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Final Report

PRIVATE PROVISION OF SOCIAL SERVICES

Program Description and Lessons Learned

**presented at the
Miami Conference on the Caribbean**

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**Prepared for the Office of Housing and Urban Programs
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**INTERNATIONAL CITY/COUNTY MANAGEMENT ASSOCIATION
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ABSTRACT

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ICMA consultant Jim Dorhman spoke at a conference session on Implementing Cost-Effective Alternative Strategies to Waste Management for the Miami Conference on the Caribbean. The presentation provides an overview of the Office of Housing and Urban Program's Private Provision of Social Services (PPSS) program. The report outlines the two phase approach taken on programs concerning the privatization of solid waste services and summarizes the lessons learned from the program in a number of areas, including: financing, solid waste planning, monitoring and the use of U.S. technology.

USAID PRIVATE PROVISION OF SOCIAL SERVICES: PROGRAM DESCRIPTION AND LESSONS LEARNED

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INTRODUCTION

Most of the developing world is experiencing an accelerating change from a rural to an urbanized society. Forty years ago less than twenty percent of the population was rural while today that number is closer to fifty percent. This transition has brought many problems including the need to maintain basic public health services, such as clean water, adequate sewage, and solid waste management. Although the transition has increased the demand for these public services, it has not increased the resources needed to provide them at an acceptable level.

The United States has recognized these urbanization problems and has initiated several programs through the Agency for International Development (USAID). Although these programs are an example of the generosity of the United States there is a significant amount of self-interest involved. We realize that the world economy relies on stable, healthy trading partners for its existence and there is a need to share our resources to help them through the urbanization transition. The USAID Private Provision of Social Services (PPSS) is one of many programs designed to share our technology with developing countries in the areas of municipal services.

THE PPSS PROGRAM

In general terms, the PPSS program was proposed to evaluate, define and implement the privatization of services that are normally performed by the public sector. In practice, however, the evaluation of a particular municipality becomes very complex since privatization has many political and social impacts as well as the obvious technical impacts. Although the PPSS program targets a variety of municipal services this paper concentrates on the privatization of solid waste management services.

The PPSS program, which is summarized in Figure 1, is performed in phases. Phase I consists of the evaluation of existing publicly operated systems and makes comparisons to performing the same services using a private contractor. The Phase I evaluation usually follows two general paths. The first path evaluates the technical aspects of the current system components; collection, processing and disposal. In most cases, the information base is limited and the evaluation often starts with the basics, like population projections, waste generation and waste composition. Other

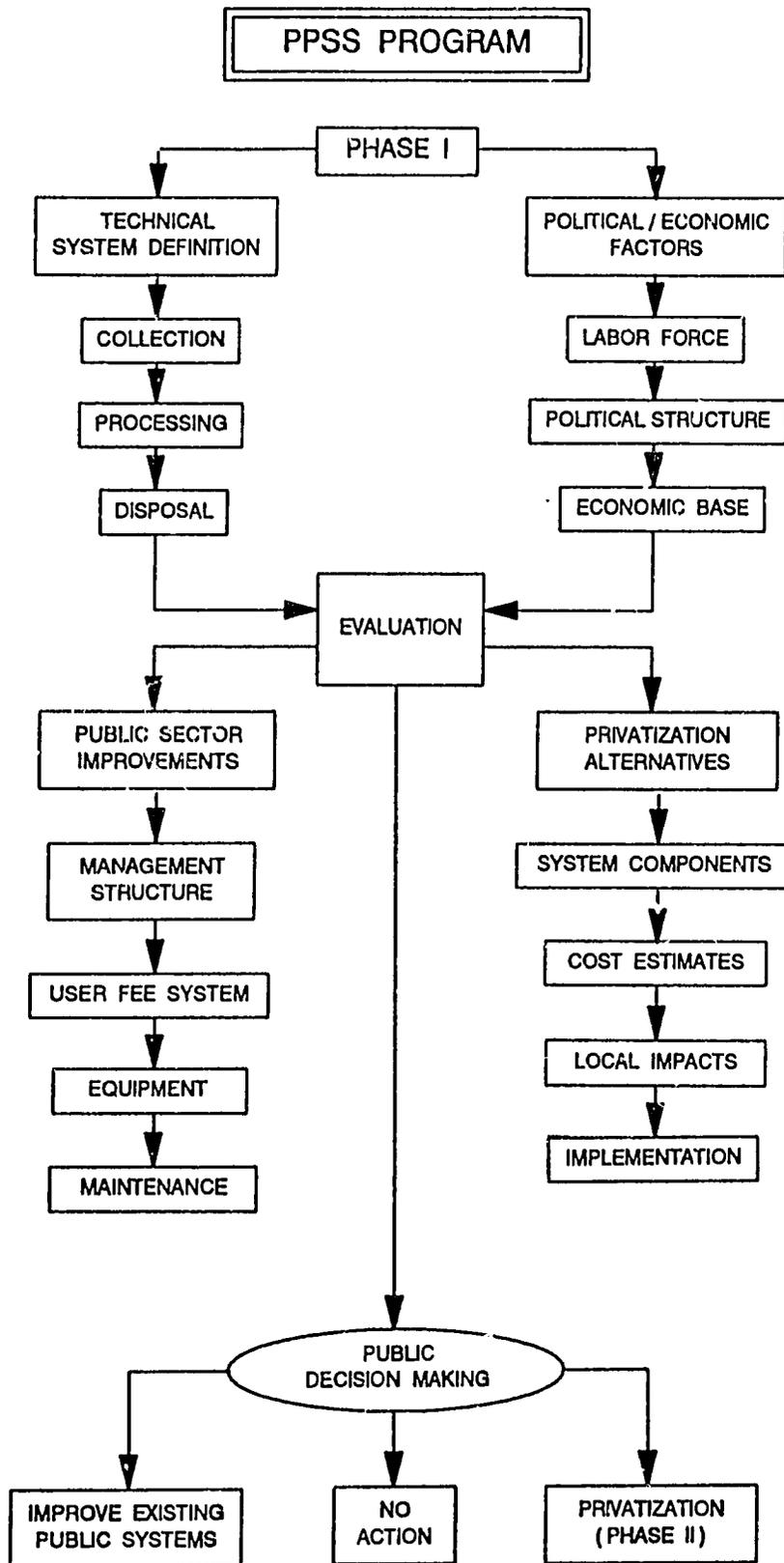


FIGURE 1

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aspects include collection equipment, collection efficiencies, route design, and cost estimates. Disposal evaluation includes landfill assessment, environmental factors, special waste handling and operating procedures.

The second evaluation path looks into the political and economic factors in the municipality to define any impediments to privatization or negative impacts that may result from the privatization of municipal services. If the privatization program is to be successful, this portion of the evaluation must not be overlooked. Factors such as unemployment, unionization, political structure and the economic base of the municipality must be fully understood before privatization proposals are presented. These factors may not support a change to private sector involvement.

Justification for the privatization of public services is based on improvement of services and/or reduced costs. Since most of the waste management services being evaluated are inefficient for a variety of reasons, it is often difficult to make an apples to apples comparison with privatization of the service. Before making such a comparison, the reasons for the inefficient public operation must be fully understood. For instance, the inefficiency of a collection system may be due solely to the use of old, outdated equipment. Before presenting a privatization alternative of that service, improvement of the public system through equipment upgrade must also be presented. The goal of the program is not to force privatization of services but rather to give the municipality sufficient information upon which an informed decision can be made.

As shown in Figure 1, the Phase I evaluation, presents alternatives that include public sector improvements as well as privatization alternatives. Typically, the public sector improvements include revised management structure, a user fee system, upgraded equipment and improved maintenance procedures. Privatization alternatives are grouped by system component, collection, recycling, landfill etc., and include cost estimates, local impacts and an implementation strategy.

After completing the Phase I evaluation a report is prepared and presented to the municipality for their review and consideration. The municipality can elect to make improvements to the existing public systems, privatize public services or take no action. If the municipality decides to pursue privatization options, the PPSS program will continue into Phase II. Depending on the complexity of the project, Phase II could include a variety of services including proposal preparation, training programs for contract managers, conceptual designs and start-up supervision. If the municipality elects to improve the public system, or take no action, without further consideration of privatization, the PPSS support ends.

In most situations, USAID would prefer to see the municipality pursue a combination of alternatives that includes both improvements to the existing public systems and privatization. This will strengthen the municipality's management resources, maintain some control over the services and foster competition among the private sector keeping prices in a realistic range.

LESSONS LEARNED

Each of the nine PPSS Phase I case studies performed to date offered unique technical and political circumstances. Although the Phase I recommendations varied among the completed studies, there are several common planning and implementation lessons that have evolved from these completed studies. These universal lessons were the focus of a one day workshop on privatization held in Washington in November 1991, are shown graphically in Figure 2 and summarized below.

Political Commitment

The single most important component of a privatization strategy is the political commitment to implement it. Wide differences in political commitment have been experienced in the Phase I studies. The presence of strong labor unions, tolerance of corruption and nepotism and poor middle management communication are cited as impediments to the implementation of privatization. To be successful the privatization program must have the total support of the municipal government from the mayor on down to the implementation managers.

Regulations and enforcement provisions were found to be ineffective in many of the Phase I countries, making it extremely difficult to implement cost effective and environmentally sound waste management systems.

Financial Autonomy

The majority of developing countries finance their waste management services through the central government or a general municipal fund along with other public works services. This general funding approach often forces waste management services to compete with other agencies and departments for capital and operating funds and exposes them to changing political priorities. The establishment of an enterprise fund or totally separate department would facilitate cost control and adequate funding.

Most of the Phase I studies recommended the institution of a user fee system to charge the user for the true cost of waste disposal. In most countries, this can only be applied to the commercial and industrial sector since residential income would not support a true user fee formula. Some type of general fund subsidy will still be required for residential service.

Comprehensive Planning

An efficient and cost effective waste management plan must rely on many components if it to be successful. As stated above these components must be thoroughly defined and understood before any changes can be recommended. In reality, the Phase I study becomes a comprehensive

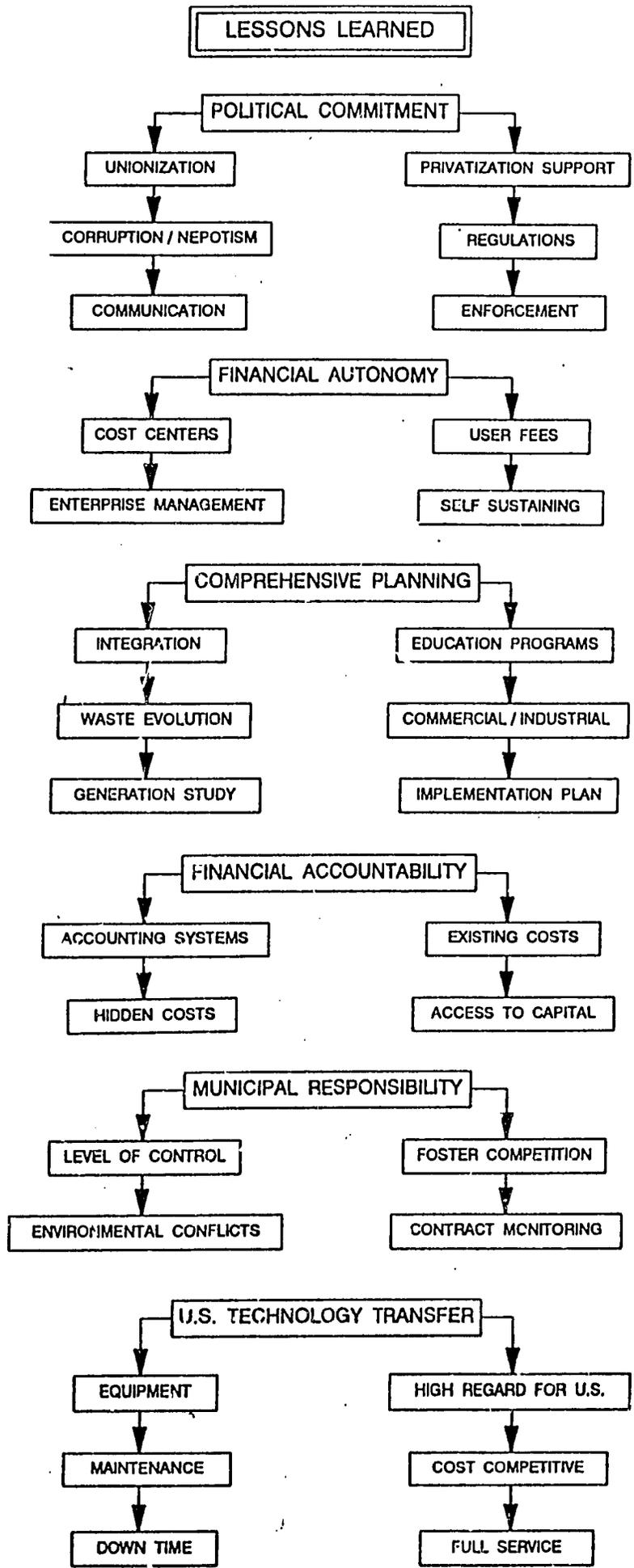


FIGURE 2

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plan, providing an integration of waste management components that rely on each other for success. Waste generation analysis, future projections, education programs, effective regulations, implementation planning and adequate enforcement are all Phase I tasks that will play a vital role if meaningful changes are to be made to existing systems.

As third world countries continue to develop their commercial and industrial base, waste generation and composition will also change. For instance many of the completed Phase I studies have documented a significant change in packaging and beverage containers. The returnable, refillable glass bottle is quickly giving way to a variety of plastic containers and bi-metal cans. This expected evolution in waste composition offers challenges to effective solid waste planning and also unique opportunities for private sector recycling programs. The planning challenge is to foresee these changes and implement flexible systems that can adopt to the changes without negative impacts to the environment or public health.

The need for educational programs is evident in all of the Phase I programs performed to date. Lack of environmental awareness leads to excessive littering, illegal dumping and dramatically increased clean-up costs. Although the need is obvious, the implementation of programs is often difficult due to limited funding and political constraints. Educational programs are long term management tools and municipal officials are less likely to fund them when faced with staggering collection and disposal costs, and limited funds.

Financial Accountability

An accurate assessment of costs incurred in the solid waste management system is critical, but often lacking. This information is essential for system operation and determining appropriate user fee structures whether the system is publicly or privately operated. As stated earlier, most waste management functions are financed through a central fund without specific cost centers. A more specific accounting system will be necessary in the future, one that records costs by individual activity and retains income within an enterprise fund. This will be especially important in implementing privatization in order to determine the appropriateness of cost proposals and contract terms.

Whether a municipality elects to improve the public system or privatize the service, capital expenditures for equipment and maintenance facilities will most likely be required. An accurate accounting system will be needed to document and justify these capital expenditures.

Municipal Responsibility

The privatization of waste management services carries with it the risk of giving up too much responsibility and control. Privatization must also be accompanied by adequate municipal oversight and review to insure that the services are being performed in a cost effective and environmentally sound manner. The costs of municipal oversight must be included in the evaluation of privatization alternatives.

Another significant risk in privatization is the potential of creating a monopoly or cartel. This risk is much higher if a service is totally privatized. Parallel improvement to public operations as well as partial privatization will insure a level of competition for the service as well as maintaining the municipality's ability to take over the service should the private contractor fail to perform.

In addition to improving the level of service and/or reducing costs, the environmental impacts of the waste management activity must also be considered in evaluating privatization. Trade-offs between service costs, profitability and environmental quality are common practice in the waste management business. Each municipality must define a level of risk that it is willing to take and determine the level of service accordingly.

U.S. Technology Transfer

Solid waste managers in developing countries have a high regard for American equipment and technology as the best available. The performance, reliability and serviceability of U.S. made equipment was quoted as reasons for this preference. As developing countries continue to improve their waste management services, additional opportunities will emerge for American made equipment and services.

In addition to reliable equipment, there is a growing need for dependable fleet maintenance services. Lack of trained technicians, shortages of replacement parts and insufficient management result in a high percentage of equipment down time which directly impacts the quality of service and costs. Many U.S. based companies have the ability to address these deficiencies on a contract basis.

There are also significant opportunities for introducing American management expertise in assisting municipalities to organize and upgrade their waste management systems, without assuming capital responsibilities for equipment or maintenance.

Exposure of capital is the greatest impediment to American investment in developing countries. Contracts must be long enough to recover the initial capital investment and the municipal government must demonstrate a willingness to support the project throughout the contract period. The risk of unstable political support could be mitigated through surety bonds that guarantee payment in the event of a municipal default. These bonds may require the support of an independent entity or donor agency to be effective.

SUMMARY

In summary, the USAID PPSS program offers a unique opportunity for municipalities in developing countries to evaluate their solid waste management systems and identify ways to upgrade the level of services or reduce costs through improved public services or privatization. After completing nine Phase I PPSS studies, USAID has identified six general themes along with many related observations that are crucial for implementing privatization of municipal solid waste services. Foremost is the political commitment to implement privatization and the need to prepare a flexible comprehensive plan if the municipality is to achieve its long term goals.