluntary process), they can provide certain incentives (voluntary process with incentives) or they can force the local authority (mandatory process).

Any government or municipality considering the introduction of a significantly expanded use of public-private partnerships in the provision of public services should consider a number of changes as a basis for implementing a partnership programme.

A. Policy Planning

Experience shows that cities and states (and even parts of cities and states) can and do experiment with partnerships on a small scale before the concept is extended to a larger scale. Although a formal, legislated policy document is not a prerequisite to the development of partnerships it is important before attempting to introduce partnership arrangements on a scale affecting a large proportion of public services that an overall set of policies is first designed, argued through and promulgated for discussion. This also serves to give notice to the various interested groups, including civil servants and the private sector, of likely future changes that may be expected.

B. Programme Objectives and Timetable

The programme's objectives should be developed along two axes. Firstly, the types of infrastructure services and reasons for their inclusion or exclusion should be set out. Secondly, each service should be reviewed by reference to the most appropriate type of public-private partnership. The implementation timetable for the development of any partnership process will be dependent primarily on the readiness of the public partner to be able to embrace a new approach to service delivery, but also on the capacity and interest of potential private partners. It will require an ability to specify the service required, the quality standards expected and the means of measuring whether or not the service has been delivered; good financial information on service costs should also be available. Bringing in the private sector, without careful planning and management, may not save costs or improve services.

C Organisational Change

A management of change programme could be designed to help both management and organisation adjust to new procedures and take on new skills. In those services or activities where partnership arrangements have been implemented, it is important that the staff of the urban administration develop a good working relationship with their private partner through a conscious programme of change.

The options available for public - private partnerships are diverse, and in a number of cases overlapping, so it is not sensible to advocate any single option as being the most appropriate to a particular service sector. Chapter 4 of this paper selects seven infrastructure service sectors for which the most common partnership options are discussed.

Experiences of successful practice suggest that neither a purely bottom-up approach, concentrating on developing instruments at the municipal level, nor a top-down approach of policy change, without the provision of local instruments, can effect rapid reform. A combined, or pincer, approach is that which most of the "fast track" countries have adopted. The most important issue of all to bear in mind is that the development of public - private partnership arrangements is not a simple process. This is not only because of the sometimes sensitive political issue of increased private sector involvement in a field which has traditionally been dominated by public sector provision but also because of the limited experience of civil servants with the operational modalities of such partnerships.

While it is hoped that the present working paper will facilitate awareness-raising and provide an overview of issues and options in partnerships, one conclusion from a recent UMP Seminar in New Delhi is worth highlighting. There is a strongly felt need from urban managers and other concerned parties for well documented examples of good practice in planning, implementation and monitoring of partnership arrangements including model contract documents. There is also a felt need for staff exchanges and study visits by political decision-makers to see effective partnerships in operation and draw replicable lessons of experience. The UMP will continue its efforts to address these needs.

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Table 3.1 Feasibility of Private Sector Delivery Varies By Infrastructure Components

I. THE CONTEXT

1.1 Trends in Urban Infrastructure Management

Substantial investments in infrastructure have been made during the past decade by national, regional and local governments, donors, private firms, and even Non Governmental Organisations (NGO's). However, in general, the present condition of urban infrastructure in developing countries is poor, the services provided are inferior, and the financing systems for infrastructure services are inadequate. The traditional supply orientation to infrastructure policy has resulted in an overemphasis on facilities rather than on services, emphasis on public sector provision (which often requires the coordination of many institutional actors), and politicised decision-making regarding types of investments and pricing of services. These developments, in turn, have resulted in haphazard investments in new assets (often based on inappropriate standards of design or provision, inadequate operations and maintenance, which has led to non-sustainability and unreliability of services constraints to economic productivity, and environmental degradation). These problems are exacerbated by rapid urbanisation and in particular, by rapid growth of urban low income areas.

The low income population is usually the most affected by the poor and unreliable infrastructure services because it has the fewest acceptable options but also business production costs rise substantially as firms contend with inadequate public infrastructure services or are forced to invest in their own back-up service systems. Pressure is therefore rapidly increasing for developing countries to improve the quality and cost-effectiveness of their urban infrastructure services.

Infrastructure services can be defined as those services derived from the set of public works traditionally supported by the public sector to enhance private sector production and to allow for household consumption. Defined in this manner, this includes roads, mass transportation, water-supply systems, sewerage and other sanitation systems, solid waste management, drainage and flood protection, electric installations and telecommunications (Fox 1994).

Experience of the past decade confirms that the solution to infrastructure problems is not merely to expand capacity by making new investments. The key to reforms in infrastructure policy is delivering infrastructure services to meet users' demand. A focus on demand for services implies that planning for development in infrastructure can not be based on a predetermined quantification of "need gaps" or standard engineering blueprints. A more user oriented and participatory style of planning is needed to recognise demand. Focusing on demand represents a radical departure from the traditional concentration on the supply services with little attention to the end-user.

Infrastructure service delivery through orientation on the demand side needs institutions that have the capacity to effectively, identify and manage that demand and then be more accountable to users and responsive to their needs in delivering the services needed. The establishment of public - private partnerships can be used to make organisations more accountable. Public - private partnerships are also a means to create competitiveness and allow for more effective articulation of demand. Partnerships are preferable to traditional ways of public service delivery if they increase well-being by reducing costs, meeting demands, or achieving other benefits such as providing a greater choice of services.

Box 1: Select Evidence of the Efficiency of Partnerships

- In studies conducted in the USA, it has been shown that contracting of solid waste collection service was from 10% to 30% less costly than direct public service. The cost saving included monitoring of contractors estimated to average roughly 25% of overall costs.
- "In Kuala Lumpur it was found that the private firms made more trips per vehicle per day and collected more waste on each trip. The result was that the private firms collected 8.5 tonnes per vehicle per day while the public service collected 5.7 tonnes per vehicle per day." (Cointreau-Levine, 1994)
- "Bogota reports that the private sector has a new standardised solid waste collection fleet, while the city is operating with an old and highly diversified fleet, factors which significantly complicate vehicle productivity." (Cointreau-Levine, 1994)
- In the Republic of Korea the cost reductions gained through partial contracting out of solid waste collection may in some cases be 50% (see Box 20).
- A recent study by the Department of the Environment, UK (Davies and Walsh, 1993) show the average cost savings from competitive tendering for service contracts to be 7% for all municipal services. The modal cost savings are as high as 20% whilst the gains in the worst run municipalities are even greater. The cost comparisons were carefully designed to include all costs, including the higher costs of contract management, departmental reform costs and documentation costs.

The World Development Report (World Bank 1994) has a major focus on privatisation and other forms of partnerships and recognises some major trends in Infrastructure:

- *"Infrastructure can deliver major benefits in economic growth, poverty alleviation, and environmental sustainability - but only when it provides services that respond to effective demand and does so efficiently. Service is the goal and the measure of development in infrastructure. Major investments have been made in infrastructure stocks, but in too many developing countries these assets are not generating the quantity or the quality of services demanded. The costs of this waste - in forgone economic growth and lost opportunities for poverty reduction and environmental improvement - are high and unacceptable.*
- *The causes of past poor performance, and the source of improved performance, lie in the incentives facing providers. To ensure efficient, responsive delivery of infrastructure services, incentives need to be changed through the application of three instruments - commercial management, competition, and stakeholder involvement. The roles of government and the private sector must be transformed as well.*
- Technological innovation and experiments with alternative ways of providing infrastructure indicate the following principles for reform:
 - *Manage infrastructure like a business, not a bureaucracy.*
 - *Introduce competition - directly if feasible, indirectly if not.*

- *Give users and other stakeholders a strong voice and real responsibility."*

Investments in infrastructure are often beyond the reach of Government in a developing economy. Urban authorities are therefore also looking to the private sector as a source of investment and improved efficiency for their infrastructure services, most or all of which may benefit from private sector involvement in varying degrees.

However, it should also be clear that such partnerships are not a panacea for all urban problems. There are situations where it is more appropriate to keep the delivery of the infrastructure service directly under public authority. This may be a result of the conflict between the need to maximise cost recovery and the responsibility of the government to guarantee a basic minimum level of services or it may be a result of the absence of reliable or available and interested private partners. Government must be concerned to ensure a maximum degree of equity in access to services. It is therefore important that government plays a role in partnership arrangements to supervise and monitor the performance of the private partner, to ensure equitable access for all urban residents and to keep its own yardsticks of performance and unit costs.

In general, four groups can be identified who may play a role in public - private partnerships:

- government at the national, regional and local level;
- the formal private sector;
- the informal private sector;
- NGOs/CBOs.

The present paper focuses mainly on partnerships between the public and the formal private sector while other UMP publications (scheduled for 1995) focus on participation by users and community groups and by the informal sector.

1.2 The Role of the Public Sector

Although there is generally a major shift to a more decentralised way of planning, still most urban authorities in countries, whether industrialised or developing, receive their powers and obligations from a central government authority. The allocation of powers and responsibilities is to protect the rights of the citizens, to provide services and facilities which are not specific to an individual but are for the common good, or to provide a service or facility which cannot be provided in any other way.

Within this framework, a tradition has grown up within urban authorities around the world that in order to ensure the delivery of services to the community the urban authority has to create within its own administration, an organisation that will deliver them. As urban centres have grown in size and complexity so the range and complexity of their organisations have grown. In most medium and large urban centres, the administration of the centre is now a large organisation, frequently the largest employer of labour in the area, carrying out a wide range of related and unrelated tasks.

As the demand for public services has grown it has proved impossible for many urban administrations to respond. The reasons for this are many; unwieldy bureaucracies, management failures, inefficient workforces, lack of investment or finance or even political interference in management processes. The stage has been reached in many administrations where service delivery is not meeting the needs of the population and yet that very population considers themselves to be over-taxed. The problems are aggravated when the cost of providing facilities is not known and even worse when the expected level and actual level of service is not known.

Box 2: Partnerships in Strong Municipalities: Zimbabwe

Zimbabwe is a good example of a country which until now has provided most services directly through local government departments. Private sector participation is now being increased partly on the initiative of government policy to rationalise the local government service. Some local government trading activities are being converted into council business undertakings; contracting out is under consideration for a wide variety of activities ranging from nursery education, to community halls, recreation and even the municipal security service. Joint ventures in urban land development, where the private sector takes on house construction, are growing in importance. One constraint is the weak capacity of local businesses to take a stronger role in more technical services (Batley, 1992).

1.3 The Role of Other Partner Groups

Although it is possible to develop partnerships between several partners it should be noticed that in almost all cases, the public sector is one of them. The other three partners, already briefly mentioned in paragraph 1.1. can be described as follows:

The formal private sector refers to institutions, firms and individuals who may be active in many different aspects of infrastructure management but whose main objective and organisation is to generate a profit on their investments. They can, because of their access to financial resources and/or their potential ability to operate more efficiently, play a role in the financing and/or provision of certain infrastructure services and in construction operations and maintenance of relevant facilities. The fact that the private sector has to make profit helps to ensure that resources are used more efficiently and also stimulates competition among the different private partners. In order to achieve this, private sector entities often tend to concentrate on a single type of activity, or at most a group of closely related activities. By so doing these entities reduce their management and administrative overheads and give close attention to the cost of their operations. Because a private concern mostly has a much narrower focus than its public sector counterpart it will frequently be able to offer innovative technical and financial solutions and provide a benchmark price for the provision of a service. However, since the private sector is not politically accountable there is still a strong need for regulation by the public sector.

Related to this is the overall concern to ensure that the low-income population will benefit from such formal private sector participation. It is therefore important for urban government to also recognise the informal private sector and develop partnerships with this group. The

informal sector is an important source of income and employment for the poor in urban areas and this group can often bridge the gap between the urban poor and the formal sector when it comes to the provision of less profitable urban services or services with standards below these of the formal sector. The main obstacle for partnerships with the informal sector is the common tendency in favour of the formal sector and the negative attitude among urban planners and managers and policy makers against the informal sector. Informal sector activities are considered as being in a transitional situation which will disappear automatically with economic growth. This is frequently accompanied by ignorance of the situation of the informal sector and is leading to its marginalisation by local authorities and urban managers in spite of the major role actually played by this group in cities and towns of developing countries.

Another important group is the community and its representatives (NGO's and CBO's) who may be potentially important actors in public - private partnerships particularly in urban low-income communities. These groups often play a crucial role in catalysing and/or facilitating the active participation of communities in infrastructure development. Partnerships between these entities and the government can reduce construction costs, increase cost recovery, promote sustainability and respond more to the need of the users. Public - private partnerships, in principle, should be complementary or neutral to the objectives of the local authority. Partnerships provides a mechanism to ensure that the comparative advantages of public, commercial private, informal and community sectors are able to be exploited in a mutually supportive way, to the ultimate benefit of both equity and efficiency in infrastructure management. NGO's and CBO's may already have been involved in (often isolated) projects which intend to use popular participation. Although they are often successful at a local level they may not in a position to undertake the strategic long-term planning at a level beyond their project area and thus ensure replicability and sustainability of these initiatives. Because of this inability to carry out larger infrastructure programmes or projects, partnerships between the community (groups) and the government are necessary not only to increase the access of the poor to basic infrastructure services but also to respond better to these 'users' demand. This will automatically result in more sustainable infrastructure services. The community and its representatives and intermediaries such as NGOs can play a major role in awareness-raising, advocacy, decision making, implementing and of course in operations and maintenance of the infrastructure facilities.

The differences between the public and private sector in the provision of services are that the public sector is responsible for ensuring that the whole population is treated equally and that it has residual taxing powers. On the other hand the private sector is responsible only to its shareholders, or owners, and to its clients; it relies on charging either those who benefit from its activities (i.e. residents) or those who employ it (i.e. the urban authority). Because of these differences it would be difficult to create a framework whereby the private sector undertakes the provision of planning and regulatory activities and give them total freedom to decide the pricing policy for services it provided within a partnership arrangement. However, there should be no reason why any other activity which an urban authority might traditionally have regarded as its responsibility to provide, could not be provided on its behalf by a private sector organisation.

Box 3: Contracting of Private Companies in Santiago, Chile.

The Metropolitan Company for Sanitary Works (EMOS) applies contracts with the private sector for two main groups of activities: those related to investment; and those dealing with maintenance, quality control and general services.

Contracts related to investment include feasibility studies, designs, construction and supervision of works. They also include rehabilitation and replacement of facilities. Private sector participation in this area represents approximately 95% of the total investment budget of the company. Contracts related to maintenance, quality control, and general services represent near 22% of the current expenditure in operation and maintenance. These contracts cover areas as diverse as the maintenance of water treatment works and water supply and sewerage networks; water sampling and quality testing; meter reading and replacement; billing; information management; publicity; office cleaning and transportation.

The maintenance of water distribution and sewerage networks is a good example of the last type of contracts. EMOS maintains contracts for this purpose with three private companies each attending a specific area of the city. The contract covers the performance of a wide variety of tasks (specified in work orders that include over 700 tasks/unitary prices) as requested by EMOS. The most frequent tasks involve leak repairs; repairs to valves and fire hydrants; and blockages in sewers and house connections. The contracts also include the replacement of pipes that have reached the end of their service life, as well as other miscellaneous tasks in support of EMOS activities, such as earthworks and roads repair and rehabilitation.

The contracts specify that the private companies should be available the 24 hours of the day and 365 days of the year to undertake any of the tasks requested by EMOS. Due to the variable work load and the need to cover the fixed costs of the private company, the contract specifies a minimum volume of operations under which EMOS guarantees to contribute towards covering those fixed costs. This type of contracts also includes provisions for price variations, as well as procedures for the technical supervision of the contractor by EMOS. The contracts are renewed every 2-3 years through a system of public or private tendering. Maintenance contracts have operated successfully since 1981, generating a great efficiency in service provision. However, due to the multiplicity of tasks to be performed under this type on contract, they have demanded the establishment within EMOS of an adequate capacity for their control and supervision.

The execution of tasks by specialized private companies in the various areas of service management, competing among themselves for service contracts in public and transparent tendering processes, introduces an element of "competitiveness" in an generally "monopolist" activity, which automatically generates greater efficiency and lower costs of operation.

The experience of EMOS shows that the participation of private sector companies in activities that are quantifiable and of frequent occurrence provide optimum results. This arrangement offers the advantage of counting with the management flexibility of the private sector, and ensures public demand satisfaction by avoiding market distortions created by lack of competitiveness (Alfaro R. 1994).

In order to survive, private sector organisations must ensure they have the capacity and freedom to be able to respond flexibly to partnership projects with public agencies. They have access to private sector funds and can set up inventive consortium arrangements with banks to bid for public sector projects. This approach can be adopted for construction and for the operational running of a service. The private sector will achieve its return through a charge made to the public agency as prime operator, or by running the facility itself and

collecting income directly from users. Examples of the latter include toll financed highways and bridges, privately funded public housing schemes, telecommunication networks and

Box 4: Community Construction Contracts in Sri Lanka.

In Sri Lanka traditionally, National Housing Development Authority (NHDA) gave contracts to commercial contractors. Now, contracts for construction of infrastructure works in low-income settlements can be awarded to a Community Development Council (CDC), which represents the people of an established community. The CDC is involved in the planning and design of the facility and organises the labour, drawing from the potential in the community, while the NHDA provides technical assistance.

A strict monitoring system has been introduced to control the financing and implementation of the community construction contracts. In principle, the CDCs receive the funds directly from the NHDA, but in some cases, an NGO can assist the community in carrying out the project and act as an intermediary between the CDC and the NHDA.

The first community construction contract was signed in January 1986. It involved the construction of a water well by a community in Wanathamulla, the largest squatter settlement of Colombo. The CDC completed the work in two weeks, one week ahead of schedule. Records of bought and used materials were meticulously kept and required tools and equipment carefully controlled by a member of the CDC. The main problem with this first community construction contract was with NHDA: as the finance office of NHDA was not used to the new procedure, the funds could not be realised in time. A local NGO helped out and advanced sufficient funds.

In the period from 1986 to 1991, a total of 135 community construction contracts have been awarded to 70 different CDCs. The range of works included residential roads and drains, toilet blocks, water supply standposts, community buildings and repair and maintenance for buildings and infrastructure.

The advantages of the community contract system are bountiful. Community construction contracts have a positive effect on the employment situation of the beneficiary community. Not only are (temporary) jobs provided to skilled and unskilled workers, but their skills foster their employment opportunities. Through the system of community construction contracts, people are involved in the planning and design of facilities in their own neighbourhoods and take part in the implementation in a gainful manner. The community involvement increases the community's responsibility for the condition and maintenance of these facilities and facilitate eventual repairs.

In general, the works carried out through community construction contracts are simple, small scale and labour-intensive. This includes the use of locally available materials and techniques, with design standards which must be realistic to enable a community to carry out the works. (UNCHS 1994).

power generation. However, the public agency has a public responsibility to ensure that any contract awarded actually is the best option to achieve optimum value for money, and that the chosen private consortium is a bona-fide organisation.

Part of the role of the public agency in this context is to carry out a feasibility study for each potential partnership project, consisting of a formal comprehensive project option and economic evaluation process which is then published for public comment. This helps to ensure that the process is actually seen to meet a demand for services and achieve best value for money, and that any private sector partner, is fairly and openly chosen.

Box 5: Informal waste collection and resource recovery in Nairobi.

Nairobi is an example of a city where potential partners in solid waste collection and resource recovery do not cooperate which possibly resulted in a decline of the collected amount of waste over time. In effect less than 50% of the waste generated in the city is collected (recent press reports even put it at 25%). In the informal settlements up to 100% of the waste generated remains uncollected. In addition to the officially responsible government agency (the Nairobi City Council, NCC) there are several private companies which provide refuse collection mainly in the high and middle class residential areas. These companies are not formally licensed to collect the waste but they have an informal approval from the NCC.

There is no organised recovery from any fraction of the waste by the NCC. One of the private companies undertakes small scale recovery of plastics and glass from the garbage it collects. Nevertheless, there is a huge informal waste recovery operation that takes place all over the city and especially in the central business district. Scavengers collect paper, bottles, broken glass, scrap metal, tins, plastics, bones and old tires. Middle men then buy the recovered items and sell these to industries engaged in waste recycling.

Over 90% of the scavengers in Nairobi are full time engaged in scavenging (mostly in the morning and the evening). Most of the scavenging is done from dustbins, skips and illegal dump sites. Back street lanes are used to store and sort out their "wares" before selling it to middle men. Junior employees in city office blocks and commercial establishments also retain useful material which they later sell to scavengers. At the municipal dump site, there is a group of young scavengers who scavenge directly from the dump site. They sell their "wares" to a nearby NGO who sell it to waste recycling industries.

Although the different partners seem to survive in doing their own job it would be advisable to cooperate more in order to improve the general solid waste performance in Nairobi and increase efficiency. (UNCHS, 1994 b).

When choosing a private partner to deliver a service, public organisations should beware that they do not create a situation where it becomes very difficult to change its partner because of the creation of a monopoly situation. Such a situation can be avoided in respect of some services (e.g. solid waste collection) by ensuring that an urban area is divided into segments with separate contracts being let for each and with at least one segment being retained for public management. Such a procedure ensures that the public organisation always retains the ability to provide services directly again and that service delivery standards do not deteriorate or unfair pricing practices develop.

The level of private sector involvement in service delivery may vary from contracting for a civil engineering task to total transfer of responsibility for service planning, delivery and fee collection. In the former case the urban administration will maintain control by monitoring the contract and adjusting fee payments accordingly to performance. Even when the whole operation is privately run, the public agency retains a responsibility, since the continuing public interest has to be safeguarded. This is normally achieved through such instruments as regulatory and pricing bodies and consumer watch dogs, set up to regularly scrutinise the private consortium's performance and adherence to fair pricing and quality. Ideally such regulatory bodies will have legislative powers of control built into their constitution.

1.4. Equity

Although governments in developing countries more and more look to the private sector as a source of investment and improved efficiency they should keep in mind that partnerships, especially with the formal private sector, may not always benefit the interest of the low-income population.

The need for private enterprises to make a profit will may lead to users fees which are too high for low-income groups, unless cross-subsidisation is provided. However commercial and competitive provision of infrastructure can also result in a more efficient and thus cheaper supply of services (e.g. water supply prices of the private vendors in low-income areas are often 5 times higher than formal piped water supply).

Box 6: Urban segregation and service provision in Buenos Aires.

Buenos Aires, like most of the cities in Latin America, has a markedly socially segregated urban structure. Neighbourhoods within the city show significant differences in their level of living conditions, as well as in the quality and efficiency of management of the services they receive. Privatization appears to have contributed to exacerbate these conditions.

For example, privatization of solid waste collection in the federal capital left under direct municipal administration one third of its territory, the southern part of the city where low income settlements are located and which did not offer appropriate rates of return to cover the operations of the private sector. Quality of services in these areas has decreased ever since.

Privatization of the National Water Company (Obras Sanitarias de la Nacion) transferred the management of water supply and sewerage services to a private company covering only part of the metropolitan area. The rest continued under the administration of other institutions (public, private and cooperatives). Under current arrangements, the legal and regulatory instruments introduced to promote the process of privatization only apply to the first company, while the rest are subject to other regulatory mechanisms or none at all. This has created conditions that preclude a fair competition among suppliers for the efficient provision of services.

Public companies in the federal capital used to facilitate the access to services for low income families with limited capacity to pay. While it is recognized that this was achieved through inappropriate practices, such as the application of general subsidies with insufficient accountability and the condoning of illegal connections, the introduction of private sector management was not accompanied by complementary measures to allow the provision of a basic level of services to this sector of the population. Thus, private sector companies will tend to cease servicing these families, and leave them without alternative supply, once they default in their payments. Equally, the privatization of services such as water and sewerage did not include provisions for the extension of coverage areas such as the metropolitan periphery. Thus, in the absence of alternative arrangements to service these areas, they remain in an unserved no-man's land. (Pirez P. 1994)

While examples exist of cooperatives it is obviously impossible for the poor to develop and manage all the needed services by themselves. Because often the poor can not afford even the minimum level of charges it is questionable if the urban poor are able and willing to pay for total cost recovery in formally provided services. The issue may be whether the

government should provide the capital costs of primary low standard services and only recover operations and maintenance costs. Cross-subsidisation is necessary to create the initial, enabling conditions to increase access. Credit enhancement and land security are other steps that lead to self help and cost recovery. Appropriate technologies and lower standards of infrastructure services could also help in lowering the prices of services and strengthen the effective and sustainable implementation of infrastructure investments. Direct subsidisations are not harmful in themselves but beneficiaries must be identified in order to avoid that other people than the poor end up benefiting.

Box 7: Bolivia's Emergency Social Fund

Bolivia's Emergency Social Fund (ESF) is a good example of a programme undertaken by the government of Bolivia to increase the access of the urban poor to basic infrastructure. It also aimed at restructuring the health and education sectors by decentralizing responsibilities to local government and nongovernmental organizations. Because of its success, the ESF programme has been extended under a different name.

ESF attempts to promote short-term and temporary employment, especially to those groups hit by economic adjustment measures, and to provide basic services to low-income families. The programme consists of small-scale employment and income-generating projects and social assistance activities. Eligible projects are water supply, sewerage, health costs, school facilities, school desks, school breakfasts, basic shelter, roads improvement and maintenance, irrigation, and erosion control. The projects can be prepared by local governments, regional development corporations, ministries, non governmental organizations, and community groups; thus the process of project generation has been largely demand driven. Any of these institutions can ask for financing support from the ESF.

ESF was implemented by a new and temporary institution that reported directly to the president of the republic. Several months after ESF was established, its executive staff considered that the participation of NGOs would be very important to accomplish ESF's goals. Initially, the NGOs were reluctant to work with ESF because they were afraid of losing the autonomy and strength of their initiatives. Later, ESF's credibility grew and the institution gained NGOs' acceptance.

ESF has worked with almost 200 NGOs, about 80 percent of which are local organizations. ESF has approved US\$180 million in projects and has generated over 600,000 man-months; about 30,000 people working in ESF-financed projects. As of October 31, 1989, 747 projects were in the works and 1,243 had been completed. Water and sanitation projects are estimated to have directly benefited over 600,000 people, and the road programme, which followed a labour-intensive approach, has been opened and is maintaining nearly 7,000 kilometres of rural access roads helping to integrate small- and medium-sized towns into the national economy.

ESF executive staff in 1989 suggested the creation of the Social Investment Fund (SIF) to carry on the activities of the ESF beyond its termination date. ESF was extended to March 31, 1991, to permit a smooth transfer of its systems to SIF. For this second phase, NGO's will play a very important role in reaching the poor communities from the outset. SIF will become a permanent development institution that will attempt to integrate sector policies and long term resource planning toward alleviating urban poverty in Bolivia. (A. Menéndez, the World Bank 1991).

Government has an important role to play in order to ensure equitable access to infrastructure services. It must provide the legal /regulatory framework which can maintain the necessary

levels of quality and accessibility. This could be done by regulations, changes in pricing and subsidies, but also through a more decentralised and participatory approach. Governments can alleviate the worst aspects of poverty by directing public expenditure to the most vulnerable groups and by creating an environment within which initiatives of other partners can develop and flourish (e.g. income generating activities).

In order to balance cost recovery with equity three conditions are essential (UNCHS 1991).

- People will not pay for services they do not want or find inadequate, so there must be a strong link between cost and quality.
- Cost recovery is easier where there is a high level of participation by the users at all stages of the management process.
- Sustainability and access cannot be secured where the municipal government is weak since these processes are complex and require effective administration and supervision.

The new role of the government agencies should be flexible, facilitating, focused towards active participation of all actors involved and provide social, financial and technical support to the urban poor. If the government does not play that role, the private commercial sector will concentrate only on high or maybe middle income areas leaving the poor out or to rely on more expensive private suppliers.

Other important actors who can play a role in bridging the gap between the government and the community are NGO's or CBO's. Community-Based Organisations are essential in organising poor people, taking collective action, fighting for their rights, and representing the interests of their members in dialogue with NGOs and government. NGOs, on the other hand, are better at facilitating the supply of inputs into the management process, mediating between people and the wider political party, networking, information-dissemination and policy reform (UNCHS 1993). NGOs possess four intrinsic advantages over both the public and commercial private sectors: mediation, communication, coordination and networking (Turner, 1988) but they face major difficulties when it comes to sustaining and scaling up their activities and impact over the longer term and beyond the local level. This is why partnerships with government is usually essential if NGOs are to make maximum use of their strengths, and to minimise their weaknesses. By creating an enabling framework of laws, economic and political conditions, the State can play a fundamental role in helping NGOs and CBOs to play their roles more effectively and as a result increase the access to infrastructure services for the urban poor.

Collaboration between the government and NGO's and CBO's is very important but unfortunately rarely takes place. Partnerships between the two groups should be achieved without ignoring each others strengths but make use of each others comparative advantage. If both groups seek collaboration they will learn from each other's experience.

2. SELECTED PARTNERSHIP ARRANGEMENTS

2.1 Approaches Available

A number of different approaches are available to public agencies when considering how to improve service delivery. Below a number of definitions are set down related to the various management systems and techniques. These definitions are not exhaustive but fall into one of two categories; those that a) deal with the various methods of private sector involvement (2.2) or b) identify organisational processes and activities which may lead to the more orderly administration of an urban authority in a commercial environment (2.3).

2.2 Definitions within Partnerships

The most common type of partnership arrangement in developing countries is contracting out. Increasingly however, in a general policy environment of decentralisation where they assume greater responsibilities for service provision, local governments are forced to more systematically consider a broader range of partnerships. Some of the most common definitions are listed below. It should be noted that these definitions vary between different organisations and authors. It has been attempted here to adopt definitions which accommodate to the extent possible, the most common definitions found in literature references.

Contracting Out: The placing of a contract by a public agency to an external private company. It is essential to maintain some form of internal control function to monitor the contractor's performance against the contract specification, and to determine payment procedures. A government may choose to contract-out part of the activities of a company as a means of reducing its size as a matter of policy or as a prelude towards privatisation.

Box 8: Puerto Vallarta Sewerage Project, Mexico

A contract was awarded in 1990 to Bewater Inc. to build and operate for 20 years a treatment plant in Puerto Vallarta, a city of 405,000 people in Mexico. The contract implementation involved the formation of a local subsidiary company (CTAPV) which will own and operate the plant, charging the local water and sewerage company (SEAPAL-PV). This company also acts as effluent monitor.

The contract involved relaxation of foreign capital movement regulations, company taxation rules and debt conversion laws. State guarantees of payments and contract liabilities of SEAPAL-PV were also required. Contractor risk reduction is usual in large BOT or service contract negotiations. Guaranteed returns may therefore be set at a lower rate and consumer tariff increases restrained. (Rees, 1992.)

Franchising/Concession: A private partner takes over responsibility for raising finance for investments as well as running the service and collecting charges. This arrangement applies to a specific jurisdiction or geographical area. The private partner will pay an annual fee or may receive an annual subsidy depending on the financial circumstances of the service. Such arrangements may apply in respect of commercial operations owned by an urban authority where the user charge either covers or represents a substantial proportion of the total cost.

Box 9: Water and Sewerage Concession in Buenos Aires

In 1993 a large international consortium (led by Compagnie Lyonnaise des Eaux-Dumes) was awarded the concession to maintain and operate the water and sewerage services for 30 years. Revenue will be collected directly by the concessionaires who will be responsible for upgrading and expanding the system. All assets will continue to be owned by the central government.

Annual turnover at the time of the concession is estimated to be US\$300 million. Competitive bidding was solely by large international consortia with Argentine participation. Contracts of this size are likely to be inevitably internationalised and this may be politically sensitive. On the other hand the globalisation of water businesses may both increase competition and facilitate technology transfer. (World Water, 1993)

Affermage: A public authority controls construction of a system but contracts out its operations, maintenance and the collection of service charges to a private partner. Urban government owns the fixed assets and finances them although the private company would have to fund replacement parts - this is an operating concession only.

Privatisation: The term is often used to mean any process whereby the private sector is involved in the provision of public services. However, in this paper it is used in the narrower context in relation to ownership, where the public sector ceases to own any part of a service or utility. Thus, the entire service is sold off by the government following a valuation of the agency's worth and prospects. There is a danger that the previous public monopoly is replaced by an even less controllable private one, and so careful consideration has to be given to the establishment of controlling mechanisms, e.g. through the use of watchdogs with statutory powers (See Box 10). Further controls have been established by splitting up the previously conglomerate agency into different companies, for instance by distinguishing between electricity generation and distribution, and then inducing competition between them to reduce prices. Alternatively only part of the utility may be sold with the remainder remaining in the public sector and being operated as a public sector utility. This latter process is often used as a means of checking the performance of the private operator.¹

Management Contract: A private organisation may agree to take over the responsibility for managing a service to specified standards but using the staff, equipment, vehicles and buildings of the urban authority. Such a process can occur when the organisation is experiencing significant change in its responsibilities or in its working method and where existing management do not have the right level of skills necessary to manage the change. Such arrangements are likely to last for only a short period until internal management obtain the skills necessary to successfully manage the organisation in the new environment.

¹ Full scale privatisation is not limited to developed countries. For example in their paper *Privatisation of Urban Services, Shelter and Infrastructure Services in Developing Countries: An Overview of Experience*, Rondinelli and Kasarda identify full or partial privatisation of state owned enterprises and utilities being pursued in Algeria, Tanzania, Malaysia, Thailand, South Korea, Malawi, Bangladesh, Pakistan and Sri Lanka.

Box 10: Select Examples of Local Regulation and Monitoring

- Singapore and Malaysia have set up a complaints bureau for receipt of complaints about all public services. The central complaint bureau processes each complaint with the appropriate government agency and follows up on whether the problem resulting in the complaint has been adequately addressed, a process that they feel increases the accountability of each government agency.
- In Hong Kong, at the privately run solid waste transfer stations, monitoring includes 6 full time inspectors from the local government. Operations are continuously observed and regular readings of pollution levels (e.g. noise, dust, odour) are made.
- In Bogota, Colombia, two private contractors service about 40% of the solid waste from the city's households and establishments, while the local government services about 55%. The city hires a private company of consulting engineers to monitor both the public and private service delivery and provide a monthly report on performance by each. The cost of the monitoring contract amounts to 2.5% of the total cost for contracting with the two private firms (Cointreau-Levine, 1994).

Leasing: Leasing equipment, rather than to seek to purchase, is one way of obtaining equipment when the opportunity to borrow money for a capital investment is limited. On the other hand, a government may wish to discontinue operation of an enterprise and lease out its assets to the private sector on the basis of competitive bidding for a specified period of time. The private sector operator pays rent on the leased assets and may enjoy an option to buy the assets once the lease comes to an end.²

Management Buyout (MBO): Public agencies wishing to become enabling authorities can allow the management of well run internal functions to negotiate the purchase of that function, usually with the help of private venture capital. The MBO company thus formed becomes a private venture, but it usually has the benefit of buying a long term contract from the authority as part of the purchase price. All employees transfer to the new company, and the parent agency has little or no residual responsibility as an employer. Once the contract comes up for renewal, the MBO should compete with other private sector companies.

Build, Own and Operate (BOO): A partnership between the public and private sectors whereby a private firm, through turnkey contracting, may build, own and operate a facility which will be used by the general public (see below). BOO may not be popular with some developing countries because the ownership of the facility remains with the private sector. However, the development of such a scheme shows that the private sector is satisfied that the fundamental risks and economic benefits can be satisfactorily managed.

² The Municipal Council of Petaling Jaya, Malaysia, a city of 300,000 people, turned to privatisation when it experienced declining revenues, mismanagement and rising costs in the collection of parking fees. In 1984, the Council leased parking areas to private management firms in return for a monthly rental. The Council was thus able to retain control over parking services while relieving itself of management and financial responsibilities. (Rondinelli and Kasarda - 1992)

Box 11: Build, Own and Operate Projects in the Philippines

The Philippines has had a deliberate Infrastructure Privatisation Programme since 1991 concentrating on promoting BOT and BOO projects. There is a central agency, the Build, Operate and Transfer Centre under the Office of the President and enabling legislation. The BOT law is being amended in 1994 to allow easier foreign participation in BOT partnerships. Some large developments are planned, many as regional or non-municipal projects. These include geothermal power, ports, airports toll road and industrial estate development. Two water supply schemes are planned (Bulacan and Cavite) and both are promoted by local water utilities who will supervise the contracts.

The development of one of the most modern and efficient sections of Metropolitan Manila, the Makati district, has largely been left to a private company. The Ayala Corporation owned the land on which the Makati Commercial Centre was developed, formulated its own plan for the sub-division of large tracts of property into residential, commercial, institutional and recreational uses. This section of Manila contains both moderate income and exclusive residential areas. The company has developed office, commercial and manufacturing facilities and donated land for schools, parks, playgrounds and municipal buildings. It takes an active role in making improvements and provides its own engineers to assist the municipality in maintaining Makatis' public infrastructure (see Rondinelli and Kasarda, 1992)

Build, Operate and Transfer (BOT): Similar to BOO but at the end of the specified period the ownership of and right to operate the facility will transfer to urban authorities. The award of the contract will be on a similar basis to a BOO scheme with the added ingredient of the time when the private firm is prepared to transfer ownership. The period will be calculated by the private firm to ensure that the profits from operations cover the initial investment.

Box 12: An Example of a BOT Project in Solid Waste Management

One of the few examples of BOT within the solid waste sector is for a transfer station in Hong Kong. Here a private firm reached a BOT agreement several years ago for the construction and operation of solid waste transfer facilities (a transfer station and fleet of transfer trucks). Several firms were pre-qualified, based on their past experience in designing and operating transfer stations.

The government's bidding document specified technical and environmental performance requirements, equipment and building maintenance requirements and equipment replacement schedules. The station is now built and operating. The government makes regular inspections to determine whether all of the contract performance requirements are being met. (Cointreau-Levine, 1994.)

Co-operatives: These come in many varieties but in the main are self governing, voluntary organisations working in partnerships with the Public Authorities. Co-operatives serve the interests of their own members or the members are encouraged to undertake activities for their own interest. The government should encourage and facilitate the whole process. All members of co-operatives have an equal vote with which they can express their needs.

Box 13: Selected Examples of Co-operatives in Partnerships

- In Bombay, India, consumer co-operatives manage and maintain water supply, sanitation, drainage and pavement maintenance.
- In Buenos Aires, Argentina, a co-operative operates a composting operation on a site provided by government. The government pays a small tipping fee for the waste which the co-operative receives. To assist the co-operative with marketing, the government has encouraged privately owned trucking companies hauling fresh produce into the city to return to the agricultural area via the composting plant, and thus return to the farms with compost (Cointreau-Levine, 1991)

Within some of the above cited definitions, it is also common to distinguish between the following modalities:

Competitive Tendering (CT): The process of seeking a number of competing tenders for a defined service to be performed under contract. The bidders for the contract may include the Agency's own workforce, evaluated on an equal basis with those submitted from external private contractors. Formal tender documents consisting of 1) the specification describing the work to be performed; 2) the tender conditions setting the ground rules and arrangements for the tender's submission and acceptance and 3) the contract conditions defining the responsibilities and liabilities of the contractor and the urban authority have to be prepared. The internal workforce should submit its proposal as an equal bidder with the rest. It is essential for probity's sake that a team of officials representing the Agency's client-side interests, and independently established from the workforce organisation, is empowered to evaluate and recommend the award of the contract. The same independent team should then monitor the contractor's performance against specification, whether it be the internal workforce or not, and negotiate and authorise payments.

Compulsory Competitive Tendering (CCT): A process of tendering as described above, but through force of legislation or regulation, the public agency is required to open defined types of work to external competition, where in the past the internal workforce may have the responsibility as of right. The contract is then awarded on merit, normally to the lowest bidder, provided adequate assurance is provided as to the quality of its work. The award of the contract and its operation should be independently monitored.

Vouchers: This is a system, used particularly in the USA, whereby the citizen is provided with vouchers which enable him/her to buy a service from a private supplier. The arrangement offers the individual a choice between different organisations where the urban administration wishes to provide a subsidy (because of low income) to certain sectors of the community.

2.3 Organisational Arrangements

Direct Labour Organisation (DLO): The internal workforce employed as public servants directly by a public agency, and formally established as an internal contracting group within the Agency, with its own management structure. The term DLO is normally applied to workforces which undertake largely manual tasks such as road or building maintenance or solid waste collection and disposal. A DLO should be required to perform to defined performance targets and cost limits; if it fails to achieve those targets or if it exceeds its cost limits, then consideration might be given to disbanding it. It should prepare and publish an annual report, showing how well it has performed against plan in the previous year.

Direct Service Organisation (DSO): A similar group of public employees set up as a defined performance unit with performance targets and cost limits, but carrying out professional functions such as legal or exchequer services.

Enabling Authority: A public agency which through policy decision, discharges its responsibilities through the use of external contractors, employing only a small remaining core of officials to award and monitor contracts.

National Government Trading Organisation: A central government operational service set up as an arm's length organisation, with its own management structure and administrative support. Although such an organisation is still a public monopoly, and hence cannot be judged for performance by reference to external competition, such an organisation should operate within a business plan negotiated with, and approved by, its government and then published. Such a plan should set out service and performance targets by which the organisation is judged in action, and the organisation should publish an annual report setting out its actual performance for the past year.

Internal Trading Agreement: An internal workforce set up to trade with the rest of the organisation under an agreed set of price and performance conditions. It has to be held to the equivalent of a contract so that it can be made to keep to the agreement of the tender. Although the Agreement has no force of law, it provides the agency's decision makers with a set of rules to negotiate from. All DLO's should have such binding trading agreements imposed upon them. (See also SLA).

Non-Core Activities: In developing future service delivery policies, with a view to increasing organisational efficiency and reducing service delivery costs some agencies have carried out comprehensive analyses of their responsibilities and the overall means by which they discharge their functions. Such a review determines which tasks are core to the agency's responsibilities and can only be discharged by the agency's own staff, and those which could be carried out either by the agency's own staff or by external contractors. Once such non-core activities have been agreed, they could be subjected to competitive tendering with a view to obtaining greater value for money. This technique is used extensively by the private sector seeking to reduce costs, and is equally applicable to public agencies.

Service Level Agreement (SLA): This is a formal internal agreement between sections within a public agency, for the supply of a particular service at a defined price and service level. Thus the internal finance section provides an accountancy service to functional departments, which then 'pay' for the service through an internal transfer of funds between budget heads. The recipient can negotiate the rates being charged, and agree variations up or down depending upon the quality of service received. In a fully competitive environment, the recipient department would also have the authority to seek external bids from private companies. SLA's are applicable to virtually all professional support and line management services in a public agency, but they have to be constructed with care to work properly.

3 IMPLEMENTING PARTNERSHIPS

3.1 Policy Environment.

Evidence shows that the use of partnerships for the provision of infrastructure services is already taking place in developing country cities and towns. What is changing is the increasing use of public/private partnerships as a conscious policy decision. It is this change in policy direction that in some cases poses the problems of implementation (Fox, 1994). This Chapter no more than summarises the policy context for, and implications of, the change in public sector attitudes.

Box 14: Rapid Privatisation in Buenos Aires.

Buenos Aires, the Federal Capital of Argentina is, with its 3 million inhabitants, the urban nucleus of a metropolitan area with a total population of 11 million. The management of the capital is entrusted to the Municipality of Buenos Aires (under the supervision of the federal government), and to various federal organizations and private sector companies providing services in the areas under the responsibility of the federal government.

In mid 1989, the federal government initiated the privatisation of public enterprises in sectors such as transport and communications, production, urban services and infrastructure. The Municipality of Buenos Aires followed this policy by implementing an aggressive programme of privatisation in the capital.

Privatisation was justified, to a large extent, by the poor condition of the public enterprises: lack of investment capacity, inefficiency, low quality of services and poor management; as well as by the need to improve the quality and coverage of services.

Presently, practically all main public services in the capital have been put under private management: water and sewerage (May 1993); electricity (August 1992); gas (December 1992); telephone (February 1991); and underground transportation (January 1994). Other services that have been partially or totally privatised include: public vehicle parking; street maintenance and lighting; recreational areas; zoo; management of revenue collection, cadastre; and the metropolitan railway. Solid waste management was partially privatised at the beginning of the 80s.

Despite that in certain cases privatisation has resulted in a better provision of services, there are areas where this policy, as applied now, goes against the concept of a equitable provision and management of public services. (Pirez P. 1994).

The conscious policy decision for change is based on an increasing acceptance of the service benefits from the use of partnerships. Private sector supply can be more efficient, effective and more responsive to users demand than the direct supply of infrastructure services by government. Realising this potential depends on competition. Ensuring competition entails the development of enabling and facilitating legal and regulatory frameworks by government in which markets can operate. In itself this implies a significant role for both national and decentralised governments. In many countries it also involves a major policy shift.

The nature of private sector competition is often difficult to understand by government officials. Public-private partnerships may in some cases, in the short term, be perceived as resembling local monopolies rather than competitive markets. This appearance of private monopoly can easily become a fact abetted by governments. Bureaucracies after all have

value systems that thrive better in stable, long-term relationships rather than unstable, short-term ones (Elmore, 1978). A policy shift towards competition challenges the value systems of governments.

Contestability may be in the service market and in the capital market. The active promotion of potential contractors is one feature of the BOT markets of East Asia. The grasp of the importance of developed capital markets, which may allow inefficient contracting firms to be taken over, is another. The role of and sensitivity towards foreign private capital participation in infrastructure service provision is part of the debate in the smaller economies of the region and in Latin America. In many cases contestability may be enhanced in the short-run by forging capital institutions from governmental finance organisations.

Box 15: Infrastructure Leasing and Financial Services Ltd, India

The importance of financial liberalisation in promoting partnerships is exemplified by the formation of IL&FS in India in 1988. The company is owned by the Central Bank, Unit Trust of India, Orix Corporation (Japan) and Housing Development Finance Corporation, India. The International Finance Corporation owns a minority share. Although still relatively small the net worth of the company doubled between 1990 and 1992 with a higher growth of gross profits.

IL&FS is beginning to implement BOT projects within India, largely in transport (Rau Pithampur toll road in Madhya Pradesh, Delhi-Noida toll bridge besides more traditional turnkey roads and bridges and proposals for rail transit systems), land development and water supply (Dewas project). Participation in the power sector awaits tariff reform of and payment guarantee provisions whilst participation in telecommunications is currently limited by regulation to peripheral services.

The formation of IL&FS was enabled by a change in 1983 in the banking regulations act allowing leasing operations by bank subsidiaries. Whereas some states are relaxing policies to encourage participation in water and transport BOT projects, the process will inevitably be patchy in such a federal country. Major progress in power and telecommunications require further central government deregulation. (IL&FS Company Profile, August 1993)

The importance of capital market reform, and institution-building, is particularly important for fast growing cities in developing countries. In these cities expansion of the basic infrastructure is the priority need in contrast to the greater stress on existing service quality in northern hemisphere cities. This explains the major role of investment partnership options in Latin America and East Asia. Improved management of existing services and the overriding need to expand services are not mutually exclusive. The rather different priority focus between northern and southern hemisphere cities may imply a different stress on the location of main competitive requirements. It does highlight the need for major capital market institution-building in countries where such markets are weak.

3.2 Developing a Value for Money Culture

The prime duty of any public agency is to discharge its functions while giving best value for money to its community. Services should be provided by the most effective means, whether this is from the agency's own resources, or through the use of the private sector, and the

Agency must be prepared to publicly demonstrate its support to this principle.

Value for money in service delivery is reflected in:

- Effectiveness: the service meets the objectives expected of it, i.e. the different groups of service users receive the services they require and are willing and able to pay for.
- Efficiency: the service is provided at minimal cost possible in most responsive manner to user effective demand.

A number of techniques exist to achieve the best value for money from the initial investment in, and later operational management of, municipal services. The principle adopted is that a service should be delivered in the most efficient way commensurate with acceptable cost limits and meeting an effective demand for services.

The process itself is dependent on *four* management processes being in place.

1. A means of identifying effective demand for services.
2. A means of clearly defining the service to be performed, including the quality standards expected.
3. A means of measuring performance.
4. A means of identifying the costs of the service, both in terms of direct operating costs and any share of the costs of support staff and facilities employed elsewhere within the organisation.

If a public authority is able to show that it can deliver a service to an acceptable quality, to acceptable standards, and within an acceptable cost ceiling better than a private sector provider then the choice should be the public sector provider. If, however, this is not so then the delivery of the service could be partly or wholly transferred to the private sector.

A possible comparator used to judge whether a public sector organisation is offering value for money in the services it provides directly, is the present cost of service compared to the cost of that service if it were run by a reputable private sector company. This is achieved by producing a work specification of the quality and quantity of work expected setting up an internal structure so that it is capable of operating as an independent unit within the organisation and then allowing private competition to bid for the work in competition with the internal workforce so that each can be judged, on equal terms. Exposing a public sector agency's workforce to competitive pressure in this way normally forces it to improve its efficiency and/or reducing its costs in order to compete.

In cases where a private partner is considered because the direct public provision of a service has failed, care must be taken to identify the reasons why it has happened and what needs to be done to ensure the achievement of satisfactory standards and costs to rectify the situation. Once this has been done, the processes mentioned above can be undertaken and a choice made between an internal (revamped service), or a private sector provider.

Box 16: Efficiency and Effectiveness of Partnerships: Comparative Evidence

According to research undertaken by the University of Birmingham (Batley, 1992) there are differences in performance when comparing private with public service delivery. It cannot be argued from this research that efficiency and effectiveness belong only to privatised arrangements. There are strong cases of effective public water supply, public electricity supply, refuse collection and disposal and even (in Malaysia and Mexico) primary education. The clearest case of improving efficiency through contracting out appears to be the privatised refuse collection system in Recife. In another case of competitive public and private supply, the private education system in Ahmedabad is clearly more efficient and effective than the public. But contracting out of public cleaning in Malaysia presents its own problems and failures, and the entirely private transport system in Calcutta "appears to bring few of the vaunted benefits of privatisation either by way of choice or efficiency" (Blore 1992).

Although the private sector has been used for many years by public agencies, its use has often been confined to areas where particularly scarce skills or facilities are required, e.g. in heavy civil or mechanical engineering works. As they develop more sophisticated services on behalf of their communities, public agencies have often assumed responsibility for service delivery, irrespective of whether the private sector could have offered an equal level of service.

There is ample evidence now available to suggest that the involvement of the private sector in the delivery of urban services can reduce costs, improve the efficiency and scope of urban services and introduce new capital investment for the provision of services. However, despite this, many countries still experience strong opposition to the increased use of the private sector to provide services. Among the most frequent of these are:

1. Public suspicion of, or hostility to private sector participation (for example, possibly due to its profit motives, although in many cases the specific reasons for this suspicion may not be very clear).
2. Political opposition from unions or powerful interest groups whose vested interests are at stake.
3. Opposition by leaders of community groups or non-governmental organisations who fear that the poor will be excluded from services or will not have the income to pay for adequate services at market prices.
4. Inability or lack of interest of the private companies to provide needed services and infrastructure at affordable prices.
5. Insufficient private sector management skills to provide services efficiently and effectively.
6. The fear of converting a public monopoly into a private monopoly.
7. The fear of losing public control over essential public services.

An often perceived problem with partnership arrangements may be that elected officials will still be held accountable for infrastructure services even though they may no longer have direct control over the delivery of those services. However, as mentioned before local authorities will have to play an important role in partnership arrangements and should

initiate, facilitate, monitor, evaluate and control the performance of the private partner and finally decide whether to extend or cancel contracts with private partners. Indicators should be developed to measure the performance both in term of efficiency and effectiveness, of the private partner and these should be reflected in contractual arrangements to ensure accountability.

Underlying all these concerns is a culture that requires direct control over service provision in order to demonstrate public accountability. Only in this way, it is possible to ensure services are delivered at the appropriate time to the appropriate people having regard to quality standards. Unfortunately there may be no formal measurements to judge whether this is so. The position may be made worse with a traditional accounting system which is geared to a management control process designed to manage and audit expenditure against budgets rather than, to measure outputs and minimise costs.³

Consequently, when agencies are asked to publicly demonstrate the level of value for money they offer in the services they provide directly, they are often unwilling to do so because the controls and processes are not designed to answer such questions, and the management culture militates against a commercial approach. That is not to say that the use of a private partner will change this. In fact only an urban administration with competent professional staff and adequately designated authority commensurate with responsibility would be fully able to develop, negotiate, manage, monitor and enforce a contract for service provision with a private organisation.

A service should be judged on its ability to provide services at the lowest possible total cost over the life of its contract, consistent with a specified quantity and quality and meeting a demand for which people are willing and able to pay. Generally speaking, the lowest price should be determined through a process of market testing by competitive tendering (see 2.2). Whether the service is provided by the public agency, or a private company, is of lesser importance, since the over-riding rule should be that the users are offered the best service at the lowest price at a certain moment⁴. Means to achieve a better public awareness of measures of performance in service delivery and better transparency in the use of such indicators by urban authorities, will be important elements of a strategy towards better value for money.

3.3 Role of Central Government

Acknowledgement of the importance of market contestability, and an understanding of its features, in the provision of efficient, effective and economic urban services does not stop at those services. The bottom-up approach to stimulating partnerships in municipal services,

3 This is changing as developments in Thailand over the last ten years show. The Government has set up an Office for Urban Development which has implemented, management accounting procedures, performance indicators and competitive tendering in the major urban centres of the country.

4 An interesting comparison is made by Luiz/Leite in a comparison with the municipally new urban waste service in Rio de Janeiro Brazil with the privately run service in Sao Paulo. They found that the service costs the resident taxpayer at least twice as much in Rio de Janeiro as in Sao Paulo. The high cost is not compensated for by a higher standard of cleanliness in Rio de Janeiro although operating conditions may have some effect. (Leite, 1989)

Box 17: Objectives of the Malaysian Privatisation Masterplan, 1991

The five objectives of Malaysia's wide ranging plan for privatisation, an extension of a policy that began effectively in 1983, concentrate on preventing the size of the public sector from becoming too big. They are therefore in line with a prevalent east Asian strategy to limit overall tax ratios as the key to economic growth. This macro-economic strategy is explicit; the objectives of efficiency and economy in production are part of that wider strategy. The five objectives are:

- (i) relieve the financial and administrative burden of government;
- (ii) improve efficiency and productivity;
- (iii) facilitate economic growth;
- (iv) reduce the size and presence of the public sector in the economy;
- (v) help meet the national economic policy targets.

such as in the UNCHS/UNDP supported project in Thailand on "Involving the Private Sector in the Provision of Urban Services" (see Annex 2) can eventually be successful as a demonstration. The pursuit of the value for money objectives by improving contestability at the local service scale, if successful, may lead to the extension of contestability to other areas of the economy. The voluntary process may be complemented by either incentives or by compulsion. This top-down approach will accept the macro-economic arguments for competition and contestable markets. In the Malaysian Privatisation Masterplan (see Box 17) efficiency gains are only one objective out of five. The others are macro-economic and imply restricting the size, but not perhaps the role, of government.

At some stage a bottom-up approach to stimulating partnerships in service delivery is likely to encounter barriers in the policy framework. Either these barriers are modified, as is happening in parts of south Asia, in Latin America, in some countries of Africa and in Eastern Europe, or they hinder the process. An understanding at the policy level of the macro-economic arguments for changing the role of government can make the modification of the frameworks easier. It is perhaps the extent of this value and policy shift that distinguishes "fast-track" countries from those where reform is slower and patchier. There is enough experience of the main implementation issues in the reform for governments to learn from. That experience needs to be better disseminated.

In attempting to stimulate efficiency and effectiveness within public sector organisations, the driving forces for change must be examined. In many cases, although there is a general perception of the need to ensure efficiency, the greater force can be the fear of change and the effect that this might bring. This can lead to a lack of desire to implement any policies which may change the status quo. In such cases there is likely to be some form of centrally imposed government action to bring about any substantial involvement of the private sector. High level government officials (sometimes even prime ministers) have played a major role in initiating partnership programmes. Their full commitment can clearly be a major factor in stimulating government officers at other levels to take steps in implementing the changes needed.

Against a background of different motivations within urban administrations to extend partnership arrangements, the central authority may be left with the following options:

a) **Voluntary Process**

This would leave urban administrations to decide themselves whether or not to use private partners. It would be dependent on the administration being highly self motivated to improve its performance. However, the pace of private sector involvement could be very slow and it might never reach a scale as to make a significant difference for the country as a whole.

b) **Voluntary Process with Incentives**

This would also leave urban administrations to decide themselves whether or not to use private partners. The process could be supported by the central authority exerting pressure by, for example, directing marginal grants for infrastructure projects to co-operating administrations or increasing annual support grants to them or allowing them to increase fees. Because the central authority is exerting pressure, the pace of implementing partnership arrangements should be quicker than a)

c) **Mandatory Process**

This would involve the central authority requiring urban administrations to use the private sector to provide some specified services. Whilst the process may cause dissent, it is simple and would allow the central authority to determine the speed of implementing partnership arrangements.

Any government or municipality considering the more systematic introduction of public-private partnerships in the provision of public services should prepare themselves to implement a partnership programme. Therefore they should consider a number of changes, both before and during the implementation programme. These changes are considered below and relate to; policy planning, programme objectives and timetable, and organisational change. More detailed issues, set out as a checklist of actions, are shown in Annex 1.

3.4 Policy Planning.

Experience shows that cities and states/provinces (and even parts of cities and states/provinces) can and do experiment with partnerships on a small scale before the concept is extended to a larger scale. Although a formal, legislated policy document is not a prerequisite to the development of partnerships it is important before attempting to introduce partnership arrangements on a scale affecting a large proportion of public services that an overall set of policies is first designed, argued through and promulgated for discussion. The formal part of this process is the preparation of a policy document which is designed to present future policies and provide the strategic objectives and guidelines against which the success of the eventual programme will be judged. It also serves to give notice to the various interested groups, including civil servants and the private sector, of likely future changes that may be expected. The radical nature of some of the elements of any programme will always find resistance among those with an interest in maintaining the status quo, but they will nonetheless be achieved more rapidly through publicity and awareness-raising.

Box 18: Water and Sewerage in Malaysia

Although previously both run by municipalities (and States) water and sewerage are being treated differently under Malaysia's privatisation masterplan of 1991. Sewerage is a Federal responsibility under the constitution and the formation of the national sewerage corporation as a holding company for all sewerage operations began the process of privatisation. Sewerage operations will be progressively privatised by asset sales beginning with four States in 1994. The initial buyer is a Malaysian-international consortium.

Sewerage revenue is dependent on a sewerage surcharge on treated water supplies and one of the thorniest problems in the negotiated asset sale has been about the guarantees of payment of the surcharge. It may have been easier perhaps to privatise the combined water and sewerage operations but this was precluded by the constitutional position of water supply.

Water is a State responsibility and therefore supply undertakings could not be brought under the umbrella of a national holding corporation. Water supply is also a politically sensitive matter in Malaysia, as in many countries, and it is likely that there would be more resistance to its privatisation, especially to foreign-local consortia, than was the case with sewerage (UMP regional seminar, New Delhi 1994).

It is also important that the policy document is formally presented to, and approved by, the responsible political body, so that a remit is seen to exist for later work on detail. For instance depending on the individual country's constitution and parliamentary processes, primary legislation may be needed. Issues which may require legislation, or changes to labour laws include proposed changes to public sector responsibilities and obligations, privatisation of state run utilities, or contracting out of public responsibilities to the private sector.

A Policy Plan could contain the following topic areas:-

1. A general statement setting out how the policy document has come to be needed and its general purpose; This should cover the following topic areas:-
 - cost reduction - is the cost of urban services a major issue; experiences show that several organisations competing on price to provide the same standard of service can show reduced costs of between 15% to 50%;
 - increased service - where an urban administration is unable to provide 100% coverage of the population, the private sector can be used to fill the gaps provided that the needs of the poor are appropriately addressed and whether the provision of infrastructure responds to an existing demand; this is obviously a major concern underlying the whole policy plan and equity issues in service delivery under partnership arrangements must be very explicitly addressed;
 - responsive service - the often unforeseen benefit of using the private sector is that service levels are set to better meet consumer needs; this arises because the contract specifies these service levels, whereas many directly provided services may not have done this;
 - increased revenue - many urban administrations have difficulties collecting charges for services from households; a private sector operator has a strong

incentive to collect all charges to cover costs and make profits; the urban authority may also charge the contractor a fee, income which might not be available if the service was operated using own staff;

- provide capital funding - the urban administration may have insufficient funds to invest in new facilities (solid waste collection vehicles, new market) whereas a private sector operator is likely to have access to capital;
 - create a more manageable organisation - by involving the private sector, the urban authority reduces the size of its own organisation; this could make the authority more manageable and create greater efficiency.
2. The service to be examined, with some indication of an implementation time table.
 3. An analysis of the private sector within the country and its interest, capacity and ability to operate, efficiently, the relevant services.
 4. The anticipated need for new primary or regulatory legislation, or the amendments to the existing legal framework, and the means by which it is to be enforced.
 5. The nature of regulatory bodies, particularly if large scale privatisation is envisaged.
 6. The next steps, actions and programme of events in consultation and implementation.

Box 19: Public Accountability in the Provision of Services

In Buenos Aires, the formal instruments used for regulating and monitoring the operation of private companies providing services to the federal capital are managed and applied by the federal level. In their application there is neither participation of the users nor of the authorities responsible for city development, the municipalities. Under these conditions, the urban community has only a commercial relation, of client, with the company, without any provision for achieving public accountability and transparency in the operation of the company. This system eliminates the possibility of public involvement in defining the conditions under which services are provided. Also, the remoteness of the federal agencies regulating service delivery through private companies preclude an adequate coordination of their activities with overall city development programmes and strategies.

The problems observed in Buenos Aires (see also box 6 and 14) are almost entirely due to initial limitations in the design of the processes as well as to deficiencies in the instruments that regulate its operation. There is the perception that privatization was moved forward without having first formulated a clear policy for the provision of urban services, without defining its goals as well as the procedures and agents required to implement such as process (private companies, local authorities, users, federal government, etc.).

Also, there was not a realistic strategy for service financing that took into account both, the sound financial management of the company, and the allocation of resources for servicing those groups with a limited capacity to pay.

In synthesis, privatization carried out lacking a sound legal, financial and regulatory framework, could result in the lowering of the quality of services provided to the low income sectors of the population. They can also create services that are not accountable to the public they attend and that have a limited capacity of responding to overall city development priorities. (Pirez P. 1994).

- Partners are able, through attracting sufficient potential partners (local, provincial, national and international) which have sufficient financial, technical and managerial resources to undertake the work to the required standard.
- Partnership arrangements are regulated, through urban and other authorities, to ensure equity in services provided or to exercise authorities powers over, for example, illegal dumping of waste. Irresponsible contractors do not serve the objective of expanding private sector involvement - they tend to have the reverse effect. Responsible partners are needed.
- Partnerships are well managed, through the preparation of tight specifications, careful evaluation of bid documents and the potential partners' track record, monitoring of performance and effective control of the activities of the private partner. Public authorities may need to keep some involvement in the delivery of services in order to be able to keep their own yardsticks of performance and unit costs.

Different partnership methods may also have an impact on any implementation timetable. However it may be assumed that a comprehensive timetable for the privatisation of a single national or regional utility could take up to three years and in many cases much longer than this, depending on the state of readiness of the two partners, level of performance and availability of external finance. The introduction of competitive tendering or contracting out into a public authority could also take from between two to four years depending again upon the state of readiness of the authority, and the complexity of the proposed programme.

3.6 Organisational Change

As mentioned briefly above, one of the most critical success factors of any programme introducing new methods of working into the public sector is the ability of the organisation and its workforce to cope with the significant changes in accountability, culture and increases in risk. This is because most public sector organisations and their employees have been used to working in a relatively safe environment, with high job security and often little personal accountability for the overall cost and quality of the service being supplied. If an organisation concentrates more on the process of administration than upon the level of the service to be delivered, its quality and its cost, then organisational change must occur for partnership arrangements to be implemented effectively.

A management of change programme should be designed to help both management and organisation adjust to new procedures and take on new skills. It would ensure that changes in management practice and the introduction of personal accountability are incorporated into the implementation timetable. Such a programme may be introduced in a very formal way for an organisation as a whole when a comprehensive approach to partnership arrangements are contemplated or where a total activity is to be privatised, e.g. a water service or other utility service. For most of the services operated by an urban authority, a gradual process is more likely where a review of the management process of a specific service or activity are reviewed prior to considering a partnership arrangement.

Elements in a management of change programme should include:-

- 1 A review of the organisational structure to ensure that management, processes and costs (both direct and indirect) of a specific service or activity can be identified.
- 2 The development of performance indicators which will identify the quality and scale expected from each service or activity (for example, an improvement in the frequency for collecting solid waste could be specified or an annual improvement in cost reduction measures of 10%).
- 3 The design and implementation of management control systems which will enable the performance of each service or activity to be measured against its target both in terms of cost and the quality and scale of service.
- 4 An assessment of the capability and potential of existing staff to operate within such an environment and develop training and education programmes to rectify any deficiencies identified.
- 5 The design and introduction of measures to increase workforce productivity.
- 6 If appropriate, consideration should be given to the use of external skills in commercial management and accountancy practices, sales and marketing to help internal managers cope with the changed working environment.

Box 21: Management of Change programme in the Ugandan National Water and Sewerage Corporation

A comprehensive management of change programme began in the NWSC, Uganda after an initial training needs assessment was sponsored by the World Bank in 1984. NWSC is responsible for all water and sewerage operations in Uganda, taking over municipal operations in 1972 and was the subject of much donor attention (perhaps becoming "donor-drunk" in the process). The main facets about the organisational training programme was that it was complemented by other staffing changes, and that it appeared to successfully convert a parastatal into an enterprise that was commercially-minded.

The staff development was in-house and designed around a few NWSC personnel as designated trainers. In addition the organisation concentrated on:

- Converting the various staff "allowances" into attendance-related bonuses; this performance-related pay becoming up to 50% of total remuneration.
- Staff retrenchment.
- Continuous awareness training targeted at maintenance and cost recovery.
- Close relationship with one industrial union.
- A recognition of the importance of staff development.

In comparison to other Ugandan parastatals the NWSC has very low levels of absenteeism; cost recovery is good (and the use of water disconnection very aggressive); staff morale appears high. The small training unit has lost only two members in six years. Much of this success has depended on firm political support and creative donor interest. (Amis, 1992)

If public sector organisations are to work with and to possibly compete with their private sector counterparts, then it is essential that they become familiar with and are able to operate management controls, which will measure service and cost performance regularly rather than

during the annual budget process that is the norm at present.

Under such a commercial regime, the managers of each performance unit should be given specific responsibilities and operational work targets, and held accountable for the performance of the unit and its workforce or agent. Managers and their staff could be rewarded by above average performance and/or substantial cost saving by their staff or private partner and could even risk dismissal for non performance. Of all the key issues which face a public sector organisation, it is the ability to understand and positively accept change in culture and working practices, and then put them properly into effect, that will ultimately determine the level of success achieved.

In those services or activities where partnership arrangements have been implemented, it is important that the staff of the urban administration establish a good working relationship with their private partner. Problems are likely to arise if a too aggressive approach is taken in the management of the arrangement. Whilst the agreement must be adhered to, it should be monitored in a flexible way to allow for the inevitable mistakes and change of circumstances that will occur. This is not to say that the private partner should be allowed to provide a poor service but to emphasise that mistakes on occasions will occur and the full weight of the agreement should not necessarily be used on each occasion. If private partners perceive that an urban authority is taking a 'hard' approach to the monitoring of their agreement, it may deter them and other like organisations being involved in the future. To be successful any arrangement must benefit both parties.

3.7 Key Risk Issues of Partnerships

The existence of high risk deterrence to spontaneous private supply of some services is one cause of "market failure". Imperfect knowledge of the future is inevitable but perhaps greater for some services than others. The argument that governments should be responsible for higher risk activities is rather curious. If bureaucracies work best in stable environments with long time horizons they will best cope with low risks. If they are good at operating in high risk areas then government finance may be best invested in equity or money markets rather than in infrastructure. In practice two objectives of partnerships are to share risks and to reduce them by improving information about the future.

Transparent markets are tools of improved information. The other extreme of state interventionist planning attempts to preempt the need for complex information, of many different actors, by controlling behaviour. Public provision without interventionism may incur very high risks, because information is limited and opaque, but reactions are uncontrolled. Public-private partnerships may be seen as ways of building market-type information processes whilst retaining some degree of public control. Market-making, managing, tendering, bargaining and monitoring procedures all yield information whilst legal frameworks are just another way of making information transparent. The importance of improved information highlights the role of governments, regulators and independent institutions in disseminating data and information.

Table 3.1. Feasibility of private sector delivery varies by infrastructure components.

		Potential for competition ^a	Characteristics of good or service	Potential for cost recovery from user charges	Public service obligations (equity concerns)	Environmental externalities
Transport	Urban bus	High	Private	High	Many	Medium
	Urban rail	High	Private	Medium	Medium	Medium
	Urban roads	High	Common Property	Medium	Few	High
Water	Urban piped network	Medium	Private	High	Many	High
	Nonpipied systems	High	Private	High	Medium	High
Sanitation	Piped sewerage and treatment	Low	Club	Medium	Few	High
	Condominial sewerage	Medium	Club	High	Medium	High
	On-site disposal	High	Private	High	Medium	High
Waste	Collection	High	Private	Medium	Few	Low
	Sanitary disposal	Medium	Common Property	Medium	Few	High

a. Due to either absence of scale of economies or sunk costs, or existence of service substitutes

Source: Excerpt from World Development Report '94

Consistent regulatory frameworks tend to provide more reliable information on public behaviour than more discretionary processes. For example urban zoning as practised and implemented in North America and East Asian countries such as the Republic of Korea provide clear guidelines to private sector developers than the more discretionary British-type system or those systems which are simply not implemented. The clear economic strategies of east Asian economies also improve information for infrastructure planning without completely sabotaging market competition. A hi-tech example of improved public-private information flows is the free availability of public geographic databases in USA or Brazil. They may reduce barriers to entry in land development in contrast to those countries where this information is either high-cost (e.g. UK) or often classified (e.g. South Asia and some Arab States).

The call for greater transparency should not be confused with one for greater democracy. Markets can be more, or less, transparent (and sometimes they are very opaque) but they are never democratic. Nor is it to be confused with calls to force private firms to allow greater public access to commercial information. Market information is that which can be observed through the behaviour of firms, not their internal operations. When a service provider is buried within a multi-purpose municipality operating a consolidated budget it is very difficult even to observe this external behaviour. The separation of public agent and private provider is one step to improve such information.

Risk-sharing is often what contract bargaining seeks to decide. Each partnership option locates the contractual risks either mainly with the public agency or with the contractor. Within one partnership infrastructure project the risks may be spread by the use of many instruments. Box 22 gives an example of one institution in Mexico in which many partners share risks in a variety of ways.

Box 22: Mexican Partnership Trusts: the Example of Metroplan

Metroplan was formed by private interests in Hermosillo largely to improve municipal roads. By providing capital finance for improvements it aimed to liberate "the municipality from this burden so that it could apply all its limited resources to the supply of basic public services".

The formal trust was formed with 67% finance from State and Federal governments. The other 33% is raised voluntarily from many sources, including local trade associations and vehicle owners. Such voluntary contributions are tax-deductible; the use of local associations introduce a self-policing element. Three projects costing about U\$3.5 million had been started by 1992, all of them road-widening schemes.

A complex set of operating capital finance procedures have been developed by Metroplan. Hence:

- Project contributions from State and Federal government are required to be banked before award of contracts.
- Members of the local chamber of construction contractors are expected to contribute 0.3% of their total turnover to Metroplan.
- Affected landlords are pressurised to contribute to project costs as a self-policed benefit levy.
- Project contract bids are evaluated partly on the basis of the extent of contractor finance that bidders offer.

The procedures are aimed at spreading the risks of a project. By doing this it is hoped to lower contract prices and make it easier to attract private capital. (Batley, 1992)

The experiences of partnership risk reduction and risk sharing policies and instruments themselves need to be disseminated much more widely to countries embarking on reform. In itself this may further improve information that can reduce the risks of a more demand-oriented supply of infrastructure services.

3.8 Key Policy Implementation Issues

The move from direct provision of infrastructure services to a partnership approach not only may require both a policy plan as argued in Section 3.4 and a programme of organisational and values change as summarised in Section 3.6 and above. It is also likely to require specific legal and institutional changes. At the heart of these are the newer contractual relations around the provision of services that respond to the effective demand of diverse user groups and where equity concerns environmental protection and other concerns have to be addressed. The key frameworks which are likely to require change and the principal issues underlying the need for change are summarised here.

Managing competition: It is comfortable for public purchasers and private providers of infrastructure services to relapse into mutually convenient "natural monopolies". Often a process, or institutions, to prevent this are necessary above the municipal level. This may require changes in company legislation to lower barriers to entry to the service provider markets or to banking and credit legislation to do the same in the capital markets.

Bargained contracts: Competition is however never perfect and the rules of the typical capital contract require closer contact between purchaser and provider. Setting the rules to constrain bargaining between the two may require the development of instruments such as the service level agreement and processes such as post-tender bargaining.

Foreign participation: This is one way of reducing barriers to entry to a new market but is sensitive for infant industry and political reasons (the sensitivity of water as a national strategic resource is evidenced in the treatment of foreign companies in many countries and the use of franchising in some; e.g. UK, Argentina, Malaysia, Indonesia). The change in the BOT law in the Philippines is aimed to allow greater overseas participation so as to improve competition.

Tendering and procurement procedures: The model, and regulations governing, the typical capital project procedures for tendering and procurement are likely to require major revision to accommodate management contracts. Relaxation of the lowest bid choice requirement is a feature of many partnership arrangements, particularly in the stage of "making" provider markets. This happens especially when public agencies are supporting the growth of contractor firms in a service market newly opened to partnership arrangements.

Managing malfeasance: Relaxation of tendering regulations and a more symbiotic relationship between the public and private sectors may increase the possibilities of corruption. Or it may make corruption, or malfeasance, more transparent. It is recognised that greater controls on corruption are necessary through a period of change. Typical instruments are specialist anti-corruption units and the improvement of inspectorate salaries. The mixing of the very different value systems of the public and private sectors may, until they settle down again, necessarily lead to increased malfeasance (Jacobs, 1993).

Debt frameworks: Changes to legislation governing debt may be particularly sensitive where foreign participation is allowed. Even where it is not then changes to the treatment of real estate, collateral rules and to valuation procedures are complex and politically sensitive. Partnership options such as franchises and concessions are ways of trying to avoid major changes to property rights but require rules distinguishing public and private debt obligations.

Bankruptcy laws: For high profile public services the possibility of provider bankruptcy needs to be carefully controlled. For smaller low-profile services, such as solid waste management, street lighting and building maintenance it may be sufficient to allow the purchaser, usually the municipality, to take over operations. For larger higher-profile services, such as water, an external institution may be required. Changes in the bankruptcy laws to allow the continuation of trade, and therefore the service, as a temporary measure may be required.

Taxation powers: Some partnership contracts, such as franchises and concessions, BOOs and privatisation can transfer taxing powers to the private sector. Sometimes the contractual change is accompanied by a change in the financial instruments, such as a move from unmetered to metered water charges. The real difficulties arise when an overtly tax instrument (general and unavoidable) is transferred. Either enforcement powers, which are very sensitive, are not transferred in which case there are problems in encouraging private sector participation (as in the case of Malaysian sewerage services before resolution of that difficulty). Or they are transferred in which case there may be popular revulsion if enforced too draconically.

Revenue hypothecation: An alternative to transferring tax powers is to hypothecate revenue collected by the public agency to support the private sector partner. Contracting-out options further avoids hypothecation by agreement of a contract price. Hypothecation is often contrary to Anglo-saxon policy on public finance and can be fiercely resisted by national treasuries. Uncertainty about hypothecated revenues can deter potential partners.

The financial policy issues of partnership options may be seen as embodying different approaches to risk-sharing. If infrastructure supply is to be more demand-driven it will be more exposed to changes in demand.

4. POSSIBLE PARTNERSHIP OPTIONS IN SELECTED SERVICES

The options available for public-private partnership arrangements are diverse, and in a number of cases overlapping, so it is not sensible to advocate any single option as being the most appropriate to a particular urban infrastructure service sector. This chapter describes some of the possible partnership options for seven selected municipal infrastructure services. These seven sectors are:

- urban roads, bridges, footpaths and street furniture
- drainage and flood protection
- water supply
- sewerage and low cost sanitation
- solid waste collection and disposal
- electricity distribution, and
- provision and maintenance of public buildings

4.1 Urban Roads, Bridges, Footpaths and Street Furniture

The organisational arrangements for this sector can be split up into activity areas.

- The management and administrative staff responsible for ensuring that all work undertaken within the sector is in accord with the political decisions of the urban authority.
- Major construction, rehabilitation and improvement work.
- Maintenance work and small scale construction.
- Street furniture; supply and maintenance.

a) **Management:** Management is normally the responsibility of a publicly employed municipal engineer and supporting department. The department can be set up as an internal service organisation (Direct Service Organisation - see Chapter 2) if required, with clearly set work requirements, performance requirements and a set budget.

If the internal engineering team lacks specialist skills it may decide to contract out certain specialised work, such as transportation studies, or the design of highway and traffic schemes, to an external engineer. It might also be feasible, in certain circumstances, to employ a senior manager from a private sector organisation to manage either the whole department or certain sections of it. If the work of the whole department can be adequately specified, the work of the department could be contracted out to a private consultancy company who could provide all the management and administrative skills and be answerable directly to the urban authority or a senior administrator of it.

b) **Major Construction:** Major construction and improvement work is now unlikely to be the direct responsibility of the workforce of an urban authority, although there are still examples of state-owned firm's undertaking such work (e.g. Indonesia). Where the work is to be contracted out, the procedure should be:-

- the production of a detailed technical specification of the construction required;
- the invitation of tenders by public advertisement;

- supervision of the contract by officials of the urban authority, both in terms of technical content and cost.

This is an area of activity where a joint venture arrangement between the public and private sectors could be contemplated, particularly in respect of toll roads and toll bridges. A Build, Own and Operate (BOO) or a Build, Operate and Transfer (BOT) arrangement (see chapter 2) could be equally appropriate. Such an arrangement should also incorporate the basis of toll setting and frequency of revisions so as to avoid disputes and interference in the future. Without such a provision, the private partner would be faced with uncertainty as regards future revenue flows.

Box 23: Ethiopia's Gurage Roads Construction Organisation.

Ethiopia's Gurage Roads Construction Organisation (GRCO) is a community organisation that has mobilised financial resources for improving and maintaining roads and other infrastructure services overlooked by governments. GRCO (founded in 1962) mobilised funds from local Gurage villages and towns and from Gurage migrants living in Addis Ababa. Since starting operations, it has financed improvements on more than 350 kilometres of roads and spent about 7.2 million birr (US \$ 3.5 million). In addition members have contributed an estimated 8 million birr in professional services and labour. In total GRCO contributed about 70% of the costs, with government contributing 30% through budget allocations to the national roads authority, which carried out the road improvements. (World Bank 1994).

c) **Maintenance Work:** Maintenance work and small scale construction is still primarily undertaken by the urban administration using its own work force who operate according to a pre-set programme and budget. This is an area of activity which can be separated from the corporate activities of an administration and so operate as a Direct Labour Organisation (DLO, see chapter 2). It is an area of activity which would benefit from external competition to test its efficiency and cost effectiveness. If competitive tendering (see chapter 2) were to be pursued the urban area could be divided into a number of segments and a separate contract let for each one. This would encourage competition between the various contractors in terms of cost and quality of work and so prevent a private monopoly situation. It would also facilitate the retention of some work by the internal staff and so allow some check to be retained over the private firms.

d) **Street Furniture:** Street furniture is normally purchased from a private manufacturer with either private or public staff being responsible for erection at places identified by public officials. There may still be instances, however, where an urban administration will manufacture its own furniture. No matter which approach is used the manufacture should be separated from the procurement and the directly manufactured goods used only if they are better in terms of quality and cost than those produced by a private firm.

The maintenance of the furniture is normally the responsibility of the urban administration, although as with road maintenance, the activity should be subjected to external competition and possible contracting out.

The use of street furniture can be franchised to a private partner. Under such an arrangement, the private partner may be given the ability to sell advertising space on the furniture in return for an annual licence fee or an agreement to maintain the furniture to an agreed standard.

4.2. Drainage and Flood Protection

Partnership arrangements for major works and improvements will be very similar to those which would be entered in respect of roads and bridges. Many countries will have specific charges levied on residents and businesses in respect of drainage facilities and flood protection so any joint venture with a private company, particularly as regards Build, Own and Operate and Build, Operate and Transfer (see chapter 2) will need to have regard to existing charges when determining the rights of the private partner as regards charging.

Routine maintenance work and the operation of flood relief facilities could be subjected to competitive tendering in the same way as highway maintenance work, although the far flung and sporadic nature of much of this type of work may not be economically attractive to the private sector. If the private sector should be invited to undertake the maintenance work, considerable care must be taken with the work specification to ensure public safety is not put at risk because of poor workmanship.

Any partnership arrangement entered into for the maintenance of the infrastructure may also include responsibility for collecting any separate drainage charge that may be levied by the urban authority. However, a specialist agency could be used who would be paid on the basis of outstanding revenues collected. Such an arrangement could be particularly attractive, especially where the percentage collected by the existing bureaucracy is low.

4.3. Water Supply

In most developing countries water supply is the responsibility of a parastatal organisation and/or urban administrations who normally operate the service as a utility. In many countries non-piped water may be supplied through unregulated private vendors. Especially in slum or low income areas street vendors are the principle source of water. The urban poor are thus forced to pay up to 10 times more per litre of water than normal customers of the municipal network (Whittington et al. 1990). With either system it is unusual for the expenditure on the service to be fully covered by user charges. This may be because of substantial wastage in the system, by low user charges as a result of, among other things, political pressures⁶ and an inability to collect the charges when levied.

There are several possibilities for public/private partnerships in water supply.

a) **Co-operative:** Such an approach could be more acceptable in many developing countries than full scale privatisation. Bombay, has such an arrangement (see chapter 2).

⁶ Despite this, a recent World Bank study in Nigeria found that users were prepared to pay considerable premiums in order to ensure uninterrupted flows of water (Kyu Sik Lee, February 1992).

Box 24: Partnerships in Water Supply

1. A successful example is in Cote D'Ivoire where a company owned jointly by private interests, the government (which retains ownership of the assets) and a French firm has been created. Called The Société de Distribution d'Eau de la Cote d'Ivoire (SODECI) it has proved successful in a service that was beset by cost over-runs and poor maintenance. SODECI is efficiently supplying water to over 130 cities and towns throughout the country. It supplies water at standards that are among the highest in West Africa, consistently showing a profit.
2. In Ethiopia, private contractors are employed to read water meters and to collect payments due. Their payment is based on the percentage of the outstanding revenues they collect (World Bank working paper on Solid Waste Disposal in Nigeria by Luger, December 1989)

b) **Joint Ventures:** These could be attractive particularly where substantial investment is required for new infrastructure (e.g. for a major new urban centre) or to substantially renew the existing infrastructure. The joint venture might take the form of a Build, Own, Operate scheme or a Build, Operate, Transfer scheme (see chapter 2). Such an approach has been accepted by the Government of Indonesia. The Government has now accepted proposals to test greater private sector participation through the use of pilot/demonstration projects.

Box 25: Water Supply in Indonesia.

In Indonesia one of the most important policies under the sixth Five Year Development Plan is to stimulate private sector participation in national development. In the water supply sector there are several examples where the private sector is involved in managing the system.

- a) In Surabaya the local and regional water authorities (PDAM) has contracts with 15 private firms to provide billing and collection services for approximately 70% of the customers. The contracts are renewed annually on a routine basis (if the performance is satisfactory). The payment structure for the contractors is based on their performance. If the contractors collect at least 80% they receive an increasing percentage of the amount collected.
- b) In Bali the water extraction and distribution system for hotels and residential users was developed as a BOT Project using a joint venture between PDAM and a private consortium. The joint venture is owned for 55% by three private partners and 45% by the PDAM, based on pro rata on the value of equity contribution to the venture. The life span is initially 20 years (with possible extension). The first phase is now completed and operations began in January 1993. The second phase of the joint venture (upgrading and extension of the existing distribution system) started in October 1993 and is scheduled to be completed and operational in 1995. (Akil Sjarifudin, 1994).

c) **Franchising:** Such an arrangement is widely used in France and Spain where there are a number of active companies. The arrangement may provide for the private operator to operate and maintain the facility and to collect the authorised tariff from customers. An agreed percentage of the collections may be retained by the private partners with the remainder returned to the public authority as a 'fee'. Ownership of the fiscal assets, and

their extension or replacement, could remain with the public partner although the agreement may provide for the operator to have responsibility for the replacement of equipment with a short economic life. As the private partner would not own the assets, incentives for proper maintenance and sanctions for inadequate maintenance should be built into the agreement.

A concession arrangement under which the private partner has responsibility for financing new fixed assets during the period of the agreement could take the process one stage further towards total privatisation. The arrangement would operate in a similar way to a Build, Operate and Transfer scheme (see above) under which the private partner agrees to transfer to the government at a future date the fiscal assets provided in return for being allowed to use them to provide a service for an agreed period.

Under both arrangements, day to day monitoring can be minimised if adequate incentives for performance are included in the terms of the contract and effective consumer complaint mechanisms established. Regulatory requirements will be less for concession arrangement than lease/franchise arrangements in that the concessionaire may own the facilities and so has a greater incentive to maintain them

d) **Contracting Out:** Because the water sector is made up of a number of operations it should be possible to consider exposing part of the activities of the organisation to competitive tendering and hence to contracting out (see chapter 2). As long as it is possible to separate an activity and produce a full technical specification (e.g. maintenance of mains or even revenue collection) then it should be possible to consider a partnership arrangement with the private sector for that activity.

e) **Privatisation:** The total assets of a water supply authority can be sold to the general public through the issue of share capital or through a private placing to an existing company following the submission of tenders by interested bodies. Should this occur a strong regulatory framework should be put into place in a way similar to that which exists in some industrialised countries. Depending on the circumstances, it might be possible to have arrangements that vary between cities, thus creating comparative productivity and efficiency data. Such a situation would avoid the dangers of a private monopoly and make the task of regulating the activities of the private firm(s) easier.

4.4. Sewerage and Low Cost Sanitation

As with water supply there is a clear need to ensure effective public health which requires a direct involvement of some form of public health protection agency supplied either by the urban authorities or an independent agency reporting to the public authorities. The sector has close similarities with the drainage and water sectors and in some situations may be under the same organisational control within an urban administration.

Major construction and improvement works will normally be undertaken either by a direct labour force or by contracting, through formal procurement procedures, with a private firm to undertake the work on behalf of the urban authority. Joint venture arrangements are a feasible alternative which would allow private capital to be used, particularly where some

Box 26: A Metropolitan Company for Sanitary Works in Santiago, Chile.

The Metropolitan Company for Sanitary Works (EMOS) is a public sector company providing water supply and sewerage services to the 4.8 million inhabitants of Santiago, the capital city of Chile. In recent years, EMOS has achieved a substantial improvement in the quality of the services it provides, as well as in the economic returns of its operations. The participation of the private sector in service provision has played a key role in achieving these results.

Specialised private sector companies enter into contractual agreements with EMOS to provide services in areas such as preparation of studies; project formulation; maintenance; quality control; and billing. EMOS only carries out directly the operation of production facilities and the execution of those activities in which the private sector can not compete with EMOS itself. All contracts are awarded through public tenders, thus ensuring transparency, as well as healthy competition for service provision among private companies, and with EMOS operational units. Competition has ensured greater efficiency in service delivery, higher quality of service and improved economic returns in a public enterprise that practically operates under conditions of monopoly.

EMOS operates as a company with predominant public ownership. 65% of its shares are held by the national Development Corporation (CORFO); 35% by the treasury; and the rest by private entities.

EMOS started the operation of wastewater treatment works in 1990. Coverage in this area has been increasing in recent years with the active participation of the private sector. Private sector participation in this area also envisages contracts to build (invest on) and operate wastewater treatment facilities.

User charges are calculated based on long-term marginal costs. They include capital investment and operation costs that also cover the tasks contracted out to the private sector. As a result of this policy, EMOS currently obtains a 12% rate of return on its operations.

In order to provide services to low income families, the government, and not the company, provides direct subsidies to those that qualify for this type of benefit. At present, approximately 11% of the users of EMOS services are receiving government subsidies in the order of 25 to 85% of the amount billed by the company. Government subsidies are administered by the municipalities in EMOS' area of operations (Alfaro R. 1994).

form of user charge may already exist or is proposed as part of the infrastructure works. In such a situation a Build, Own, Operate scheme and a Build, Operate, Transfer scheme (see chapter 2) could be considered.

If user charges are made, a franchising arrangement could be considered for parts of the administrative area, provided action is taken to protect low income families who may be the main beneficiaries, particularly of low cost sanitation facilities. As with all services where public health is particularly important, the question of affordability and public willingness to pay becomes an important consideration.

The most likely form of partnership arrangement in this sector will be contracting out. As with roads, water and drainage the maintenance of the infrastructure (and the operation of treatment plants) could be contracted out to either one private partner or a number if it is possible to divide the infrastructure into geographical areas.

Box 27: Sulabh International, India

A case of a large organisation undertaking small-scale tasks is that of Sulabh in India. It is an independent sector contractor in low-cost sanitation construction and operation and maintenance. One of its major successes is in the operation of public latrines. These have typically proved a failure in India as in many other countries even when operated by local community groups.

At the end of 1990 "Sulabh" had 68 complexes in operation in New Delhi and another 61 in the final phases of construction in the city. During its 20 year history, "Sulabh" has built 660,000 private latrines and about 2500 public latrine complexes in 584 towns in 18 states of India. In New Delhi, the 68 complexes catered for 290,000 people daily.

Sulabh operates as an NGO which, with help from the government and the community, constructs, operates and maintains low cost sanitation facilities. Its enforcement of charges for public latrine use and private latrine maintenance may be a key to its success. Another is its specialist core activity in which it has built considerable expertise. It is now beginning to explore operations on an international scale through local partnerships (National Institute of Urban Affairs, 1990)

Low cost sanitation may already consist of a combination of public and private activity as it is primarily involved with manual processes using basic mechanical aids. Subject to the production of a technical specification for the task, authorities should be capable of contracting out to the private sector. In fact a recent development assisted by UNCHS/UNDP has facilitated the contracting out of cesspool emptying in Nakhon Pathom, a major urban area in Thailand (see Annex 2). Low cost sanitation and sewerage are also typically suitable for partnerships with NGO/CBO's. Examples in India (see box 27) and Pakistan (Orangi Pilot Project) show that a partnership between the government and the community can result in successfully implemented projects which are later replicated in other parts of the country. These examples show that low cost tertiary systems can be chosen, financed, operated and maintained by the community with strong technical support.

4.5 Solid Waste Collection and Disposal.

Probably of all the urban infrastructure sectors this is the one where there is greatest private sector involvement in both the industrialised and the developing world. Most partnerships involve franchising or contracting out although joint financing deals and leasing arrangements may occur in respect of disposal facilities or for the use of vehicles.

Evidence from industrialised countries on sub-contracting and franchising generally confirms that private hauliers operate more efficiently than public sector garbage collectors, largely because private sector labour costs are lower and equipment is kept in better condition. Four reasons for greater private sector efficiency in developing countries are:

- i) the use of smaller and more efficient pick-up crews;
- ii) less absenteeism among contractors workforces;
- iii) greater use of employee incentives to increase morale and productivity; and
- iv) more use of standardised vehicles that are better maintained.

Box 28: Partnerships in Solid Waste Management

1. A very interesting example of a partnership between the government and a community group is the Barrio el Carmen in Quito. This low-income neighbourhood of about 250 families is located in the southern area of the city. With political support from a member of the city council, and some promotional assistance of a local religious group, this neighbourhood is currently operating an alternative method for solid waste management, based in communal effort and a micro-enterprise initiative. Domestic refuses, previously sorted at homes, are collected by members of the micro enterprise; recyclables are sold to traders or companies and some part of the organic fraction is transformed into compost and humus, for several existing domestic farms. Non-recyclables and the rest of the organic fraction are finally collected weekly by the municipality and carried to the cities dumpsite.

In order to promote this initiative, the municipality has accepted to double the total amount earned by the micro enterprise through recyclables sales, investing those resources in specific local projects selected by the community itself. Since the programme is operating, an illegal dumpsite in a nearby gorge has disappeared, making possible plans to recover it's borders for recreational activities; many members of the community have developed interest in domestic urban farming and vermiculture and, surprisingly several other surrounding neighbourhoods have asked the Barrio El Carmen to take charge of their own waste (UNCHS, 1993b).

2. Another good example is in Togo, West Africa where a private company has established a solid record for waste collection in the capital city of Lome. Created as a private corporation with French technical participation and financial support, the Tongolese Refuse Collection Company (SOTEMA) has been in operation since 1974 when it was granted a one year renewable contract with the government to collect, transport and dispose of solid waste. It is now considering the expansion of its activities to other countries. The company has a reputation for responsible disposal standards, a good record of environmental improvements and steady profits. It achieved substantial savings when it began to manufacture its own collection equipment under licence (see Cities International, Volume 1, Number 3)

When considering the use of partnership arrangements for solid waste collection, it is essential that the urban administration is adequately organised to produce contract specifications, to monitor the activities of the private partners and to administer complaints received from the public. As a broad guide it is estimated that monitoring costs can represent some 15% of the cost of the contract (Cointreau-Levine, 1994). Competition is the key to getting a low cost, good quality solid waste service from private firms. In this respect the following additional guidelines are important.

- If the whole of the solid waste service is passed to the private sector it will be extremely difficult to provide a direct public authority service again. Therefore, if possible, retain some capability within the public sector.
- Do not let a private monopoly situation develop. Therefore, if possible, ensure that the service is divided into a number of contracts so as to involve more than one contractor

with possibly one contract being retained for direct provision.⁷

The choice of whether to use franchise or contracting arrangements will depend on the degree of freedom a city administration wishes to give its private partner. In general terms a franchise arrangement will provide the private partner the opportunity to use its initiative in the service provision whereas a contracting arrangement will be dependent on the work specification contained in the contract documents. The existence of user charges and the ability to allow a private operator some degree of freedom in their use would suggest a franchise operation. On the other hand an urban authority may wish to retain control over revenue collection and have two contracts 1) to deal with solid waste collection and 2) to deal with revenue collection which it would collect itself or contract with a specialist private firm⁸.

The use of leasing facilities (i.e. for trucks and other mechanical vehicles) is used in a number of countries, particularly in Latin America. If leasing is to be used, care should be taken to ensure that the equipment supplied meets the technical specification and that if the equipment has been used that the benefit of depreciation made as a result of previous use is passed on to the urban authority.

Joint-venture arrangements may be used in respect of disposal facilities, including transfer stations, where a substantial initial outlay may be necessary and access to private finance is considered desirable. A Build, Own and Operate scheme or Build, Operate and Transfer scheme may be equally appropriate. Under either scheme, the government would grant and enable access to a specified quantity and quality of solid waste and provide some form of tipping fee. In cases where government is the only purchaser of the product, it will probably enter into a long term agreement with the private operator to use its facilities.

Many people make their living in the informal solid waste management process. Door to door collectors, street and dump side scavengers and traders and dealers in waste materials. Such activities are often not recognised and not well integrated in the formal system. Partnerships (Co-operatives) between the government and the community could improve the performance of these activities by recognising, assisting and organising these informal groups.

4.6 Electricity Distribution

Electricity services have only existed for some 100 years but in that comparatively short period electricity generation and distribution have become vital to the economic well-being of a country and its inhabitants. Whilst the generation of electricity may frequently involve

7 When a mixed public/private system was implemented in Minneapolis, Minnesota, USA in 1970, the city costs were initially higher than those of the private contractors. However, after five years, the city's costs dropped towards the level of the private contractors and the quality of the service provided by the private contractors raised toward the standard set by the city crews (see Cointreau-Levine, 1994)

8 Care must be taken not to duplicate costs. For example, direct billing and collection systems for services like solid waste collection can amount to 10-12% of total operating costs, while this can be held to about 3% if combined with other urban service billing systems (Cointreau-Levine, 1994).

a number of competing organisations, in almost every country of the world the distribution of it, requiring a network, is a monopoly situation.⁹ Because of this most countries have created parastatal organisations that are answerable to the political powers of the country.

Despite its monopoly status, electricity distribution does not have to be a public sector responsibility. The public sector will, however, retain a tight control over the activities of a privatised service, particularly as regards the scope of its service and the charges made to users. Set out below are examples of the role for the private sector identified by Roth in his book 'The Private Provision of Public Services in Developing Countries'.

- Competitive distribution, whereby final consumers have a choice of suppliers (as exist in some cities of the USA, although none have been located in developing countries).
- Unregulated (or, rather, self-regulated) private supply whereby consumers have no choice of the supplier, (such a situation exists in Caracas, Venezuela although the future of the private company is now in some doubt).
- Privatisation of the service where all assets are sold to the general public through the issue of share capital, either for the whole entity or for part of it, or through a private placing to an existing company, probably from another country. (In any of these situations a regulatory framework along the lines set out in this paper would need to be put in place).
- Private Sector Provision of a franchised operation, subject to regulation by a public authority. (Such arrangements exist in Latin America and the Caribbean).
- Use of Consumer Co-operatives (such organisations exist for example in many Latin America countries, in the Philippines, India, Bangladesh, Indonesia and Vietnam).

Box 29: Power in Purang.

Without external assistance the people of Purang in Nepal have established a power installation that is owned and managed by the community. The plant run 24 hours a day and supplies about 100 houses with, on average, 120 watts each. Consumers are charged to cover operations and maintenance costs. The project is successful because the management of the system is well integrated into social, political and economic structures, ensuring that all participants have access to the decision making process. The community not only owns the installation but also feels responsible for it. (World Bank 1994).

Although the private sector involvement set out above relates to the totality of an electricity distribution service there could be scope for exposing part of the activities to competitive tendering, and possible contracting out, whilst retaining overall ownership within the public sector.¹⁰

9 The United States of America is an exception to this where the transmission of electricity is both private and competitive, and local competitive distribution (alternative supplies on separate networks offering service to domestic users) exists in about twenty urban areas (Roth, 1987).

10 For example, in Ethiopia, private contractors are employed to read power meters and to collect payments due. Their payment is based on the percentage of the outstanding revenues they collect (World Bank working paper by Luger, December 1989)

Whilst in theory, joint ventures for construction projects could be considered there is no evidence to prove that such an approach has been used. Major infrastructure works would appear to be undertaken using traditional procurement methods.

4.7 Provision and Maintenance of Public Buildings

Private building contractors, engaged through the use of traditional procurement methods, are likely to be used for the construction of major public buildings and the works department of the urban authority is unlikely to be equipped to carry out work on such a large scale and for a high value, high prestige scheme. For most developing countries such a scheme would be paid for by the urban authority who would retain ownership. However, there are instances in industrialised countries (e.g. Britain) where the private sector may provide the finance, and retain ownership, and provide the use of the facility to the urban authority through a long term lease.

The comments made in section 4.1, in relation to road etc. maintenance work and small scale construction apply equally to public buildings. The sector is particularly suitable for the use of more than one form of partnership arrangement for maintenance as any urban area is likely to have a diversity of public buildings in various localities. Different partners could be used for different groupings of building with direct provision also being used. Such a competitive environment should enhance the quality of service provided.

The management of public buildings, embracing cleaning, catering, portering and even common office services could be provided through partnership arrangements. Many private companies in both the industrialised and the developing world contract out such services to private specialists, thus allowing the organisation to concentrate on running its core business; there is no reason why urban authorities should act differently. Even if the activity should remain directly provided, some urban authorities might wish to improve the management of the workforce by using the (temporary) services of a private sector manager.

5. CONCLUDING REMARKS

There are, undoubtedly, many examples throughout the world where aspirations of providing value for money in urban infrastructure services have been put into practice through direct service provision and the different local population groups are satisfied with the quality and cost of these services. Unfortunately such examples are very much in the minority and in the vast majority of cities, improvements in the delivery of urban infrastructure services are both desirable and necessary.

The involvement of the private sector in the provision of urban services is not new. In fact it is probably true to say that every government in the world uses private sector resources in some measure to assist in the provision of public sector programmes. Such an approach is not guaranteed to solve the problems of inadequate service provision caused by inefficient administration or insufficient resources, particularly not at a municipal level. What it will do, however, is create a greater awareness of the service standards to be achieved and the cost of delivering services at those standards. If different present and potential service providers, whether from the public or the private sector, can be encouraged to bid against one another for the privilege of providing a service, it is almost certain that beneficial results be achieved.

If benefits are to be achieved, it is important that the public sector has been adequately prepared to cope with such a potential change. If partnership arrangements are inadequately handled, they will fail causing even greater cost pressures on scarce public resources and a worsening on the standards of service provided. For the public sector to successfully involve the private sector in providing service, a number of issues need to be satisfied.

- The administrations responsible for providing urban infrastructure services should have the capacity to manage the process.
- The administrations have the desire, motivation and commitment, or there is the necessary legal framework in place, to become involved in the process.
- The administrations are able to clearly specify the service and assess and calculate its existing cost.
- The legal framework within the country will permit the process and will not hinder decision making by a private partner.
- The private sector has the necessary interest and skills to undertake public service delivery and that measures are in place to prevent a monopoly situation from developing.
- The administrations should recognise that, if a private partner take over the provision of a service, the day to day decisions are no longer the responsibility of the public sector. It (the public sector) will be concerned only with ensuring that the service continues to meet the needs of the different groups of service users and that the agreed service and quality standards are being met by the private provider. In this the public sector must be prepared to adopt a flexible approach to monitoring its private partner where events, unforeseen at the time of the arrangement, make service provision difficult (e.g. major flooding).

In addition there are some other actions that need to be undertaken by national and international public agencies in order to support changes at the municipal level. They may

not be pre-requisites but the issues underlying them are likely to surface in any country experiencing reform in the direction of greater use of partnerships.

- Competition requires the development of frameworks by government in which markets can operate and sometimes the management of the market, again by government.
- A policy shift towards greater competition often challenges the value systems of governments.
- Contestability should be promoted both in the service supply market and in the capital market.
- An understanding by national governments and donors of the macro-economic arguments for changing the role of government can make the modification of policy frameworks easier.
- Policy and framework changes are likely to be forced in the areas of municipal management values, contract law, foreign investment rules, tendering and procurement procedures, debt and bankruptcy laws, and public finance frameworks. Managing malfeasance may become more difficult. Ensuring equitable service delivery is another challenge.
- Improving the flow of relevant information about infrastructure services is a corollary of improved competition. National governments, international donors and independent organisations may play a major role in improving information flows and public awareness in order to ensure more transparent and accountable management of services.

Experiences of successful practice suggest that neither a purely bottom-up approach, concentrating on developing instruments at the municipal level, nor a top-down approach of policy change, without the provision of local instruments, can effect rapid reform. A combined, or pincer, approach is that which most of the "fast track" countries have adopted, because of the inexperience of many civil servants with the operational modalities of such partnerships.

The most important issue of all to bear in mind is that the development of public/private partnership arrangements is not a simple process and that it must be handled with care. This is not only because of the sometimes sensitive political issue of increased private sector involvement in a field which has traditionally been dominated by public sector provision but also because of the inexperience of many civil servants with the operational modalities of such partnerships.

In the 1990s, the potential of public-private partnerships as a means to improve urban infrastructure services in developing countries is being increasingly recognised in developing countries and the international community, and several initiatives are underway to identify

Box 30: Action Plan, UMP Regional Seminar, New Delhi, 1994

The seminar concluded that the Urban Management Programme in the region could facilitate the country level action agenda by initiating certain specific actions at the regional and local level. The following actions were identified:

1. **Research and Dissemination:** It was felt that the country specific partnership experiences presented at the seminar provided adequate descriptions of the current status, but did not give sufficient details of the processes that the national and local governments had to go through to put the partnership in practice. The impacts of such partnerships were also not discussed in sufficient details. The following cross-country comparative studies were proposed:

- cost analysis of municipal services under partnership arrangements.
- review of legislations for facilitating partnerships.
- pricing mechanisms and their impacts on the poor.
- compendium on norms of urban infrastructure services and costs of urban services in the region.
- performance indicators on costs, maintenance quality, coverage, revenues, manpower, and environmental parameters.
- compendium of contract documents used by various countries.

2. **Information sharing:** It was felt that the rich experience of some of the countries in the region needed to be disseminated widely among the countries in the region on a long-term basis. The following specific information needs were identified:

- national action plans/policies/legislations on partnerships in municipal infrastructure.
- contract management documents, procedures, codes.
- process related description of partnerships.
- performance monitoring of partners and institutional arrangements.

3. **Capacity Building:** The action agenda also identified facilitation of the local capacity building for initiating partnerships within the Asia-Pacific Region for municipal information. From the country presentations, the following emerged as the specific needs:

- advocacy and awareness workshops at national level to initiate partnerships.
- enhancing managerial capacities for:
 - financial management (debt servicing)
 - institutional development
 - demand assessment
 - contract arrangement skills.

(National Institute of Urban Affairs, 1994)

document disseminate and replicate examples of best practise in this field. The Urban Management Programme (UMP) has been involved in a number of initiatives among which the following may be mentioned:

- the project on "Involving the Private Sector in Municipal Services" in Thailand.
- the UNDP/USAID sponsored "Regional Seminar Private Sector Initiatives in Urban Housing and Services in Asia and the Pacific" held in Bali in January 1992.
- the UMP "Regional Seminar on Public-Private Partnerships in Municipal Infrastructure Services" held in New Delhi in February 1994.
- UMP formal publication #13 "Private Sector Participation in Municipal Solid Waste Services in Developing Countries, Vol 1. The Formal Sector", by Sandra Cointreau-

Levine, 1994.

- the policy framework for the UMP Infrastructure Management Component, UMP formal publication #17 "Strategic Options for Urban Infrastructure Management" by William F. Fox, 1994 which has a major focus on public-private partnerships.
- inputs to the World Development Report 1994 "Infrastructure for Development" which has a major focus on public - private partnerships. In this connection, it is also worth mentioning the emphasis on partnerships in such documents as the World Bank's Discussion Paper #212 "Institutional Options for the Provision of Infrastructure", 1993.
- participation in the INTA/AIVN 18th Annual World Conference, "Urban Development and Management at a Turning Point" 16-21 October 1994 in Fes, Morocco.

While the UMP is following-up on the action plan adopted at its regional seminar in New Delhi in February 1994 (see Box 30) it is planning similar regional seminars in Latin America and the Caribbean and in Africa in 1995.

While it is hoped that the present working paper will facilitate awareness-raising and provide an overview of issues and options in partnerships, one conclusion from the seminar in New Delhi is worth highlighting: There is a strongly felt need from urban managers and other concerned parties for well documented examples of best practice in planning, implementation and monitoring of partnership arrangements including model contract documents etc. There is also a felt need for staff exchanges and study visits by political decision makers to see effective partnerships in operation and draw replicable lessons of experience. The UMP will continue its efforts to respond to these needs.

ANNEX 1 CHECKLIST OF ACTIONS

The main part of this paper identifies a variety of considerations concerned with public - private partnerships and also identifies a variety of actions available to an urban administration. As a guide to an administrator, considering the use of a partnership arrangement with a private organisation, a series of actions which should be taken are set out below. The action checklist applies specifically to a contracting-out arrangement, but might also be used as a guideline for other forms of partnership.

1. Ensure that there is the political and administrative will to consider the possibility of partnership arrangements.
2. Establish the legal framework affecting the various service sectors and the constraints that could affect a partnership arrangement.
3. Review the capability of urban administrations to enter into partnership arrangements. This would include:-
 - ability to clearly identify the activity in terms of operations and cost;
 - have an ability to measure unit outputs and inputs;
 - an ability to adequately supervise a private partner in the way it performs the contract.

If all the above considerations are favourable it would be possible to proceed with implementing partnership arrangements. If not, then changes must be made before proceeding with the next steps.

4. For a sector identify if the arrangement should apply to the whole of the urban area or if the area can be split up into segments - this latter arrangement may be particularly appropriate for a service such as solid waste collection but more difficult to apply for water and electricity supply which rely on common facilities. (In this it should be borne in mind that in order to prevent a monopoly situation developing it is preferable to have more than one contract for an activity and also for the urban administration to retain a portion as a control. The main consideration is that it is not only the initial bidding process that is competitive but also the process when the partnership arrangement comes up for review. It must also be said that in developed countries it is not unusual for the administration itself to be allowed to bid to retain service provision - this should be considered as an option in developing countries).
5. Produce tender documents. These would consist of:-
 - **A technical specification** describing the work to be done (including work schedules and performance indicators). For the partnership to work this specification must contain a full description of the activity.
 - **The tender conditions** setting out the ground rules and arrangements for the submission and acceptance of tenders.

- **The contract conditions** defining the responsibilities and liabilities of the private partner and the urban administration.

Box 31: Contract Process Checklist, Pilot Project in Three Cities in Thailand

1. Establish enthusiasm within municipality for involvement of private sector.
2. Designate lead officer to oversee the process.
3. Set overall timetable for project.
4. Undertake service selection process.
5. Determine which services are to be undertaken by the private sector.
6. Obtain Ministry of Interior approval.
7. Identify appropriate 'client' departments.
8. Form contract team.
9. Determine appropriate tender strategy.
10. Develop contractor questionnaire.
11. Prepare advertisement giving key details of proposed contract.
12. Advertise for potential contractors in local (and national if appropriate) media.
13. Undertake evaluation of potential contractors.
14. Prepare tender conditions.
15. Prepare contract conditions.
16. Prepare specification of service.
17. Prepare tender documents.
18. Agree list of contractors to be invited to bid, as a minimum at least four and not more than eight.
19. Invite tenders from selected contractors.
20. Ensure all contractors receive same information.
21. Impose time limit for tender questions.
22. Bid Receiving Committee opens and certifies receipt for tenders
23. Undertake evaluation tenders received.
24. Award contract.
25. Contractor commences work.
26. Monitor contractor performance and payments.

(Coopers and Lybrand, 1992)

6. Decide how to request tender bids. Should it be:

- by public open tender
- by selected tender
- by negotiation with a single supplier.

Clearly unless there are very good reasons for the contrary tenders should be invited by open tender.

7. Evaluate tenders received. The considerations are similar to those applying in most tender evaluation situations both in regard to technical and financial considerations.

Technical considerations include:-

- whether the specification has been met and if not to evaluate the implications of any deficiencies;
- resources and management of the organisation to undertake the task;
- the ability of the organisation to recruit and retain suitable labour;

Checklist of Actions.

- the ability of the organisation to obtain the necessary vehicles, plant and equipment for the proper performance of the contract;
- the reputation and performance of the organisation in other similar areas of activity.

Financial considerations would include:-

- a comparison of the contract cost (including supervision costs of the contract) with the in-house cost having regard to both direct and indirect (overhead) costs of the administration;
- the financial stability of the potential partner (to ensure that the business would remain solvent during the period of the arrangement).

8. Make arrangements for the monitoring of the contract. These would include:

- contract performance monitoring
- agreement of variation orders
- use of default/penalty procedures
- payment of contractor

9. Consider review of arrangements and the timetable necessary to ensure re-tendering which in turn will ensure that a new contractor is in place before the expiry of the current contract. (There are no set rules for the duration of a contract although a period of up to about 5 years is normally regarded as adequate to allow a private partner to recover any investment costs whilst ensuring the urban administration is able to review a partners performance within a reasonable period). Where substantial investments in fixed assets are expected from a potential private partner, the period may be substantially longer than 5 years, i.e. up to 10 years or even longer). As with all matters affecting partnership arrangements the main test on contract length will be to determine what period will give the maximum benefit (cost and service quality) to the urban area during the period of the contract. However regular review of the contract, with the possibility of replacing the private partner, is essential to prevent any monopolistic tendencies to develop. It must always be remembered that competition is one of the most important elements in any public - private partnership.

ANNEX 2
INVOLVING THE PRIVATE SECTOR IN
THE PROVISION OF URBAN SERVICES IN THAILAND
(Project THA/89/020)

Background

During its Sixth National and Social Development Plan (1987-1991) the Royal Thai Government (RTG) sought to strengthen the role and performance of municipal government. It had several programmes in hand to do this, including: (a) a regional cities development programme led by the Office for Urban Development (OUD) in the Ministry of the Interior (MOI); (b) training of municipal staff; and (c) development of a national performance indicators system. The latter initiative, under the more general work aimed at municipal management upgrading, demonstrated how variable the performance can be between municipalities. In 1989, the RTG wished to determine whether and to what extent using alternative sources of service provision and subjecting "in-house" services to competition, improves municipal efficiency. Because municipalities are expected to meet an increasingly greater proportion of their service costs by the more efficient provision of services, the involvement of the private sector was seen as a possible key element in promoting both the efficient provision of all public services and an improvement in the quality of service delivery. Project THA/89/020 was intended to test this hypothesis and to assist municipalities to better develop the process of involving the private sector in municipal service delivery, advising the RTG of results. The project was undertaken with the Office for Urban Development acting as the implementing agency. The project was financed by the United Nations Development Programme (UNDP). The United Nations Centre for Human Settlements (Habitat) served as the UN executing agency. The infrastructure management component core team in UNCHS of the UNDP/UNCHS/World Bank Urban Management Programme (UMP) provided substantive advice and assistance throughout the project.

Objectives, Approaches and Results

The development objective of the project was to improve the efficiency and cost-effectiveness of municipal activities so that the municipalities may develop their role as regional centres and facilitate the decentralisation of activity from Bangkok while reducing their dependence on central government assistance.

The project was completed in late 1992. With regard to the project approach and its achievements, the following is worth noting:

- Three municipalities were selected as the pilot municipalities for the project: Chiang Mai, Chiang Rai and Nakhon Pathom. Having identified the three pilot municipalities, site visits were made by the project team to explain the concepts and to discuss the possible forms of private sector involvement in the municipal services with the management of the municipalities. Discussions with representatives of the local private sector and other organisations were also held to identify their interest and ability to compete and to provide for municipal services. At the end of the site visits, a list of services and activities where the private sector or other organisations could be involved was produced for each municipality.

- From these lists financial and other information relating to these services was produced in the form of service profiles. The information contained in the service profiles was then used to assess the efficiency and effectiveness in the provision of municipal services and thus, for selecting pilot services to be included in the project.
- The services profiled in each municipality were prioritised in terms of their commercial objectives and existing and possible private sector involvement. These prioritised lists of services (and a matrix matching type of private sector involvement appropriate to each service and activity used as a guideline) were then used in assisting the final selection of pilot services.
- Once approval had been obtained from the MOI and the pilot municipalities, the project team commenced the preparation of legal and tender documentation which were drafted based on the tender strategy agreed with the pilot municipalities for each pilot service. This legal and tender documentation was then used by the pilot municipalities in tendering the pilot services and, later, will be used and adapted by other municipalities. An interesting feature of these documents is the new format introduced which was widely accepted by the pilot municipalities and approved by the Law Office.
- Draft manuals to assist municipal officials were used during the tendering process. Experience gained in the use of the draft manuals was incorporated in the Final Manuals prepared by the project team. The Final Manuals (over 500 pages) are divided into: (1) Contract Process; (2) Service Selection; (3) Tender Strategy; (4) Conditions of Tender; (5) Conditions of Contract; (6) Specifications; (7) Tender Documentation; (8) Tender Evaluation; (9) Contract Management. The first manual gives an overview of the whole process while the other eight manuals focus on specific aspects of each part of the process. Each of the manuals details the procedures to be followed and includes a checklist of actions to be taken at each stage. In addition to the manuals a set of model contract documents for each service has been produced to provide a framework for municipalities in the following services: Garbage Collection; Street Cleaning; Park Maintenance; Street Lighting; Cesspool Emptying; Vehicle Maintenance; Photocopying Services.

The manuals and model contracts have been structured on 'best practice' procedures from international experience and produced in English as general "best practice" documents, with a Thai version specifically tailored to regulations and procedures currently in operation in Thailand.

- Site visits were made to the three pilot municipalities to carry out the evaluation of each bid, taking into account both technical and financial considerations. Recommendation on each bid was then made to the Municipal Bid Consideration Committee to assist it in evaluating each bid and awarding the suitable contractors to involve in the provision of pilot services.
- Site visits were made to the three pilot municipalities to carry out the evaluation of each bid, taking into account both technical and financial considerations.

Recommendation on each bid was then made to the Municipal Bid Consideration Committee to assist it in evaluating each bid and awarding the suitable contractors to involve in the provision of pilot services.

- The draft manuals also laid out recommendations on procedures for monitoring of contracts to be undertaken by the private sector. The procedures were then presented at the national, sub-regional workshops held at Pattaya in August 1992 and at Chiang Mai in September 1992. Later, the procedure will be used by other municipalities. Most of the pilot services in the project involve the private sector in the form of contracting out, with the exception of cesspool emptying, which involves a franchise (i.e. payment of a concessionary fee to the municipality). In Chiang Mai, the three services selected for involving the private sector were garbage collection, street lighting maintenance, and vehicle maintenance. In Chiang Rai, the services were garbage collection, street cleaning and photocopying. In Nakhon Pathom, the selected services were street cleaning, park maintenance, and cesspool emptying. The photocopying service received no bids initially. Bids on half of the remaining services had to be reopened for lack of response. The lack of responsiveness should be seen as a signal that the private sector was not yet confident enough to take on the risk of bidding for contracts on established public services. Over time, this should change, as more entrepreneurs are able to make the calculations necessary to become involved and to formulate innovative methods in competition with other bidders. The low level of initial interest had the impact of delaying start-up of the contractors' operations. This means that at the end of the formal duration of project THA/89/020 there had been no experience with monitoring of the contracts in operation. Without this experience, there was no evaluation of efficiency and cost-effectiveness but this is being pursued by OUD subsequently.
- A national seminar was held in August 1992 to discuss and provide information on the basic concepts of involving the private sector drawing on the experience in the target municipalities. The seminar was well received and attended by officials at the management level from the 33 municipalities. In general, the 33 municipalities approved the concepts of involving private sector in the municipal services and agreed to examine how the private sector could be involved in their municipalities. The project's Terminal Report notes that the term "privatisation" is used in the project and in the report as "shorthand" for involving the private sector in the delivery of public services. It does not necessarily mean turning over or selling all operations and assets of a public agency to a private firm. There are many intermediate steps and many roles the private sector may play short of taking over complete responsibility. These may include the provision of consulting services, provision of management services, equipment maintenance, operation of a portion of the service etc.
- National, sub-regional workshops were held at Pattaya and Chiang Mai in August 1992 and September 1992 respectively. Both workshops were well-attended by municipal officials. The administrative process required for the involvement of the private sector was explained from the experience gained during the project. Comments from the

officials were noted and incorporated into the Final Manuals. Several case studies were introduced in the workshops to ensure a good understanding of the process. Together with the Final Manuals, this would help the municipal officials to be able to successfully carry out the process of involving the private sector in the provision of municipal services.

- A work plan for extending "privatisation" techniques to other municipalities would be incorporated by the MOI into the Ministerial Notification to be issued, as a guideline to the municipalities throughout the country, for involving the private sector in the provision of municipal services.
- In the project, OUD core staff was given on-the-job training and overseas study tours where they were exposed to private sector involvement in Europe and the USA. In addition, the core staff has been actively participating in the workshops. These experiences have enabled the core staff to give advice and assistance to the Thai municipalities which may wish to involve the private sector in the provision of public services.

Main Issues and Recommendations for Follow-up

Among the many issues identified in the project, it is worth highlighting the municipalities' and the contractors' views.

Through feedback from the second national seminar, the national sub-regional workshops, and through interviews of executives and staff of pilot municipalities, OUD found that the involvement of the private sector in the provision of municipal services has caused some problems for the municipalities causing delays in the project. The problems include:

- (a) Lack of long-term personnel and equipment plans that make it difficult for the municipal executives to deal with surplus or redundant employees and materials.
- (b) Ineffective performance indicators that make it difficult to prepare realistic budget prices for service contracts; bids are often higher than budgeted costs.
- (c) Lack of experience in writing contract specifications that cause a budgeting problem for the municipalities when bids for contracts come in higher than expected.

A majority of the officials in the pilot municipalities believes that involving the private sector in the provision of public services is a valuable way to improve these services. They caution, however, that without dealing with the above-mentioned problems, there will be serious barriers to its effectiveness.

To obtain the contractors' views, OUD interviewed the bidders on various contracts and found that they were faced with several problems:

- (a) The conditions for contract tendering were more complicated than those for general

contracts, requiring the preparation of a large number of documents.

- (b) Lack of experience in calculating per unit costs for each activity encouraged the bidders to submit prices higher than those budgeted.
- (c) Lack of experience in providing municipal services caused the bidders to calculate the investment of capital at the beginning of the contract, raising their prices to become non-competitive.
- (d) Activity specifications were so complicated that bidders added risk costs to their bids, raising prices to become non-competitive.

Among the Project Terminal's Report's recommendations for follow-up, the following are noted:

- (a) Circulate the manuals to 33 municipalities, which will be encouraged to establish Private Sector Committees;
- (b) Continue the dialogue between OUD and the municipalities; and organise workshops for the additional municipalities with trained OUD staff providing advice;
- (c) Establish a Private Sector Committee at the national departmental level in order to expand private sector involvement into a wider range of services and into more municipalities;
- (d) Evaluate the actual operation of services in the three pilot municipalities;
- (e) Refine the existing performance indicators system in order to make comparisons between municipalities' and with private sector's operational performance.

The UMP intends to follow-up with the appropriate parties to identify and document the lessons which may be learned from recent developments resulting from this project.

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