

Private Sector Involvement in Solid Waste Management

Avoiding Problems and Building on Successes

Adrian Coad



CWG

Collaborative Working Group
on Solid Waste Management in
Low- and Middle-income Countries

Published by: CWG - Collaborative Working Group on Solid Waste Management in Low- and Middle-income Countries

with financial support of: DGIS - Royal Dutch Ministry of Foreign Affairs

Contents prepared by: GTZ - Deutsche Gesellschaft für Technische Zusammenarbeit, on behalf of
BMZ - German Federal Ministry for Economic Cooperation and Development

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ISBN: 3-908156-09-2

Photographs: Adrian Coad, Manfred Scheu, Sandra Spies

Cartoons: Dorsi Germann

Layout: CWG Secretariat, c/o Skat, CH-9000 St.Gallen, Switzerland

1000 copies printed by Niedermann Druck AG, CH-9016 St.Gallen, Switzerland

St.Gallen, July 2005

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Introduction

This brochure introduces a study of recent experiences of private sector participation in solid waste management in Africa, Asia and Latin America, and includes a CD with the full report and additional information.

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1 Background

a The issues

For years, opinion leaders who are familiar with private sector participation have urged that involving private enterprises in the provision of solid waste management services should not be seen as a panacea – a cure for all problems – even though it has often resulted in very significant improvements in many situations. Experience has led some experts to believe that if a local government body has not been able to provide a satisfactory solid waste management service using its own resources, it will not be able to engage a private enterprise to provide the service in a satisfactory way. Some assert that involving the private sector always results in increased corruption and misappropriation of public funds. However most voices are in favour of private sector participation – some because of positive experience, some because of their political standpoint, and some out of a desperation nurtured by the failure of the public sector.

How can we get an accurate and global picture of the impacts of the worldwide reorientation towards private sector provision of public services? What are the factors that push private sector participation towards either failure or sustainability? How can we derive guidelines that increase the chances of efficient and effective partnerships between local government and private sector service providers? This research does not claim to provide complete answers to all these questions, but it is a step in the direction of these answers, both in terms of the way the information has been assembled and by virtue of the information itself.

b The study

The information has been drawn from case studies, some contributed specially for this study and some that have been published elsewhere. Some of the most valuable material has been submitted under conditions of anonymity, so that names of contributors, locations and organisations cannot be linked to the material. This is necessary because many waste management professionals work in an environment where only good news can be released, where failure may never be admitted, and where doing nothing is preferred to taking initiatives that entail the risk of anything less than complete success. We learn most from so-called failures and mistakes, but too often only those who are very close to a problem are the ones who know about it, and so the opportunity of learning from a negative experience is restricted to a very small circle. Passing on information about difficulties in a confidential way allows more people to learn, to innovate and to improve their approach.

The contributions that have been received provide answers to a number of questions. The principal questions that will be discussed are listed below, together with the number of the section that deals with the particular issue.

- What are the reasons that lead to the involvement of private enterprises? (Section 2)
- Why do some oppose the participation of the private sector? (Section 2)
- What are the steps that must be taken and the questions that must be answered when developing a strategy for involving the private sector? (Section 3)
- Why is it so important to work closely with the general public as recipients of the service? (Section 4)
- What are the common shortcomings in the tendering process and in contractual documents? (Sections 5 and 6)
- What the most successful ways of implementing private sector participation? (Section 7)
- Why is the monitoring of private sector service providers often ineffective and the cause of conflict? (Section 8)
- What are the main lessons that we can learn from experience? (Section 9)

c Presentation

This brochure is a summary of the main report, which can be found on the accompanying CD and which is also to be available in printed form. The main report itself consists of two parts – the first is called A review of the experience and it takes information from case studies and other sources to present guidance information relevant to the preparation for, and the implementation of, private sector participation. It includes boxes with practical illustrations from experience and cross references to the case studies. Part II is called Summaries of selected case studies, and provides more detailed information about experiences of involving the private sector. The CD also contains additional information that is linked to the main report, and some PowerPoint presentations. The appendix of this brochure includes some information about the case studies that are included in Part II.

It is not possible, within the restrictions of this small brochure, to provide all the arguments and relevant examples that back up the points made here. For such further information, the reader is urged to read the appropriate sections of A review of the experience. The chapters in that book are numbered in the same way as the major sections in this brochure.

d Acknowledgements

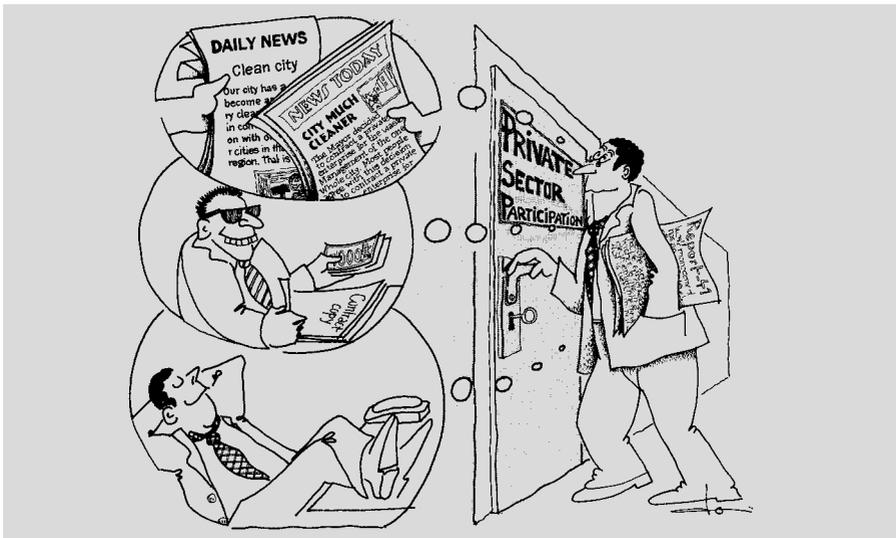
The preparation of this report has been funded and undertaken by GTZ (Deutsche Gesellschaft für Technische Zusammenarbeit GmbH – the German Agency for Technical Co-operation) and the printing and distribution have been undertaken by the CWG¹ (the Collaborative Working Group for Solid Waste Management in Low- and Middle-income Countries), using funding provided by the DGIS of the Netherlands Government. Many contributors have provided much practical information based on their experience. It is from this experience that the report gets its value, and so their participation is most gratefully acknowledged. The cartoons are the work of Dorsi Germann.

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2 Expectations and concerns regarding private sector involvement

a Reasons for involving the private sector

Why do local government administrations turn to the private sector to provide solid waste management services? Cartoon 1 provides some suggestions, and the following paragraphs add more.



Cartoon 1 Anticipated benefits of private sector participation

What does a municipal official expect from private sector participation? Perhaps he² expects a much higher standard of service – a cleaner city. Perhaps he expects some additional “informal” personal income from bidders or the contractor in return for favourable treatment. Or perhaps he is looking forward to an easier life, all the work and worry being taken over by a contractor.

There is a range of factors that motivate local governments to turn to the private sector to provide solid waste management services. It is advisable to understand the reasons why decision-makers are interested in involving the private sector

² The use of the pronouns “he”, “him” and “his” is purely for the purposes of simplicity, and should not be taken to mean that men are more suited to any function associated with municipal administration or solid waste management services. There are many cases in which women are preferred to men for certain duties (such as dealing with financial aspects) and often female managers have been more successful than men. This booklet does not seek to make any statement about gender roles.

since the selection of the most acceptable approach in a particular situation may be influenced by these particular reasons. The following list suggests some common reasons and is not in any order of priority.

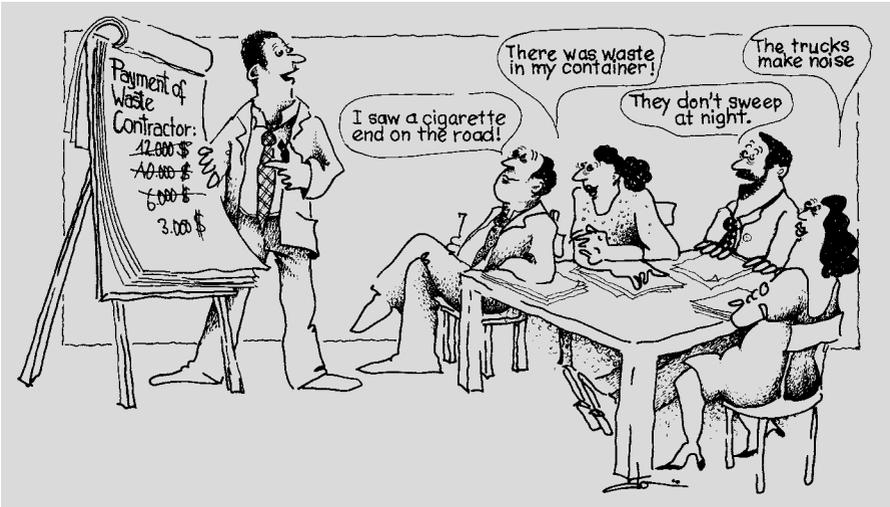
- The need to be seen to be doing something. If the waste collection situation is bad, municipal authorities may wish to show voters or ministers that they are taking action.
- Local government has failed to provide a good service. Rather than trying to improve the service offered by the public sector, the private sector is invited to provide the service in the hope that higher standards will be achieved.
- The private sector is more efficient. It is believed that the private sector can provide a better service for the amount that has to be spent on the public sector service, or can provide an equivalent service at a lower cost. Competition is often a key to achieving reductions in cost. The efficiency of the private sector is often higher because it is able to be more flexible in deploying its labour, and can motivate staff by incentive payments and career development opportunities, and in other ways. Comparisons of actual costs between public and private sector operations are often difficult because of the incompleteness of the accounting systems used by local government.
- The administration of the private sector is often more effective because of its simpler administrative procedures and relative freedom from political interference. This greater effectiveness is often clearly seen in the maintenance of vehicles.
- Local government officials may wish to simplify their own administrative and technical responsibilities. These officials may look to the private sector to manage complicated or technical tasks for them, as a means of reducing the administrative burden that they carry.
- Access to expertise. The private sector can be required – by a good contract which is well monitored – to provide a level of technical expertise that is not available in local government. There will be opportunities for passing on this expertise (possibly to staff in both private and government sectors).
- Improved decision-making. A higher level of expertise, greater experience and comparative freedom from political influence can all contribute to the capacity of the private sector to make better decisions.
- Access to capital. This can be a compelling reason for involving the private sector, especially in situations in which local government organizations depend on unpredictable and infrequent contributions from donors or central government for equipment and facilities. Access to capital not only allows improvements in coverage and efficiency, but also allows planning.

- Increased coverage. Often the low-income districts of towns and cities get no service at all because of the inadequate capacity of the local government service and the low priority given to poor areas. The introduction of the private sector can open the way for a service to be provided to all, particularly if small and community-based enterprises are included and services in poor areas are cross-subsidised.
- Improved operational standards. In places where environmental legislation is inadequate or not enforced, contract conditions can be framed and enforced to ensure that minimum environmental standards are adhered to.
- Policy and pressure. The private sector may be invited to provide services in order to comply with central government policy. This policy may be based on analysis of the local situation, or pressure or recommendations from lending agencies, or from powerful national companies.
- Providing justification for the introduction of a waste management fee, by arguing that the new private sector service must be paid for.
- Raising cash by selling assets. This is rarely an issue in the solid waste management sector, since the assets are not as valuable as those of other sectors, such as water supply and electricity distribution, but it is possible that this factor plays a part in raising interest in private enterprise.
- Complementary strengths. Each side – public and private – has particular strengths and opportunities such that the best results can often be achieved by both sides working together, each doing what they do best.

A carefully prepared contract that is well monitored can provide the motivation to the private sector to achieve benefits such as these.

b Opposition to the private sector

Opposition to the involvement of the private sector in the provision of public services can be expected in most situations. This may result from (i) political views, (ii) resistance to change, (iii) opposition from labour unions, (iv) fears about corruption, (v) fears of officials that they will lose power, influence or income, (vi) previous experience of private sector participation, (vii) a belief that private companies take huge profits, or (viii) other factors. The fear of corruption manifests itself as hostility to a contractor because public officials who are worried about being accused of corruption generally act in a hostile way towards a contractor, to demonstrate to any potential accuser that they are not being bribed by the contractor to give favourable decisions. Cartoon 2 illustrates one consequence of the fear of showing appreciation of a contractor's performance.



Cartoon 2 What shall we pay him this month?

The contractor has submitted an invoice of \$12,000 for the month's work, but the Payments Committee is not prepared to pay the full amount. If they did they might be accused of corruption, being bribed to favour the contractor. So they find reasons to reduce the payment, based neither on contractual obligations nor on the reports of field inspectors, but on personal prejudices and inconsequential reasons.

c Risks associated with involving the private sector

One unsuccessful experiment in involving the private sector can generate a prejudice against private enterprise which may last for many years. Weak political leadership and changes in leadership can also pose problems for the companies that provide services. Another risk is that local government administrations are not able to pay contractors in full and on time or are unable to monitor operations satisfactorily. Foreign companies may have a concept of the role of a contract that is different from the local understanding, and this can lead to crippling disputes and hostility. International enterprises may encounter opposition arising from nationalistic prejudice. There can also be the risk of a loss of control when a powerful company develops a monopoly position, leaving local government little choice but to comply with the demands of its muscular private sector partner.

Having understood the reasons for interest in private sector participation, and the problems that may arise, it is now appropriate to consider the preparation of the strategy that will be used in working with private sector partners. This important stage is often not given the attention it merits.

3 The preparation stage

In many cases the involvement of a private sector service provider represents a major change in the procedures of a municipal administration. Familiar practices must be uprooted, and new relationships and responsibilities must be planted and nurtured. A long-term commitment is involved. Municipal administrations – particularly, perhaps at middle-management level – are rarely characterised by their love of innovation, so the decision to involve the private sector must be a clear commitment that enters with a fanfare through the front door, not a minority preference that climbs stealthily through an open window. Each step in the process should be publicised and celebrated.

Before tender documents can be prepared and published, there are many issues and questions that must be decided, and many choices made. The assistance of experienced consultants can be very useful at this stage, but the decisions should be made by local government officials, and the skills of public sector staff must be developed. It is unfortunately true that the role of local government in private sector participation is frequently underestimated, with the result that public sector staff are often insufficiently prepared.

The search for expertise may be more challenging than anticipated. Expertise may be needed in the fields of law and accounting, as well as in contract management and solid waste collection and disposal. The preparation of the details of contracts and monitoring systems requires a very thorough approach and practical experience. The transfer of expertise may require more than a conventional training course – reinforcement and support may also be needed to give trainees sufficient confidence and understanding, and decision-makers must be made aware of their need for new understanding.

a Review of legislation

Particularly in situations where there is little experience of private sector provision of public services, it is important to review all relevant legislation to determine which laws need to be amended, or the restrictions that are imposed by legislation that cannot be changed. Laws may refer to the rights of enterprises to operate in this field, requirements relating to contracts, financial arrangements (including fee collection, taxes and customs duties), ownership of sites and equipment, employment rights and transfer of government labourers, and restrictions affecting international companies. The extent to which the court system can be relied on to uphold contract conditions (for example, whether the courts are prepared to fine local government agencies) should also be investigated.

b Identify objectives

It is important to consider what motivates the interest in involving the private sector and what results are expected. Some results are expected to be immediate, such as the cleaning up of waste dumps, and others may be long-term, such as the transfer of skills to local personnel or the development of local companies in order to reduce dependence on international firms. Social objectives, relating perhaps to the informal sector, small enterprises and low-income communities, should also be decided at this stage. If the objectives are clear, the right selection from among the wide range of options can be made.

c Consider the options

The way that some governments have involved the private sector suggests that they think that there is only one model that can be used, and that this model should be used in all cases. In fact there is a very large range of variations within private sector participation, and many issues that should be considered in choosing the most appropriate arrangement. Some of the main issues are:

- The relationship between the service provider and the responsible (local) government department – the service provider could be a commercialised utility staffed by government employees, or a joint (public-private) venture, or a contractor, a franchisee, a concessionaire or an enterprise that contracts directly with its customers, and requires only a licence from the government authority.
- The identity of the client – in some situations a choice must be made between several agencies that might be made responsible for managing the arrangements with the private sector. There may also be benefit in joining several adjacent districts or towns together, in which case there are several possible arrangements that should be considered for the local government partner.
- The nature of the service provider – the size and number of organisations to be involved, whether indigenous or with international links, experienced or raw, whether enterprise, NGO or community development association.
- The extent or degree of the service to be offered – the types of waste and sources to be included, the geographical extent of the area to be served, the stages in the waste management chain that are to be included (from street sweeping and the provision of containers, through collection and transport to recycling, treatment and disposal), the inclusion of various aspects such as planning, public awareness, fee collection, maintenance, field investigations and research. Other related functions, such as drain cleaning and park maintenance may also be included.

- The specification of each service to be offered, including the level of service, the frequency and timing, and the interfaces with customers and upstream and downstream services.
- Impacts of the proposals on the existing or previous arrangements, especially the informal sector and recycling activities, and the desired degree of promotion, integration or control of such related activities.
- Contract duration, bearing in mind the repayment of investment, legal and political considerations, and the maturity of the organisations involved.
- Strategy for implementation – how the residents and other beneficiaries are to be involved and whether the new measures are to be implemented at once or in stages. There are advantages in staged implementation, as discussed below in Section 9c.
- The process that will be used for selecting and engaging the service provider.
- Ownership of assets and their transfer at the beginning and end of the period under consideration.
- Transfer of manual and professional employees. This can be a major issue – if they are retained by local government the overall cost savings of private sector participation will be affected; if they are dismissed there may be high redundancy payments or serious disruption, unrest and opposition, and if they are taken over by the private sector but are unwilling to work efficiently, they may reduce the overall benefit of private sector participation. These problems can be overcome, but demand careful consideration.
- Procedures and personnel that will be used for monitoring and influencing the performance of the private sector service provider.

d Define the standards, but not the methods

When these issues, and others, have been considered, it is then possible to develop clear concepts of what is to be done and how it is to be done. Many instances of conflict and friction between client and contractor can be traced back to uncertainties or vagueness in the way that the work to be performed is described. Each task, and the frequency at which it is to be performed, should be described in an unambiguous way that suggests how the performance of the task can be monitored. A clear description of the tasks is needed so that bidders can prepare their proposals well, so that the various bids can be compared, and to facilitate monitoring and payment.

Whilst it is important to define clearly the objectives that the service provider should achieve, it is often wise to let the contractor determine the most effective and efficient ways of reaching the objectives. The addition of unnecessary restrictions or demands usually adds to the costs.

e Match costs to income

An essential element of the preparation work is to estimate the costs of the services required and to devise a means of generating sufficient revenue to pay for the desired service. Municipal accounting systems are often inadequate for the task of estimating the costs that the private sector will face. There are hidden costs that municipal accountants may not consider and additional costs that only the private sector must pay. Costs can be reduced by minimising the risks that the private sector must carry – risks that derive from uncertainties in the information provided, and risks associated with factors beyond either partner's control.

Often a new means of generating revenue is instituted in parallel with the involvement of the private sector. Unless careful preparations are made, it is difficult to estimate the willingness to pay of the various segments of society, and hence the income that will be received. The costs of local government for monitoring the contractor should also be factored in. The mechanism of fee collection needs careful consideration. Attempts to use fees to encourage changes in behaviour should take account of the level of public awareness and the effectiveness of enforcement mechanisms. Citizens should be informed and involved in decision-making.

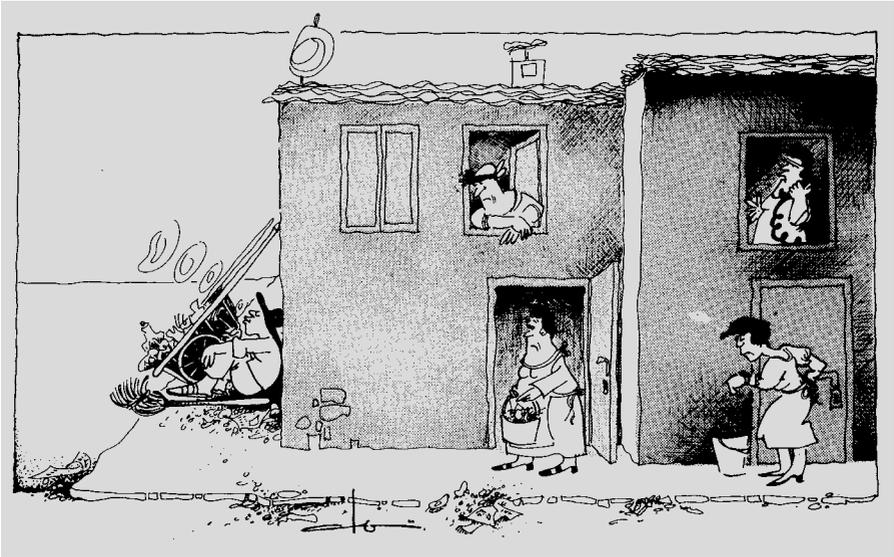
Unfortunately, there is a tendency in some municipalities to decide on the desired level of service and to set, quite independently, a tariff structure for fees, and to assume that all costs will be covered by income. When the income proves to be insufficient, either all the bids are rejected or the client tries to reduce costs by imposing unjustified penalties on the contractor. Neither solution is acceptable; if the income cannot be increased or supplemented, it is necessary to reduce the level of service to suit the available income.

4 Working closely with the public

Many experiences show the importance of working in close co-operation with the customers – the members of the community (including commercial and industrial concerns) that are expected to benefit from the proposed service. It is important to inform them of proposals and progress, especially any changes in what is required of them. But it is important also to listen (Photo 1). In many cases, public awareness initiatives have concentrated on the printing and distribution of posters and leaflets, with very little attempt to explain and listen and to understand the preferences, worries and suggestions of the public. Committees have been an effective means of communication in some communities. Beneficiaries can also be empowered, not only by means of an effective complaints system, but also as part of the monitoring system. Cartoon 3 illustrates how the community can participate in monitoring the performance of the service provider.



Photo 1 It is important to listen



Cartoon 3 Community supervision

These ladies know when the waste collector is due, so if he is late, they take note. One lady is already on the phone to the complaints department.

There have been some unfortunate cases in which public awareness has been cut out of contracts to save expense. The costs of such action can be high. However, it is difficult to precisely specify requirements for public awareness in tender and contract documents.

Good relationships with the public are needed to encourage co-operation with collection services, payment of fees and prevention of pollution. Programmes of public awareness promotion should be concentrated and focused, and linked with developments in the waste collection service.

5 The tendering process

A common problem that is a consequence of insufficient preparation is that tender documents contain insufficient detail. Enterprises preparing their proposals guess at the actual requirements of the local government agency, according to their experience, and the result can be that the proposals from the various bidders are so different in scope and cost that they cannot be compared. In some cases a preferred bidder is selected, in the hope that a satisfactory contract can be negotiated, and in other cases the tendering process is cancelled.

Some local government agencies have tried to save time and effort by copying tender documents from other regions, but this is unwise because it by-passes the important preparation process and results in tender documents that are not suited to local conditions.

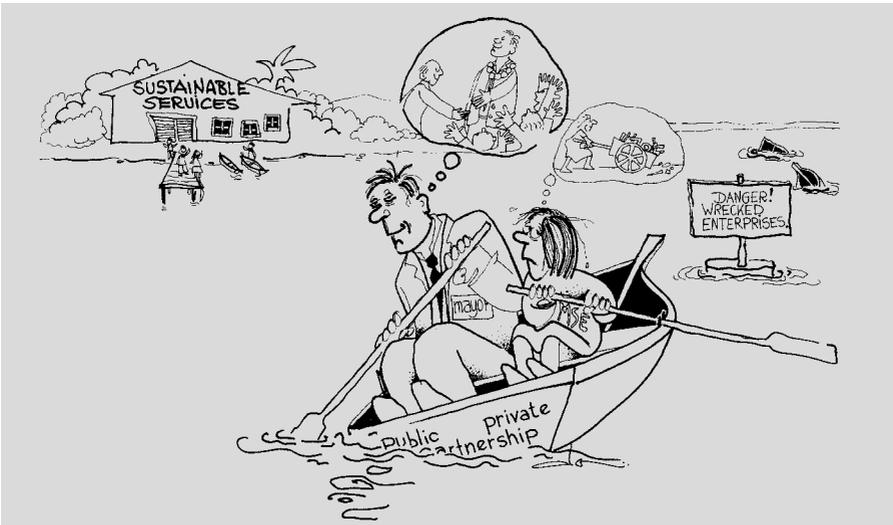
Often, too little time is allowed for bidders to prepare their proposals, so that the bids are based on inadequate data. Last-minute postponement of submission deadlines penalises bidders who plan their preparation work.

Formal procedures for opening proposals and selecting the preferred bidder are usually framed in such a way as to reduce opportunities for corruption, but adhering to these requirements alone may not be enough to prevent bribery and ensure the confidence of the general public in the selection that is made. Transparency and effective information campaigns require time and commitment, but they bring important benefits.

6 Contracts

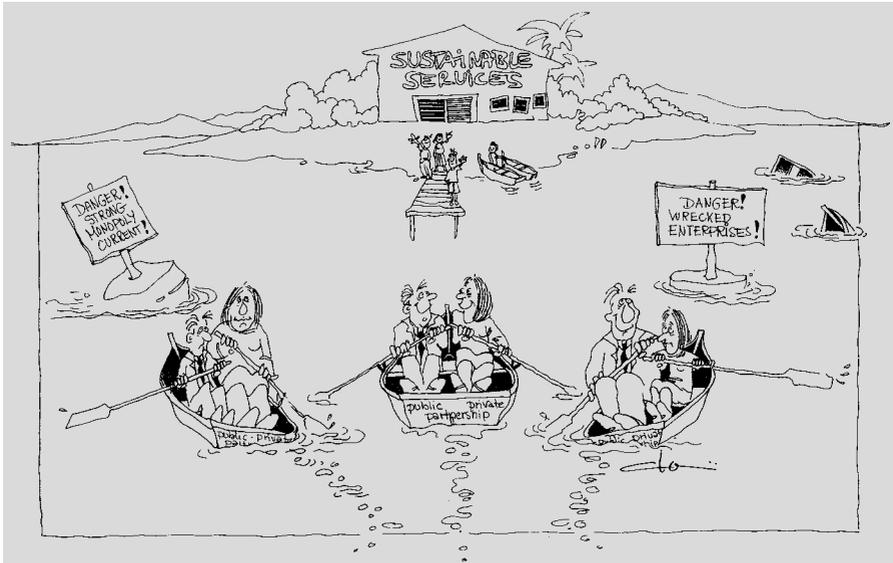
Attitudes to contracts appear to be cultural. Some groups and individuals regard contracts as the authoritative reference for the obligations and rights of each side, whilst others regard them as having a more ceremonial function, rights and obligations being determined according to the power and influence enjoyed by each side. If both parties to a contract have the same cultural background, and therefore the same expectations, the relationship can be made to work, but if the two parties have different expectations and understandings, the resulting claims and conflicts can cause a very serious breakdown in the relationship. Even if the courts are willing to enforce contract conditions on either party, long delays in the legal system may result in the final judgement coming too late to save the situation.

Contracts should, to some extent, be balanced. Risks should be divided between the two partners. Both sides should have rights and be held to their obligations. The private sector partner should be entitled to compensation if failures or delays caused by the public sector result in extra costs, just as the government side is entitled to compensation, in the form of penalty payments, if a contractor fails to meet his obligations. Cartoons 4a and 4b illustrate the need for balance in the partnership.



Cartoon 4a An unbalanced partnership – domination by local government

The man on the left represents the local government client and the woman on the right represents the contractor. In this case the public sector client is much more powerful than the small private contractor, with the result that the boat moves off course towards failure, because the private enterprise may be wrecked by excessive additional demands, late payments and heavy penalties.



Cartoon 4b Balanced and unbalanced partnerships

In the boat on the right, the dominance of the public client can lead to the ruin of the enterprise (Cartoon 4a). In the boat on the left the powerful and experienced private contractor can so dominate public sector clients that an unhealthy monopoly results. In the middle is a balanced partnership with both partners working together to achieve the goal that both desire – a “win-win” situation leading to sustainable services.

Contracts should make allowances for financial fluctuations (inflation and in exchange rates) and for physical changes such as new collection areas, population increases and new waste sources. There should also be provision for providing – in return for extra payment – additional services such as cleaning up after a festival or violent weather. If risks and additional work are all at the cost of the private sector, the contract price is bound to be higher.

Transfer of staff from local government to a private sector service provider can be a particularly problematic area, because public sector staff may not be willing to work according to the requirements of a private enterprise, and they may expect to continue to have the employment conditions (paid leave, sickness benefits, pensions etc.) that they enjoyed in local government service. Contracts often require that a certain percentage of the labourers are transferred to the new service provider. The transfer of vehicles and equipment can also be difficult if the vehicles are of unsuitable types, or in poor condition if maintenance has been ignored because of the prospect of handing it over soon to the private sector operator. Local administrations are sometimes reluctant to hand over land or other facilities to private companies because they fear they will be developed and used for other purposes.

7 The inception phase

Following the signing of the contract, the inception phase is a time of intense activity for the private sector partner. It is a time of data collection, formulation of detailed plans, acquiring equipment, preparation of facilities, recruiting staff, forming relationships and preliminary public awareness activities. If the contract specifies methods and manning levels (in addition to objectives and standards), it may be necessary to negotiate changes in these with the client, as detailed planning and data collection show the weaknesses in the initial estimates. One of the first tasks is often to remove the backlog of waste that has been allowed to accumulate in urban areas and informal dumpsites. It is advisable to start operations in a phased, "step-by-step" manner, and penalties should not be deducted from monthly fees for an initial learning stage.

At the same time the local government administration should be preparing its monitoring team.

It is common for the inception phase to last much longer than expected, for a variety of reasons, some being beyond the control of either party.

8 Monitoring and penalties

The goal of monitoring is to ensure a consistent and satisfactory service. Inspectors should be very familiar with the requirements of the contract. Penalties should be imposed in accordance with the contract and with the aim of improving the performance of the service provider. Unfortunately there are cases of penalties being imposed for other reasons, among them:

- to show that the client is very strict with the contractor, as proof that no bribes are being paid;
- to reduce the fee that should be paid to the contractor, especially when there are insufficient funds to pay the full fees;
- because it is easier to impose penalties in an arbitrary way than to monitor carefully and regularly the operations of the service provider.

Another cause of conflict has been the expectation that a street or market area should always be clean, when the contract only requires that it should be cleaned at certain intervals. The length of time that an area stays clean after it has been swept depends on the behaviour of the people in the area and other factors such as the movement of paper and other detritus by the wind, so even if a contractor fulfils the requirements of the contract, a street or public place may become dirty soon after the cleaning task has been completed. There have been cases of the use of monitoring systems which bear no relation to the contractual requirements.

The inspectors who monitor the performance of the service provider may come from the previous waste management system, or be newly recruited for the purpose, or be residents who monitor the areas where they live. Each option has its particular advantages and disadvantages. Involving members of the communities may incur the lowest expenditure and provide motivation for careful and consistent monitoring, if the inspectors are concerned that their living environment is pleasant and clean. It is sometimes possible to involve inspectors in raising public awareness, following up complaints and reporting on the condition of urban infrastructure in general. Corruption, pressure and laziness are common enemies of accurate monitoring. Contracts often allow the service provider a defined time interval to rectify certain types of shortcoming. Such provisions are sometimes ignored by clients.

If the service is provided by a publicly-owned commercialised utility, it may be more difficult for the monitoring agency (if one exists) to enforce the required operational standards, since both organisations are likely to be closely related, in the same department.

9 Lessons from experience

This compilation of experience cannot claim to give a balanced or complete picture of the current status of private sector participation in solid waste management in low- and middle-income countries, but it does suggest a number of key issues that have a significant effect on the success of this approach. The main lessons that can be learned from experiences referred to in this publication are summarised in this section, and a checklist of issues to be considered can be found on the accompanying CD.

There have certainly been many successes for private sector participation in the industrialised world and in the major cities of middle-income countries. Apparent successes in low-income countries and the smaller cities of middle-income countries are also reported, though in many cases these arrangements have only been in operation for a short time, and so it is difficult to be confident about long-term sustainability. Many cases that have been reviewed describe only the first steps in partnership between the public and private sectors. If both sides persevere they can succeed. It is to be hoped that another study will be carried out after five years, particularly focusing on examples of long-term participation by the private sector. Such a compilation could teach us much about the factors that lead to successful long-term relationships between local government and waste management enterprises. Whilst there are some examples of aspects of waste management (particularly monitoring and public education) being deliberately discontinued at the order of political leaders, it is more common that, if private sector involvement is abandoned, a multiplicity of reasons for this rejection can be identified, some of these reasons going back to the early stages of preparation, even before the preparation of the tender documents.

a Lessons regarding the role of local government

The experience collected here suggests that success in private sector participation depends more on the local government client than on the private sector service provider. This may come as a surprise to those in government circles who regard private sector participation as a means of relinquishing responsibility for solid waste management. It is true that there are companies that fail because they take on commitments that are too big for their resources (either financial capacities or human resources). However, even in such cases the responsibility rests, at least partly, with the local government client for not sizing the contracts according to the capacity of interested bidders and for selecting an incompetent private sector partner. This is only one example of failures by the public sector; others will be suggested later in this section.

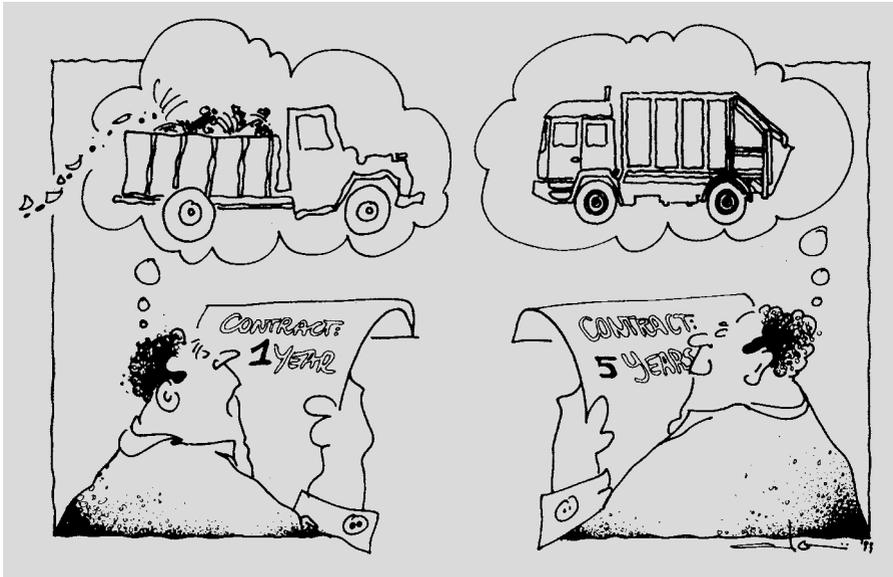
Many local government administrations suffer from a number of difficulties. Apart from a lack of finance (which seems to be the most common complaint) there are other factors in some countries which may have a greater impact than the shortage of funds on the success of private sector participation. Some of these factors are related to the prevailing socio-cultural norms – in particular the style of management. An authoritarian context may cause two undesirable phenomena: the first is that the mayor or head of the local government may not delegate, but himself make decisions on even minor matters, even when he is not familiar with the relevant points in the contract or has little knowledge of the details of the issues (having not participated in any training course except at the formal opening and closing events). Secondly, an authoritarian mayor may expect the private sector service provider to be at his command, irrespective of any contract conditions. A contractor may follow the mayor's orders to undertake work outside the scope of the contract, and, as a result, be unable to meet other commitments and incur extra expenditure with no additional payment, or he may refuse to comply with instructions. The first response could lead to financial failure, the second to the hostility of the client and, probably, the cancellation of the contract. However, this does not mean that a strong mayor will inevitably cause problems. In at least two of the cases reviewed, strong local government leaders contributed to the success of the private sector by standing against those who would raise accusations of corruption, and by standing for the provisions of the contract when others were in favour of ignoring them. Strong leadership is a great asset when combined with knowledge and understanding. Autocratic leadership is a great liability.

Where there is a socialist tradition, there may be hostility to private sector participation, especially when one consequence of private sector involvement is the reduction of the size of a workforce or a loss of some employment benefits when municipal workers are transferred to a contractor. Dogmatic socialist sympathies in even middle-ranking officials may lead to hindrances and delays in payments to contractors.

Bureaucracy is another obstacle to efficient private sector participation. One of the original reasons for the institution of bureaucratic procedures appears to have been the prevention of corruption, and, to some extent, these procedures may still have this effect. However, the main impacts of bureaucracy are now to cause serious delays in decision-making, and such delays can be very costly to a contractor. Transparency is a much better defence against corruption, but in many cases significant external pressure is needed to persuade a local government administration to introduce measures that expose their procedures to the scrutiny of the general public.

Some other causes of difficulties in private sector participation that are the responsibility of local government include the following:

- Failing to set clear objectives. One of the first steps in preparing for involving the private sector should be to identify the motivation for turning to the private sector and the outcomes that are desired. This understanding will assist in making the many choices that will arise in subsequent stages. There is a wide variety of possible arrangements, but many local government agencies seem to consider only a very small range of options.
- Inadequate preparation. Often very little time is allowed for deciding between the many options that are available and for preparing the tender documents. Inadequate preparation can lead to serious delays in the tendering and contracting stages, and ongoing problems during contract execution. Often the work must be retendered; this not only delays implementation, but also erodes the credibility of the local government institution.
- Vague contracts. If the work to be done and the standards to be achieved are not specified unambiguously, it is likely that there will be continuing disputes which could also lead to serious financial difficulties for the contractor. Effective monitoring of the work cannot be achieved without clear statements regarding what the service provider is expected to achieve.
- Contract term. If the duration of the contract or agreement is too short, the private sector partner will have difficulty in raising the finance to buy the most suitable equipment (Cartoon 5). If the duration is too long, unsatisfactory arrangements will persist for longer than they need to. Experience of the first contract can be used to develop much better arrangements for the second contract period.
- Inadequate monitoring. The local government partner should establish an effective monitoring unit to check on the quality of the service that is provided and to impose penalties that encourage high standards, according to the conditions of the contractual agreement. There are cases of inadequate staffing and training, and even of the disbanding of teams of inspectors. Penalties are often imposed without reference to the procedures and standards that are defined in the contract.
- Delayed payments. It appears to be common for payments to private sector partners to be delayed. This can cause severe hardship and a deterioration in service, particularly for small enterprises and in the early stages of a contract.



Cartoon 5 The impact of the contract term.

The duration of a contract can affect the type of equipment that the private sector can afford to buy. If the contract term is less than the economic lifetime of the preferred equipment, it will be necessary to use an inferior alternative.

b Lessons regarding the role of the private sector

Little information was gathered regarding the actions taken by contractors that threaten the partnership with the public sector. One shortcoming of international contractors during the tendering and inception stages is that they tend to take too little account of local physical and social factors. They may tend to rely on experience in other countries where conditions and challenges are somewhat different. Private companies are understandably reluctant to share information with competitors; a greater willingness to share information could help some to avoid costly mistakes.

c General conclusions

Range of options There is a wide variety of arrangements that can be implemented to take advantage of the benefits of private sector participation. It appears that, in many cases, local and national administrations are not aware of

the huge range of the options that should be considered, and so they tend to ignore partnerships, providers and arrangements which might be better suited to their needs than what they actually select from the narrow range of possibilities that they consider.

Partnership Although the term “Public-private Partnership” often has a particular and narrow meaning, the concept of partnership is crucial to the success of private sector participation. Both sides should have rights that are upheld by the courts and duties that are backed up by the threat of sanctions. Such an equal partnership is much more likely to result in effective and economical services that continue for a long period. Unfortunately the public sector often dominates, with little concern for the rights of the private sector, and the result can be the bankruptcy of the company or the reluctance of companies to bid for future work. There are also situations in which an influential company works itself into a monopoly position such that the public sector partner is obliged to accept high prices and poor service.

Public involvement Residents and the business community should be well informed about plans and changes, involved in decision-making and empowered to ensure satisfactory services. Several case studies show the unfortunate consequences of inadequate attention being paid to the beneficiaries.

Transfer of workforce and machinery Opposition to the involvement of the private sector is often defused by promises that labourers will be employed by the new service provider. Contractors usually prefer to select their own employees, for several valid reasons. Vehicles and machinery transferred from local government may be of little value because they have suffered from inadequate maintenance and are not suited to needs. (Sometimes the private sector is obliged to purchase such machinery at a high price.) These issues can be very difficult to resolve.

The benefits of competition There are cases in which private sector partners are engaged without competition – in terms of technical proposals and costs. Sometimes a respected or well-known contractor is appointed without competition, but such an arrangement relies, often beyond the extent that is wise, on trust, and may be seriously lacking in transparency. Sometimes service providers are drawn from the community that they will serve; if this concept is followed there may be little choice of enterprise and no opportunity for competition. Generally, competition is seen as an essential factor in ensuring cost-efficient services, and, when possible, competition should be introduced into the implementation (operation) stage as well as in the selection of the private sector partner (tendering stage). Such on-going competition may be facilitated by engaging several smaller enterprises that each serves only a part of the target area.

Gradual implementation It is rare that a first attempt needs no improvement. Experience usually exposes shortcomings in any new initiative, and suggests improvements. For this reason it can be beneficial to start on a small scale (either geographically, in scope, or in terms of the length of the contract). There are benefits in starting with a public utility with segregated accounts and management autonomy, and gradually, over a period of years, moving towards truly private sector service provision. Experience will then suggest how the arrangement can be improved (Cartoon 6). Staged approaches of these kinds may be unsuitable for certain types of project – such as the construction of a large landfill – but it may still be possible to learn from the experience of one large project before embarking on others, rather than implementing a number of large projects simultaneously. The size of a contract affects its attractiveness to potential bidders – small local firms may be looking for projects that are not so big that they are beyond their capacity, and international companies may be looking for large projects that justify the costs of international travel and international salaries. The time needed to develop institutional capacity to manage and monitor new approaches (involving not only technical training, but also management culture) should not be underestimated. International funding agencies may have difficulty with this incremental approach, preferring projects that offer economies of scale and that

are implemented with a defined and limited time frame. This kind of progressive approach may be unacceptable to municipal decision-makers, but experience shows that beginning in this way improves the chances of sustainability.



Cartoon 6

The benefits of a gradual approach

A step-by-step approach provides opportunities for modifying objectives and procedures in the light of experience, leading to cost savings and a more sustainable result.

The operations of a new service provider should be implemented in stages, both to allow the provider to devote sufficient management attention to each area, and to allow for progressive improvements as experience exposes problems and suggests better approaches. In many cases, too little time was allowed for the start-up of operations.

Small and community enterprises Such enterprises can be very suitable in meeting social objectives and providing services in places that conventional contractors avoid or cannot serve efficiently. Capacity building can be incorporated into arrangements that involve community enterprises. Schemes that depend on voluntary leadership and services provided by another agency have proved to be vulnerable.

d Three key points

In an attempt to conclude in a powerful way, it would be neat to emphasise three points that are of greatest importance to successful private sector participation in solid waste management. Based on the experiences of the case studies it could be concluded that

- respect for the contract.
- a balanced partnership between public and private sector actors, and
- effective and fair monitoring (and the associated use of penalties)

are the key essentials for effective service provision.

Another reader of the same case studies might conclude that

- extensive and careful preparation of tender documents
- good links with the beneficiaries (public involvement), and
- a realistic strategy for phased implementation

are the three basic needs for sustainable private sector services.

A third reader might decide that the three keys to successful private sector participation are

- competition
- transparency, and
- a sound financial basis.

You are invited to read the evidence in the case studies on the CD and judge for yourself.

Appendix

Information about case studies

These case studies are in the file Summaries of selected case studies on the accompanying CD. They were selected from the contributions that were provided for this study. Material from these and other case studies has also been integrated into Part I A Review of the experience.

Brief comments to introduce the Case Studies

Most readers will not have time to read all the case studies, and this is unfortunate because there is a wealth of experience and wisdom within them. As a means of providing some guidance to the reader, a very brief introduction will be given for each case study, together with an indication of its length (as a number of notional pages, actually the number of pages in a draft version).

Case Title and
Study introduction

- A Large-scale private sector participation in the environmental sector**
Drawing on experience from the water sector as well as from waste management, this paper provides useful guidance regarding options for involving the private sector, and the benefits and problems that are associated with private sector participation on a large scale. Much useful advice. (Length 6 pages)
-
- B Developments in a small city in Peru**
This report describes how the private sector was brought into waste management, with assistance from a national agency, an international development co-operation agency and a consultant. Practical and positive. (Length 5 pages)
-
- C An unsuccessful attempt**
A short summary and explanation of why an attempt to involve the private sector failed. Many of the problems here are echoed in other case studies. A useful checklist of dangers to avoid. (Length 1.5 pages)
-
- D A commercialised public sector unit serving 11 communities**
An excellent example of inter-municipal co-operation and external assistance, presented with a useful degree of detail. This utility provides secondary transport and disposal to communities of different sizes, and describes a model that has been reproduced elsewhere. Clear and positive. (Length 19 pages)
-
- E Further implementation of the commercialised joint council concept**
Comments on the replication of the model discussed in the previous case study, with comments about the difficulty of providing services in an emergency situation. (Length 1.5 pages)
-
- F Establishing a Waste Utility Company for a large Metropolitan Council**
Some pros and cons regarding the formation of a “private” utility with staff from a municipal administration. (Length 1 page)
-

G Private sector participation with the assistance of a donor project

Inputs from a technical co-operation project assisted in the preparation for private sector participation. This paper focuses particularly on the monitoring system that was developed to include community participation and the financial preparations needed for sustainable private sector participation. Some instructive experiences. (Length 10 pages)

H Intercommunal solutions in Chile

A council with 16 members was formed for organising disposal. Elsewhere 11 communities joined together to benefit from a concession signed by one of them for a sanitary landfill. Useful insights into the dynamics of such associations. (Length 3 pages)

I Outsourcing of waste services in South Africa

The consultants who assisted in initiating private sector participation returned to review progress four years later. It was demonstrated that a Municipal Service Partnership was beneficial in terms of both cost and quality. (Length 2.5 pages)

J The roots of the conflict

This report describes a situation which was more of a conflict than a partnership. It describes how different perceptions of the role of the contract and of the imposition of penalties led to a very unstable and unsatisfactory arrangement. The difficulties were compounded by a method of fee collection that was rejected by the citizens, and a lack of public information. A minefield for a contractor. (Length 8 pages)

K Lessons from an experience of 15 years

This contribution briefly reviews the problems caused by delayed payments, unjustified penalties, short contracts and premature contract termination. (Length 1 page)

L Developing a monitoring unit in a large city

A description of the recruitment, training and deployment of a team of university graduates for monitoring a contractor. (Length 1.5 pages)

M Successful monitoring in Lima

This is a detailed, comprehensive and practical account of how the operations of a contractor were monitored and of the positive impact of this monitoring on the performance of the contractor. Essential reading on the topic! (Length 11 pages)

N Case studies from Germany

Based on the experience of many years and several locations, these case studies provide valuable information about a range of options including joint ventures and various types of regional association. There is also much wisdom regarding the many possible roles of the private sector. Very useful guidance on less conventional partnerships. (Length 16 pages)

O Difficulties faced by an indigenous contractor

This case studies draws on 20 years of experience in the cleaning and waste business, referring to experiences in dealing with the informal sector. It discusses why bids by national companies were higher than those of international bidders. Examples are given of how contractors are exploited by clients. For readers who like horror stories! (Length 5.5 pages)

P Conditions that are unfriendly to the private sector

Factors that hinder the involvement of the private sector in solid waste management are described in this contribution. There are suggestions as to what can be done in the financial and institutional domains to improve the prospects for the private sector, which is currently operating only in recycling and in small-scale collection operations. (Length 2 pages)

Q Microenterprises in Peru

The experience of an NGO in setting up 14 community-based microenterprises is discussed. Various approaches regarding fee collection and transport to disposal sites are suggested. Delays in payment by municipalities are a major problem. The microenterprises are seen as a means of job creation as much as a means of improving the environment. Practical information. (Length 5 pages)

R Informal sector refuse collection in Mexico

In Mexico, the informal sector has played an important role in solid waste collection for centuries, and it still does. Informal sector waste collectors are often able to earn several times the minimum wage. The paper describes arrangements in three cities, where various formal and informal mechanisms for controlling them have been tried. (Length 3.5 pages)

S Integrating the informal sector with international contractors

This case study describes attempts to incorporate informal sector workers, who had previously been collecting waste from each apartment, into new large-scale private sector operations. This integration was a requirement of the client. One contractor was more successful than the others in this respect. (Length 3 5 pages)

T Co-operatives for waste recyclers

After emphasising the economic importance of recycling because of the large numbers of urban dwellers who earn their living in this way, the impacts of the formation of co-operatives – to obtain better prices, to improve working conditions and to negotiate with local government – are discussed. Examples are given from three South American and three Asian countries. (Length 5.5 pages)

U A decentralised NGO system in Delhi

This article describes a decentralised waste collection and recycling scheme that was set up in a university campus to serve the university and a nearby community. It included at-source segregation and composting. The University provided the necessary land, paid a fee and purchased some of the compost. (Length 1.5 pages)

V Community and commercialised composting in southern India

The strengths and weaknesses of small-scale composting are discussed. Marketing of the product is seen as the key issue. Distribution of compost should be undertaken by the private sector, with government subsidy of transport costs. (Length 2 pages)

W Municipal support for informal sector recycling

In Belo Horizonte (Brazil) the informal recycling sector was offered the option of being integrated into the municipality recycling scheme. This initiative, which was combined with awareness-raising, improved the incomes, working conditions and self-esteem of the recycling workers who became involved. (Length 1.5 pages)

Private Sector Involvement in Solid Waste Management

Avoiding Problems and Building on Successes

- Private sector participation has generally been successful in industrialised countries – does it work in low-income cities?
- What is the recent experience of private companies involved in solid waste management in the towns and cities of the South? What are the main difficulties that have been encountered?
- What can be done during the preparation stage to ensure sustainable and efficient partnerships between private sector service providers and local government clients?
- What is the role of local government when private enterprises are providing waste management services?

There are answers to these important questions and many others in this booklet, which is a summary of a larger publication. The full publication and other information can be read from a CD which is included in this booklet. The full report contains case studies and many practical examples – some of them unforgettable!



CWG

Collaborative Working Group
on Solid Waste Management in
Low- and Middle-income Countries

This booklet is the second in a series published by the CWG (The Collaborative Working Group on Solid Waste Management in Low- and Middle-income Countries). The CWG is concerned to spread information that will help to improve standards of solid waste management, using publications, workshops and other means.

For more information visit the CWG website www.cwgnet.net

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