

### POSSIBLE AREAS OF PRIVATIZATION IN CIVIC SERVICES

**3.8.1.** Privatization of infrastructure is a product of poor performance of public systems and drying up of traditional source of funds for such schemes. This process is gaining support from the Government, having innovations in the financial markets and designs such of schemes and programmes, which focus on outright privatization to gradual disinvestments.

**3.8.2.** Although privatization has received much attention over the past few years, the concept is neither new nor unique. In western countries, even inherent Government functions such as tax collection, mail delivery etc. were performed by private contractors. Even in India, private sector has come in a large way in providing shelter and other services. But it is wrong to presume and expect that all public services can be privatized. In fact, evaluation of the services that have been already privatized indicate that many of the eulogised advantages are yet to materialize. A factor crucial to privatization is the fixation of tariff and the willingness to pay for the services. In fact the need for privatization in itself would not have arisen, had the Government revised the rates regularly.

**3.8.3.** The concepts in vogue in Privatization of infrastructure are BOT, BOO & BOOT. These are forms of concessions usually referring to new projects where the private party leases assets from a public authority for the provision of a service. BOT: Build, Operate and Transfer is a concession wherein a private party agrees to finance, construct, operate and maintain a facility for a certain period and transfer the same to the Government after an agreed period. BOO, on the otherhand, enables the operator to Build Own and Operate and a similar form of concession is BOOT - Build, Own, Operate and Transfer.

**3.8.4.** Private mobilization of resources for infrastructure is possible provided they are structured to meet the investor's needs. Such private investments can provide better and efficient service. This is because private institutions achieve their results using standard instruments (equity, bonds, internally generated cost etc.), risk assessments (foreign exchange regulation, political interference) and cost mechanisms. Debt for such projects, apart from private entities

(with Government guarantee) and commercial lenders, come from external funding only through intermediary routes. In countries wherein privatization has been accepted, there has been a parallel growth between infrastructure financing and the capital market.

**3.8.5.** The potential advantages of private agencies over the Government organizations include, their:

- \* Ability to operate in competitive market to offer lower production and delivery costs
- \* Greater efficiency in service delivery
- \* Better access to current technology
- \* Greater capacity to obtain and maintain capital equipment
- \* Wider choice and more flexibility in service provision
- \* More efficient decision making
- \* Reduced financial burdens on government for wages, operating costs, debt servicing and investment
- \* Fewer restrictions in work and hiring practices and
- \* More flexibility in adjusting the types and levels of services to changing needs.

**3.8.6.** The experiences of CIDCO (City and Industrial Development Corporation), Bombay in privatization of water supply, of MMWSSB (Madras Metro Water Supply and Sewerage Board) in Pump House maintenance and privatization of Solid Waste Collection by Chennai and Bombay Corporations are fairly successful examples. It is difficult to replicate them but the principles of privatization emanated are understandable and clear. Some of the possibilities of privatization of infrastructure facilities are as follows:

#### **Maintenance of Water Supply Systems, Sewerage Treatment Plants and Pump Houses:**

**3.8.7.** Maintenance of Water supply system is a potential area for privatization. The Local bodies can be responsible for development of water resources and conveying them to storage reservoirs. Beyond that, the supply to households can be taken up by the private agencies. All the maintenance functions like repairs and maintenance of pipe lines, pump houses, chlorinators, preparation of water charges bills etc. has been entrusted to private contractors in the case of CIDCO. CIDCO buys water in bulk from MWSSB and the delivery of water supply is directly done by them. But the O&M and collection has been privatized. CIDCO has also privatized repairs and maintenance, O&M of Pump Houses, billing and recovery. It has been assessed that the effective savings are in the range of 25 to 30%. In case of Madras Metropolitan Water Supply and Sewerage Board, they have privatized O&M of 22 head works, 22 wells at Anna Nagar. For the O&M of bore wells the cost of MMWSSB works out approximately to Rs.22 lakhs whereas private bids were received 22 to 40% less. Similar to the lines of water supply, pipeline maintenance, yearly contracts have been awarded to the lowest bidders to maintain the sewerage treatment plant and pump houses. CIDCO, Bombay and Metro Water, Madras have privatized these activities. Apart from the better delivery of services, there has been a reduction in cost by 40%.

### **Collection and disposal of Solid Waste:**

**3.8.8.** The major maintenance functions like street sweeping, debris removal, garbage collection and cleaning of markets and shopping complexes etc. can be entrusted to the private sector. If the disposal mechanism involves simple land filling even this can be contracted out. The total town can be divided into a few sectors and roughly a sector with 25,000 population can be entrusted to a single contractor who can arrange to lift 10 to 15 tones of garbage collected per day from 25 to 30 points and clean about 8 to 10 kms. of road per day. However, the work done by the contractor should be maintained on record and a sanitary inspector or some other authority responsible for the disposal of solid waste should periodically supervise the operations of the Contractor. The experience of Chennai Corporation in collection of solid waste shows that the role played by the private organization will even attract public participation and that could dramatically improve the collection performance. Chennai in fact is known for EXNORA clubs which for a fee of Rs.20/- per month organizes primary collection. These are in turn dumped at the Corporation transfer points. Similarly, the CIDCO, experience in Bombay shows that expenditure to the organization will be much less than what would have been the expenditure if they had maintained the system on their own.

### **Collection of Service Charges:**

**3.8.9.** It has been a moot question whether collection of service charges and taxes should be privatized. Experience in Bombay Corporation shows that though there are initial increase in collection performance, it subsequently led to public harassment. However, this showed some improvements when CIDCO entrusted the same task to prominent NGOs and Social organizations like the Senior Citizens Club, Lions Club etc. by permitting them to retain one percent in addition to providing office space. This resulted in improved collection performances apart from giving flexibility of timings for the people to pay their dues. It has also been experienced that CIDCO would have spent 2.5% less of the total collection even at a higher level of collection performance.

### **Development and Maintenance of Parks and Gardens:**

**3.8.10.** It has been the practice of the administration to entrust maintenance of Parks, Gardens, Traffic Islands and other green spaces around the city to industrial houses and NGOs in lieu of advertisement rights given to them. CIDCO's experience of further streamlining this system has been by inviting open tenders to maintain parks and gardens by fixing the reasonable level of maintenance by the fixed number of labourers and the items of work to be performed being laid down. In return, the contractor can be permitted to lease out the space for advertisement.

### **Maintenance of Streetlights and Roads:**

**3.8.11.** In this, the small local contractors who are likely to respond better to the local public are encouraged to maintain 1000 to 1200 streetlights at a cost generally not exceeding 2.1/2 % to 3% of the value of the assets. The contracts include operation, maintenance and minor repairs of the lights. Generally, a condition is put that at any point of time not more than 5% of the streetlights in the area should be under repair in which case a penalty is levied. It may also be

noted that O&M operation on roads is possible on bus route roads in Town Panchayats, Municipalities and Corporations provided the advertisement rights are with the private operators.

**3.8.12.** Despite the evidence that private participation has distinct advantages in provision of various services, opposition remains strong in many ways. The most dominant feeling is that these social services ought to be provided by Government and there should be no commercial bidding. Labour Unions fear loss of Government jobs and organized consumer groups apprehend large increase in the cost of subsidized services. Notwithstanding this position, CIDCO's experience show that the overhead routinely levied at 15 to 22% has tremendously come down somewhere between 1.5 to 2% for the service management. Besides, it leads to increased vigilance and public participation in the management of various operations for efficient and better services. Our consultant who were associated with the preparation of the Tiruppur Area Development Project consisting of water supply, sewerage and drainage facilities, industrial effluent system and to improve intra-city roads have estimated a project cost of Rs.589 crores which would be implemented on BOT basis and managed by the New Tiruppur Area Development Company Limited (NTADCL). This project will be funded through a debt of Rs.426 crores and equity of Rs.163 crores. It is proposed to levy composite tax to recover the cost of investment.

**3.8.13.** Basing on the experience and success in some places, State Finance Commission recommends the following select areas where privatization could be attempted:

- \* Primary collection and deposition at bins - by community groups in all large urban centers like Chennai, Coimbatore, Madurai, Salem, Tiruchi, Erode, Tirupur.
- \* Regional waste management agency for disposal facility - in Chennai Metropolitan Area and Large Urban Agglomerations.
- \* Road and street light maintenance on major arteries by providing advertising rights on poles in larger urban and commercial centers like, Chennai, Coimbatore, Madurai, Salem, Tiruchi, Erode, Tirupur or Using contracting mechanism for maintaining street lighting.
- \* Maintenance of pumping Station and Transmission Systems by Private contractors. Chennai has already privatized pumping activities in Sewage Station. This could be extended to integrated schemes.
- \* Privatization of Sewage Treatment facilities, wherever it could be linked to reuse of treated waste water - (MRL, SPIC Projects).
- \* Among rural communities, maintenance of Common Resources could be initiated, the Urban Basic Services Programme (UBSP) has succeeded in forming neighborhood committees responsible for certain developmental planning activities. The same need to be extended to the rural communities. In special programmes, UNICEF has trained local communities in O&M of hand pumps. These efforts need to be strengthened.