Domestic Private Sector Participation: INDIA

102617

SITUATION ASSESSMENT (RURAL SANITATION)

Policy and Regulatory Environment **RATING: Low Improved**

- The GoI and some states have adopted effective policies and programs to promote sanitation and hygiene, and provide incentives to achieve total sanitation and collective behavior change. On-site sanitation (latrines) is typically a household-level responsibility.
- While there are no specific policies on the promotion of PSP in the rural sanitation sector, there are many formal or informal private providers (NGOs, CBOs, others) that supply rural sanitation goods and services directly to households and villages.
- With rising population density in India, many villages now require drainage, wastewater, and solid waste management facilities. Construction of these systems is subsidized by the government, but often without adequate management arrangements that would ensure sustainability.
- It should also be noted that while the sanitation and hygiene promotion programs are being scaled up, they are not uniform across all states.

Market and Business Infrastructure **RATING: Low Improved**

- The community-led total sanitation approach has increased demand for on-site sanitation products by small-scale providers.
- There is competition in the market, due to the presence of a variety of players both in the formal and informal sectors. Most of the producers of sanitary wares and material are in the formal sector, while service providers are in the informal sector.
- Capital availability for the formal producers is adequate and available, but constrained for the informal sector producers and service delivery systems.

Domestic Provider Performance (Optional) **RATING: High Improved**

- Due to competition, the quality of services and products offered is generally of adequate standards.
- Most informal sector players have poor management, business and technical skills. For e.g., masons who provide construction services are unskilled in terms of technology or business skills.
- Availability of capital is also a major hindrance for the informal sector players.

KEY OPPORTUNITIES IN RURAL SANITATION

Opportunities for enhancing DPSP activity in the next three years (2009-2012)

1 Developing the formal supply market for sanitation produce through information on real demand from rural households and support for meeting those demand.

2 Building the capacity of informal sanitation producer with enhanced access to credit, capacity building for technical and management skills will strengthen the market. Capacity building of informal service providers will help consolidate/deepen the market and promote better services.

3 Advocacy for improved policy and program for lagging states.

4 Support development of low cost, appropriate and modern technology for drainage/wastewater and solid waste management facilities for larger villages and small towns.

OVERVIEW

Infrastructure for water and sanitation services exists in India but there is little emphasis on service delivery. Resistance to cost recovery, particularly in water supply has resulted in poor quality of water and sanitation services in the country, with least access and coverage for the urban and rural poor.

In urban areas, piped water supply and sanitation are predominantly provided by urban local bodies (municipalities) in charge of operations and maintenance (O&M). Some larger cities have created municipal water and sanitation utilities. Notably, in cities, the private sector is active in providing household-level storage, pumping, and filtration systems to augment intermittent and poor quality of the public water supply.

In rural areas, there are about 100,000 water supply systems and, in some states, responsibility for service provision is being transferred from state water boards and district governments to *Panchayati Raj* institutions at block or village level. In some rural areas, including bulk supply to multi-village schemes, there are examples of very basic service agreements or operations contracts.

QUICK FACTS

Population	(2001)	1.028 B
Gross national income/capita	(2006)	US$820
Urbanization	(1990-2005)	2.5%
People living in cities with	(2001)	
> 1million inhabitants		35%
People living in poverty	(2001)	320 M
Access to water		
Urban	(2007)	86%
Rural	(2004)	83%
Access to sanitation		
Urban	(2007)	59%
Rural	(2008)	51%

***Data Sources:** The World Bank; World Development Indicators (2007); Wikipedia.org; Census 2001; GoI; DDWS; WHO/UNICEF; JMP (2006).*

On the sanitation side, while DPSP is promoted by the National Government, little attention is given to cost recovery and business plan sustainability and there are lack of incentives and enforcement for households and industries to connect to sewage systems.

WSP-SA has helped prepare the groundwork for private sector participation (PSP) in water supply and sanitation in India by advocating for performance benchmarking, institutional reform and accountability, and promoting access to market financing for service providers. It is also helping develop guidelines for the Government of India (GoI) on engagement with the private sector and documenting models of PSP engagement within the country and internationally.

TYPES OF PROVIDERS

Snap shot: Extent of Provider Involvement

	Public	International Private	Local Private	Users' Associations	Others	Dominant Provider
	1	2	3	4	5	
Urban water supply	X	X	X			1
Rural water supply	X		X	X		1
Small towns water supply	X		X			1
Urban Sanitation and Hygiene						
Sewerage, wastewater and sludge treatment	X	X	X			1
Desludging	X		X			3
Solid Waste Management	X	X	X	X		1
Hygiene promotion	X	X	X	X		4
Rural Sanitation and Hygiene						
Sewerage, wastewater and sludge treatment	X				X	1
Desludging	X		X	X		3
Household sanitation product manufacturing and distribution			X	X		3
Hygiene promotion	X	X	X	X	X	1

Notes:
Sewerage, wastewater and sludge treatment in rural areas is done by local governments at the village level (Gram Panchayats).

SITUATION ASSESSMENT (URBAN WATER SUPPLY)

Policy and Regulatory Environment	RATING: Low Improved

- PSP is encouraged by GoI in the urban water supply sector to encourage cost efficiency and service improvement. The reform agenda under GoI flagship program Jawaharlal Nehru National Urban Renewal Mission (JNNURM) also encourages PSP in urban water supply sector.
- Currently, no regulatory framework exists for the sector that would make providers accountable for their performance. This results in disincentives to private participation and risks to the contractual/business transactions between public and private groups.
- Moreover, there is low public and political acceptance of PSP approaches at state and local levels which serves as a barrier to entry.

Market and Business Infrastructure	RATING: Low Improved

- Small domestic operators are active in a few cases in operating water treatment plants and small piped water systems or tanker services.
- Management contracts and build-operate-transfer (BOT) contracts are also being used in small selected cities for managing water utility systems.
- Few operators are well-established businesses with access to business development services and market financing, most are informal operators working on the margins.

Domestic Provider Performance (Optional)	RATING: Challenged

- Domestic providers have limited experience in handling water supply systems at city-wide scale.
- Most private sector providers operate without the benefit of a proper framework for accountability and regulation.

KEY OPPORTUNITIES IN URBAN WATER SUPPLY

Opportunities for enhancing DPSP activity in the next three years (2009-2012)

1. Capacity enhancement of local governments to design and manage successful contractual arrangements.
2. Strengthening financial capacity of local governments and service providers to access market-based financing for water projects.
3. Developing a regulatory framework and rational pricing strategies for water services and empowering local governments to take decisions on water tariffs.
4. Supporting effective communications and consultations to build understanding of challenges and options in the sector and options to improve service delivery, including DPSP.

SITUATION ASSESSMENT (RURAL WATER SUPPLY)

Policy and Regulatory Environment	RATING: Low Improved

- The GoI is the main financier and consequently, implementer, provider and regulator at all levels. But the focus falls on infrastructure provision, not service delivery. Resistance to cost-recovery pricing leads to low cost recovery.
- There is no prescription against private sector provision nor is it encouraged in the rural water sector. There are numerous examples of water providers in the private domain which include community-based organizations (CBOs), non-government organizations (NGOs), private foundations, religious institutions, etc., financed by non-government agencies.
- In general, service contracts have not been well-structured, and there is limited accountability for service delivery.
- As yet, there is no formal policy and regulatory framework for private sector provision.

Market and Business Infrastructure	RATING: Low Improved

- There is an emerging market and business infrastructure, which is illustrated by the increasing interest of large commercial businesses in rural water supply, such as GE, Wipro Technologies, etc.
- Supply chains for point source systems (hand pumps and spare parts) are well-developed. Indian manufacturers are global suppliers of these products.
- Due to serious water quality issues, there is a market to provide small quantities of potable water and household disinfection systems/ filters that private providers are moving into.
- However, there are limited opportunities for smaller domestic providers with no access to financing.

Domestic Provider Performance (Optional)	RATING: Not rated

- Without proper contracts and monitoring, it is difficult to gauge the level of performance of private sector providers in rural water supply.

KEY OPPORTUNITIES IN RURAL WATER SUPPLY

Opportunities for enhancing DPSP activity in the next three years (2009-2012)

1. Introduction of contractual frameworks that allow entry of domestic operators under simple service agreements that can evolve toward more complex performance- and output-based contracts.
2. Supporting decentralization of responsibility of rural water supply systems to local governments and advocate for building capacity in local governments to contract out service provision.
3. Developing models for effective contracting of large rural water systems in areas offering natural economies of scale or high consumer demand, such as multi-village schemes bulk supply or full service provision (bulk and distribution) and water quality treatment.
4. Providing analytical evidence to demonstrate economic and social benefits of moving household-based water quality solutions to community-wide water supply systems.

SITUATION ASSESSMENT (URBAN SANITATION)

Policy and Regulatory Environment	RATING: Low Improved

- The draft national urban policy on sanitation specifically advocates partnerships between public sector, CBOs, and private operators for improvements in service delivery. PSP is explicitly promoted in GoI's policy for urban sanitation and solid waste management at national, state, and city levels. This is further supported by recent schemes such as the JNNURM which also encourages active PSP.
- Although DPSP is promoted, little attention is given to cost recovery and business plan sustainability. The focus is on creating infrastructure and not on service delivery. And there is a lack of incentives and enforcement for households and industries to connect to already-built sewerage systems.
- Regulatory systems typically address only environmental outcomes, but not tariffs, performance, and issues of transparency in contracting. Moreover, environmental regulations tend to be process oriented (vs. outcome) and, to that extent, influence the structuring of projects and choice of technologies.
- In general, fragmented roles and responsibilities, uncertainties related to political risk and revenue stream sometimes hinder the participation of the private sector.

Market and Business Infrastructure	RATING: High Improved

- A number of sewage pumping stations and a few sewage treatment facilities are operated and maintained by the domestic private sector.
- A small number of sewage treatment facilities have also been implemented by the domestic private sector on BOT contract.
- There are also a number of partnerships with the domestic private sector in solid waste collection and transportation and in some cases, small solid waste treatment plants.
- CBOs, resident welfare associations and small contractors are active in several towns in providing solid waste management and on-site sanitation services.
- Limited revenue generation potential of projects (weak financial condition of the local bodies and weak cost recovery) results in few bankable projects.

Domestic Provider Performance (Optional)	RATING: High Improved

- Urban local bodies and utilities are generally satisfied with the level of service provided by domestic private providers and CBOs. They are seen to be more cost efficient than their public counterparts. Quality of service delivery, however, remains variable – largely on account of weak monitoring systems and contractual terms. Also, these operators, working at the neighborhood level, are often not connected to a well-functioning city-wide sanitation system.
- Large service providers have the ability and capacity to access financing and business services, but there is a need for best-practice in project design and bidding, adequate regulation, and the potential for cost recovery.
- While adequate expertise exists, and is being developed for operating solid waste collection and transportation systems, capacity gaps exist on design and operation of treatment and disposal facilities.

KEY OPPORTUNITIES IN URBAN SANITATION

Opportunities for enhancing DPSP activity in the next three years (2009-2012)

1. Upgrading the capacity of local governments to design and manage successful contractual arrangements with small and large operators. Decision support for local bodies to maximize opportunities for outsourcing to CBOs and small operators, within a cohesive operational framework.
2. Facilitating a shift in focus from infrastructure creation toward achieving improved service delivery.
3. Supporting effective communications and consultations to build consensus and understanding of sector reforms and options to improve service delivery, including DPSP.
4. Developing and disseminating cost recovery strategies and models and business plans for sustainable investments in urban sanitation and solid waste management systems to attract domestic private operators.