

Privatisation and Commercialisation of Water Resources and Services in India

An Overview

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Background

Since 1991, large-scale changes have been initiated in India's economy with the liberalization, privatisation and globalisation of almost every aspect of the economy. While this process began in 1991 itself in sectors like power, in the water sector it has started recently. 17 years after the blind and hasty liberalization and privatisation, the power sector is in a mess. The reforms have been a disaster, with severe power shortages and rocketing electricity tariffs, locking the country into expensive contracts for years to come. All this has now been acknowledged even at the official level. Instead of learning from the process, an almost exactly similar process of liberalization, privatisation and globalisation is being undertaken in the water sector.

Modes of Reforms

In India, "reforms" in water sector are taking place through two modes. The first mode is **outright privatisation of water services** through either BOT projects or management contracts. This mode is being used for industrial water supply and urban water supply projects. The second mode, which is more insidious and will have a far-reaching impact, is through the **water sector reforms**.

Outright Privatisation

This includes **BOT projects, Concessions, Management Contracts, Private Hydropower Projects** and so on. There are several such projects ongoing or in pipeline in the country. Some such projects are the [Shoenath river in Chhattisgadh](#), the [Tiruppur project in Tamil Nadu](#), the proposed private management contracts in the [K-East ward in Mumbai](#).

Then there are many private hydropower projects already built or in pipeline like **Allain Duhangan** in Himachal Pradesh, **Vishnu Prayag** in Uttarakhand, **Maheshwar** in Madhya Pradesh, etc. The **International Finance Corporation (IFC)** is supporting the Allain Duhangan project. In case of private hydro projects the companies have been given control over the rivers this has caused losses to many communities living in the downstream areas of the river. [Database Part 1 and 2](#) lists the private projects in hydropower and water supply and sanitation, respectively.

The Case of Proposed Privatisation of Delhi Jal Board

The privatisation of Delhi Jal Board (DJB), the public water utility, was proposed to be taken up under the Delhi Water Supply and Sewerage Project funded by the World Bank (US\$ 140 million). In 2002 the Bank gave a loan of US\$ 2.5 million for a study to be taken for reform and restructuring of DJB. The Bank's favoured consultant, Price Waterhouse Coopers (PWC), was appointed to conduct the study for the reforms course through a skewed process, which was revealed later by investigations carried out by Parivaratan.

Some of the implications of reforming the DJB are listed as following-

- Water supply management of 21 DJB zones to be handed over to private companies. Tenders for 2 zones were called in February 2005
 - DJB employees would be reporting to the private company.
- Huge increase in expenses due to high management fees (Rs.5 crore per company per year) and lack of control of DJB over company's expense accounts.
- To meet the increased expenses water tariffs would have been raised upto 6 times of the prevailing rate. Rs. 1200 per month in middle class localities, Rs. 350 per month in slums
- Even though company would have been managing the supply, the responsibility for water supply to each zone would still remain with DJB.
- Studies also showed that companies would be given bonuses in lieu of achieving targets, like reduction of NRW, which were essentially bogus.
- As per the contract between the DJB and the company, the time duration for grievance redressal was to be 20 days, at present it is 24 hours to 3 days.
- No improvement in quality, since the company would have used similar procedures and equipments to test water quality as DJB.
- No free or subsidized water to poor and vulnerable sections of the city.
- Accountability of the company would have been negligible.

The Proposed Privatisation of Water Distribution in K-East Ward, Mumbai

The process to privatise distribution in K-East ward of Mumbai began in January 2006, the time when the World Bank awarded a contract to Castalia, a French consulting firm to develop a pilot project for privatisation of the water system of the K-East ward of Mumbai. The World Bank, through PPIAF, a multi-donor agency run by the Bank and mandated to promote privatisation of services in developing countries, has given US\$ 692,500 for this. The population of the ward is about 1 million and it is one of the profitable wards in terms of collection of water supply charges in Mumbai. If successfully implemented the pilot would be extended to the whole city.

Due to the growing opposition to the privatization, the Municipal Corporation of Greater Mumbai claims that it has now asked Castalia to suggest all options and not just privatisation. However, various options presented by the consultants recently at the Second Stakeholders meeting show a clear preference for private involvement in the operations.

Due to huge opposition and protests by the groups based in Mumbai, like "Mumbai-Paani" the privatisation project is stalled.

Swajaldhara (The Rural Water Supply Program)

One of the widely implemented interventions by the World Bank is in the rural water supply sector through the program funded by it called Swajaldhara. This scheme is being implemented across many states in India for improving access to safe and clean drinking water in the villages. Reports and studies suggest that these are following the principles of full recovery of operation and maintenance costs and some contribution in the capital expenses of the scheme from the villagers. People who are not able to pay are just left out of

the scheme and have to find their own sources of water. Reports also suggest that quite a few of the schemes have fallen in the hands of the local strongmen or private contractors who charge the people for supplying water.

Reforms and Restructuring

The **water sector reforms or restructuring** are following the same line as the power sector reforms in the country, and indeed, are similar to the water sector reforms all over the world. These policies, pushed by the World Bank and ADB, have the underlying thrust of converting the whole sector into a market.

While the water sector in the country desperately needs reforms, in the World Bank led prescription they invariably mean only one thing:

- Transformation of the water sector into a commercial operation
- Changing the basis from social responsibility to a commodity to be bought and sold

They invariably include:

- Unbundling (separation of source, transmission and distribution)
- Independent regulator to free the sector from “political interference”
- Steeply increasing tariffs
- Full cost recovery
- Elimination of subsidies
- Cutting off supplies for non-payment
- Retrenchment
- Privatisation Sector Participation (PSP) and Public-Private Partnerships (PPPs)
- Allocation of water to highest value use through market mechanism
- Almost invariably pushed by the World Bank, ADB, DFID
- Policy prescriptions, restructuring process, even legislation being drafted by highly expensive international consultants

While reforms are supposed to be a solution to the existing water problems, they are mostly concerned about only the financial side. Moreover, hardly ever are these reforms based on a detailed study of the root causes of the problems. Studies are conducted with recommendations already known. Thus, the same sets of reforms are prescribed not just for different parts of the country but indeed in different parts of the world.

Reforms in various stages are going on in many states in India. [Database Part 3](#) gives a list of the states where reforms are ongoing, the World Bank and ADB loans associated with these reforms, and some features of these reforms. States undergoing the most extensive and comprehensive reforms include Madhya Pradesh, Maharashtra, Karnataka.

Since water is a state subject, major part of the reforms are going on at the state level. The Central Government has also taken many measures for privatisation and commercialisation in water sector, like:

- 1991 – Power Sector Opened for Privatisation : PSP in Hydropower

- 2002 – New Water Policy Calls for PSP in water
- 2004 – Guidelines for Urban Water & Sanitation Sector Reforms and PPP
- 2005 – Financial Support to Bridge “Viability Gap” of Private Projects
- 2005 – Pushing PSP in urban water supply through schemes like JNNURM and UIDSSMT
- 2006 – Formation of India Infrastructure Finance Corporation Limited (IIFCL) for providing 20% of funding to infrastructure projects
- 2008 – Formation of India Infrastructure Development Fund (IIPDF) for financing upto 75% of the project development expenses

Madhya Pradesh Water Sector Reforms

The water sector in Madhya Pradesh (MP) is being restructured under the Madhya Pradesh Water Sector Restructuring Project loan given by the World Bank to the Government of MP (US\$ 396 million) in 2005.

Highlights & Implications of MPWSRP-

- Commercialization of the Sector. The whole sector turned into a market
- Full Cost Recovery and Increase in Tariffs
- Elimination of Subsidies
- Creation of the **State Water Tariff Regulatory Commission (SWaTReC)**; draft Bill for legislation is ready to be presented in the state assembly
- Constitution of the **State Water Resources Agency (SWaRA)**
- Large Scale Retrenchment
- Privatisation of irrigation - 25 Minor and 1 Medium irrigation scheme in the first phase
- Forcible New Legislation

Maharashtra Water Resources Regulatory Authority (MWRRA)

Interestingly, in the neighbouring state of Maharashtra under the reforms and restructuring project funded by the World Bank, the water regulator (MWRRA) has already been constituted and has also initialized its operations with “a lot of inputs” from the World Bank. The Authority was constituted in June 2005 but started its work from May 2006. Apart from tariff setting, one of the principle functions of the Authority is to determine water entitlements for various categories of use and users, and “to fix the criteria for trading of water Entitlements or Quotas on the annual or seasonal basis by a water Entitlement holder.” In other words, setting up a market for water entitlements. It has taken up 6 pilot projects to work out the ‘entitlements’ including 2 major irrigation project.

Impacts

The impacts of these “reforms” are felt by all sections, but the poor families, and vulnerable sectors like agriculture will be worst hit. Even middle class will feel the pinch.

Impacts include:

- Severe increase in price hikes leading to many not being able to afford even water for domestic use
- Non-payment or inability to pay will lead to disconnection
- Disconnection means people will shift to lesser quality supply if available. Else, serious political unrest
- Agriculture sector, already in severe crisis, will be pushed even more into distress as water prices for irrigation zoom
- Dismantling of common public facilities meant for the poor like handpumps, public standposts etc.
- System transformed to cater to only paying customers. Those who can't pay the (steep) charges, will be thrown out or on the periphery
- Ultimately capture of water resources by those who can pay
- Huge profiteering by private companies
- Sale of public infrastructure built over generations with the use of public money for pittance
- Likely private control on community sources of water like groundwater, rivers etc.
- Large scale retrenchment of public sector workers
- Little likelihood of major problems of the sector being solved, including financial problems, quantity and quality of supply, equitable and affordable supply, protection and enhancement of resources

Why “Reforms”

There has been a shift in the discourse and practise of privatisation of water in the last several years. The initial attempts at classic, direct privatisation resulted in huge political backlash all over the world. Many companies also found making profits not so easy. Making profits needed higher tariffs, which poor people could not afford. Continuing supply meant lesser profits, and disconnection led to social unrest.

The political backlash and difficulty in making profits resulted in the shift in the rhetoric to “pro-poor” privatisation and Public Private Partnership (public takes the risks, private takes the profits). This has not been sufficient and the political backlash and difficulties in making profits did not go away.

Hence, the push for “sector reforms”. In this, the private players are not immediately on the scene. The whole responsibility of taking and implementing unpopular and harsh decisions falls on the Government and public bodies. These include the all the measures outlined above

The idea is to make the sector fully commercial, the blame and the political backlash to be taken by the Government, and then bring in the private sector. This is the route now taken to ensure private profits, to protect private sector from burden and risks of social responsibility.

Also, the water sector reforms must be seen as a direct part and parcel of the larger neo-liberal agenda of globalisation and privatisation.

The World Bank as a “Knowledge Creator”

The World Bank, along with some of the other bi-lateral donors is also playing another very significant role in the sector privatisation and commercialisation. That role is in the creation

of the “intellectual” and other support to build up the rationale and justification of privatisation through “research” and “studies”.

The Water Sector Reforms are being forced upon the country as “solutions” to deep rooted and long standing problems. To make these policy prescriptions appear as “solutions”, these should appear as well researched and studied. Towards this end, the World Bank has been carrying out huge amounts of research and studies – either on its own, or through consultants.

For example, the World Bank currently hosts a program called Water and Sanitation Program on behalf of several international donor agencies. In India, this program has come out a series of research studies on how to address the problems in the water sector – urban and rural water supply, irrigation and so on.

It is not surprising that such research consistently throws up the clichéd prescription of privatisation and liberalisation for any sector, notwithstanding the vast evidence to the contrary. This is what we can broadly call creating the “intellectual and theoretical base” for the package of privatisation, corporatisation, globalisation.

How important the World Bank views its role in creating the intellectual base for pushing privatisation and globalisation is clear from its current Country Assistance Strategy (CAS) for India for 2005-2008. This CAS determines the strategy and priorities of the Bank’s lending to India for these three years. Among the three key “Strategic Principles” which “under pin the Bank Group’s work” in India is the that “The Bank will also aim to substantially **expand its role as a politically realistic knowledge provider and generator.**

Prepared by

Manthan Adhyayan Kendra,

Dushera Maidan Road,

Badwani (MP) – 451 551 India

Ph. – +91 – 7290 – 222857 (Off.)

Email – manthan.kendra@gmail.com Web – www.manthan-india.org