



Technical Assistance Report

Project Number: 39596
January 2006

Technical Assistance Promoting Best Practices in Private Sector Participation in Urban Infrastructure in South Asia

Asian Development Bank

ABBREVIATIONS

ADB	–	Asian Development Bank
PSP	–	private sector participation
TA	–	technical assistance

TECHNICAL ASSISTANCE CLASSIFICATION

Targeting Classification	–	General intervention
Sector	–	Water supply, sanitation, and waste management
Subsectors	–	Water supply and sanitation, waste management, integrated
Themes	–	Governance, regional cooperation, private sector development

NOTE

In this report, "\$" refers to US dollars.

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I. INTRODUCTION

1. As South Asia rapidly urbanizes, public sector institutions do not have the capacity to meet growing demand for basic urban services such as water, sanitation, solid waste management, drainage, and roads. Services in most South Asian cities have long lacked resources and are underdeveloped. Poor operation and maintenance, inadequate billing and collection, lack of resources for system expansions, and poor customer focus, among others, are chronic problems common to virtually all utilities in the region.

2. Although the widespread push toward decentralization in recent years has improved the situation somewhat by bringing responsibility and accountability closer to the people, the region requires tremendous resources to keep up with the rapid growth in demand for services. Decentralization has exponentially increased the pressure on local governments and utilities. However, the resource envelope available to provide such services has remained stagnant because of limited local fiscal powers and lack of capacity to bill and collect revenue, among other reasons. Decentralization alone will not enable urban service coverage to keep pace with burgeoning urban populations.

3. Most development organizations see increased private sector participation (PSP) as the most viable means to close the resource gap and to provide improved and sustainable urban development. The Asian Development Bank (ADB) and other development organizations have made significant headway in implementing public–private partnerships to enhance service delivery in South Asia. Lessons learned from these experiences need to be disseminated more aggressively to empower local governments to explore means for engaging the private sector in urban service delivery. This regional technical assistance (TA)¹ will enhance information sharing between government entities involved in privatization of urban services, and will further promote PSP in urban service delivery in South Asia. The design and monitoring framework is in Appendix 1.

II. ISSUES

4. Coverage of basic services in many of the largest cities in South Asia remains dismally poor, and the utilities' financial performance is weak. In Delhi, for example, less than 1% of households receive 24-hour piped water, while only about 50% of households have direct connections. An estimated 53% of the water produced does not generate any revenue. In Dhaka, about 1.5 million people do not have access to piped water, and rely on wells, vendors, and illegal connections. Dhaka has no 24-hour water supply, while water losses are estimated at 40% of production. The sewerage situation is similar in many parts of South Asia. In Karachi, only 50% of households are connected to the city's sewerage system, and only about 28% of the sewage is treated. Only 30% of households in Dhaka and 33% in Colombo are connected to the sewerage systems. The poor disproportionately bear the burden of poor urban services. Improving urban service delivery would directly reduce poverty.

5. Adequate urban service coverage is vital for the economic and social sustainability of urban settlements. Several studies have revealed the correlation between planned and sustainable urban development and economic development.² Poor urban service coverage is the primary hindrance to a city's ability to attract investments that can transform its economy.

¹ The TA first appeared in *ADB Business Opportunities* (internet edition) on 28 October 2005.

² Examples: Mathur, A. and Om Prakash. 2005. *India's Urban Sector: An Assessment*. Manila; and ADB. 2005. *Cities Alliance Annual Report 2004*. Manila.

6. Although decentralization has helped make local governments more accountable, governance problems are still rampant. Many impediments continue to hinder PSP in South Asia, including (i) inadequate legal frameworks that in some cases do not allow for PSP in particular service sectors; (ii) poor financial management and organization of public utility companies; (iii) lack of a regulatory framework that provides for agreed service standards and consumer rights; (iv) politicization of tariff setting; (v) immature capital markets that provide no long-term debt facilities, and local banks that have no experience or technical knowledge to develop project finance lending capability; and (vi) unfriendly legal environments that are not conducive to certainty of outcomes.

7. Nevertheless, in recent years, ADB investments in the urban sector in South Asia have included significant investments in local governance reform, and efforts to strengthen the administrative, managerial, and financial capacity of local bodies.³ Local bodies and state-owned enterprises clearly need further support. The gap between required and available resources remains large. Public institutions simply do not have the administrative, technical, or financial capacity, or the incentive structures to provide adequate and sustainable services, at least not by themselves.

8. While governments have struggled to develop the capacity to provide urban services, the private sector has shown increased interest and competence in providing basic urban services in several countries. The 1997 PSP experience in Manila's water supply system (which took the form of a concession), for example, was highly successful in expanding coverage and improving overall efficiency. The Manila Water Company was listed on the Philippine Stock Exchange in 2005, in one of the best-distributed public offerings in the local market, attracting around 40% foreign investors.

9. Increasingly, national and local governments are beginning to realize that they need to be more proactive in engaging the private sector in rapid and sustainable urban development. They are beginning to actively explore public-private partnerships as a means to increase investment and keep up with growing demand for urban services. Development institutions such as ADB have been focusing much greater attention on private sector involvement in all aspects of urban development and management. This is apparent through significant private sector-led components in recent external agency-funded projects, as well as policy shifts within development institutions.⁴

10. Although several recent initiatives have significantly increased private sector involvement in the urban sector (such as ADB's ongoing efforts in Karnataka), information on methodologies, policies, and lessons learned are not easily accessible to governments. As governments and development institutions alike try to position themselves to promote more public-private partnerships for urban service delivery, a forum is needed to share best practices from across the region.

³ Examples: ADB. 2002. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan and Technical Assistance Grant to the People's Republic of Bangladesh for the Urban Governance and Infrastructure Improvement (Sector) Project*. Manila; and ADB. 2006. *Report and Recommendation of the President to the Board of Directors on a Proposed TA Loan to the Islamic Republic of Pakistan for the Mega City Development Project*. Manila.

⁴ ADB's innovation and efficiency initiative, for example, emphasizes investments that catalyze greater private sector participation.

III. THE TECHNICAL ASSISTANCE

11. The TA's goal is to raise awareness about the various PSP options and best practices to enhance the private sector's role in the urban sector. Through increased awareness and exposure to regional PSP initiatives, local governments and other subsovereign entities involved in urban service delivery are expected to be able to benchmark themselves and learn from each other. The added exposure is also expected to support efforts to decentralize urban service delivery, improve governance and local capacity, and increase private sector involvement in urban development across the region.

A. Impact and Outcome

12. The TA will expose the participating developing member countries to the various PSP options and the potential for PSP in urban development. It will increase public sector agencies' awareness of deal-structuring modalities that have been used in the region, and deal structures that can work. The TA will increase awareness and sensitivity to the private sector's needs and assessment methods so that public agencies are better equipped to explore and develop private sector interventions.

13. By increasing awareness of PSP options and disseminating information about best practices,⁵ together with real-world examples of PSP in the urban sector, the TA will (i) help decentralize urban service delivery, (ii) improve governance and management capacity, and (iii) increase the level of private sector involvement in urban development across the region. The TA will stimulate more active consideration of public-private partnership models as a means to structure urban infrastructure projects for financing without sovereign guarantees, and support governance and regulatory reforms to create more efficient markets for essential urban services. The TA could increase demand for ADB financing products (such as the sub- and non-sovereign public sector financing products, and local currency loan products that are being pilot-tested).

14. The final outcomes of the TA will be (i) increased awareness among government entities of the various PSP options and of methodologies to enhance PSP in the urban sector; (ii) increased commitment to private sector involvement in basic service delivery, financing, and management; (iii) increased exposure and awareness within public institutions to the tools, analytical frameworks, regulatory issues, and other factors typically considered by private sector entities; and (iv) a network of public officials within key cities that understand and actively promote private sector involvement in urban development.

B. Methodology and Key Activities

15. The TA will comprise workshops and training sessions on the many facets of PSP. Target participants will be key officials in subsovereign governments and state-owned enterprises in Bangladesh, India, Pakistan, and Sri Lanka. Activities will highlight lessons that can be learned from ongoing regional public-private partnership initiatives and models, and proven strategies of PSP in urban development. The TA is also expected to lay the groundwork for continued engagement between regional governments and entities. All activities will be carried out within Bangladesh, India, Pakistan, and Sri Lanka.

⁵ Criteria for identifying best practices in PSP will be developed during the TA.

16. The TA will include training in contract negotiation and management, financial management, the fundamentals of project finance and deal structuring, regulatory and legal frameworks, labor issues in enterprise restructuring, and governance improvement. Presentations by private sector entities involved in urban infrastructure development and operations will also be encouraged. Case studies and presentations on ongoing public-private partnership initiatives within the region will be highlighted and analyzed. Lessons will be disseminated to a broader audience through a project website, hosted by ADB.

C. Cost and Financing

17. The TA is estimated to cost \$500,000, to be financed by ADB on a grant basis from ADB's TA funding program. This will finance the workshops, training sessions, consultancy services, and resource persons. The TA will also support the travel costs, accommodation and a stipend for workshop and training participants and regional networking and information exchanges. The TA cost estimates and financing plan are in Appendix 2.

D. Implementation Arrangements

18. ADB will be the Executing Agency for the TA. A secretariat will be established within the South Asia Social Sectors Division (SASS) as the focal point for all TA activities. ADB will administer the TA, in close cooperation with resident missions and host-country governments. Collaboration with host-country governments is expected to involve mainly workshop logistics and protocol. As stated earlier, all activities under this TA will be carried out within Bangladesh, India, Pakistan and Sri Lanka. No-objection/concurrence letters have been received from the Governments of Bangladesh, Pakistan and Sri Lanka and one is expected from the Government of India. No work under this TA will commence in India until such no-objection/concurrence letter has been received.

19. The TA will be implemented from February 2006 to February 2007. It will engage international resource persons with expertise in PSP, project finance, and urban infrastructure and municipal finance to conduct the training sessions and workshops, assisted by a domestic consultant recruited in each participating country (four consultants, 3 person-months each). In addition, a domestic consultant will be engaged for 10 person-months to staff a project secretariat within ADB. The consultants will be engaged by ADB as individuals in accordance with its *Guidelines on the Use of Consultants by Asian Development Bank and Its Borrowers* and other arrangements satisfactory to ADB for the engagement of domestic consultants. The outline terms of reference for consulting services are in Appendix 3. Equipment and materials to be financed by the TA will be procured by the consultants or ADB in accordance with ADB's *Guidelines for Procurement* or other procedures acceptable to ADB.⁶ Upon completion of the TA, the procured equipment will become the property of ADB.

IV. THE PRESIDENT'S DECISION

20. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance not exceeding the equivalent of \$500,000 on a grant basis for Promoting Best Practices in Private Sector Participation in Urban Infrastructure in South Asia, and hereby reports this action to the Board.

⁶ Equipment will include a desktop computer, overhead projector, other peripherals, software, and multimedia instruments.

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanisms	Assumptions and Risks
Impact Increased PSP in urban service delivery in South Asia	Number of public–private partnership initiatives launched for urban service delivery More efficient urban service delivery and financial management	<ul style="list-style-type: none"> Central and provincial and local government reports and statistics Reports of bilateral and multilateral development organizations Feedback from local governments and private sector agencies 	Assumption <ul style="list-style-type: none"> The governments are committed to sustainable improvement of urban services in major cities Risk <ul style="list-style-type: none"> Lack of political support for increased private sector role in essential services
Outcome Increased awareness and commitment to PSP within local governments	Senior officials within key government agencies in each host country involved in workshops or training sessions Data on ongoing PSP initiatives in the region, as well as methodologies and research, disseminated via the TA website and training materials	TA workshop attendance data Availability of training materials for workshops, information posted on TA website, website traffic	Assumption <ul style="list-style-type: none"> Governments will nominate key officials with decision-making power to attend workshops Risk <ul style="list-style-type: none"> Officials nominated may not have decision-making power to push forward PSP agenda Assumption <ul style="list-style-type: none"> Detailed information on PSP initiatives in the region will be documented and available, and easily obtained for dissemination Risk <ul style="list-style-type: none"> Website traffic may be low
Outputs 1. Workshops 2. Training sessions 3. Best practices published on the web	<ul style="list-style-type: none"> Participation of key senior level officials in TA activities Sessions covering all key topics executed successfully, with strong attendance Project website well used 	TA workshop and attendance data	Assumption <ul style="list-style-type: none"> ADB Information Services will provide web hosting and website development support
Activities with Milestones 1.1 Engagement of reputed and well respected resource persons 1.2 TA workshops executed successfully 1.3 TA training sessions executed successfully 1.4. TA website published successfully			Inputs <ul style="list-style-type: none"> ADB-\$500,000 grant Consulting inputs (22 person months) Resource person inputs Resource and time commitment from governments

ADB = Asian Development Bank, PSP = private sector participation, TA = technical assistance.

COST ESTIMATES AND FINANCING PLAN
(\$'000)

Item	Total Cost
A. Asian Development Bank (ADB) Financing^a	
1. Consultants	
a. Remuneration	
i. Domestic Consultants	60
b. International and Local Travel	10
c. Reports and Communications	8
2. Equipment	5
3. Training, Seminars, Conferences, and Events	
a. Resource Persons	100
b. Country Exchange Dialogues and Thematic Workshops	80
c. Training Seminars	88
d. International and Local Travel	75
e. Publications	2
4. ADB Supervision and hosting of workshop and training sessions ^b	20
5. Miscellaneous Administration and Support Costs	12
6. Contingencies	40
Total	500

^a Financed by ADB's technical assistance funding program.

^b These funds will be used to finance staff travel and ADB's participation as resource persons in selected training sessions and workshops.

Source: ADB estimates.

OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

1. All training and workshop activities under the technical assistance (TA) will be carried out by resource persons¹ engaged in accordance with ADB guidelines. Consulting services will only be required to staff the TA secretariat and to assist with the coordination and logistics of the TA activities in each country.

A. Project Coordinator (domestic, 10 person-months)

2. The project coordinator will be the primary point of contact within the secretariat for the TA, and will be responsible for overall coordination of all TA activities. The consultant will have a university degree in urban planning, public finance, economics, or other relevant field, plus a strong professional background in urban development. Experience will be required in managing workshops, conferences, and training programs in the sector. The consultant should have experience in developing teaching and training materials and content for publication on websites.

3. The consultant will do the following:

- (i) Coordinate logistics and correspondence for all workshops and training sessions.
- (ii) Help identify and engage suitable resource persons.
- (iii) Develop training materials in coordination with the project officer and resource persons.
- (iv) Develop the content for the TA website, coordinate its development, and regularly update information.
- (v) Research ongoing private sector participation (PSP) initiatives in Asia, condense lessons from the research, and upload such information and links onto the TA website, and create a reference file on PSP initiatives in the region.
- (vi) Provide support to the project officer on all TA-related activities, as required.
- (vii) Help resource persons execute workshops and training sessions.
- (viii) Manage all correspondence and files related to the TA.
- (ix) Document all workshop and training proceedings.

B. Country Coordinators (four domestic, 3 person-months each)

4. A domestic consultant will be recruited in each of the host countries (Bangladesh, India, Pakistan, and Sri Lanka), to be country coordinators for the TA. The country coordinators will be the primary liaisons for TA activities within each host country, and will be responsible for coordinating TA activities in each country. The consultants will have a university degree in urban planning, public finance, economics, or other relevant field, plus a strong professional background in urban development. Experience in managing workshops, conferences, and training programs in the sector will be required. The consultant should have experience in developing training and teaching materials.

5. Each country coordinator will do the following:

- (i) Manage and execute all workshop and training sessions in the assigned host country, in collaboration with the TA secretariat.

¹ Defined as people with distinguished backgrounds, who are engaged to facilitate conferences, workshops, and seminars financed by ADB (PAI 2.10).

- (ii) Coordinate logistics and correspondence for all workshops and training sessions with the TA secretariat.
- (iii) Help resource persons execute workshops and training sessions in the assigned country.
- (iv) Help identify and engage suitable resource persons.
- (v) Develop training materials, in coordination with the project officer and resource persons.
- (vi) Provide support to the project officer and the secretariat on all TA activities.
- (vii) Manage all local correspondence and files related to the TA.
- (viii) Assist in liaising with host governments to ensure that training and workshop participants are utilized by key officials in relevant institutions.
- (ix) Document all workshop and training proceedings.