FOREWORD

by Mr C. P. Singh
Managing Director, Chennai Metro

For many people, privatization has become the contemporary answer to public inefficiency. But while such transfers may increase efficiency, they should not be used to allow governments to escape legal responsibility for provision of public services. It is important to ensure, at the beginning of any partnership, that there is no loss of public accountability and that the rights of all sectors of society, including the poorest, are protected.

It is also important to understand the risks, real or imagined, for both sides in private/public arrangements. Private operators stand to lose both money and reputation if things go wrong. Public water authorities run the risk of losing both their constitutional legitimacy and their ability to provide services for the poor.

Chennai Metro has been working successfully with private operators for the last few years. We welcome the opportunity to participate in this Think Tank and to share the lessons learnt from the initiatives we have undertaken.
The Heart of the Argument... Can India’s Poor Pay for Water?

**The Promises**
- The poor cannot afford safe water, and should not have to pay for it.
- Public subsidies are provided to help the poor.
- Government can solve problems through public provision.
- Government will raise financial resources needed for water supply.

**The Reality**
- The poor actually do pay for water, often more than their fair share.
- Subsidies mainly benefit those who are not poor.
- Public provision of water is inefficient and ineffective.
- Investment requirements for water are too great for government to afford.

Subsidies mainly benefit the better-off... Despite the fact that government subsidy is running at Rs 40 billion per year, coverage remains static or falling and millions remain unserved... Because the subsidy is going to those with existing services, not those without... yet the sector remains hugely underfinanced and the policies designed to aid the poor undermine financial and operational management for all.

Public provision is ineffective and inefficient... what has the heavily subsidized public sector implementation actually achieved? The facts speak for themselves. In the urban sector, GOI estimates that only 85 percent of the population have access to public water supply, 52 percent to sanitation; the urban sector has endemic service inadequacies and massive overstaffing (50 staff per 1,000 connections). Few systems are operationally and financially sustainable; repairs are often neglected, for example in rural Rajasthan, over 50 percent of breakdowns remain unattended after one year; unchecked groundwater abstraction and environmental degradation increase costs; and there are growing concerns about water quality - fluoride, arsenic, salinity, iron... public subsidies have had little demonstrable impact on the health of the poor, especially women.

We should grasp the opportunities to change for the better. Public-private partnerships hold out many encouraging opportunities and their advantages or disadvantages to the poor should be measured against the reality of current provision.
Metro Water: Moving Forward to the Millennium

Chennai is India’s fourth largest metropolis with a projected population of 7.0 million by the year 2001, an increase of 1.58 million since 1991. Water is supplied to the poor free of cost through public fountains and fixed tanks. The water sector has only recently opened up for major private sector participation, and local capacity limits large-scale operations.

Objectives of Private Sector Partnerships

By involving the private sector in water and sanitation provision, we expect to
- bring technical and managerial expertise and new technology into the sector;
- improve economic efficiency in both operating performance and use of capital investment;
- seek long-term involvement in construction and operation of new water and sewerage facilities on BOT/BOOT basis.

Some Initiatives already Making an Impact

Water supply: 210 private tankers, hired through 160 operators, transport treated water to tanks erected in locations where piped water supply is defective or unavailable.

Water treatment plant: At Redhills, under privatized operation and maintenance from July 1997.

Water quality assurance certified by Board.

Desalination plants: Operated and maintained by the builder, supply 1.5 lakh litres of water to Nochikuppam fisherfolk tenements on Marina beach.

Sewage pumping stations: One of the earliest PSP initiatives – begun in 1982 – over half the 118 stations now operated and maintained by 24 private agencies working to three-year contracts.

Important Lessons Learnt

- Writing a contract document which is technically and financially sound is one of the most challenging aspects of private sector participation, and an area where more expertise is needed.
- Choosing an arrangement that will be feasible, sustainable and targeted to customer demand is crucial for success.
- Given limited available local capacity, choosing the right partner to develop the best arrangement for local needs is not always easy, especially for large-scale operations.

The Future

Continuing plans for private sector partnerships include a range of financial functions, outsourcing for building technical capabilities, training, and operational and services management at field unit-level. The UK Department for International Development (DFID) is funding a strategic review of institutional options; twining arrangements with another water utility are under discussion.

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PRIVATE SECTOR INITIATIVES

The Urban Think Tank

The Urban Think Tank is a participatory forum which enables experts and practitioners to address issues related to the service delivery of water supply and sanitation services to the poorest sectors of the community. The Think Tank is also intended to spark policy-level debate and provide a forum where the issues and concerns of municipal managers can be brought forward. Regular meetings have been hosted by the Water and Sanitation Program – South Asia (WSP-SA) in collaboration with the UK Department for International Development (DFID) since December 1994.

Through the publication of Nagari, the proceedings and key issues of each meeting are disseminated to municipalities all over India. The purpose of this information note is to share lessons learnt, highlight emerging issues, illustrate examples of best practice and provide a link between municipalities and other stakeholders to foster a better operating environment in the sector of water supply and sanitation services.

The Ninth Urban Think Tank was held in Chennai on October 29-30, 1999 at the invitation of the Chennai Metropolitan Water Supply and Sewerage Board (CMWSSB). The meeting focused on Private Sector Participation in Provision of Water and Sanitation Services to the Poor. We would welcome your feedback on any of the issues discussed in this publication. Please also write with any comments and suggestions on topics that you feel are important for managers of local urban bodies.
If the poor are to benefit fully from new initiatives, there must be a clear focus on the partnership element between private operators and local organizations and communities. Theoretically, most of the benefits listed below have the potential to lead to improved services for poor communities living in urban areas. Additional benefits are likely to arise through a ‘trickle down’ effect resulting from more efficient and effective overall service delivery and by pro-poor measures which are directly built into PPP agreements and enforced by the regulator.

<table>
<thead>
<tr>
<th>Type of PPP Contracts</th>
<th>Risks for the Poor</th>
<th>Benefits for the Poor</th>
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<tbody>
<tr>
<td>Co-operatives</td>
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<td>Improved service provision in terms of coverage, reliability and equity of supply; reducing political intervention in service provision; improving consumer orientation of service providers</td>
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<tr>
<td>Service Contracts</td>
<td>Downsizing of staff and possibly unregulated declining wages</td>
<td>Capturing technical and management skills which currently lie outside the public sector; reducing political intervention in service provision - both to a limited extent</td>
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<tr>
<td>Management Contracts</td>
<td>Downsizing of staff Unregulated declining wages</td>
<td>Improved service provision in terms of coverage, reliability and equity of supply; catalysing change throughout the public sector; capturing technical and management skills which currently lie outside the public sector; reducing political intervention in service provision; improving service orientation of service providers - all to a limited extent</td>
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<tr>
<td>Management Contracts</td>
<td>Inadequate supply of water Inequitable allocation of scarce water resources Downsizing of staff Unregulated declining wages</td>
<td>Improved service provision in terms of coverage, reliability and equity of supply; catalysing change throughout the public sector; capturing technical and management skills which currently lie outside the public sector; increasing economic and operating efficiencies; improving service orientation of service providers; and, to a limited extent, reducing political intervention in service provision</td>
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<td>Lease Contracts</td>
<td>Finance and affordability Inadequate supply of water Downsizing of staff Unregulated declining wages and possibly neglect of sanitation</td>
<td>Improved service provision in terms of coverage, reliability and equity of supply; catalysing change throughout the public sector; capturing technical and management skills which currently lie outside the public sector; increasing economic and operating efficiencies; reducing political intervention in service provision; improving service orientation of service providers</td>
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<td>BOT Contracts (and variants)</td>
<td>Inadequate supply of water - a new BOT contract for bulk supply can substantially affect tariff levels</td>
<td>Improved service provision in terms of coverage, reliability and equity of supply; catalysing change throughout the public sector; capturing technical and management skills which currently lie outside the public sector; increasing economic and operating efficiencies - to a limited extent</td>
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<tr>
<td>Concession Contracts</td>
<td>All risks applicable</td>
<td>All benefits applicable</td>
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<td>Divestiture</td>
<td>All risks applicable</td>
<td>All benefits applicable</td>
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Information taken from the WELL (Water and Environmental Health) study on Public-private Partnership and the Poor, Mike Webster and Kevin Sansom, March 1999
Before debating the implications for a private sector partnership to meet the needs of the poor in India, the Think Tank looked at a project in Bolivia where this has happened with great success. Valuable lessons can be shared with other projects worldwide.

Developing Water Supply and Sanitation Services for Marginal Urban Populations in El Alto, Bolivia

The pilot project phase of this project involved 4,000 very low-income families living in slums with relatively low water consumption and for whom sanitation was generally too expensive and not considered a necessity. The private water company wanted to fully engage the community in the project right from the start and so employed anthropologists and sociologists specializing in the Aymara and Quechua cultures to work with the families. Guiding principles for the private sector partners were to:

- include institutional and neighbourhood participation in project planning and implementation;
- respond to informed demand;
- integrate social aspects beyond just service connections;
- reduce the cost of service; and
- monitor and evaluate project results.

Project Characteristics

The concessionaire, Aquas del Illimani, worked in partnership with the local authorities and water regulatory agencies. They adopted a condominial system which allows savings in pipe lengths, excavation and other materials. These savings resulted in lower costs for residents and an increase in the number of water and sewerage connections made with available financial resources. The construction phase was an essential educational process for the community with residents learning how to operate, maintain and expand the system. To ensure that improved water and sanitation facilities were financially accessible to residents, the project included arrangements to be shared worldwide, especially in areas where cultural differences further marginalize poor communities.

- Responding to informed demand is critical.
- Participatory planning is time-consuming but worth every minute.
- Demand for sanitation is much higher than generally believed.
- Service provision is not just making connections, but also providing education, technical assistance and payment facilities to low-income communities.

Lessons Learned

While the results may be difficult to quantify in economic terms the process provides valuable lessons spread connection charges over a five-year period and a micro-credit component for sanitary units and hygiene education. The success of the pilot phase can be judged by the fact that the system is now being expanded to other settlements in the city.

Lessons Learned

- Responding to informed demand is critical.
- Participatory planning is time-consuming but worth every minute.
- Demand for sanitation is much higher than generally believed.
- Service provision is not just making connections, but also providing education, technical assistance and payment facilities to low-income communities.

The private sector can play a major role in improving water and sanitation in low-income neighbourhoods if the concession is well designed and suitable partners are available locally.

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The involvement of the private sector in major partnerships with the government is likely to be one of the most prominent strategies for development in the next century. Water and sanitation provision is no different from other sectors and while this public/private partnership should be of value to both the private sector, the government and the wider public, the key question is... will it really benefit the poor?

Another critical question is, have the interests and needs of the poor been recognized and accepted as an essential part of the agenda?

The government looks to the private sector for much-needed capital investment and funds, for the implementation of new technology and for managerial expertise. The private sector has a service to sell which will reinforce its reputation and increase its profit base. The NGOs have a vital role to play in ensuring that the interests of the poor are safeguarded and their voices are heard in the public/private sector debate.

How can they do this?

**By ENABLING**

- All the agencies to come together to share experience and interests.
- The community to play a full role as part of the partnership agreement.
- The poor to pay for services (which they are willing to do for reliable good quality water).

**By ENSURING**

- Private Sector Partnerships genuinely meet the needs of the poor.
- Improved co-ordination between all partners - government, private sector, community representatives, NGOs, the poor.
- Monopoly provision of water does not disadvantage the poor.

**By MONITORING**

- The quality and quantity of service provision to the poorest members of the community.
- The tariff structure, especially as it relates to the poorest households.
- The process for handling complaints.

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The options for private sector participation range from those in which the government retains full responsibility for operations, maintenance, capital investment, financing and commercial risk to the other end of the spectrum where the private sector takes on much of this responsibility. But PSP arrangements are always made within a framework created by the government and the most important parts of this framework are regulatory arrangements to protect customers and enforce health and environmental standards. Bearing this in mind, and having listened to presentations from the private sector, from Chennai Metro and from the WSP about the realities of service provision for the poor, participants at the Ninth Urban Think Tank looked at the situation in India today. Can an El Alto type project succeed? If so, what are the enabling factors to take it forward and how do these measure up against the constraints? Key issues which emerged helped to focus attention and inform later debate on how to move forward with private sector participation to improve water and sanitation services for the poor.

Enabling Factors
- Increasing demand pressure from consumers for better service
- Critical current situation which requires a radical new approach
- Inefficiency and malfunctioning of present system which is stretched to the limit
- Increased private sector interest coupled with liberalization of law for private sector investment
- Economic viability, perceived cost and efficiency savings
- Need for investment capital

Constraints
- Public perception that water is free
- Political interference and/or lack of political will
- Lack of demand responsiveness by local authorities, especially in service provision to the poor
- Lack of a regulator
- Commercial viability of projects - would they attract large-scale investors?

A View from the Private Sector

Ambitious claims have sometimes been made for the benefits of greater private sector involvement in water supply and sanitation and difficulties have sometimes been understated. The best interests of the consumer lie in adopting a realistic approach based on a sound understanding of the mutual benefits of partnerships between the public and private sectors. The advantages of private sector participation include:
- providing funds for investment in new water and sewerage infrastructure;
- rapid introduction of new technology;
- staffing efficiency and remuneration incentives which reward learning new skills and higher output;
- introducing clear regulatory procedures (municipalities could be open to criticism if private sector profits are thought to be excessive);
- better information and a more reliable service for consumers.

PSP in water supply and sanitation is usually associated with large contracts. A long-term operating contract called a ‘concession’ and a Build, Own, Operate and Transfer (BOOT) contract both include provision of funding for capital works. The former takes over all operations of a utility whereas the latter is specific to providing one new component, for example a treatment works. A concession makes greater use of the operating skills of the private sector, but both have their place in India.

So too do the small ‘service contracts’ which the private sector also takes on in India. The structuring of these contracts is very important. For instance, in Chennai the Water Board provides water to the poor, at no charge to the consumer, through tanker delivery or public fountains: in reality, the cost is borne by more affluent consumers. However, by contracting the tanker service to the private sector with payment per trip the incentive to provide frequent water is transferred to the contractor as this directly affects his income. He also has a strong incentive to provide a good service as the contracts are awarded on an annual basis. So in this particular example, the main drive to serve the poor comes from the private sector.

There are plenty of examples to demonstrate that demands on the public purse can be reduced by greater involvement of the private sector, while still retaining public ownership of assets and also by increasing accountability for operation.

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The Chennai Metropolitan Water Supply and Sewerage Board (CMWSSB) organized a number of field trips to enable participants in the Think Tank to take a first hand look at some examples of private/public sector partnerships which improve service delivery to the poor. One of these was to Nochikuppam, a fishing settlement on the southern end of Marina Beach which is located beyond the reach of existing piped supplies. In a public/private sector collaboration, CMWSSB contracted Titanium Equipment and Anode Manufacturing Co Ltd (TEAM) to erect and maintain a desalination plant. Local well water is used as a source and 1.5 lakh litres of high quality drinking water is piped to the settlement of 5,000 people via public fountains.

Drinking water is available for five hours in the morning and three hours in the evening with no charge to the consumer. Discussions with the community were very positive - they are pleased with the service they get and value easy access to good quality drinking water. Operation and maintenance of the plant is expensive and the actual cost of the treated water was not clear; this raised questions about the economic viability of the operation. Some participants also felt that a charge for water would cut off wastage which happens at all fountains.

The CMWSSB stressed that the desalination plant is location-specific for fisherfolk. Their free time to fetch water is very limited and tanker delivery services are unreliable at such a distance from water sources. A dependable water source for a vulnerable group is considered more important than cost.

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Does India Need the Private Sector? What will They do? What will it Cost? Where will They Come from? Who will Safeguard the Interests of the Poor?

The final task of the Think Tank was to conceptualize a private sector water supply project. This meant asking the questions that politicians and officials often ask as they think about whether, and how, to get the private sector involved in the provision of water and sanitation services. Can they ensure that the potential benefits outweigh the risk factors? How do they negotiate an arrangement with the private sector that will be feasible, sustainable and will be targeted to meet the needs of all consumers, including the poor? A process that will achieve these objectives costs money and takes time but the ideas and proposals which emerged from these diverse groups left no doubt that the will to forge new partnerships is there and the time is right to grasp the opportunities which PSP can bring. A few people felt using exciting services optimally could meet consumer needs, but the majority favoured radical changes to existing structures by greater use of the private sector.

Four possible options debated were:
- Concession arrangement with local partner structured as a 30-year BOT contract;
- Complete disinvestment with total concession to private partner;
- Establishment of a new company as a joint venture between the municipality and the private sector;
- Concession to foreign company with strong local input.

Sensitive issues/topics for discussion were:
- An agreed, fixed rate of return essential for foreign investors;
- Establishment of a tiered tariff review based on a basket of indices;
- NGOs to act as conscience keepers to represent the concerns of the poor;
- Independent regulatory authority to enforce penalties for poor quality service;
- Participatory approach essential to involve local communities and organizations.