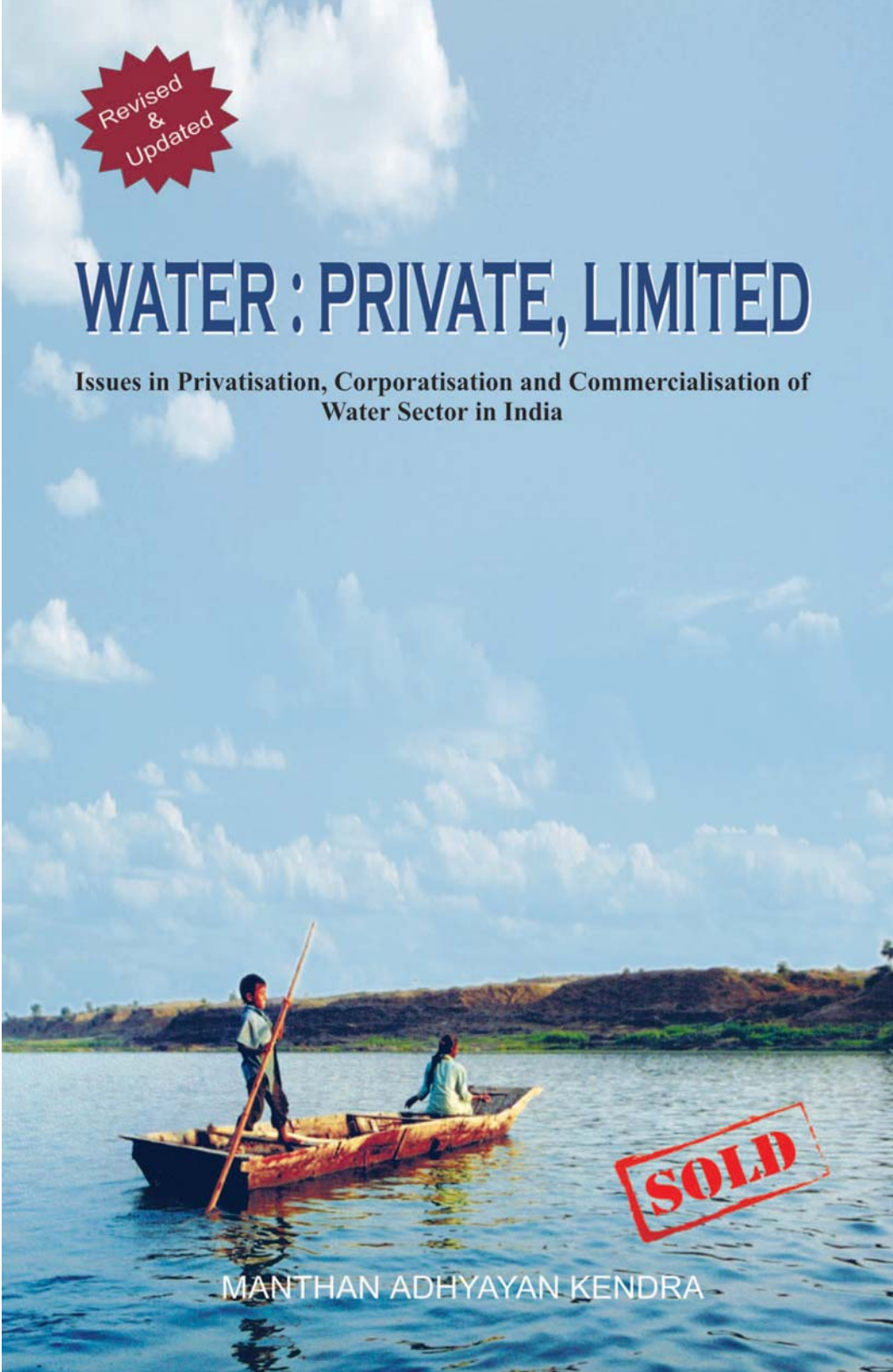
Revised & Updated

WATER : PRIVATE, LIMITED

Issues in Privatisation, Corporatisation and Commercialisation of Water Sector in India



MANTHAN ADHYAYAN KENDRA

WATER : PRIVATE, LIMITED

Issues in Privatisation, Corporatisation and Commercialisation of Water Sector in India

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Issues in Privatisation, Corporatisation and Commercialisation
of
Water Sector in India

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Badwani (MP)

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List of Acronyms

ADB - *Asian Development Bank*
AUSAID - *Australian Agency for International Development*
BOOT - *Build Own Operate Transfer*
BOT - *Build Own Transfer*
BWSSB - *Bangalore Water Supply and Sewerage Board*
CAS - *Country Assistance Strategy*
CII - *Confederation of Indian Industry*
CSIDC - *Chhatissgadh State Industrial Development Corporation*
DFID - *Department for International Development*
DMC - *Developing Member Country*
EOI - *Expression of Interest*
ESMA - *Essential Supplies Maintenance Act*
FIRE-D - *Financial Institutions Reforms and Expansion - Debt*
GATS - *General Agreement on Trade in Services*
GBWASP - *Greater Bangalore Water Supply and Sanitation Project*
GPs - *Gram Panchayats*
IADB - *Inter-American Development Bank*
ICSID - *International Court for the Settlement of Investment Disputes*
IDC - *Interest During Construction*
IFC - *International Finance Corporation*
IFIs - *International Financial Institutions*
IIED - *International Institute for Environment and Development*
IMF - *International Monetary Fund*
IWRM - *Integrated Water Resource Management*
JNNURM - *Jawaharlal Nehru National Urban Renewal Mission*
KUIDFC - *Karnataka Urban Infrastructure Development Finance Corporation*
LPG - *Liberalisation Privatisation and Globalisation*
MDGs - *Millennium Development Goals*
MLD - *Million Litres per Day*
MNC - *Multi-National Corporation*

MoU - *Memorandum of Understanding*
MoUD&PA - *Ministry of Urban Development and Poverty Alleviation*
MWSS - *Manila Water Supply and Sewage*
NIUA - *National Institute of Urban Affairs*
NRW - *Non-Revenue Water*
OECD - *Organisation for Economic Cooperation for Development*
PAD - *Project Appraisal Document*
PID - *Project Information Document*
PPA - *Power Purchase Agreement*
PPIAF - *Public Private Infrastructure Advisory Facility*
PPP - *Public Private Partnership*
PPTA - *Project Preparatory Technical Assistance*
PSP - *Private Sector Participation*
PSIRU - *Public Services International Research Unit*
PUPs - *Public-Public Partnerships*
PWC - *Price Waterhouse Coopers*
RWAs - *Resident Welfare Associations*
SPV - *Special Purpose Vehicle*
ULBs - *Urban Local Bodies*
UNDP - *United Nations Development Program*
URIF - *Urban Renewal Infrastructure Fund*
USAID - *United States Agency for International Development*
VGF - *Viability Gap Funding*
VRS - *Voluntary Retirement Scheme*
WDM - *World Development Movement*
WRSS - *Water Resources Sector Strategy*
WSR - *Water Sector Reforms*
WSRP - *Water Sector Reforms Project*
WSS - *Water Supply and Sanitation*
WTO - *World Trade Organisation*
WTP - *Water Treatment Plant*

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Preface

In 2003, as privatisation was just beginning in the water sector in India, Manthan brought out a small booklet examining the basic issues and trends. When we decided to bring out an updated edition of the same, we found that in three years, the picture had changed dramatically. There have been wide-ranging developments affecting every part of the water sector in every part of the country. Sweeping changes are in progress in the country's water policies, water laws, water institutions and indeed the whole paradigm of the sector. These will have, are already having, far-reaching impacts.

As with the earlier booklet, our aim here is to try and document developments with the purpose of presenting an overall picture, to give a feel of what is happening where and who all are involved. This booklet does not seek to present an in-depth analysis of the different aspects of water privatisation, but rather, the key trends and their implications.

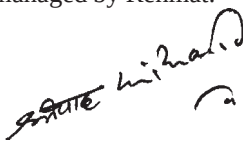
This is essentially a *compilation* of information gathered from multifarious sources, interpreted by us in the larger context of developments in the economy in general and water sector in particular. We are thankful to all these sources of information, not all of whom we have been able to acknowledge. In particular, we would like to acknowledge how much information we have obtained from the work of others as far as international experiences are concerned. We would like to especially acknowledge the work of Public Services International Research Unit (PSIRU), Public Citizen, World Development Movement and Arthur McIntosh.

We would like to stress that like the earlier edition, this booklet is meant to provide a framework and some data about water privatisation and commercialisation in India, expanding to include more information as it is obtained. In this, it reflects the larger endeavour of Manthan to research, monitor and analyse water privatisation and commercialisation on an ongoing basis.

We realise that the information and data we have are not complete; as mentioned earlier, this is a part of an ongoing effort. We urge readers to send us information that we may have missed, or point out our errors, if any.

We would like to specifically thank Philippe Cullet, Clifton D'Rozario, Ashish Gupta, Arvind Kejriwal, Nandini Oza, Himanshu Thakkar and Jitendra Trivedi for their comments on the draft of this booklet and other inputs. We would like to acknowledge Venu Govindu for help with getting access to important references.

The main research and information gathering for this booklet has been done by Gaurav. The production of the booklet has been managed by Rehmat.



(Shripad Dharmadhikary)
Coordinator, *Manthan Adhyayan Kendra*,
January 2007

Prologue

From PSP to PPP to WSR
Summary of Trends in the Last Decade

WATER WARS!

In early 2006, history was created in Bolivia as the cabinet of its first indigenous President, Evo Morales, was sworn in. For those concerned with privatisation of water, this cabinet was particularly significant. The President himself comes from Cochabamba, the city of the now famous 'water wars'. The charge of the ministry for water went to one of the leaders of El Alto's struggle against a French water company.

In 1997, the water and sewer services of El Alto and La Paz in Bolivia were privatised and handed over to *Aguas del Illimani* (AISA), a subsidiary of Suez. The company got many concessions including an assured rate of return and soft loans. Yet, the company hiked connection charges steeply, leaving thousands of people without any chance of getting access to water. As discontent grew, demonstrators torched the AISA office in February 2003.[1]

In 1999, the water supply in Cochabamba was handed over to a consortium of private companies called Aguas del Tunari.

The fight in El Alto came against the background of the fierce struggle in Cochabamba. In 1999, the water supply for this city was handed over to a consortium of private companies called *Aguas del Tunari,* led by the American corporation Bechtel.

The contract assured the company a rate of return on investment of 15%. It also gave the company full rights to all the water in the district. The tariffs rose sharply to the point that the average worker was being charged about 25% of his/her salary as the monthly water bill! The company declared - without any

hesitation or remorse - that it would disconnect all those who would (could!) not pay for the water.

As the anger spread, the people took to the streets. Instead of mediating between the people and the company, the Government brought in the army to suppress the people. The struggle became more intense – people started calling it *la Guerra del aqua* – the Water Wars. In April 2000, as the army confronted the people, a 17 year old boy, Victor Hugo Daza was killed in the firing. This was the turning point in the struggle. There was no looking back after this, and the company finally had to leave the country.

In El Alto, the struggle went on. When long negotiations failed to resolve the issue, the Federation of Neighbourhood Boards (*Federación de Juntas Vecinales,* FEJUVE) of the city of El Alto called an indefinite strike on 10 January 2005, demanding that the concession contract be rescinded. As the citizens rose in anger, and the struggle intensified, the Bolivian Government had to yield and accept the demands. On 12 January 2005 – almost exactly a year before the Morales Cabinet was sworn in - it issued a supreme decree beginning the termination of the privatisation of water supply in El Alto and La Paz.

What happened in Cochabamba and El Alto are not isolated incidents. In the last decade, massive protests have erupted world

Protests Against Water Privatisation in Cochabamba

wide as privatisation has been pushed in the water sector. In India too, efforts to introduce privatisation in the water sector have increased dramatically in the last few years, as have the protests. The Borai Industrial Estate Build Own Transfer (BOT) Water Supply project on the Sheonath river in Chhattisgarh, the proposed private sector management contracts for several zones in Delhi, proposed privatisation of water services in Bangalore under Greater Bangalore Water Supply and Sewerage Project (GBWASP), the Maheshwar Hydro Power Project on Narmada in Madhya Pradesh, the Coca Cola factory in Plachimada, Kerala exploiting public groundwater to manufacture soft drinks – all are examples of the rapidly growing privatisation of water services and resources in India. As these examples show, privatisation in the water sector involves all elements – hydropower, industrial and domestic water supply, and even irrigation.

Water has been among the last of the sectors to be opened up for privatisation after the policy of Liberalisation, Privatisation, Globalisation (LPG) was introduced in the country in 1991. Globally, water privatisation had started much earlier and soon became a hotly debated and controversial issue.

The Water War of Cochabamba - a legend in the struggles against water privatisation - was a watershed event. It inspired, catalysed and symbolised the challenges to the assertion of privatisation as a solution for all water woes - a position being pushed by the International Financial Institutions (IFIs) and donor agencies since the early 1990s.

Water has been among the last of the sectors to be opened up for privatisation after the policy of LPG was introduced in the country in 1991.

FAILED PROJECTS, FAILED PROMISES

This position was belied as in the early part of this century, project after private project in the water sector failed.

Cochabamba (Bolivia), Buenos Aires, Tucuman (Argentina), Dar es Salaam (Tanzania), Grenoble (France), Metro Manila (Philippines), Nkonkobe (South Africa), Atlanta (USA)-all over the world, privatisation projects, often labelled as model projects-collapsed.

Privatisation - more accurately Private Sector Participation or PSP - was thrust upon the water sector as a panacea – promising to address the many ills of the public sector, and provide advantages that public sector lacks. The public sector was projected, and widely perceived, as inefficient, cash-strapped, corrupt, unaccountable and lacking modern technology and management skills. Some of the important claims made for the private sector were, it would bring :

- *Investments that cash-strapped Governments could not*
- *Cheaper Tariffs*
- *Better Services*
- *Improved Reliability*
- *Latest Technology*
- *Increased Efficiency*
- *Reduced Corruption*

Why did projects that promised so much fail one after another? The reason is that privatisation has failed to deliver on almost all the claims made for it, and what it has delivered has been at great costs.

One of the most important reasons for favouring privatisation has been the claim that it will bring in finances needed to build water services infrastructure in the developing countries. Experience tells a different story. A study conducted for the Asian Development Bank (ADB) of water systems including privatisation in 18 major Asian cities concluded that ".....investment monies .....have not flowed as expected into the major concessions. ..... It must be concluded that PSP has not proved to be a panacea for the shortage of development funding in the water supply sector."[2]

A study conducted for the ADB of water systems in 18 major Asian cities concluded that ".....investment monies ...have not flowed as expected into the major concessions."

Another reason presented is cheaper tariffs for users as competition and free-market forces take over operations. But across the world water rates have skyrocketed on privatisation. For example, consider Metro Manila. A briefer by Freedom from Debt Coalition (FDC) on water privatisation in Manila, Philippines, says that, "in Maynilad concession area in Manila, water rates

shot up from the initial PhP 4.96 (10 US cents) in 1997 to PhP 24 (50 US cents) per cubic meter in 2003. In the Manila Water area, rates increased from PhP 2.32 (5 US cents) to PhP 14 (25 US cents) - roughly 500% in both cases."[3]

The new technology privatisation promised to bring seems to have been used to exclude poor people who cannot pay from accessing water. In Chatsworth and Dolphin Coast, South Africa 'prepaid metres' and 'tricklers'[4] have been installed to stop poor communities from accessing water supply unless they pay for the water they need, even though the communities there are so poor that it is very hard for them to afford water connections and high tariffs.

Privatisation was also supported so that it would improve service extension to low-income and poor regions in urban areas but it has not lived up to this promise. McIntosh[5] suggests that "the record shows that private sector efforts to help the poor connect to piped water are to some extent 'showcased'....", and he talks about "some reluctance on the part of the private sector to take much financial responsibility for the solutions", an understatement. For instance, a study by PSIRU reported that "in La Paz, Bolivia, where the contract provided for 100% connections, including in the major shanty town of El Alto, the company (Suez) argued that 'connection' does not mean a piped connection but may just mean access to a standpipe or tanker."[6]

Service extensions have been often way behind targets. In 1997, PAM Jaya, public water utility of Jakarta, Indonesia had 428,764 water connections. It served around 43% of Jakarta's population. When the utility was privatised the contracts required that in the first 5 years the companies increase connections to 757,129 and service 70% of the population. By 2001, the two companies involved jointly had only 620,000 connections - well short of the 2001 projection of 711,000.[7]

Perhaps the most striking consequence of privatisation in the water sector and its failed promises has been the sacrifice of the social responsibility of providing water at the altar of profits.

McIntosh suggests that "the record shows that private sector efforts to help the poor connect to piped water are to some extent 'showcased'...."

ABJECT FAILURE OF SOCIAL RESPONSIBILITY

During the time when Suharto regime was overthrown in Indonesia, capital Jakarta was riot stricken and up in flames. It has been reported that among the very first to run away to the safe haven of Singapore were the top officials of the privatised water utility of Jakarta, leaving the millions in the city without water.

In Cochabamba, Bolivia, the company had no hesitation in disconnecting the supply of people who could not pay the hiked tariffs. Not only that, but on the outskirts of the city, some of the communities had built their own cooperative water supply systems based on common tubewells and distribution networks - about 5 years before the concession was signed. The company was given the right to install meters on the wells of these community systems, and not only that, charge the people for the meters too.

In Guinea, privatisation resulted in tariffs increasing by 750%, and severance of 10,000 connections - about a third of the total - as a result of non-payment.

The high tariffs and disconnections have had serious impacts on people's access to clean water and health. In 1989 the Thatcher government transformed British public water utilities into private profit making companies. Water rates rose every year by 50% for the first four years and 46% for the first nine, in real terms adjusted for inflation. The profits of all water companies rose by 147% from 1990 - 1997 in UK. 18,636 houses were disconnected by 1994. There was public outcry that cutting off people's water led to endangering public health. A 1994 study showed that rates of occurrence of dysentery rising in most of the urban areas.[8]

In Guinea, privatisation resulted in severance of a third of the total connections- as a result of non-payment.

More generally, sharply rising tariffs, disconnections, failure to extend services to the poor all have led to depriving people of the basic, fundamental human right to water. Millions of people have been affected in the process. The Governments have abdicated their responsibilities by pushing it on to the private operators. For the private operators, profits are the primary and only concern, and they have exhibited a singular lack of concern for the larger societal obligations. Thus, social responsibility has been the most significant casualty in the process of privatisation.

No wonder, privatisation has triggered off massive unrest, huge protests, political backlash and strong global campaigns.

DEFENDING FAILURES AND A NEW STRATEGY

This severe backlash has put privatisation on the back foot. Until a few years back the World Bank and other international donor agencies were promoting privatisation as 'the magic potion'. Now there is a more defensive language on privatisation. However, it would be wrong to see in this a rejection or reversal of the privatisation process. It only seems to be a change in the strategy. There are two elements to this new strategy. One is the talk about how too much was expected of privatisation – so the failure is of expectations, not of the private sector.

In a presentation during the release of the World Bank's India Water Sector Strategy, Strategic Directions for World Bank Engagement in New Delhi in August 2004, John Briscoe, Senior Water Advisor to the Bank talked about the "naïve view of the role of the private sector".[9] In an interview to the International Consortium of Investigative Journalists, Keshav Varma, Senior Water Supply official for the World Bank in Asia said that "dissatisfaction with privatisation was caused only by high expectations."[10]

The other element of the change in strategy is linked, significantly, to the inability of the private companies to make the expected profits – a direct result of having poorer customers being tagged on to the system. Thus, there are now calls for relieving the private sector of the burden of providing services to the poor, for more subsidies, soft loans, easier contracts and so on.

A senior Water Supply official for the World Bank in Asia said that "dissatisfaction with privatisation was caused only by high expectations."

In a presentation made at the World Bank in February 2002 on private sector involvement in the water business, JF Talbot, chairman and CEO of world's third-largest water company, SAUR, complained about "an emphasis on unrealistic service levels....unreasonable contractual constraints...unreasonable regulator power...attempts to apply European standards in developing countries...the demand for 'connections for all' in developing countries..." and argued that "substantial grants and

soft loans are unavoidable to meet required investment levels.... Risk has to be re-balanced between the public and private sectors and adequate cover found... service levels have to be adapted to the local context."[11]

In other words, the call is for the risks to be taken by the public sector, service levels to remain poor, soft loans and subsidies made available for the projects - so that the private companies can take home handsome profits. This is the real nature of the arrangement being advocated as Public-Private Partnerships (PPP), and the reason for the transition from PSP to PPP.

But the new strategy goes much further, with the twin objectives of stripping away all social responsibility from the water sector and transforming it into a fully commercial and market based operation. If this is done, then it can become a real - and attractive - business. An associated aim is to shift the entire backlash onto the Government, so that profits can be made in peace. This strategy is expressed in the so-called Water Sector Reforms (WSR) or Water Sector Restructuring projects. Elements of 'Reforms' include enshrining the principle of full cost recovery, increase in tariffs, elimination of subsidies, especially cross subsidies, removal of public and community water systems like public standposts, disconnections for those who can't pay, creation of an 'independent' regulator to determine water tariffs, creation of tradable water rights and privatisation. In short, this is a complete transformation of the sector into a market with purely commercial operation. Social responsibility is eliminated as a conscious choice, since it cannot co-exist with purely market based operations.

Social responsibility is eliminated as a conscious choice, since it cannot co-exist with purely market based operations.

The reforms aim to clean up the sector of all non-paying elements, remove burdens like cross subsidies and public standposts, force the governments to take the unpopular decisions and their backlash, and once this is in place, bring in the private sector.

Such reforms are going in many states across the whole country, from Jammu & Kashmir in the north to Kerala in the south, and from Rajasthan in the west to Sikkim and Meghalaya in the north-east. In some states they are comprehensive and embrace all parts

including water supply and irrigation. In some states, these are as yet limited in scope. But in all the states, these are being implemented as parts and conditions of ADB and / or World Bank projects.

The implications of the reforms process are much more serious and far-reaching than individual privatisation projects. Although privatisation is inherent in the reforms process, it comes into play in the later stages. Unfortunately, the nature and extent of the implications is not fully grasped yet, even as reforms are rapidly transforming major parts of India's water sector into a commercial operation and a market. As with any market, those with limited or no paying capacity have no space. The poor, who already live on the margins, are likely to be pushed out even from there, and the middle classes pushed to the margins.

It is critical to understand the motives and driving forces as well as the implications of both, privatisation and reforms phenomenon, of the transformation and transition going on in the country - from PSP to PPP to WSR.

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It is critical to understand the motives and driving forces as well as the implications of both, privatisation and reforms phenomenon.

WATER PRIVATISATION HAS BEEN FOR LONG IN INDIA

It should be realized that water as a private commodity has been in existence in India since a long time. Ground water is practically private property. The person who owns the land, owns the water below the land. The landowner has virtually unlimited right to pump out this water, regardless of the fact that the boundaries of the ground water storage may go beyond the person's lands. This unlimited access has also given rise to well developed water markets – for e.g. in North Gujarat. Many industries, even large residential colonies pump out their own ground water.

Similarly, water supply through private tankers too has been a part and parcel of Indian life since long. Whether it is hand or bullock cart mounted drums, or truck / tractor tanker, private supply of water is common. These tankers supply water to individuals, colonies, hotels and to many others, especially under water 'scarcity' conditions.

Unlimited access to groundwater has given rise to well developed water markets - for e.g. in North Gujarat.

Looking from a slightly different angle, the prevention of dalits from using certain water facilities in the villages like wells, ponds and so on is also a form of privatisation – the 'owners' in this case being the so called 'higher' castes.

RECENT DEVELOPMENTS IN PRIVATISATION

In the last 10-15 years, there have been several new developments in the privatisation of water. The emergence of bottled drinking water in India is an important facet of privatisation

and commodification of water. In a country where it is considered *'punya karma'* to give water to the thirsty, and people set up drinking water booths in summer season as a part of *'dharma'*, the rapid spread of bottled water is a paradox that illustrates the power of the market. So lucrative is the market that Multi-National Companies (MNCs) are indulging in excessive exploitation of ground water for their bottled water or soft drink products.

In 1991, the Government of India announced its policy of opening the power sector to private players. As a part of this, hydropower was also opened to private sector participation. This meant that the private companies could come in and build, own, operate dams, establishing control over the river waters. Among the private sector hydropower projects are Malana (H.P.), Vishnuprayag (Uttaranchal), Baspa (H.P.) and several others. While hydropower has been privatised for over 15 years, we can now see the beginnings of privatisation in other parts of the water sector. Privatisation of irrigation is in initial stages. On the other hand, privatisation of water supply, especially industrial water supply is very much a reality and several cases are at various stages of development and implementation.

FUNDAMENTAL SHIFT IN CHARACTER

The new developments represent a fundamental shift in the nature of water privatisation. In the earlier scheme of things, private operators were mostly individuals – like individual farmers in the case of tubewell based water markets, or contractors in case of tanker water supply. Indeed, many of the tankers operated under contracts from civic or government authorities and were in a sense a part of the public sector domain. Their activities had limited commercial objectives. Moreover, the operators did not have any control over the whole (water) sector. No doubt they tried to influence policy to suit their own interests, especially through lobby organizations, but their clout was limited.

Hydropower has been privatised for over 15 years, we can now see the beginnings of privatisation in other parts of the water sector.

In case of the new developments the players are mostly corporations – and that too mainly multi-national, foreign corporations. For example, unlike the individual farmer pumping out groundwater, we now have private bottled water suppliers

like Coca-Cola and Pepsi in rural areas like Plachimada, Kerala and Mehdiganj, Uttar Pradesh, pumping out water to produce soft drinks for the markets. These are hugely powerful entities, with enormous financial and political muscle. Moreover, they are being backed by international financial agencies like the World Bank, and global powers like the United States Government who in turn wield enormous influence over Governments and policy, and are using this to promote the interests of the new (private) players in the water sector. Witness how, after several State Governments imposed a ban on Coke and Pepsi following the exposé of high pesticide residues, the US Government wrote officially to the Indian Government, demanding that the companies be "treated fairly and in accordance with regulations developed on scientific evidence" and gave a "terse warning on investments".[12]

The scale of private operations has also undergone an order of magnitude change in the new regimes of privatisation. The operations are now huge and so are the finances associated with them. Due to this and due to the very nature of what is being privatised – namely, whole sections of rivers or water supplies to whole cities, MNCs are in a position to establish control over whole sections of the sector.

In other words, what is happening today should be described not merely as privatisation, but more accurately as corporatisation or corporate globalisation (since most of the companies involved are foreign multinationals).

What is happening today should be described more accurately as corporatisation or corporate globalisation (since most of the companies involved are MNCs).

Moreover, MNCs have little accountability to the people nor do people have access to them. Corporations have shown little sense of responsibility in terms of public interest issues like environment, public health and so on. People have limited leverage to ensure compliance and accountability. Private corporates are largely shielded from the new Right to Information law. It is often said that the corporation is accountable (and strives for the interest of) only its shareholders. However, the developments at Enron in the USA and others have shown that often, even this responsibility towards shareholders is missing.

What is more significant is that, unlike unilateral or bilateral opening of sectors, concerted attempts are now being made to open water sector for foreign companies as a part of the World Trade Organisation (WTO) and General Agreement on Trade in Services (GATS). The consequences of this can be very grave.

All this has serious implications for the sovereignty of the people, the community and the country.

Since there have been extensive discussions and debates on power sector privatisation which includes hydropower, we will not go into details of the same. We will focus on the emerging developments in privatisation of other parts like water supply, sanitation and irrigation.

ELEMENTS OF WATER SUPPLY PRIVATISATION

Privatisation of water supply can involve any or all components from the source of water (say a dam), canals, filtration and distribution, to the collection, treatment and disposal of wastewater and sewage. Hence, the term normally used is Water Supply and Sanitation (WSS). Privatisation itself can be at various levels and of various types. A brief summary is given below:[13]

Service Contracts - Involves short-term contracts for provision of specific services - for example, meter reading and bill preparation. Normally there is no investment from the private company, no financial risks to it, and also no direct legal relationship with the user. (e.g. Leakage Reduction in Bangalore is contracted to Thames Water Plc.)

Lease/Management Contract - As the name suggests, either the private company leases out the facility from the civic authority, or the latter appoints the company for managing the facility. In either case, the ownership remains public; the private company is normally not responsible for new investments or expansion. Some commercial risks are there so far as day-to-day operations are concerned. (e.g. Proposed management contract of 2 zones, South II and III, in Delhi, now on hold)

Privatisation of water supply can involve any or all components from the source all the way to the disposal of wastewater.

BOOT Contracts - Build Own Operate Transfer (BOOT) contracts in which the private company builds some part of the

infrastructure - say the treatment plant, or filtration plant - and runs it for a regular charge on the system. Normally, these would be long-term contracts, with a purchase agreement that would guarantee a minimum demand. (The so called 'take-or-pay' clauses). (e.g. Industrial water supply project on BOOT basis in Tirrupur, Tamilnadu; construction of water treatment plant in Chembarambakkam, Chennai on BOOT basis.)

Concessions - Long term contracts in which the private company takes full charge of the system, takes responsibility for the provision of the service and is also responsible for expansion, new investments, recovery of bills etc. (e.g. Buenos Aires, Argentina, La Paz, Bolivia)

Divestures - Where the Government divests its equity in a utility that is then bought off by a private company. This may be full or partial divesture. (e.g. as in England)

In most cases, the establishment of an independent regulator, whose functions normally include setting the tariffs, is a part and parcel of privatisation process. Thus, the more general term Private Sector Participation (PSP) is used which can include any of the above elements.

MODES OF PRIVATISATION

In India, privatisation in water sector is taking place through two modes. The first mode is Outright Privatisation of Water Services through the likes of BOOT projects or management contracts. This mode is being used for industrial water supply and urban water supply projects and is likely to be used for irrigation projects.

In India, privatisation in water sector is taking place through two modes. The first mode is Outright Privatisation and the second mode is through water sector reforms.

The second mode, which is more insidious, is through the water sector reforms. The Water Sector Reforms (WSR) 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. Processes like unbundling, independent regulatory authority to free the sector from 'political interference', increasing tariffs,

retrenchment, full cost recovery, elimination of subsidies, cutting off supplies for non-payment, removal of public standposts, public-private partnerships, allocation of water to highest value use through market mechanism - are the major elements, being justified in the name of the poor. For example, in the guidebook *Asian Water Supplies – Reaching the Urban Poor* published by Asian Development Bank, author McIntosh says:

"*The irony of the situation is that the main way to help the poor is to substantially raise tariffs.* This will free up funds for investments designed to connect the poor and turn intermittent water supply into 24-hour supply (without standpipes)." (Emphasis in original)

We look at the reforms in detail in a later section.

POWER SECTOR AN IMPORTANT MODEL

There are many similarities in the power and water sectors. Water and power are both critical inputs into the development process. Water is also a biological necessity for survival. Due to this, the production and provision of electricity and water have long been considered a social and moral responsibility of the community and the Government. This is all the more so in India - since the income and resource distribution in India is heavily skewed and iniquitous, and we have large sections of populations who cannot afford to pay the cost of even the minimum necessary supplies of water and electricity. This makes low-priced provision of these services essential. This is also the reason that both sectors have been heavily subsidised, and have remained in the public sector till last decade. Due to high levels of investments and extensive distribution networks required, both sectors have been considered natural monopolies. The access to, and the distribution of both these resources is highly inequitable in India. While large masses lack any meaningful access to water and electricity, a privileged few can consume huge quantities of the same.

The production and provision of electricity and water have long been considered a social and moral responsibility of the community and the Government.

The justification being given for privatisation of water sector is similar to that given for the power sector - the lack of resources with the Government, no internal resource generation due to

below-cost supply, and inefficiency and corruption of the public sector.

Privatisation in power sector has taken place in two steps - first, direct privatisation of electricity generation, followed by the sector 'reforms' aiming to make the sector friendly to private investment. The water sector is also following the same steps.

Hence, the experience of privatisation of power sector can teach us a lot for the water sector. As power privatisation began in 1991, there is much larger body of experience in the sector in India from which to draw lessons. The experience of the power sector must be seen in the light of the fact that over and above all these similarities, water is far more fundamental and essential of the two, and ensuring its provision much more of an obligation.

EXPERIENCES OF POWER SECTOR PRIVATISATION IN INDIA

Privatisation of power sector began in India in 1991.[14] Memorandums of Understanding (MoUs) were signed with great fanfare with private companies to install new capacity of about 90,000 MW. Most of the companies with whom the MoUs were signed were foreign multinational companies. This phase was characterized by undue haste, utmost secrecy, and total absence of any public debate and discussion. An atmosphere of panic was created with scenarios being projected of rapid demand outstripping supply and massive blackouts crippling life and economy in the next few years. This panic was used to suppress all debate and discussion and defend the haste.

It was stated that if the private companies came in, all the problems of the power sector would be solved. The Government bent over backwards and announced a series of concessions to woo the private companies. We describe these in detail as almost all such concessions are being made to privatised water projects also.

It was stated that if the private companies came in, all the problems of the power sector would be solved.

- *Liberal debt equity ratio of 4:1 - This means that out of the total project outlay, the owners need bring in only 20% - the rest they can borrow from banks and*

institutions, and the interest on this will be charged to the consumers.

- *Cost plus approach - tariffs were calculated to reimburse whatever cost the company would incur, including debt repayment, interest etc. and then a profit over and above this. This ran the risk of large scale cost padding.*[15]
- *Assured rate of return of 16% on equity, and then bonuses. This made the effective rates of return exorbitantly high.*
- *Assured off take of power (or payment for the same) was guaranteed. This meant that whether the electricity was required at that point or not, and whether the particular company's prices were cheapest or not, the Government would be forced to buy a minimum amount from the Company. Even if this were not purchased, it would have to be paid for. This was enshrined in the 'take-or-pay' clauses in the Power Purchase Agreement (PPA).*
- *Tariffs were linked to dollar exchange rate, so that the company could repatriate profits and repay foreign debt in dollar terms pushing the risk of devaluation of the rupee on the consumer. What this meant was that even if none of the costs increased, a mere change in the dollar rate would push up the tariffs.*
- *In case of hydro projects, the hydrological risks (i.e. the possibility that in a particular year, sufficient water may not be in the river) were taken by the Government, and minimum assured payments would be made even if power was not to be generated due to this reason.*
- *MoUs and PPAs were negotiated rather than through open competitive bidding, resulting in many dubious deals. Many projects become the centre of controversy due to allegations of corruption and malpractices.*
- *Payments to private companies were guaranteed by State Government guarantee, Central Government sovereign counter-guarantee, or through mechanisms like escrow account.*

Tariffs were linked to dollar exchange rate, so that the company could repatriate profits and repay foreign debt in dollar terms pushing the risk of devaluation of the rupee on the consumer.

The process of reforms soon followed with the World Bank sponsored Orissa Power Sector Restructuring Project initiating full blown power sector reforms in the state. Almost parallel are the events that are happening in the water sector now.

Today, after a decade and half has passed it is clear that the privatisation of power initiated in 1991 was an immature step, taken without a comprehensive and thorough examination and proper application of mind, and without any well thought out strategy. Predictably, it has been a gross failure. The exaggerated claims put forward for the private sector's capacities and capabilities also lie exposed.

Many of the projects simply never took off. Out of those that did, just a handful of projects have been completed, and the rest are languishing or dragging along. Many of the foreign companies that had come in have walked out. Most projects have failed to raise the finances they claimed they would bring in, resulting in the amendment of the Government Order that did not allow the companies to raise more than a certain portion of the project costs from public funds. The projects that are completed are producing power at a very high cost. Enron (Dabhol) is the most well know example (Enron is also one of the biggest of the projects) which was closed down, as the cost of power was very high. In Orissa, the first state to privatise distribution, private companies failed miserably to deliver on the lofty claims, being neither able to increase access, nor cost recovery nor control transmission and distribution losses. Tariffs meanwhile spiralled upwards.

Given the similarities in the water and electricity sector, it is natural that the privatisation of the former is structured on lines similar to the latter. We find all these concessions (outlined in the bullet points above) demanded and given as a part of the privatisation package of water sector also.

In Orissa private companies failed miserably to deliver on the lofty claims.

The problems and issues that arise in the privatisation of water sector too are similar. This is because the problems and the outcomes seen in the power sector after privatisation are largely fundamental to the process of privatisation itself. They are inherent in privatisation. How this is so is briefly outlined in the

next section along with actual experiences of the water sector.

ISSUES AND EXPERIENCES WITH PRIVATISATION IN WATER

The basic aim of a private company is profits. That is its primary and normally sole motive. Hence, while the company may bring in new investments, it is sure to take away the same and more. That is the basic, irrefutable logic of private sector involvement. This needs to be clearly understood, along with the implications that flow from this essential character of privatisation.

Escalating Tariffs

A private company will want to recover its investment, the interest and principal of debts incurred by it, 'reasonable (!)' profits, and also other things like the fluctuations in the dollar exchange rate. We must also bear in mind that the water charges will have to pay for lavish lifestyles of senior officials and executives of the company. Even if it means that the water (or electricity) it is selling becomes too expensive for the poor people. All this implies that the cost of water will go up. Remember that this is exactly what happened in the Dabhol (Enron) power project, leading to it being closed down. This is what happened in Cochabamba also leading to riots.

Tariffs for water have gone up drastically in cities where water supply has been privatised. In Ho Chi Minh City, the rates went up by seven times, in Metro Manila by five times. In El Alto, connection fees rose to almost eight times the average monthly minimum wage, leaving large number of the inhabitants without access to water.[16] Even when privatisation is in a proposed stage price hikes have been affected in anticipation to provide cushion to the private companies. For example, in Delhi, water rates were hiked by 3 to 5 times in April 2005, just before privatisation was initiated.[17]

Tariffs for water have gone up drastically in cities where water supply has been privatised. In Ho Chi Minh City, the rates went up by 7 times, in Metro Manila by 5 times.

Disconnections

Moreover, the private company is in the business for its own profits – and is not going to be considerate to those who cannot afford the high rates. They will simply be disconnected. For example, in Guinea, non-payment resulted in disconnection of

about 10,000 connections, roughly one-third of the total. Importantly, the private company will have no social obligations for provision of water to the poorer sections or populations residing in slums, or dispersed, remote locations, since this will not be profitable for it.

High Profits

It is argued that higher tariffs are necessary to ensure recovery of costs and to facilitate new investments.

However, large part of the higher tariffs often go to support the burden of excessive profits and lavish salaries. A recent report on water crisis in Europe stated how Thames Water gave a £ 2.2 million pay-packet to their top four directors, how its liquid profits came to £ 385.5 million, even as Londoners experienced a 21% increase in the water bill.[18]

In case of Delhi the proposed privatisation involved managers in each of the 21 zones. The proposed salary of each manager was US$ 24,400 (Rs. 11 lakhs) per month.[19] In Metro Manila, part of the high operating costs was due to the huge salaries of the expatriate staff.

Privatised projects are structured on the basis of high and at times, assured returns. Tiruppur project in Tamil Nadu has a rate of return on equity of 21%. The privatised water supply project in Buenos Aires – the biggest in the world - earned an average of 19% of net worth as post tax profits in the first 7 years. El Alto in Bolivia had a guaranteed rate of return of 13%. Xian in China was giving Veolia a fixed 15% return before a 2002 Chinese law outlawed fixed returns.

In case of Delhi the proposed salary of each manager was US$ 24,400 per month.

Often, high private profits actually come from public money. For example, the Selangor Water Supply Department in Malaysia supplied water, among others, to Kuala Lumpur. Three private companies had concessions for providing treated water to the Department, which distributed the water to consumers. The private companies made annual profits (in 2001) from their water businesses that ranged from US$ 10 million to US$ 47 million. However, the water distribution company has faced annual deficits of around US$ 100 million. In other words, the public company

has subsidised the profits of the private companies.[20] Similarly, in Guinea, on privatisation, water rates shot up 6-7 times, and people were paying rates higher than European cities like Paris, Milan and London. The Government was forced to take a International Development Agency (World Bank) loan to subsidise tariffs - which meant actually that it was getting into debt to fund the profits of the company.

It is often argued that private companies deserve the high profits as they take risks. After all, that is what an entrepreneur is supposed to do. "Governments should be realistic... recognizing the need of their private partners to earn a reasonable return and to be rewarded for the risks that they shoulder", says P. J. Brook Cowen, Private Sector Development Specialist, World Bank.[21] Yet, the reality is that most privatisation programs are structured with the risks passed on to the public. As Montek Singh Ahluwalia, then Finance Secretary, Government of India, said, commenting on India's Experience with the Power Sector:[22]

"Private investors sought much greater risk mitigation than public sector players had. Private investors looked for exchange risk protection, assured off-take of power .....protection against fuel supply risk, and other risk mitigation schemes."

This is equally true of the water sector as we shall see.

"Private investors sought much greater risk mitigation than public sector. They looked for protection against exchange risk and fuel supply risk, assured off-take of power and other risk mitigation schemes."

Problems of Cost Cutting

The cost-cutting measures employed by private companies lead to large-scale retrenchments. Indeed, one of the measures of the efficiency of companies under privatised regimes is the ratio of employee per water distributed. The lower this is, the more efficient the company. Companies are likely to achieve this through the use of contract labour, out-sourcing and mechanisation. Even if one allows for the rectification of certain amount of over-staffing, companies are likely to go much beyond this. In Buenos Aires, Argentina almost half of the 7200 workers of the public utility OSN lost their jobs on privatisation.[23]

In the quests for profits, cost-cutting can even go to the extent of cutting corners. For instance the Guardian, Australia reported in November 2004 that, "In Adelaide just more than a year after

the contract, in 1997, for water works was signed with the private water service provider, a consortium controlled by Thames Water and Vivendi, the city was engulfed in a powerful sewage smell, known as the big pong. Citizens complained of mood swings, nausea, sinus problems, asthma, headaches and sleeping disorders..... an independent investigator tracked it to the largest of Adelaide's four wastewater treatment plants..... The pong - a stench - resulted from equipment failures and inadequate monitoring which allowed raw sewage to be flushed directly into settling lagoons. The consortium's drive to minimize costs was what brought on the failures, seems to be a familiar story in the water privatisation game."[24] The reasons - increased cost-cutting in staffing and equipment maintenance.

Meagre New Finances

In spite of all this, private companies rarely bring in much new investment, even though this is a major justification for privatisation. Equally important, most privatised water systems receive large part of their finances from public sources. As McIntosh[25] points out, "Even where concessions are in place or planned, funding by development banks continues. When international private contractors do invest, they often seek funding from private sector windows of development banks". In Chengdu, China, the contractor put in only 30% of the financing. The project got US$ 48 million from the ADB and US$ 26.5 million from the European Investment Bank (EIB). In Tiruppur, the biggest privatised water project in India, public sources are bringing in about 40% of the project funding, and private sources only 13%. The source of the rest of the 47% of project funding is not clear - a problem of transparency that exists with most private projects. In Nelspruit, South Africa, Biwater obtained nearly two third of the total finance in the form of a loan from the state- owned Development Bank of South Africa (DBSA).

Most privatised water systems receive large part of their finances from public sources.

In El Alto, the private company invested approximately US$ 52 million in the first five years, US$ 30 million less what it had stated. Most of the investment - about US$ 40 million - involved money from soft loans.[26]

The return on investment is seldom invested back into the system by the private companies to improve or expand water and sanitation services to the deprived areas as profits and dividends are the primary concern. Even contractual obligations in this respect are many times flouted.

Investments are often most critically needed in extending supply to poor localities, slums, small farmers and so on. This is precisely the area where private companies are most reluctant to invest. This is what Lyonnaise des Eaux (Suez) – one of the biggest water companies in the World has to say on meeting the financial needs for extending water supply to the poor. "It is best to spread the cost of the work in disadvantaged areas among customers who are already connected, municipalities, developers, future customers, and any donor institutions."[27] In other words, mostly all public sources.

Public Guarantees of Private Finances and Profits

It is unlikely that the private sector will undertake commercial risks without guarantees that are ultimately backed by public money. Nor will it undertake major investments without a 'take or pay' clause.

In Chengdu, China, the city was forced to buy a minimum of 400,000 cubic meters per day of water from the ADB financed, privatised Build Own Transfer (BOT) project under a 'take or pay' basis. This created huge problems because the demand had been overestimated and so the city was obliged to pay for water it did not need.

An article in the Outlook magazine in July 2005 shows how risk of non-availability of raw water for the privatised Sonia Vihar water treatment plant in Delhi is taken completely by the Government, including coverage of company revenues in such a situation.

".....the contract between French company Degremont and the DJB for the [Sonia Vihar] treatment plant has a clause that states that 'in the event of non-availability of raw water to the facility, the responsibility of the contractor shall stand suspended.

"It is best to spread the cost of the work in disadvantaged areas among customers who are already connected, municipalities, developers, future customers, and any donor institutions."

During such period of suspension, the board shall be liable to pay the contractor the base service charge and contribution towards reserve fund… the board shall be liable to pay inventory holding charges of chemicals and consumables.' All this could come to around Rs. 3 crore a year."[28]

Many of the public agencies – especially international agencies are providing guarantees to private sector projects. MIGA (World Bank) had approved a guarantee with exposure of US$ 44 million covering the expropriation risk of Veolia's US$ 80 million investment in Shenzhen Water Company in China. United States Agency for International Development (USAID) is providing guarantees in Tirrupur and Bangalore.

Often, company revenues are guaranteed through escrow arrangements. In the escrow mechanism, the revenues obtained by the utility (for example bills paid by electricity consumers) are put in a separate account. The company has the first right of access to the money in this account, till payments due to it are fully met. What this means is that even before salaries can be paid, the company's profits would first have to be met. Since the 'escrowable capacity' (total revenues received) too is limited, companies are asking for agencies like the World Bank or foreign bi-lateral aid agencies to provide guarantees. Similar arrangements will be, and are being demanded in the water sector. For example, in Ahemdabad, it had been suggested that the payments to the private company would be guaranteed through an escrow account linked to octroi collection.

Since the 'escrowable capacity' (total revenues received) too is limited, companies are asking for agencies like the World Bank or foreign bi-lateral aid agencies to provide guarantees.

Efficiency of Operation

Apart from investment, the other very important advantage claimed for privatisation is that it can run the water systems far more better than the public sector.

Experience all over the world shows that efficiency of operation is not the monopoly of private sector - there are many examples of efficient public sector water utilities (as also inefficient ones!) while performance of private sector is not always better. A study by International Institute for Environment and Development (IIED)[29] stated that "It must be recognised that there are numerous

examples of efficiently managed public water and sanitation utilities in developing countries…" Examples are cited of Ecuador, Chile, Zimbabwe and Botswana. The IIED report presents five case studies (Abidjan, Buenos Aries, Cordoba, Mexico City and Manila) and says "Firm empirical evidence of the relative merits of private and public management of the sector in the four case studies in terms of economic efficiency is limited." Note that Manila and Buenos Aires were showcase privatisations at the time of the IIED study.

One measure of operational efficiency is the Non-Revenue Water (NRW). As the name suggests, it is water that does not bring revenue – and so includes water being given free (possibly a policy choice), but also system losses, leakages, thefts etc. Hence, a lower NRW is considered an indicator of higher efficiency. In an article in Inter Press Service on private sector role in water services, it was reported that "Osaka has a NRW level of 7%, Phnom Penh records an NRW of 26% and Penang 19%. [These are publicly operated.] In comparison, privately operated Jakarta and Manila have NRW of 51% and 62% respectively."[30] The study of 18 Asian cities done for ADB by McIntosh also supports this.[31]

The same study also states that "Chengdu, Jakarta, Kuala Lumpur, and Manila have PSP in water supply, but the main reasons for PSP (efficiency, investments, and autonomy) have not been manifested to date. Phnom Penh is an example of a city where there is a very good public utility."

"Osaka has a NRW level of 7%, Phnom Penh records an NRW of 26% and Penang 19%. In comparison, privately operated Jakarta and Manila have NRW of 51% and 62% respectively."

BBC News reported the following on water privatisation in Tanzania. "In Dar es Salaam, Tanzania the private operator City Water, owned by Britain's Biwater International was awarded the contract to supply water services in 2003. The company was required to invest US$ 8.5 million in the system during the first two years. Officials said only US$ 4.1million had been invested till 2006. The company's contract was terminated in early 2006 by the government as the quality of water and sewage services had since declined, while much investment had failed to materialise."[32]

Studies by both, the International Monetary Fund (IMF) and the World Bank, show that there is little to support any inherent

superiority of the private sector over the public as far as efficiency is concerned.

The IMF study[33] says, "It cannot be taken for granted that PPPs [Public-Private Partnerships] are more efficient than public investment and government supply of services … Much of the case for PPPs rests on the relative efficiency of the private sector. While there is an extensive literature on this subject, the theory is ambiguous and the empirical evidence is mixed."

Research for the World Bank Economic Review says that studies on water utilities in Asia "show that efficiency is not significantly different in private companies than in public ones."[34]

Indeed, one can find examples of public sector utilities doing well and poorly performing private sector companies across the globe. The Rand Water and Umgeni Water in South Africa, Stockholm Water Company in Sweden, DMAE in Porto Alegre and the Public Water and Sanitation Department in Recife, Brazil, DWASA in Dhaka, Bangladesh, SAGUAPAC in Santa Cruz, Bolivia, Phnom Penh Water Supply Authority, Vietnam are all regarded as efficient public sector utilities. The Singapore Public Utility Board has been recognised as a model utility by an ADB study and many others.[35] See *Annexure I* for a comparison of public and privatised utility performance data in 18 Asian cities.

Clearly, private sector does not have any inherent advantage as far as efficiency is concerned over the public sector. What is important is to understand the factors that go into making an operator 'efficient' or otherwise - these include transparency of operation, accountability, regulation, larger societal demands etc.

Private sector does not have any inherent advantage as far as efficiency is concerned over the public sector.

Inevitable Commercialisation of Water

An important aspect of the privatisation of water sector that needs to be understood is as follows. To allow water to be supplied to those who can't bear the full (increased) costs, there are essentially two mechanisms. One is that of cross-subsidy. In this, some users (example industry) who have the capacity to pay are charged higher prices and this allows the utility to subsidise those who can't pay the full price. The second mechanism is that of

direct subsidy provided by the Government to bridge the gap between the cost price and the reduced price charged to those who can't pay. Private companies do not favour the first mechanism as they are reluctant to 'overcharge' their 'best' consumers. Indeed, the logic of the private suppliers is that bulk (and important) consumers are charged *less*, not more. Cross-subsidies are particularly repugnant to the international financial agencies as they see these as distorting finances and markets, thus impacting efficiencies; that removing cross subsidies also ends up shielding the rich from a burden may be an unintended consequence?

Regarding the second option - direct subsidies, Governments are washing their hands off from provision of subsidies, claiming that they do not have the resources for the same. In many cases, Government finances are indeed stretched, and hence cross subsidy becomes very important. However, agencies like World Bank are actively pressurising Governments to cut both direct and cross subsidies, often using loan conditionalities to achieve the same.

Another related issue is that private companies typically are not interested in low-paying-capacity sections of cities, the slums, *basti* settlements, or the low density, spread out rural populations. They are interested in serving only customers with high paying capacity and thus insist on serving only selected sections like industries or high-income urban areas. An added advantage is that in these areas price rises would meet with minimum opposition. This concept of selecting specific, 'rich' areas for servicing is known as 'cherry picking'. As a result, the Government is left saddled with the weaker, poorer segments and no longer has the capacity for cross-subsidising them as the high paying capacity customers are lost to it.

The concept of selecting specific, 'rich' areas for servicing is known as 'cherry picking'.

Dewas, (M.P.) is struggling with severe water crisis. There is an industrial area nearby that too faces severe water shortage. A privatised industrial water supply scheme is in progress that will bring waters from a long distance for supplying to the industrial estate - but not to the city as the city will not be able to pay the

cost of the water. Thus, the Government is left holding responsibility to find and create new sources for supplying the city - but now it will no longer have the support of the industrial consumers to at least partially take up the burden through cross-subsidy.

The logical consequence of this is that since neither the high capacity consumers nor Governments are willing or able to subsidise the poor users with lower paying capacity, the prices have to increase. If people can't pay the higher prices, they would be disconnected and would stop receiving water supply. In short, phasing out cross-subsidies, increase in tariffs, disconnection on non-payment are all necessary - indeed *inevitable* - elements of the privatisation process.

Thus, water sector ceases to be a social responsibility, and water changes from being a 'social good' to a mere commodity. This is the process clearly seen in the power sector in the last 15 years, and in other parts of the world in the water sector. This is also precisely the approach being forced by the World Bank, ADB and WTO. Indeed, in the global push for privatisation, this idea of 'full cost recovery' has taken on ideological overtones.

In this way, the process of **corporatisation** of water is invariably and necessarily accompanied by its **commercialisation** or **commodification**. Now, the series of Water Sector Reforms in various states are forcing a legal basis to all of this by creating new laws that enshrine these principles.

Control of the Resource

Water sector ceases to be a social responsibility, and water changes from being a 'social good' to a mere commodity.

The most serious implication of privatisation however is in terms of the sovereignty of citizens, of communities and of the country, with the control over such a vital resource passing on in the hands of private, and that too foreign, companies.

It may be recollected that when the power distribution and generation activities passed on into the hands of the private sector in Orissa, the generating company controlled by AES of USA had no hesitation in cutting off the power supply to the grid when its bills were not paid. Only a threat of use of Essential Services

Maintenance Act (ESMA) and of arresting the CEO resulted in a resumption of supply.

It is often argued that privatisation does not mean privatisation of rivers and water *sources*; it is only the water *service* that has been privatised. This is a specious argument.

Once a private company gets a contract, it tries to assert control over the water resource itself. For example, in Sheonath Industrial Water Supply Project in Chhattisgarh, even though only the water supply was privatised, the owner asserted the right to a large stretch of the river, banned the locals from using the waters, and was supported by the state in this. This is inherent in the nature of the contract, as any company would like to maintain control on the source of its 'raw material' - in this case water. Thus, directly or indirectly, privatisation of the service will ultimately lead to privatisation of the water source too.

Pushing People to Desperation

Commercialisation and commodification of a resource like water means that those who can't pay for it, can't use it. The poor, already living on the margins, will be pushed towards further deprivation. When people are deprived of such a vital resource as water it is certain to create fertile ground for social unrest. But this is not all. When each sector - water, power, education, health, transport, agriculture and so on - faces the attack of corporate globalisation, what can happen is eloquently pointed out by writer Arundhati Roy:

"In countries like Argentina, Brazil, Mexico, Bolivia, India the resistance movements against Corporate Globalisation are growing. To contain them, governments are tightening their controls. …..But civil unrest does not only mean marches and demonstrations and protests against globalisation. Unfortunately, it also means a desperate downward spiral into crime and chaos and all kinds of despair and disillusionment which, as we know from history (and from what we see un-spooling before our eyes), gradually becomes a fertile breeding ground for terrible things - cultural nationalism, religious bigotry, fascism and of course, terrorism."[36]

Directly or indirectly, privatisation of the service will ultimately lead to privatisation of the water source too.

Ironically, even after all this, privatisation has not ensured that the basic problems of the sector are tackled. On the contrary, large number of privatised projects have failed one after another, including showcase projects. (See *Annexure II* for a list).

The experiences of water sector privatisation from all over the world described above not only illustrate that the privatisation in water has failed to meet its promises, but also challenge the very rationale provided in support of privatisation – more investment, cheaper tariffs, better service, improved reliability, latest technology, increased efficiency and others. They show that privatisation cannot address the fundamental issues of the sector - including resource conservation and augmentation, equity, and environmental sustainability.

More importantly, they raise a fundamental question – is it really possible that privatisation can be carried out maintaining social obligations? The answer largely seems to be in the negative. On the contrary, privatisation tends to convert water sector into totally commercial operations bereft of any social responsibilities and this has led to large scale opposition, resistance and unrest, globally, and in India.

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Experiences of privatisation show that it cannot address the fundamental issues of the sector.

SURGE IN PRIVATISATION

Privatisation in water sector was introduced late in India, and the initial pace was slow. Both drinking water and irrigation are very sensitive in the country, and this may be the reason for the late introduction of privatisation. The massive protests in India against privatisation of power sector and the global unrest against water privatisation in the late 1990s, and fierce resistance to early private projects like Sheonath in the country all seem to have been responsible for the slow pace. However, now the pace has picked up dramatically.

Some of the earliest schemes have been for industrial water supply. Sheonath project has already been completed and running, Tirrupur - one of the bigger project, has recently been inaugurated, work is progressing on the Dewas project.

There is a surge in the privatised urban water supply projects. The proposed privatisation in Delhi is currently on hold due to the struggle of local people, but work on designing the privatisation of one of Mumbai's larger wards (K-East, population one million) is on. This is to be a pilot project with extensions to other wards in mind. The Bangalore Water Supply and Sewage Board (BWSSB) is extending water supply facility to Greater Bangalore, encompassing seven City Municipalities and one Town Municipality and the BWSSB website proposes this "*.....to be operated and maintained including revenue realization through Delegated Management Contract Mechanism .....*" Clearly, *'delegated management'* is a euphemism for privatisation and

There is a surge in the privatised urban water supply projects in India.

BWSSB has retained International Finance Corporation (World Bank) to assist in structuring and implementing a management contract with private sector companies to operate and manage these systems. Eventually this private participation is expected to be expanded to include the entire Bangalore City area.[37]

Several other cities have also planned privatisation of water supply and tenders have been floated by Ludhiana, Aurangabad, and works are on in Gulbarga and other towns in north Karnataka. There is a push by foreign aid agencies like Department for International Development (DFID), USAID for privatisation initiatives. The Ministry of Urban Development and Poverty Alleviation (MoUDPA) is also working with NIUA and USAID for privatisation of urban services in major cities across the country. Under the centrally sponsored Jawaharlal Nehru National Urban Renewal Mission (JNNURM) municipal corporations have to undertake mandatory urban reforms, including possible privatisation of water, to be eligible for central funds. Municipal laws are being changed in favour of private sector participation through Municipal Reforms Projects in states like Karnataka.

The irrigation sector is also being opened up. There have been some preliminary experiments of involving the private sector in canal operations in Gujarat (Shedhi branch canal of Mahi system) essentially as service contracts. The World Bank supported Madhya Pradesh Water Sector Restructuring Project (MPWSRP) mandates a more comprehensive privatisation of 1 medium and 25 minor irrigation schemes. Under similar World Bank pressure, Maharashtra has started handing over irrigation projects to Water Users Associations (WUAs). Wagad project in Nasik district with a capacity of 2550 mcft, having 24 WUAs was the first in this. The World Bank country director for India was present at the handing over ceremony held on 25 Nov 2005. The reasoning behind this step is to promote participatory management, but it may well lead to backdoor entry of privatisation.

The World Bank supported MPWSRP mandates privatisation of 1 medium and 25 minor irrigation schemes.

Then there are cases of over-extraction of groundwater by MNCs like Coca Cola for producing soft drinks and bottled water - a clear case of use and control of a public resource for private profits.

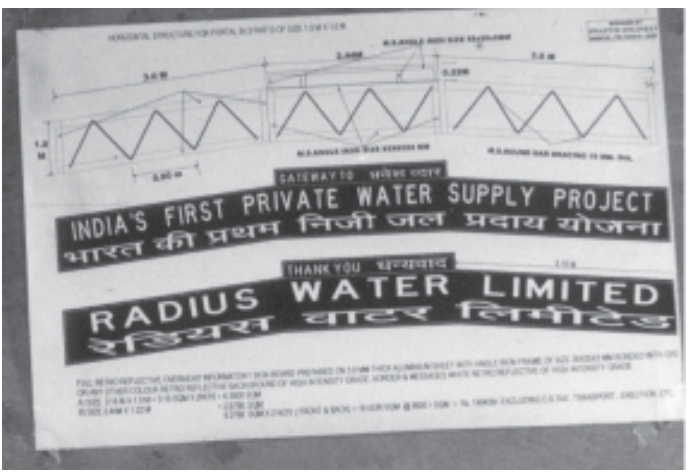
Annexure III lists the ongoing or proposed privatisation projects in India in water supply and sanitation sector. *Annexure IV* lists private hydropower projects.

Case of Sheonath River Industrial Water Supply Project

Sheonath project was one of the earliest privatisation project in the water sector in India, and quickly became a symbol of all the problems that privatisation can pose.

Sheonath project is meant for supplying water to the industrial estate of Borai, near Durg city in Chhattisgarh. In 2001, Radius Water Limited, a local private company was given a concession to build a dam across Sheonath river, and full rights to the 23.6 km water reservoir to supply water to the industrial estate.

As with such projects, the state owned Chhattisgarh State Industrial Development Corporation (CSIDC) signed a 'take-or-pay' contract, under which full payment for 4 million litres per day (MLD) is guaranteed to the company even if the off-take of water is below this. The irony is that the availability of water at the Radius anicut has been guaranteed by the state government by way of assured releases from an upstream dam. As if this was not enough, the money to build the project was advanced by the CSIDC to Radius. The rationale of privatisation was that the public agency did not have money to build the project!



Sheonath Project – India's First Private Water Supply Project

Since the dam has come up, the villagers who used to fish in the river, who used the river *ghats* for bathing, who took water from the river for growing vegetables and small crops and depended on the river for other needs have no longer any rights to the same. One of the important occupations affected is sand mining from the riverbed which the villagers used to carry out in their small boats. Now the high water level and denial of access makes it impossible. Meanwhile, 16 villages had been affected downstream as the company stored the water.

Local resentment rapidly turned into opposition and a number of people's organisations, unions, left oriented groups, study and research groups etc. joined the protest and the issue was highlighted across the country. In April 2003, stung by the growing criticism, the State Government announced a cabinet decision to terminate the project. But this did not happen.

The project and the popular action around it highlighted the dangers of privatisation all over the country and it became an important rallying point of campaigns challenging privatisation. People became aware that if a 'small' project can lead to so much impact, then large scale privatisation could play havoc.

The project continues to supply water – 1 MLD only while receiving payments for 4 MLD. However, due to the protests, a new anicut has been constructed downstream of the company anicut to address the grievances of the people downstream. The Public Accounts Committee of the Chhattisgarh Assembly has carried out a review of the validity of the MoU, but the report remains out of public domain.[38]

Private hydropower projects like Maheshwar , Allain Duhangan , Karcham Wangtoo are all facing opposition from affected people.

INCREASING RESISTANCE

As the push for privatisation is increasing, so is resistance. Private hydropower projects like Maheshwar (M.P), Allain Duhangan (H.P.), Karcham Wangtoo (H.P.) are all facing opposition from affected people. Local communities in places like Plachimada (Kerala), Mehdiganj (U.P.), have been fighting companies like Coke as their groundwater sources have drastically depleted and soils contaminated with toxic wastes from the factories producing soft drinks and bottled water.

Sheonath, as discussed above, faced intense local resistance and a state-wide and national campaign. Strong local action led to the cancellation of privatisation in Sangli-Miraj in Maharashtra. Groups like Research Foundation for Science, Technology and Ecology were among the first to challenge early privatised projects like Sonia Vihar in Delhi as well as raising larger issues about privatisation in the water sector.

Strong protests have emerged in Bangalore with over 40 NGOs, slum-dwellers' groups, citizens' initiatives, *dalit* groups, etc. coming together to launch the Campaign Against Water Privatisation – Karnataka. The Campaign has been actively and vociferously challenging the attempts at privatisation, which seems to have put the BWSSB on the defensive and has slowed down the process. Coordinated mass protests, with involvement from many sections of the society, led by the organisation Parivartan have stalled the proposed water privatisation in Delhi. Resistance and protests are on in several other parts of the country.

As in other parts of the world, companies and international financial institutions working in India too seem to have realised that privatisation with measures like full cost recovery, high salaries and profits, increase in tariffs, disconnecting those who can't pay, etc. - resulting in elimination of social responsibility - is leading to severe unrest and political backlash. On the other hand, removal of these measures and tagging on social obligations and duties - like subsidised or free supply to weaker sections, extension of supply to all sections - makes profits difficult and the very rationale for private companies is lost.

The way out of this? International financial agencies have devised a plan that will divest the water sector of social obligations, eliminate non-paying or low-paying capacity consumers and make it a purely commercial operation- thus making it appropriate and attractive for the private sector; meanwhile forcing the Governments to face the backlash to the steps necessary for this. This plan is what is euphemistically being called 'Reform' and 'Restructuring' of the Water Sector. These reforms are now being pushed extensively all over the country and have implications that are more grave and serious than mere privatisation. ❑

IFIs have devised a plan that will divest the water sector of social obligations.

Reforms
Commodification and Commercialisation

"ADB... will support the evolution of water allocation through markets of transferable water rights...."

ADB Water Policy, 2001

The aim of the Reforms projects - going on in a majority of states, pushed by the ADB and the Wold Bank - is precisely to transform the water sector into a market.

ELEMENTS OF REFORMS PROCESS

The following elements are a part and parcel of all the reforms / restructuring processes.

- *Unbundling (separation of source, 'transmission' and 'distribution')*
- *Independent regulator to free the sector from 'political interference', to set tariffs and decide other issues*
- *Steeply increasing tariffs, de-politicisation of tariffs*
- *Full cost recovery*
- *Elimination of subsidies*
- *Cutting off supplies for non-payment*
- *Dismantling public/ community supplies like public taps, stand posts*
- *Retrenchment*
- *Privatisation and Public-private partnerships*
- *Allocation of water to highest value use through market mechanism*

There are 20 states in India where reforms projects are on going in water sector.

- *Water entitlements being introduced for ensuring markets of tradable water rights*
- *New laws to enshrine and ensure all this*

Though these reforms are supposed to be a solution to the problems of the water sector, they are mostly concerned with making the water sector financially viable, to ensure 'financial sustainability'. *While financial sustainability is important, the reforms are designed to achieve it at the cost of the social responsibility of the welfare state in the sector, at the cost of the poor and vulnerable sections.* Water is transformed from a right, from a vital element of life itself, into a commodity.

Moreover, the reforms do not appear to be based on any study of the root causes of the problems. For one, the reforms do not bother to address several of the critical problems of the water sector - resource scarcity and degradation, resource conservation, equity, environmental sustainability being among the important ones. Secondly, the same sets of reforms are prescribed not just for different parts of the country but indeed in different parts of the world, in spite of immense physical, financial, cultural and structural diversity.

Studies are conducted with recommendations already known. For example, when Price Waterhouse Coopers (PWC) was appointed as consultant for the Delhi Jal Board (DJB) at the behest of and supported by the World Bank, a whole list of serious issues plaguing the system was given as background. However, the main objective of the Consultancy was given as "to assist in developing the DWB [Delhi Water Board] into an effective commercially oriented water utility.....".[39] This was indication enough for the kind of recommendations desired and PWC obliged.

Reforms in various stages are going on in many states in India. *Annexure V* 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, and Delhi.

The reforms do not appear to be based on any study of the root causes of the problems.

BOX -1

MPWSRP and MPUWSEIP: Main Elements

Madhya Pradesh Water Sector Restructuring Project (MPWSRP)

(US$ 396 m / Rs. 1782 Crores World Bank Loan)

- *Commercialization of the sector. Whole sector to be turned into a market*
- *Full cost recovery and increase in tariffs*
- *Elimination of Subsidies*
- *Creation of the State Water Tariff Regulatory Commission through legislation; draft Bill for legislation is ready to be presented in the state assembly*
- *New Legislation forced on the state as project conditionality*
- *Constitution of the State Water Resources Agency (SWaRA)*
- *Large scale retrenchment and 'Voluntary' Retirement Scheme*
- *Privatisation of irrigation - 25 minor and 1 medium scheme in the first phase*

Urban Water Supply and Environment Improvement Project In Madhya Pradesh (6 Cities)

(US$ 200 m / Rs. 900 Crores ADB Loan)

- *The poorest of the poor - in slums and* bastis *- will not be reached by the project - 24% of urban population*
- *Only Rs. 31 crores (2.31% of project) for slums, while Rs. 77 crores provided for consultants*
- *Compulsory metered connections for all households*
- *Phasing out of public standposts*
- *Metered stand-posts under responsibility of community water committees - can lead to mafia driven water distribution or pre-paid water meters*
- *Disconnection policy to be put in place*
- *Increase in water charges to recover full costs*
- *Increase in property taxes in all the cities*
- *Tariff and tax increases laid down by ADB for six years upto 2010- loss of self-determination of Municipal bodies*
- *Collection and billing could be handed over to private operators*
- *High cost consultants - Ratlam city opted out due to this*
- *High cost capital intensive works included. Local and decentralised water resource development options not considered*

The MPWSRP of the World Bank and the Madhya Pradesh Urban Water Supply and Environmental Improvement Project (MPUWSEIP) of the ADB, acting in tandem, are a good example of the 'reforms' process. *Box 1* gives the major elements of these two loans.

Since water is a state subject, major part of the reforms are going on at the state level. However, the Central Government has also taken several measures to promote privatisation and commercialisation in water sector. *Box 2* gives some of the important ones. (See also *Annexures VI* and *VII*)

IMPLICATIONS OF REFORMS

The first and most important effect of all these measures will be to transform the water sector into a market. As per the rules of market, only users who are able to pay full costs of services will get the benefits. The poor, already at the margins, will be forced out of the ambit of the sector, and even the middle class is likely to be pushed to the fringes. The whole process is designed to ease out the poor and marginalized sections of the society. Innovations like tradable water entitlements, tradable pollution permits imply that the rich could corner the resource with their purchasing power, could buy the right to pollute.

BOX - 2

Steps Taken by Central Government to Promote Privatisation and Commercialisation of Water

- **1991** - *Power Sector Opened for Privatisation: PSP in Hydropower*
- **2002** -*New Water Policy Calls for PSP in Water*
- **2004** - *Guidelines for Urban Water and Sanitation Sector Reforms and PPP*
- **2005** - *Financial Support to Bridge 'Viability Gap' of Private Projects*
- **2005** - *JNNURM*
- **2005** - *Launch of a special purpose vehicle (SPV) - India Infrastructure Finance Corporation Limited - IIFCL to finance private projects or public-private partnerships (PPP).*

The first and most important effect of all the reforms measures will be to transform the water sector into a market.

With their obsessive preoccupation with the financial side of the sector, pressing problems like equity, development and preservation of water sources etc. remain unaddressed. Moreover, there is little space left for any consideration of alternative options and approaches as these reforms are presented as the only possible solutions.

What is most significant about the 'reforms' is that new laws are being introduced to enshrine and make legally enforceable measures like cost recovery, disconnections, elimination of subsidies, but not the social obligations, equity, environmental and resource conservation, control of transmission and distribution losses, alternatives, etc. It is a parody of the principles of the Constitution that the Directive Principles of State Policy cannot be enforced through the courts, while new laws will enable the above measures to be legally imposed. *Annexure VIII* gives some important elements of the Maharashtra Water Resources Regulatory Authority Act 2005, the first of such laws to be enacted in the country. The welfare role of the state will end and the state will become a protector and enabler of the market and private sector interests.

❑

New laws are being introduced to make legally enforceable measures like cost recovery, disconnections, but not social obligations, equity, environmental and resource conservation, alternatives, etc.

Influences on Policy of Privatization

> *"One cannot help but conclude that most of the privatisation was driven by donors and contractors and not by consumers nor Governments looking for improved and more sustainable services."*
>
> **From an ADB study of water privatisation in ten cities of Asia[40], Jan. 2000**

The ADB, the World Bank and other international donors are the major drivers of water privatisation and commercialisation in Asia, Africa and Latin America. In spite of findings of their own studies like the one quoted above, that neither Governments nor consumers may be asking for privatisation, they continue to push privatisation, indicating that there are other interests at play.

ASIAN DEVELOPMENT BANK

As per the ADB Water Policy, water services delivery will be expanded through autonomous and accountable service providers, private sector participation, and public-private partnerships.

Other significant portions of the ADB water policy[41] include the following:

- *Water will be reallocated through "markets of transferable water rights", and to "high-value uses of water"*
- *On improving water services (for irrigation and urban water supply), the policy says that "governments need to modify their role from one of service provider to*

Neither Governments nor consumers may be asking for privatization.

regulator", and that "private sector initiatives and market-oriented behaviour are expected to improve performance and efficiency"

- *".....requiring the poor to pay for the true costs of urban and rural water supplies is possible and has been found to be effective means of sustaining the services…..….. ADB..... will promote the phased elimination of direct subsidies to the poor for accessing basic water services in line with an increase in affordability levels."*

A large number of ADB's loans now reflect this.

THE WORLD BANK

The Water Resource Sector Strategy (WRSS) of the World Bank, 2003, calls for full cost recovery based pricing of water and making water into a tradable commodity as the key elements of "principled and pragmatic reforms".[42]

In 1999, the World Bank brought out a series of five publications on different areas of the water sector in India. Ostensibly, these are the outputs of a joint review of the water sector by the World Bank, Government of India and some bi-lateral donors. The reports on Urban Water Supply and Sanitation (UWSS) and on Rural Water Supply and Sanitation (RWSS)[43] are nothing but a blueprint for a complete overhaul of the sectors to commercialise and privatise them.

World Bank India Country Assistance Strategy (CAS)

The WRSS of the World Bank, 2003, calls for full cost recovery based pricing of water and making water into a tradable commodity.

The Country Assistance Strategy (CAS) sets out the approach for the World Bank's lending in a country. The latest CAS for India was brought out in Sept. 2004 and pertains to the World Bank loans to India during financial years 2005-2008.[44]

The CAS states that the International Bank for Reconstruction and Development (IBRD)/IDA parts of the World Bank will "focus on .....an enabling policy and institutional environment for private sector development at both Centre and the state levels..." This is exactly what it is doing through the water sector reforms being pushed by its loans. IBRD/IDA along with the IFC will also directly finance private sector participation.

The CAS emphasises 'reforms' and private sector participation in urban water supply as well as irrigation. For irrigation and drainage, the Bank is to focus on what it calls the building blocks of successful project, which include ".....unbundling of water resource management, improved business processes in irrigation and drainage institutions, a greater focus on service delivery and improving the revenue base and collections. Importantly, decentralized service delivery mechanisms, such as water user associations, and public/private partnerships, including concessions for management of infrastructure, will continue to be emphasized." It also calls for adopting "a strategy for financial sustainability of service delivery operations", operationalising "decentralised service delivery mechanisms …including corporatisation, public-private partnerships and water user associations..." and "...tradable water rights/ entitlements ...."[45]

In context of the RWSS it calls for full cost recovery and makes lending to states conditional to introducing reforms in all rural water schemes, even those not financed by the Bank.

The World Bank is pushing all these through all its loans, but in particular the numerous water sector reforms and restructuring projects.

World Bank as Knowledge Creator

The World Bank, along with ADB and some 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'.

In context of the RWSS it calls for full cost recovery and makes lending to states conditional to introducing reforms in all rural water schemes.

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', they 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.

It is not surprising that such research consistently throws up the 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 CAS for India for 2005-2008. Among the three key 'Strategic Principles' which will "under pin the Bank Group's work" in India is that "The Bank will also aim to substantially expand its role as a politically realistic **knowledge provider and generator**."

A Tanzanian Privatisation Song

Government people and business people,
Tanzanians and foreigners, are like four legs of a table
at which our children will one day feast.

Privatisation makes a team.
The people are on the team, working in new jobs, and
buying shares in their own future.

Investors are on the team, risking everything they own
and betting that we can succeed.
Government is on the team, the referee who keeps everything fair
the old man we can trust.

Thus go the lyrics of a popular Tanzanian song, *Ubinafsishaj*, or 'Privatisation', extolling the virtues of privatisation. *Ubinafsishaji* explains how the world is getting smaller, how we are all more dependent on one another, and how privatisation and multinational companies benefit everyone.[46]

Ubinafsishaj, or 'Privatisation', extolls the virtues of privatisation.

Popular music emerges from popular sentiments, and it is wonderful to see the enthusiasm of the Tanzanian masses for

privatisation being articulated by local artistes - till one discovers some interesting facts about the song. For one, it is written by a consultant working for the Adam Smith International (ASI), an international developmental consulting group located in U.K. The ASI also produced the song and music video. And it got paid about 2 crore rupees for the same by the British Government's overseas aid agency DFID.

This highlights the growing, dominant and all-pervasive role of international consultants in the field of water privatisation, and the nexus between IFIs and donors and such consultants. More and more, IFIs are forcing countries to accept such consultants to formulate and write public policies and strategies.

ROLE OF PRIVATE CONSULTANTS AND COMPANIES

Practically each and every reforms and privatisation project involves the use of consultants. Indeed 'reforms' projects themselves are the outcome of expensive studies by international consultants of the water sector.

Sometime back, the British Government gave a grant to ADB from which it gave a Technical Assistance (TA) grant of half a million US dollars to the state of Madhya Pradesh to develop an integrated water management strategy. The state in turn gave this as a consultancy to Halcrow, UK based consultants. So British money went back to British consultants. The report of this TA contributed in developing the World Bank's Water Sector Restructuring Project for Madhya Pradesh. Indeed, DFID is using aid money as 'technical assistance' to pay mostly UK-based consultancy firms to prepare the ground for privatisation of water and sanitation services in developing countries.[47]

The World Bank pushed for and eventually succeeded in awarding the reforms study in Delhi to PWC. PWC was responsible in developing the Position Paper on Water in the Infrastructure Development Action Plan for Chhattisgarh. An ADB project paid US$ 1,900,000 (Rs. 8.6 crores) to PWC and Lea Associates South Asia Pvt. Ltd.(India) for Advisory and Operational consultancy for the JNNURM.

The World Bank pushed for and eventually succeeded in awarding the reforms study in Delhi to PWC.

Consultants are also extensively employed during the implementation of the projects. Significant parts of project funds often go to pay expensive international consultants. The ADB project for MP urban water supply provides only Rs. 31 crores (out of total project outlay of Rs. 1340 crores) for slums, while Rs. 77 crores is for consultants. One of the cities selected for this project, Ratlam, rejected the project funds stating as one of the reasons the high consultant costs.[48]

These are only a few examples; consultants seem to be pushed in every project of the IFIs.

Several other agencies are also playing a part in pushing the privatisation agenda. The Corporate sector is of course one of the important ones. Most of the major players are present in India – Suez, Vivendi, Thames Water, Bechtel, etc. They are participating in several projects and are also involved in 'promotional' activities like sponsoring seminars and training sessions.

Industry associations like Confederation of Indian Industries (CII) are also pushing for privatisation. CII has held a series of seminars and conferences in various parts of the country on 'Public Private Partnerships' co-sponsored by the central Water Resource Ministry. Speaker after speaker at these conferences heaped eulogies on the PPP and pushed for private sector involvement in water.

BI-LATERAL AND MULTI-DONOR AGENCIES

Bilateral funding agencies like USAID, DFID, AusAID, are also active in providing funding support to water privatisation and reforms projects in different parts of India either directly or through multilateral funding mechanisms.

Most of the major private players are present in India - Suez, Vivendi, Thames Water, Bechtel, etc.

DFID has a core programme of strategically-focused assistance at the national level. It works in close partnership with the four states of Andhra Pradesh, Madhya Pradesh, Orissa and West Bengal. DFID's total assistance to India during 2004-2005 was Rs. 1998.96 crore (£ 259 million).[49]

DFID supported the preparation of the Madhya Pradesh Water Sector Restructuring Project through World Bank Trust funds of

US$ 118,000. It is supporting preparation of several such reforms projects through the ADB in other parts of the country.

DFID's Water Action Plan gives the programme for action as follows, ".....developing and implementing a range of international multi-donor programmes to encourage private sector investment in basic infrastructure services.....continue to support innovative financing mechanisms for infrastructure.....also work with other donors to develop new ways to cover commercial, political and governance risks....."[50]

Another important player is United States aid agency USAID. It is playing a significant role in promoting and financing urban reforms including the urban water sector. One of the major interventions by USAID in the urban areas is through its Financial Institutions Reforms and Expansion - Debt (FIRE-D) project. The project aims to provide technical assistance whose objectives include establishment of "mechanisms for pooling financial resources across public and private sectors and geographic regions" and improving "financial viability of cities to encourage private sector investment in infrastructure".

The USAID website also states that, "FIRE-D also works hand in hand with the Government of India to implement the country's National Urban Renewal Mission (NURM). The project supports NURM's mandated reforms, infrastructure investment projects and the national government's efforts to decentralize urban management."

Through its FIRE-D activity USAID is working in states like Karnataka, Maharashtra, Rajasthan, Uttaranchal, Madhya Pradesh, West Bengal and Orissa. It also closely collaborates with other donor agencies like World Bank, ADB, DFID, United Nations Development Program (UNDP) and others. The agency has been active in funding the process of private sector involvement in Bangalore and Tirrupur.[51] In Greater Bangalore, USAID has committed to guarantee upto 50% (Rs. 50 crore) of the municipal bonds that Karnataka Urban Infrastructure Development Finance Corporation (KUIDFC) is raising behalf of the municipal corporations for water supply project GBWASP. In

USAID is playing a significant role in promoting and financing urban reforms including the urban water sector.

Tirrupur, USAID has provided long term (30 years) loan guarantee for US$ 25 million with IL&FS.

USAID was also involved in the drafting of the Model Municipal Law through a FIRE-D Project implemented jointly with MoUDPA and the Times Research Foundation, Kolkata, as consultant.[52]

In recent years a plethora of multi-donor institutions have been created which work in the area of water supply and sanitation. Most of these, if not pursuing it as their major aim, at least include some funding for increasing private sector provision of water and sanitation services and reforms. These multi-donor initiatives include:

PPIAF - Public Private Infrastructure Advisory Facility
WSP - Water and Sanitation Program
WUP - Water Utility Partnership
PIDG - Private Infrastructure Development Group
GPOBA - Global Partnership on Output Based Aid
GWP - Global Water Partnership
PPPUE - Public Private Partnership for the Urban Environment

The UK government is a key player since it funds all of the 7 mechanisms. The World Bank is involved in 5, the Netherlands in 6, Sweden in 5, Germany and France in 3 each, Japan and US in 1 each.[53]

PPIAF has been providing Technical Assistance for water sector reform projects in places like Mumbai, Gujarat and Delhi.[54] It has provided a grant of $692,500 for consultants for Development of a Pilot Private Sector Participation Model for Drinking Water Distribution in Mumbai (K-East Ward).

The UK government is a key player since it funds almost all of the multi-donor initiatives.

WSP is playing a role in water sector reforms by designing and building strategies in rural and urban water supply and sanitation in states like Goa, Uttar Pradesh, West Bengal, Tamilnadu, etc.[55]

PIDG has funded to the tune of half a million dollars (in co-ordination with IFC through one of its mechanisms Devco) to support specialised consultants to introduce private sector

participation in the water sector in eight municipalities of Greater Bangalore.[56]

GATS, WTO AND WATER

General Agreement On Trade in Services (GATS) agreement is a part of World Trade Organization (WTO) and since 2000, a process is underway to expand the scope of the GATS. During 2002, the European Union presented formal 'requests' for opening up of the water sector in 29 countries. This, and other attempts to bring in water services under the GATS expansion led to strong protests from all over the world, and it appears that at this point of time, the pressure for inclusion of water services may have lessened. However, it is always there as water services are a huge market, and could make a comeback. Moreover, even though opening up of water services directly may be off the agenda for the moment, water is still likely to be strongly affected in GATS as a part of other sectors - tourism, environmental services and so on.[57]

While water services are already being privatised in many parts of the world, inclusion in GATS is far more problematic as this makes the opening up of the sector practically irreversible and restricts significantly the power of the sovereign Governments to regulate the sector.

GATS Rules

The most important rules of GATS include:

- *Most Favoured Nation, which requires a WTO member government to treat all other WTO members equally. Thus, if a sector is opened to one county, it is automatically opened to all WTO member countries.*
- *National Treatment, which means that foreign companies must be given the same treatment as national companies.*
- *Market Access, which requires that a country not impose new quantitative or structural restrictions on services providers.*

Water services inclusion in GATS is far more problematic as this makes the opening up of the sector practically irreversible.

- *Domestic regulation, which requires that local and national regulations not be "more burdensome than necessary" to trade.*
- *Compensation to other countries, if a country has revoked a commitment in a particular sector.*

❑

What Is The Driving Force ?

"Advisers to developing country governments considering private participation in water will all be familiar with the gasps of disbelief and indignation when they first voice assumptions about returns on equity."

P. J. Brook Cowen, Private Sector Development Specialist, World Bank[58]

Money and profits are clearly a huge driving force behind the process of privatisation. In many ways, water is a dream product - required by each and every human and living creature in the world, so vital that survival is impossible without it, and of course, a crucial component of agriculture as well as industry. In other words, a product for which there is an assured market as long as the human race lasts, and a product without which the economy would grind to a halt.

It is estimated that the annual potential revenue from the water business could be anywhere from US$ 400 billion to US$ 3 trillion.[59]

The Camdessus Report on Financing Water Infrastructure,[60] released in March 2003, quotes what it calls "generally accepted as the right orders of magnitude" estimates for the current and future required investments in the water sector in developing countries. The current levels of investments are stated to be around US$ 75 billion per year.

Annual potential revenue from the water business could be anywhere from US$ 400 billion to US$ 3 trillion.

Annual investments required for the period 2002-2025 are given as US$ 180 billion. These include about US$ 13 billion for drinking water, US$ 17 billion for sanitation and hygiene, US$ 70 billion for

municipal waste water treatment, US$ 30 billion for industrial effluent, US$ 40 billion for agriculture, and US$ 10 billion for environmental protection. (US$ 15 billion for hydropower is included in agriculture, environmental protection and power sector, for the reason that the larger schemes are usually multipurpose). This means that the annual investments today are about Rs. 3,37,500 crore rupees, and need to be increased by two and half times. This also is an indication of the profits in the business.

It may be noted that this estimate has been challenged by several people, saying that it is arrived at using a process that assumes that high-cost, capital intensive large scale infrastructure and expensive international consultants will be necessary and employed for meeting the goals in these sectors.[61] This assumption has been strongly disputed, and several options have been indicated that lead to far lower estimates of investments required.

This of course raises the question – are the much larger estimates – and the high cost projects behind them - being put forward so that larger volumes of business are generated? This is not unlikely at all.

Of course, nature provides a significant part of water requirement free of charge. Still, the profit potential is substantial, and even more so if control on natural sources too can be established and water can be transformed from a natural common property resource into a tradable commodity. This is exactly what the ultimate objective of the ADB and the World Bank is.

Nature provides a significant part of water requirement free of charge.

Interestingly, these agencies are not just proposing the trading of water as a commodity – they are going even further and aiming for trading of the water rights themselves. What does it mean for a water right to be tradable? It means that if a person has some entitlement or right to water, he can sell it to someone else. For example, a farmer may sell his right to an industry. What is the stated aim of such trading? It is said that this trading will ensure that water is allocated to the highest value user – thus ensuring efficiency of use. What does highest value use or user mean? It means essentially money. A cubic meter of water used by a farmer on his land to produce a coarse cereal like *jowar* may yield only

limited money to him; the same cubic meter of water used for a golf course will yield much higher profits. Thus, it makes for good economics for the farmer to sell his right to water to grow *jowar* to the golf course company.

As we have seen, the ADB Water Policy states that it will ".....support the evolution of water allocation through markets of transferable water rights once the necessary policy, legal, and institutional framework for IWRM in a river basin context have been put in place." The World Bank shares this aim, and also makes it clear how it would be used. The Water Sector Resources Strategy of the World Bank, adopted in 2003, states:

> *"... the central challenge is the development of legal and enforceable system of water rights. Once established, such rights give rise to a series of fundamental and healthy changes.*
>
> *"....those requiring additional resources (such as cities) will be ...able to meet their needs by acquiring the rights of those who are using water for low-value purposes.*
>
> *"....there are strong incentives for those using water for low-value purposes to voluntarily give up their rights, making reallocation politically attractive and practical."*

The World Bank recognises what this means, for it says that some see the above suggestion as "an unhealthy commodification of a public good". However, it has still decided to push this approach. The Country Assistance Strategy for India 2005-2008 emphasises the need to develop mechanisms that help allocate water to the highest value users. The numerous sector restructuring loans are also pushing the water sector in this direction, by transforming water into a commodity and the water sector into a market. It is no surprise that one of the key mandates for the Maharashtra State Water Sector Regulatory Authority, formed as a part of the requirement of the World Bank loan to the state for water sector restructuring, is to set up criteria for trading in water entitlements.

The CAS for India 2005-2008 emphasises the need to develop mechanisms that help allocate water to the highest value users.

The creation of tradable water entitlements serves several purposes. First, it changes water from being a right to an entitlement that can be purchased or sold. Secondly, it makes it easy to bypass the many conflicts over water resources as the more powerful can simply purchase it - witness the above reference to “making reallocation politically attractive and practical”. Last, but not the least, transformation of water into a market, and making the water sources and entitlements tradable will create huge opportunities for business and profits, opportunities that a resource provided free by nature is bound to restrict.

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Creation of tradable water entitlements serves several purposes including "making reallocation politically attractive and practical".

Options and Alternatives

"..... doubts have been raised about the realism of the expectation that large-scale private sector participation in the water sector will make more than a minor contribution towards meeting the water- related Millennium Development Goal."

Report of the Secretary-General, UN to the Twelfth Session of Commission on Sustainable Development, April 2004

GENUINE PUBLIC SECTOR REFORMS

A report by PSIRU, PSI and WDM, puts the privatisation efforts in perspective[62]:

"One billion people in sub-Saharan Africa, South Asia and East Asia (excluding China) regions are estimated to need connecting to a clean water supply between 2006 and 2015 in order to meet the Millennium Development Goal of halving the proportion of people without sustainable access to drinking water and basic sanitation: a rate of 270,000 people a day. Over the last nine years, the private sector has connected just 900 people a day."

The responsibility still lies, overwhelmingly, on the public sector, and will continue to do so in the future.

It is amply clear that in spite of the strongest efforts to push privatisation, the contribution it can make in alleviating the water problem is severely limited. The responsibility still lies, overwhelmingly, on the public sector, and will continue to do so in the future. This is true of urban water supply, and also of rural water supply and irrigation. Hence, the most important step in

addressing water problems lies not in privatisation but in making the public sector more efficient, more accountable, more responsible and deliver results.

It is often thought that opposing privatisation means accepting public systems that are (often, but not always) bureaucratic, inefficient and unable to deliver results. This is not true at all. Indeed, there is an urgent need for reforming and transforming public systems, but through reforms based on promoting democratic, participative options rather than commercialisation and commodification.

In case of Delhi, Parivartan - the organisation that played a key role in stopping privatisation in its tracks, has suggested a number of steps to improve the performance of the public sector Delhi Jal Board and to make it more participatory and accountable. Most of these suggestions had come up during various public meetings held in different areas of Delhi.[63] Some important ideas include making available similar incentives to the public sector as were to be made available to the private sector, but more equitably distributed, giving autonomy of operations but requiring accountability of performance, subsidy including cross subsidy to be built in the tariff calculation formulae, etc.

There have many initiatives all over the world that have promoted democratic, participative options to make the public sector deliver results and be accountable.

There have many initiatives and efforts all over the world that have tried to promote democratic, participative options to make the public sector deliver results and be accountable. For example, a wide range of case studies of innovative approaches to public water delivery are presented in '*Reclaiming Public Water*' a report by the 'Transnational Institute' and 'Corporate Europe Observatory.'[64]

This report describes, how, in Porto Alegre and Recife (Brazil) public water supply is being improved through increased citizen and user participation as well as other democratic reforms. It documents how water workers can play a key role, giving cases of worker's cooperatives running the water supplies in cities in Argentina and Bangladesh. The report presents case studies - Olavanna (Kerala, India) and Savelugu (Ghana) - where local communities have taken control to improve water delivery,

mobilizing their own capacities and local resources.[65] These case studies reinforce that principles of participation, accountability and transparency can make public sector deliver, and also illustrate the implementation of these ideas.

PROMOTING LOW COST OPTIONS

One of the reasons given for private sector involvement is the lack of resources with Governments. However, if low cost options are explored and selected for projects for water supply, irrigation etc. then this justification does not remain so valid. Evidence from all over the world shows that a large number of such low cost options are indeed available. A decentralised rainwater harvesting program can provide water for crops at far lesser costs than large dam based projects. Projects that involve long distance water transport and / or pumping will naturally be more expensive than options based on local decentralised water harvesting.

Pani Morcha, an organisation in Delhi, submitted to the Supreme Court a detailed plan suggesting steps to be taken to improve the water situation in Delhi. These plans, and several others, are essentially detailed proposals for local rainwater harvesting and augmentation. These include creation of flood plain reservoirs in Delhi, rainwater harvesting to recharge groundwater, protection and enhancement of local tree cover, revival of old streams, rejuvenation of local water harvesting structures like ponds and tanks etc. These plans also talk about equitable distribution of available water in the city, recycling and so on.[66]

A study of a small town conducted by Manthan[67] showed that such an option was a real possibility for the town and would be much cheaper than the plan being implemented that required bringing the water from a distant source.

However, such plans are still not taken seriously by the planners. In Delhi, they are instead depending on long distance sources like Tehri and Bhakra dam and on privatisation. In Indore, the ADB funded project for city water supply has possibly the most expensive option - bringing the water from Narmada river

Projects that involve long distance water transport will naturally be more expensive than options based on local decentralised water harvesting.

about 100 kms away, pumping the water through a height of over 500 metres.

The Camdessus Panel[68] report acknowledges that using more basic level of technology could reduce the annual investments to meet the Millennium Development Goals of water and sanitation by almost US$ 25 billion.

However, high cost, high capital intensive, large scale projects, large dams - all provide massive contracts and high profits and hence there are many vested interests pushing these projects.

Along with reform of the public sector, what is necessary is to study, identify and promote low cost options. This will not only allow for the limited resources available with Governments to be used more effectively, but will also lead to lower tariffs. Interestingly, many of the these options are also options that lead to least displacement of people and have much lower environmental impacts.

PUPs: SHARING KNOWLEDGE AND EXPERTISE

At the World Summit on Sustainable Development (WSSD) in Johannesburg, in 2002, executives/ managers of four public companies, Rand Water and Umgeni Water in South Africa, DMAE in Porto Alegre and the public Water and Sanitation Department of Recife Municipality in Brazil, came together to sign a declaration committing them to a public-public collaboration.[69] The founding statement of the declaration[70] states that "...access to potable water is a human right, as is the right to live in a healthy environment - which includes adequate sanitation services. It is a government obligation to provide basic water and sanitation services to everyone in the nation. The social value of water must be recognised and strengthened. Water is a common property, a public good, to be used for providing water security for people, local production needs and ecosystems".

"Water is a common property, a public good, to be used for providing water security for people, local production needs and ecosystems."

Just as water is a common property and public good, the knowledge and skills of managing it and its provision are also a part of the common resources of the people. Many public utilities all over the world have acquired this expertise in ample measure

over the years. Sharing this knowledge with others in the public sector committed to water as a social good can offer the same advantages of better technology and better management that a private company is supposed to bring in.

There are examples of Public-Public Partnerships (PUPs) that are implemented successfully like in South Africa where Rand Water Company of Johannesburg has developed a public-public partnership with the municipality of Harrismith. In the same way, one of the most developed models of public-public partnership is implemented in northern Europe. Here Stockholm Water Company is collaborating with the public water companies of Baltic states to help them improve performance.[71]

The willingness of efficient public water companies to share their knowledge and competence with other public companies offers an important opportunity and huge potential to make public water utilities efficient and effective.

WATER AS A FUNDAMENTAL HUMAN RIGHT

Perhaps the most important step is the recognition of water as a fundamental human right, and the responsibility of the State in ensuring its provision to all citizens. Only an approach that has this foundation can address the problem of supplying water for survival and livelihoods to the billions of people in the world.

Water as a basic human right is enshrined in various international covenants and treaties, and in many national laws. In particular, the United Nations' International Covenant on Economic, Social & Cultural Rights 1966, ratified by 149 countries by 2004, in an important international instrument holding up this right. However, the implementation of this right – like many others – leaves much to be desired. In 2002, the United Nations Committee on Economic, Social and Cultural Rights, a Committee of Experts to monitor the implementation of this treaty, has, in its General Comment 15 of 2002 given an extensive and detailed interpretation of what is necessary to actualise the Right to Water. The Comment describes what are the 'freedoms' and 'entitlements' that this right confers, as also the obligations of the state parties. The Comment is treated as the authoritative interpretation of the

Water as a basic human right is enshrined in various international covenants and treaties, and in many national laws.

Covenant. This Comment provides a very important framework to design and evaluate water systems to ensure that they indeed hold and further the right to water. Some of the important recommendations of the Comment are:

- *The human right to water is indispensable for leading a life in human dignity. It is a prerequisite for the realization of other human rights.*
- *The human right to water entitles everyone to sufficient, safe, acceptable, physically accessible and affordable water for personal and domestic uses.*
- *The Committee notes the importance of ensuring sustainable access to water resources for agriculture to realize the right to adequate food.*
- *The manner of the realization of the right to water must also be sustainable, ensuring that the right can be realized for present and future generations.*
- *Investments should not disproportionately favour expensive water supply services and facilities that are often accessible only to a small, privileged fraction of the population.*
- *To ensure water is affordable, State parties must adopt the necessary measures that may include,* inter alia*: (a) use of a range of appropriate low-cost techniques and technologies; (b) appropriate pricing policies such as free or low-cost water; and (c) income supplements.*

Complementary Declaration of the 4th WWF puts forward the idea that real solutions to the water problems can come only when planning is done keeping at the centre water as a basic human right.

It is interesting that the assertion that access to water is a human right was not included in the ministerial declaration[72] adopted at the 4th World Water Forum (WWF), which ended in Mexico on 22 March 2006. The WWF, since its inception, has been promoting privatisation and large projects like mega dams. This is not surprising since it is essentially promoted by the water and dams industry.

However, representatives of Bolivia, Cuba, Venezuela and Uruguay issued a separate statement calling it a 'Complementary Declaration of the Fourth World Water Forum'. This Declaration is important because it puts forward the idea that the real solutions

to the water problems can come only when planning is done keeping at the centre water as a basic human right. It sums up succinctly the approach that.....

> *"Access to water with quality, quantity and equity, constitutes a fundamental human right. The States, with the participation of the communities, shall make efforts at all levels to guarantee this right to their citizens, within their respective countries...."*

It is a welcome sign that after a decade and half of aggressive privatisation drives, efforts are on to reclaim water back in the public domain, re-assert that every person in the world has the fundamental right to water, not only for his/her domestic needs but for food and livelihood, and put back the responsibility to ensure this right squarely on to the state parties.

Only this, and not privatisation and profits, can be the real foundation of ensuring water for all.

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"Access to water with quality, quantity and equity, constitutes a fundamental human right."

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Annexures

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Comparison of Utility Performance Data (2001)

City	Piped Water Coverage (%)	24-Hour Supply Continuity (% of Area)	NRW (%)	Staff per 1,000 Connections	O&M Cost versus Revenue (2001)	Annual Capital Expenditure (US$ million)
PSP Concessions						
Jakarta	51	92	51	5	0.80	29
Manila	58	88	62	4	1.01	17
Public Sector						
Chengdu	85	100	18	34	0.50	9
Colombo	93	60	55	8	0.49	1
Delhi	55	1	53	20	2.45	107
Dhaka	80	0	40	12	0.89	28
Ho Chi Minh City	84	75	38	3	1.13	NA
Karachi	83	0	30	6	1.00	9
Kathmandu	83	0	37	15	1.04	2
Kuala Lumpur	100	100	43	1	1.34	30
Phnom Penh	84	100	23	5	0.46	15
Shanghai	100	100	17	6	1.08	113
Tashkent	100	100	27	6	0.47	2
Ulaanbaatar	49	48	36	NA	0.83	3
Vientiane	56	50	28	10	1.10	2
Hong Kong	100	100	25	2	2.41	279
Osaka	100	100	7	2	1.08	313
Seoul	100	100	25	1	0.57	215

NA. = Not assessed

Source - *McIntosh Arthur C. (2003): 'Asian Water Supplies Reaching the Urban Poor' Asian Development Bank, Manila.*

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Annexure - II

List of Failed Privatisation Projects in Water Supply and Sanitation

No.	Place	Country	Year Started	Year Ended	Company Involved	Reasons for Rejection	Result
1.	BA Province	Argentina	1999	2002	Azurix, Enron subsidiary	Frequent price increases, poor service quality, failure to honour contractual commitments, financial problems.	Termination of privatisation, Government decision.
2.	Buenos Aires City	Argentina	1994	2005	Suez Water, Aguas de Barcelonas	Company asked for huge tariff increase to compensate devaluation of currency. Price hikes were not allowed.	Privatisation was terminated, Company exited and filed for compensation in ICSID.
3.	Tucuman	Argentina	1994	1998	Vivendi Environnement	Severe tariff hikes, intense public protests.	Privatisation was terminated after it became an issue in the state elections. Company filed for compensation in ICSID, lost then re-filed the claims.
4.	Cochabamba	Bolivia	1999	2000	International Water Ltd., Bechtel	Drastic increase in water tariffs, intense public protests.	Termination of privatisation, Government decision.
5.	EL Alto and La Paz	Bolivia	1997	2005	Suez Water	Private operator refused to extend potable water supply to the poor areas of the city, peaceful but huge uprising and demonstrations by the people.	Supreme Decree by the Government cancelling the contract with the company.
6.	Halifax	Canada	2002	2003	Suez	Private corporation refused to take responsibility for failing to meet environmental standards of the contract, also effective grassroots campaigning by citizens and environmentalist groups.	Cancellation of sewage treatment contract.
7.	Hamilton	Canada	1994	2004	AWS/RWE Thames	Municipal council voted to take back operation of city water and wastewater plants after the contract term ended.	Operations to be handled by the municipal body.
8.	Toronto	Canada	2002	---	---	Huge public protests and campaigning against privatisation efforts.	Rejection of proposals, city council decision.
9.	Da Chang, Shanghai	China	1997	2004	Thames Water	Ended concession when government cancelled guaranteed rate of return.	Private company withdrew.
10.	Xian Water	China	----	2001	Veolia's subsidiary, Berlinwasser	Ended concession when government cancelled guaranteed rate of return.	Terminated, sold to Municipality.

List of Failed Privatisation Projects in Water Supply and Sanitation

No.	Place	Country	Year Started	Year Ended	Company Involved	Reasons for Rejection	Result
11.	Shenyang	China	1996	1999	Sino-French Water Company	High price of bulk water, huge losses to state owned company due to high guaranteed returns, failure of concession contract.	Contract terminated, re-sold to the State owned company.
12.	Shantou	China	---	2002	Cheung Kong Infrastructure	Company exited in dispute over contract terms.	Privatisation terminated.
13.	Bogota	Columbia	1994	---	---	City refused World Bank money due to privatisation conditionality.	Water Utility remains in Public Sector.
14.	Grenoble	France	1987	2001	Suez	Bribery scandal, public protests.	Termination of privatisation, Municipal decision during election.
15.	Potsdam	Germany	1998	2000	Eurawasser - Suez-Lyonnaise des Eaux and Thyssen	Unjustified price increases by private operator.	Termination of privatisation, Municipal body's decision.
16.	Munich	Germany	---	1998	---	---	Rejection of proposals, Municipal decision.
17.	Honduras	Honduras	---	1995	---	Intense Public Protests.	Rejection of proposals, Government decision.
18.	Debrecen	Hungary	---	1995	---	---	Rejection of proposals, Municipal decision.
19.	Bangalore	India	2001	---	Biwater	Very high cost of water, assured off-take from the company.	Bulk water supply contract from Cauvery river cancelled.
20.	Delhi	India	---	2006	---	Intense public protests, exposé of contractual terms favouring private companies.	Privatisation stalled.
21.	Nairobi	Kenya	1999	2001	Vivendi / Tandiran Information Systems Sereuca Space	Severe price hikes, huge job cuts, guaranteed profits, no competitive bidding process.	Privatisation cancelled.
22.	Kelantan Waters	Malaysia	1996	1999	Thames Water	Poor services provided by private company, huge debts, low number of connections, high amount of non-revenue water.	Contract terminated, State government bought back the stake from private company.
23.	Indah Water	Malaysia	1997	1997	United Utilities	Private operator exited, eventually contract failed.	Terminated, nationalised.

List of Failed Privatisation Projects in Water Supply and Sanitation

No.	Place	Country	Year Started	Year Ended	Company Involved	Reasons for Rejection	Result
24.	Manila - West	Philippines	1997	2003	Maynilad Water Services Inc. - consortium of Suez & Benpres Holdings	Failure to extend water connections to poor areas, no investments, increase in tariffs, non-fulfillment of other contractual obligations.	Public utility MWSS has had to take back the water services, including liabilities created by the private companies.
25.	Puerto Rico	Puerto Rico	1995	2003	A Vivendi subsidiary - Autoridad de Acueductos y Alcantarillados de Puerto Rico	Problems in service delivery, non-fulfillment of contractual obligations, violations of environmental laws.	Termination of privatisation, Government decision.
26.	Poznan	Poland	---	2002	---	---	Rejection of proposals, Municipal decision.
27.	Lodz	Poland	1993	1995	Vivendi's engineering subsidiary OTV	Problems in terms of costs and failures, work was done late and uneconomically, deadlines not kept, construction work was not finished on time.	City Council terminated construction contract for sewerage treatment plant.
28.	Nkonkobe	South Africa	1999	2002	Suez	Popular protests due to disconnection, price hikes.	Termination of privatisation, Court ruling.
29.	Malmo	Sweden	---	1995	---	---	Rejection of proposals, Municipal decision
30.	Dar es Salaam	Tanzania	2003	2006	City Water, subsidiary of Biwater	Erratic water supplies, acute water shortages, failure to provide clean water to poor communities.	Contract terminated, Government decision.
31.	Bangkok	Thailand	1993	1997	United Utilities	Private company found that it could not continue with the sewerage treatment plant construction contract, Government claimed that company is not fulfilling contractual obligations.	Company abandoned contract, it continues to pursue for claims for compensation.
32.	All	Trinidad	1994	1999	---	Failure to fulfill contractual obligations.	Termination of privatisation, Government decision.
33.	Atlanta	USA	1999	2003	United Water - Suez Subsidiary	Higher water rates, deteriorating quality, failure to make investments.	Termination of privatisation, Municipal decision.
34.	Birmingham	USA	---	2000	---	---	Termination of privatisation, Municipal body decision.

List of Failed Privatisation Projects in Water Supply and Sanitation

No.	Place	Country	Year Started	Year Ended	Company Involved	Reasons for Rejection	Result
35.	New Orleans	USA	2002	---	A subsidiary of Veolia Environnement	Campaign by a coalition of labour, environmental groups, churches and citizen activists.	Rejection of private bids by city's Sewerage & Water Board.
36.	All	Uruguay	---	2004	---	Increased water tariffs, new law by plebiscite making water a fundamental right.	Citizens voted water as a human right in a national referendum.
37.	Thu Duc, Ho Chi Minh City	Vietnam	1997	2003	Suez- Degremont	Company exited in dispute over contract terms.	Contract terminated.

* ***Explanatory Note –*** Only projects that have failed have been included here. Projects which are facing serious problems or opposition are not in this list if they are ongoing.

** ***Sources –*** The list of failed projects has been compiled from various sources including PSIRU, Public Citizen reports and others.

Ongoing/ In Pipeline Private Sector Participation Projects (PSP) In Water & Sanitation Sector

No.	Name of Entity	State	Type of PSP	Purpose	Features
1.	Vijayawada Municipal Corporation (VMC)	Andhra Pradesh	Not known	Water Supply & Sanitation	Newspaper reports say that VMC authorities have floated tenders for privatisation of water supply and sanitation. Some political parties have taken serious objections to this.
2.	Vishakhapatanam Industrial Water Supply Project	Andhra Pradesh	BOO	Industrial	Supply of 300 MLD to industries near Vishakhapatnam using the existing 153 km long Yeleru Left Bank Canal (YLBC) system, which presently supplies water from Yeleru Reservoir to Visakhapatnam Steel Plant (VSP). Flows will be augmented from the Godavari through a 56 km. long Godavari-YLBC conveyance system to deliver 600 MLD by 2010. A Detailed Feasibility and Investment Banking Report has been prepared for the project and the bidding process for Phase I is under-way.
3.	Borai Industrial Estate Water Supply Project (Off-take from River Sheonath)	Chhatisgarh	Concession	Industrial	30 MLD Scheme, 4 MLD Take or Pay Clause. Company allowed to build anicut on river Sheonath. Full rights to 23.5 kms of reservoir behind anicut, taken over by private company, people prevented from access to river. State assures regulated water release to the company, Finance provided by CSIDC as intercorporation deposit, concession period 20 years. Concession was cancelled by the Cabinet of Chhattisgarh government after mass movements and demonstrations. The issue had been reffered to PAC for further investigation. PAC has submitted its report but it is still not in public domain.
4.	Delhi Water Supply & Sewerage Project, Delhi Jal Board	Delhi	Management Contract	Domestic & Commercial	Delhi Jal Board had invited pre-qualification bids for management contract for Water Supply & Sanitation in operation zones South II & III on 12 Feb. 2005. The population served in these two zones is respectively, 8,00,000 & 6,00,000. DJB had short listed 4 water companies for management contracts - Suez, SAUR, Bechtel & Veolia. Mass protests, including a campaign lead by Parivartan, including several RWAs, oganisations & people led to the stalling of privatisation and withdrawal by the Delhi government of the loan application to the World Bank. The WB website shows the proposal as in pipeline.
5.	Sonia Vihar	Delhi	Not known	Domestic	Sonia Vihar Water Treatment Plant (WTP) Rs. 200 crores contract to design, build and operate Rs. 700 cr. plant for 10 years. The scheme will supply 140 mgd water to Delhi. Water drawn from Upper Ganga Canal.

Ongoing/ In Pipeline Private Sector Participation Projects (PSP) In Water & Sanitation Sector

No.	Name of Entity	State	Type of PSP	Purpose	Features
					Plant is ready but could not operate since Uttar Pradesh government has denied water to Delhi from Upper Ganga Canal citing shortage in Bhagirathi river and its farmers requirements. Has a take or pay clause of about Rs. 3 crores per year. Trial operations started in June 2005.
6.	Rithala Sewerage Treatment Plant	Delhi	BOT	Sewage	The plant was inaugurated in October 2002, treats 80 million gallons per day [MGD] sewage. Operations are handled by Suez subsidiary Ondeo-Degremont.
7.	Kutch Industrial Water Develop-ment Corporation (KIWDC)	Gujarat	Develop, Construct, Commission, Operate and Maintain	Industrial	Gujarat Infrastructure Development Board (GIDB), on behalf of the proposed KIWDC has invited proposals for 100-150 MLD integrated sea water based desalination plant along with its captive power plant on BOOT basis to cater to the water demand of the industries in Kutch.
8.	Department of Industries, Govt. of Jharkhand (GoJ)	Jharkhand	EOI	Industrial + Urban Water Supply and Sanitation	Augmentation, rehabilitation of water supply and O&M of water supply and sanitation system at Adityapur in PPP format. Role of the Operator will be to operate, implement operational improvements and rehabilitate the existing WSS systems that will reduce water losses, improve metering, billing & collections and improve consumer relations. Operator will also have to assist in implement-ing a major capital investment program to augment the system and may also have to invest. Bids invited 15 July 2006. IL&FS Infrastructure Development Corporation Ltd. engaged as project development consultant.
9.	Jamshedpur	Jharkhand	Private Sector Partnership	Water Supply & Sanitation Services	Jamshedpur Utilities & Services Company Ltd. (JUSCO), a wholly owned subsidiary of Tata Steel Company set up in August 2003, provides municipal services to 500,000 people in Jamshedpur. JUSCO has signed a two-year techni-cal partnership with Veolia Water. The tie up sought to provide management and technical consultancy to Tata Steel. Under its agreement Veolia Water continued to support JUSCO through 2005. In the only District Metering Area (DMA) created by the company, it provides continuous water supply to 350 households who pay Rs. 1000 - 1200 per month.
10.	Greater Bangalore	Karnataka	Proposed Management Contracts	Urban Water Supply & Sanitation	Project will cover seven City Municipal Councils (CMCs) and one Town Munici-pal Council (TMC) around Bangalore. BWSSB will implement the project on behalf of the urban local bodies. Privatisation is a part and parcel with the World Bank involved through the IFC. USAID is also involved. However, strong public protests by the Campaign Against Water Privatisation, a forum of many organisation in the city has put BWSSB on the defensive and has slowed the process.

Ongoing/ In Pipeline Private Sector Participation Projects (PSP) In Water & Sanitation Sector

No.	Name of Entity	State	Type of PSP	Purpose	Features
11.	Bangalore Water Supply & Sewerage Board	Karnataka	Service Contract	Systemic Leakage Reduction	A Systemic Leak Reduction programme, with an investment of Rs. 48 crores assisted by JBIC was launched in 2003. The project period was 18 months for implementation and the next 18 for maintaining the system on the basis of experience gained. M/s. Thames Water Asia Pvt. Ltd., and M/s. Larsen and Toubro, India, executed the project.
12.	Belgaum, Gulbarga and Hubli-Dharwad	Karnataka	Management Contract	Urban Water Supply	Govt. of India has received a loan of US$ 39.5 million from the World Bank to finance Karnataka Urban Water Sector Improvement Project (KUWASIP). As a part of this, privatisation of operation and maintanence of selected demonstration zones in the towns of Belgaum, Gulbarga and Hubli-Dharwad. The total project cost is about Rs. 235.10 crores, of which the World Bank contribution is Rs. 181.70 crores and of the Government of Karnataka is Rs. 53.40 crores. Compagnie Generale des Eaux, France, has been chosen as the operator and will have the responsibility in the above cities for 2 years following one year of distribution network rehabilitation.It is expected that the water supply phase will begin by the end of November 2006. It is also intended to apply a portion of the loan proceeds to finance the services of a consultant for Citywide Water Services Planning Engineering & Feasibility Studies.
13.	Dewas Industrial Water Supply (Off-take from River Narmada)	Madhya Pradesh	BOT	Industrial	First Planned in 1996, 23 MLD Water Supply for Dewas Industrial Estate (DIE), 9 MLD off-take will be gauranteed by MoU with industries in DIE. Estimated Cost Rs. 80 crores, likely to go up (Earlier it wasRs. 65 crores). Water to be taken from Nemawar village on the banks of river Narmada. Likely cost of water Rs. 25/ KL. MSK Pvt. Ltd., Baroda has been selected for executing the BOT project. The construction of the pipeline is underway.
14.	Indore City Water Supply Project	Madhya Pradesh	Not known	Domestic	360 MLD project of around US$ 100 m on BOT basis on offer on web site for many years. No takers yet, though Thames Water had shown interest.
15.	Sangli Miraj	Maharashtra	Management Contract	Domestic	Bids had been called, project developed. But strong local protests led to cancellation in late 2002.
16.	Municipal Corporation of Greater Mumbai, K-East Ward Water Supply Project	Maharashtra	To be decided	Domestic	Privatisation of water supply in the K-East ward. Population in the ward is about 1 million. One of the profitable wards in terms of collection of water supply charges. World Bank, through the PPIAF is giving US$ 692,500 to design and develop a pilot PSP model for water supply. Castalia (France) has been selected as the official consultant for the project from 6 consultants who had been shortlisted in October 2005. The others were PWC (India), DHV (Netherlands), Mott Macdonald, Scott Babtie (UK) & Fichtner (Germany).

Ongoing/ In Pipeline Private Sector Participation Projects (PSP) In Water & Sanitation Sector

No.	Name of Entity	State	Type of PSP	Purpose	Features
17.	Aurangabad Municipal Corporation	Maharashtra	BOOT	Water Supply	Offers called on 30 August 2005 for planning "Augmentation of Water Supply Project" on BOOT basis. Covering city demand for the year 2031.
18.	Ulhasnagar Municipal Corporation (UMC)	Maharashtra	BOT	Water Supply	Newspaper reports state that UMC has finalized a plan to hand over water supply to a private company for the next 30 years on a BOT basis.The private operator has commited to a price of Rs 5.40/KL as compared to the existing price of Rs 7/KL. The new company will set up a complete system for the UMC. It involves a pumping station to lift water from river Ulhas, take it to the reservoir and later to a filteration plant after which it will be handed over to the municipal body for distribution. Collection of water bills will be handled by UMC.
19.	Nagpur Municipal Coporation (NMC)	Maharashtra	Not Known	Urban Water Supply	EOI from service providers in urban water sector with national or international experience in O&M of urban water distribution system. NMC intends to make demonstrative zone with uninterrupted water supply to approximately 10,000 water connections with reduction in Unaccounted For Water and improvement in the level of service to consumers. The works include - rehabilitation of water distribution network including service connections, replacement of consumer meters, implementation of Automated Meter Reading (AMR) system, improvement in billing system, reduction in UFW and improvements in revenue, O&M of the zone for 5 years. On successful implementation of program in the zone, NMC will implement the program in entire city.
20.	Shillong Urban Water Supply and Sanitation Project	Meghalaya	---	Urban Water Supply & Sanitation	AusAID project for 'Preparation of Shillong Urban Water Supply and Sanitation Project', with total cost of Rs. 22 crore, and external assistance of AU$ 6.28 million. Date of Commencement - May 1999, Date of Completion - December 2005. Also AusAID project 'Gangtok and Shillong Urban Water Supply and Environmental Sanitation Program' to improve water supply and environmental sanitation services with contribution of $16 m. The program includes co-financing with the World Bank (Water and Sanitation Program South Asia) and is being delivered through Kellog Brown and Root, a subsidiary of Halliburton, URS, Sydney Water and two Indian companies.
21.	Ludhiana Municipal Corporation	Punjab	Invitation for Consultancy	Water Supply & Sewerage	Bids invited from Consultants for carrying out a Techno-Economic Feasibility Study for Ludhiana City.
22.	Jaipur	Rajasthan	BOT	Solid Waste	Construction, running and maintanence of 100 garbage stations in the city on BOT basis.

Ongoing/ In Pipeline Private Sector Participation Projects (PSP) In Water & Sanitation Sector

No.	Name of Entity	State	Type of PSP	Purpose	Features
23.	Jaipur	Rajasthan	BOO	Solid Waste	The Jaipur Municipal Corporation has invited bids for collection, transportation and disposal of hotel, restaurant waste on Built Own Operate basis for initial period of three year. Tender notice on 21 Jan. 2005. Similar call for bids has come out on 1 Feb.2005 for collection, and unloading of municipal waste.
24.	Ajmer Municipal Corporation	Rajasthan	BOOT	Solid Waste Processing	BOOT project for a 150-200 TPD Municipal Solid Waste Processing Project. Qualification and Financial Proposals have been invited on 14 Sept. 2006 from parties interested in implementation.
25.	Ajmer	Rajasthan	Service Contract for O&M	Urban Water Supply	Public Health & Engineering Department (PHED), Ajmer has privatised the operation and maintenance of the filtration plant, pipelines and pumping stations of the new water supply scheme from Bisalpur Dam. The 112 km of pipelines are looked after by a single private firm, Paharia Construction Company, Delhi. Two private firms, Hydron and AEC India Ltd., look after the 5 pumping stations between them. Hydron also operates and maintains the filtration plant.
26.	Gangtok	Sikkim	---	Urban Water Supply & Sanitation	AusAID project for 'Preparation of Gangtok Urban Water Supply and Sanitation Project', with total cost of Rs. 2.70 crore, and external assistance of AU$ 0.77 million. Date of Commencement - May 1999, Date of Completion - December 2005. Also AusAID project 'Gangtok and Shillong Urban Water Supply and Environmental Sanitation Program' to improve water supply and environmental sanitation services with contribution of $16 m. The program includes co-financing with the World Bank (Water and Sanitation Program South Asia) and is being delivered through Kellog Brown and Root, a subsidiary of Halliburton, URS, Sydney Water and two Indian companies.
27.	Tirupur Water Supply Project	Tamil Nadu	BOOT	Multipurpose (Industrial, Urban and Rural Water Supply)	The Rs. 1023 crores new Tirupur Water Supply Project near Coimbatore is the biggest water supply project on BOOT basis in the country so far. Multi-Purpose, mainly industrial water to large number of export oriented industries in Tiruppur. Also includes urban and rural domestic supply. The Tamil Nadu Government, Tiruppur Exporters Association and IL&FS, together designed the Tiruppur Area Development Project (TADP) as a PPP, with technical assistance from the FIRE (D) Project. A special purpose vehicle, New Tiruppur Area Development Corporation Limited (NTADCL) was formed in 1995 to implement the project. It contracted out the construction and maintenance of the systems to a Build, Operate and Transfer (BOT) consortium of Bechtel, United International, North West Water and Mahindra & Mahindra. USAID has provided long term (30 years) loan guarantees for US$ 25 million with IL&FS to help finance this project. Project has been completed and water supply and distribution started.

Ongoing/ In Pipeline Private Sector Participation Projects (PSP) In Water & Sanitation Sector

No.	Name of Entity	State	Type of PSP	Purpose	Features
28.	Chennai Desalinisation Plant	Tamil Nadu	DBOOT	Desalination/ Urban Water Supply	The Chennai Metropolitan Water Supply and Sewerage Board had called for bids on 18 Nov. 2004 for 100/200 MLD sea water desalination plant on BOOT basis. The project has been awarded to Chennai Water Desalination Ltd (CWDL), a SPV floated by IVRCL Infrastructures & Projects Ltd., a publicly listed company in India, which owns 75% of the project company. The remaining 25% of the project company is owned by Befesa Construccion y Tecnologia Ambiental, S.A.U. (Befesa CTA), which is a wholly-owned subsidiary of Befesa Medio Ambiente S.A (Befesa), a Madrid Stock Exchange-listed engineering and construction company. The total project cost is estimated at US$ 104 million, and the IFC (World Bank) is investing up to US$ 25 million in the form of a local currency loan. The project is located at Minjur, about 35 kms north of Chennai. A March 2006 newspaper report says that Chennai Metrowater's 100 MLD desalination plant project is awaiting environmental clearance from the Central Government.
29.	Chembarambakkam WaterTreatment Plant	Tamilnadu	BOOT	Urban Water Supply	Indo- French Protocol - Construction of 530 MLD Water Treatment Plant at Chembarambakkam on BOOT basis. Contract Agreement signed between Chennai Metropolitan Water Supply and Sewerage Board & M/s. Degremont on 5.9.2002 for Rs. 27.85 crore Date of Commencement - 2002 Ongoing, till date French protocol has not been finalized. Hence disbursement couldn't be effected.
30.	Haridwar	Uttaranchal	BOT	Effluent Treatment Plant	The State Industrial Development Corporation of Uttaranchal Limited wants to develop an Integrated Waste Water Collection System and a CETP at Haridwar Industrial Estate on BOT basis.
31.	Siliguri Jalpaiguri	West Bengal	BOO	Solid Waste	Bids invited on 25 Feb. 2005 for installation of a Compost Plant for processing up to 300 MT of mixed municipal solid waste on BOO basis.
32.	Kolkata	West Bengal	Invitation of Bids	Water Supply & Sewerage Systems	Kolkata Metropolitan Development Authority (KMDA) has drawn up a comprehensive plan for development of basic infrastructure and services for Salt Lake Sector V Industrial Township. KMDA has invited bids from private sector entities for construction of water supply and sewerage systems and for operating and maintaining the same over a period of 30 years. The technical and financial bids were to be submitted before 11th August 2006.

Ongoing or In Pipeline Private Sector Participation Projects (PSP) In Hydropower

No.	Name of Project	State	Company	Features
1.	Teesta Stage III HEP	North District, Sikkim	M/s. Teesta Urja Ltd.	1200 MW, estimated cost including IDC Rs. 5705.55 crores.
2.	Teesta VI HEP	Sikkim	M/s. Lanco Energy Private Ltd.	500 MW, cost Rs. 1561 crores. Environmental clearance obtained in September 2006. Sikkim Government to hold 26% equity.
3.	Baspa Stage II	Kinnaur, Himachal Pradesh	M/s. Jai Prakash Hydro Power Ltd.	300 MW, Assured Return of 16% + incentives, 10 year tax holiday, commissioned on - 27.05. 2003
4.	Karcham Wangtoo	Kinnaur, Himachal Pradesh	M/s. JayPee Karcham Hydro Power Corp.	1000 MW, cost Rs. 5900 crores. Lot of local opposition. Public hearing had to be postponed several times due to improper procedures adopted and local opposition.
5.	Malana HEP	Kullu, Himachal Pradesh	M/s. Malana Power Co. Ltd.	86 MW, de facto captive power plant, commissioned - 7/2001
6.	Allain Duhangan	Kullu, Himachal Pradesh	M/s. Rajasthan Spinning & Weaving Mills Ltd.	192 MW, on the rivers Allain and Duhangan. Funded by World Bank (IFC), Rs. 922 crores cost. Very strong local protests.
7.	Handia Hydro-power Project	Madhya Pradesh	EOI Invited	50 MW Project, on Narmada river. At tail end of Indira Sagar reservoir.
8.	Maheshwar Hydropower Project	Khargone, Madhya Pradesh	M/s. Shree Maheshwar Hydel Power Corp. Ltd.	PPA in 1994, was to be operational by 2000. Work has been stopped due to strong resistance by Narmada Bachao Andolan since 1998. Several international companies and ECAs have withdrawn. The project was being executed by S. Kumars.
9.	Vishnu Prayag	Chamoli, Uttaranchal	M/s. Jaiprakash Power Venture Ltd.	400 MW, estimated cost including IDC Rs.1615 crores, under construction.
10.	Srinagar HEP	Pauri Garhwal, Uttaranchal	M/s. Alaknanda Hydro Power Co. Ltd (GVK Group Company)	330 MW, estimated cost including IDC Rs.1699 crores.
11.	Dhamwari Sunda HEP	Shimla, Himachal Pradesh	M/s. Dhamwari Power Co. Ltd.	70 MW, estimated cost including IDC Rs. 440 crores.

Ongoing or In Pipeline Private Sector Participation Projects (PSP) In Hydropower

No.	Name of Project	State	Company	Features
12.	Jalaput Dam Toe HEP	Visakhapatnam, Andhra Pradesh and Koraput, Orissa	Orissa Power Consortium Ltd.	18 MW, estimated cost including IDC Rs. 69.68 crores.
13.	Urthing Sobla HEP	Pithoragarh, Uttaranchal	M/s. Reliance Energy Ltd.	280 MW, on Dhauliganga river.
14.	Singoli Bhatwari HEP	Rudraprayag, Uttaranchal	M/s. Larsen & Toubro	60 MW, developmental rights on Mandakini river on BOOT basis for 45 years. Cost Rs. 500 crores. DPR is under preparation.
15.	Malana II HEP	Kullu, Himachal Pradesh	M/s. Everest Power Company	100 MW, Upstream of Malana I on Beas river . Cost Rs. 663 Crores.
16.	Naying HEP	West Siang, Arunachal Pradesh	DS Construction Ltd.	1000 MW, BOOT project on Siyom river. First such project for the company.
17.	Uttaranchal Jal Vidyut Nigam Limited (UJVNL), Dehradun	Uttaranchal	Expression Of Interest	UJVNL has issued global invitation for EOI to execute one of its large, green site hydropower projects, in association with a JV partner. The equity paticipation will be 51% minimum for UJVNL and 49% maximum for JV partner.
18.	Government of Himachal Pradesh	Himachal Pradesh	Global Invitation for Bids for Implementation of Hydroelectric Projects	Proposals have been invited for implementation of 28 identified and other self-identified hydro electric projects in the private sector on BOOT basis of which 12 are in the range of 5-100 MW and the rest above 100 MW. Pre-feasibility report is ready for 8 of them.
19.	Sorang Hydroelec-tric Project	Himachal Pradesh	M/s. Himachal Sorang Power Private Limited, Hyderabad / Shimla	Sorang HEP is planned with an installed capacity of 100 MW on Sorang Khad, a tributary of Sutlej, in Kinnaur district. The completion cost is Rs. 562.00 crores.
20.	Hutong II	Arunachal Pradesh	Reliance Energy, ADA Group Company	The 1,250 MW Hutong-II is in the Lohit basin. PFR has been drawn up by the state government. Company will have to come up with DPR.
21.	Kalai I	Arunachal Pradesh	Reliance Energy, ADA Group Company	The 1,450 MW Kalai I Project is in the Lohit basin. PFR has been drawn up by the state government. Company will have to come up with DPR.
22.	Bharali II	Arunachal Pradesh	Reliance Energy, ADA Group Company	The 600 MW Bharali II is in the East Kameng basin. PFR has been drawn up by the state government. Company will have to come up with DPR.

States Where State Level Water Sector Reforms are Underway or Proposed

No.	Name of State	Features	WB, ADB & other Loans	Status
1.	Andhra Pradesh	• *Urban Water Sector Reforms.* • *Projects are also likely to involve reforms of irrigation & drainage, sanitation services.*	1. WB - Andhra Pradesh Urban Reform & Municipal Services Project, ◆ ***Loan Amount-*** *US$ 230 m, Approval Date- N/A, Project ID- P071250* 2. WB - Andhra Pradesh District Poverty Initiatives Project, ◆ ***Loan Amount-*** *US$ 111 m, Approval Date- 11 Apr 2000, Project ID- P045049*	Pipeline Active
2.	Assam	• *Willingness to Pay survey part of ADB TA to North Eastern region.*	ADB PPTA for North East (See NE Section)	
3.	Chhatisgadh	• *PriceWaterhouseCoopers Report on water sector called for full reforms.* • *Full TA funding from DFID.*	1. ADB TA - Empowerment for Improved Irrigation Management in Chhattisgadh, ◆ *TA Amount- US$ 900,000* ◆ *AOTA - IND 37056-02, TA Approval Date- Nov. 2003* 2. ADB - Loan for Irrigation to Improve Rural Livelihoods in Chhatisgadh, ◆ ***Loan Amount*** *- US$ 46.1 m, RRP - IND 37056*	Active
4.	Delhi	• *Roadmap for full scale reforms, price hike in December 2004, privatisation tenders in January 2005, proposed changes in legal regime, possible creation of state water regulatory commission.* • *The proposal for the World Bank Loan is currently on hold due to strong protests.*	1. WB Loan for US$ 2.5 m in 2002 to conduct a study for the reforms and restructuring of Delhi Jal Board. 2. WB - Delhi Water Supply & Sewerage Project, ◆ ***Loan Amount-*** *US$ 140 m, Approval Date- N/A, Project ID- P067215*	Pipeline
5.	Goa	• *Water and sanitation sector reforms including a project for restructuring of water and sanitation set up in the state under the Water and Sanitation Programme (WSP) of the World Bank.*	WSP supported water and sanitation institutional reforms projects.	
6.	Gujarat	• *Project implementation will involve urban water and sanitation sector* • *Additionally Gujarat is on its way to establish a Water Regulatory Authority to determine water distribution and tariffs.*	1. WB - Gujarat Urban Development Program, ◆ ***Loan Amount-*** *US$ 130 m, Approval Date- N/A, Project ID- P094722*	Pipeline
		• *Developing and enabling framework and assessing PPP options for water supply and sanitation*	1. PPIAF - Public-Private Partnership for Improving Service Delivery in Water Supply and Sanitation in Gujarat, ◆ *Approval Date 30/12/2005, (Technical Assistance)* ◆ ***Grant Amount*** *- US$ 178,400* ◆ *Cofinancing from other sources: US$ 109,900*	Ongoing

States Where State Level Water Sector Reforms are Underway or Proposed

No.	Name of State	Features	WB, ADB & other Loans	Status
7.	Jammu & Kashmir	• *Water sector reforms are specifically on the agenda of two ADB projects. The ADB loan and the PPTA are meant to complement each other.* • *As per the J & K Dept of Information and Public Relations news release,* "The state government has decided to conduct a study through international consultancy firms to initiate sectoral reforms. TORs for the study would be fixed in consultation with WB, ADB & DEA."	1. ADB Loan - Multi-sector Project for Infrastructure Rehabilitation in J & K, ◆ ***Loan Amount***- *US$ 250 m, Approval Date- 21 Dec 2004, LOAN - IND 38136-01* 2. ADB PPTA - Preparation of the Jammu and Kashmir Urban Infrastructure Development Project, ◆ *TA Approval Date- 21 December 2004 , DFID- US$ 500,000, PPTA - IND 38136-01*	Active
8.	Karnataka	• *The several ADB & WB loans together involve extensive Urban & Rural Water sector reforms. These involve full-cost-recovery, private players in O & M, financially self-sustaining systems for services delivery, etc.* • *Scaling -up of Municipal reforms.* • *The GBWASP project in Bangalore also involves extensive water reforms.* • *BWSSB has retained IFC to assist in structuring and implementing a management contract with private sector companies for O&M of water distribution and wastewater systems covering the eight ULBs. It is expected that PSP will be expanded to include the entire city, under concession contract. The bidding process is expected to begin by early Spring of 2006.* • *An IFC funding mechanism DevCo's advisory is currently providing funding for the mandate to introduce private participation in the City of Bangalore's water sector.*	1. WB - Karnataka Urban Water Sector Improvement, ◆ ***Loan Amount***- *US$ 39.5 m, Approval Date- 8 April 2004, Project ID- P082510,* 2. WB - Karnataka Municipal Reform Project, ◆ ***Loan Amount***- *US$ 216 m, Approval Date- March 2006, Project ID- P079675* 3. WB - Karnataka Panchayats Strengthening Project, ◆ ***Loan Amount***- *US$ 133.33 m, Approval Date- June 2006, Project ID- P078832* 4. WB - Second Karnataka Rural Water Supply and Sanitation Project, ◆ ***Loan Amount***- *US$ 151.6 m, Approval Date- 18 Dec 2001, Project ID- P050653*	Active Active Active Active
		1. The KUDCEMP project is supposed to push reforms on various urban issues. "Project seeks to optimize social and economic development in the urban areas by reforms in urban services & PSP." *2. Karnataka Urban Development III PPTA was used as the basis for developing the NKUSIP loan. The Investment Program would introduce PSP in selected sub-sectors, including water supply systems, sewerage systems, drainage, solid waste collection, etc. and support institutional reforms.*	1. ADB Loan - Karnataka Urban Development and Coastal Environmental Management Project (KUDCEMP), ◆ ***Loan Amount*** *- US$ 175 m, Approval Date- 26 Oct 1999, LOAN - IND 30303-01* 2. ADB PPTA - Karnataka Urban Development III, ◆ ***TASF*** *- US$ 400,000, TA Approval Date- 23 December 2004, PPTA- IND38254-01* 3. ADB - North Karnataka Urban Sector Investment Program (NKUSIP), ◆ ***Loan Amount***- *US$ 270.00 m, LOAN - IND 38254-01*	Loan Approval Date- 2006 (Expected Approval Year)

States Where State Level Water Sector Reforms are Underway or Proposed

No.	Name of State	Features	WB, ADB & other Loans	Status
9.	Kerala	• *The WB and ADB projects together involve urban and rural water sector reforms.* • *The WB project documents state that it will improve the quality of water supply and sanitation service delivery, through cost recovery, and institutional reforms*	1. WB - Kerala Rural Water Supply and Environmental Sanitation Project, ◆ ***Loan Amount-*** *US$ 65.5 m, Approval Date- 7 Nov 2000, Project ID- P055454*	Active
		• *The ADB urban development project lays down several conditions as a part of pushing the reforms process. These conditions have been strongly opposed by the Kochi civic administrators. The conditions include phasing out public taps, hike in water tariff, user fees on collection of solid waste and sewerage as additional fee on property tax, etc. The Corporation is particularly critical of the fact that it will have to bear the financial brunt of projects such as drinking water supply, sewerage and roads, which are not owned and implemented by it. They also feel that ADB conditions are an infringement on the rights and privileges of civic bodies.*	1. ADB - Capacity Building for Kerala Sustainable Urban Development, ◆ ***AOTA*** *- IND 37127-01, Approval Date- Dec. 2004* 2. ADB - Kerala Sustainable Urban Development Loan, ◆ ***Loan Amount-*** *US$ 221.20 m, Loan Approval Date- 20 December 2005, LOAN - IND 32300-01* 3. ADB - Capacity Building for Municipal Service Delivery in Kerala, ◆ ***AOTA*** *- IND 37128-01*	Active Active
10.	Madhya Pradesh	• *The ADB and WB loans together push for full scale Water Sector Reforms - urban, irrigation sector and others, price increases, full cost recovery, elimination of subsidies, retrenchment, ending public water stand posts, disconnection of non-paying consumers, water tariff regulatory commission, privatisation of 25 minor and 1 medium irrigation project.* • *The WB loan preconditions that state government, not later December 31st, 2005, prepare and submit draft legislation for the establishment of an autonomous Water Regulatory Commission to review & monitor water sector costs and revenues, and for setting of bulk user fees to enable water sector operations to be financially viable.*	1. WB - Madhya Pradesh Water Sector Restructuring Project, ◆ ***Loan Amount*** *- US$ 396 m, Approval Date- Sept. 2004, Project ID - 73370* 2. WB - Madhya Pradesh District Poverty Initiatives Project, ◆ ***Loan Amount*** *- US$ 110.1 m, Approval Date- 7 Nov 2000, Project ID- P059242*	Active Active
		• *Tariffs have been increased in Indore 150% from Rs. 60 to Rs. 150 and in Bhopal proposals to increase tariffs have been struck down twice because of political pressure in the Mayor in Council (MIC). A policy of disconnection of water supply on non-payment, a condition of ADB loan, has been in implementation in the project cities but is facing large scale protests.* • *Ratlam refused to accept the loan because of the conditions including use of high cost consultants.*	1. ADB - Loan for Urban Water Supply & Environmental Improvement Project in Madhya Pradesh, ◆ ***Loan Amount*** *- US$ 200 m, Approval Date - 12 Dec 2003, LOAN - IND 32254-01*	Active
11.	Maharashtra	• *Water sector reforms inlcuding irrigation sector, restructuring of MJP (the water agency), setting up of a Water regulator, etc.*	1. WB - Maharashtra Rural Water Supply and Sanitation "Jalswarajya" Project, ◆ ***Loan Amount*** *- US$ 181 m, Approval Date- 26 Aug 2003, Project ID - P073369*	

States Where State Level Water Sector Reforms are Underway or Proposed

No.	Name of State	Features	WB, ADB & other Loans	Status
	Maharashtra Contd.	• *The first Water Resources Regulatory Authority in the country set up. Several projects handed over to WUAs for management - a possible back door entry for privatisation.*	2. WB - Maharashtra Water Sector Improvement Project, ◆ ***Loan Amount*** *- US$ 325 m, Approval Date - 23 Jun 2005, Project ID - P084790*	Active
12.	Meghalaya	• "The project complements Australian assistance of AU$ 3 m to WB's WSP for South Asia water sector reforms. "AusAID has emphasized policy & institutional reforms as part of Australia's prioritized support of water governance reforms. "The program is co-financed by WB (WSP South Asia) & delivered through Halliburton, URS, Sydney Water & 2 Indian Companies."	1. Water and Sanitation Program South Asia - AusAID's TA for Water & Sanitation Project in Meghalaya & Sikkim, ◆ ***Approval Date-*** *30 Oct 2003, AU$ 39.4 m (Rs. 122 Crores)*	
13.	North- East Region	• *Willingness to pay survey, socioeconomic survey, poverty mapping, service demand survey .....for the project cities to assess the capacity to charge and prepare alternative supply and demand management options is a part of the TA exercise. US$ 800,000 is DFID contribution.*	1. ADB PPTA - North East Region Urban Development (Phase II), ◆ ***TA Approval Date-*** *Oct 2005, TA Amount- US$ 960, 000, PPTA - IND38260-01* 2. ADB PPTA - North Eastern Region Urban Development, ◆ ***TA Approval Date-*** *8 June 2004, TA Amount- US$ 1000,000, PPTA - IND35290-01*	
14.	Others	• *JNNURM aims at large scale reforms in municipal services in 63 cities identified across the country, with major reforms in services in water supply, sanitation, sewage disposal.*	1. Jawaharlal Nehru Urban Renewal Mission (JNNURM), Government of India Project	Ongoing
		• *The major objectives of the project include among other things -privatization of power, water supply & sanitation services. The documents specifically state that the choice of infrastructure sectors to be financed has been aimed to support reforms. In water sector projects financed would only be:* • "Privatized water supply and sanitation services or services that are under private concessions." • *Projects financed not known.*	1. ADB Loan for Private Sector Infrastructure Facility at State Level (IL&FS), ◆ ***Loan Amount*** *- US$ 100 m, Approval Date- 11 Dec 2001, LOAN - IND 34262-01*	
15.	Punjab	• *Reforms process in co-ordination with GOI's Swajaldhara project. WB is providing full support to state government to change policies, regulations, laws in favour of privatization to promote business of water and allied services.* • *Involvement of PriceWaterHouseCoopers.*	1. WB - Punjab Rural Water Supply and Sanitation, ◆ ***Loan Amount*** *- US$ 100 m, Approval Date- N/A, Project ID - P090592*	Pipeline
16.	Rajasthan	• *Project involves all the reforms steps like unbundling, tariff regulation, ground water laws. The Project report says that:* "The reforms .....unbundle and commercialize services by government departments, and increase participation by the private sector."	1. WB - Rajasthan Water Sector Restructuring Project, ◆ ***Loan Amount*** *- US$ 140 m, Approval Date- 19 Feb 2002, Project ID- P040610*	Active

States Where State Level Water Sector Reforms are Underway or Proposed

No.	Name of State	Features	WB, ADB & other Loans	Status
	Rajasthan Contd.	• *ADB loan has been pushing for large scale Urban Water sector reforms.*	◆ ***Loan Amount*** *- US$ 250 m, Approval Date- 03 Dec 1998, LOAN - IND 29120-01* 1. WB - Third Tamil Nadu Urban Development (TNUDP III),	
17.	Tamil Nadu	• *Possible urban water reforms.* • *WB wants to push reforms in the rural water supply too, with full cost-recovery, decentralization, private operators involvement, WUAs, etc. The WB Project document on RWSS states:* "A major thrust of the Bank's strategy would be to mainstream the reform approach in the state's entire RWSS program ..... decentralizing RWSS service delivery ...user financing of partial capital cost and full recurrent O&M costs." • *Attempts are on to create tradable groundwater entitlements around Chennai so that Chennai city can buy water from farmers and thus bypass the current strong protests from other farmers at depleting groundwaters.*	◆ ***Loan Amount*** *- US$ 300m, Approved on- 6 July 2005, Project ID- P 083780* 2. WB - Tamil Nadu Rural Water Supply and Sanitation Project, ◆ ***Loan Amount*** *- US$ 150 m, Approved on- N/A, Project ID- 078210* 3. WB - Tamil Nadu Irrigated Agriculture Modernization and Water Resources Management Project, ◆ ***Loan Amount*** *- US$ 400 m, Approval Date- N/A, Project ID - P090768* 1. PPIAF - Public-Private Partnership in Infrastructure Services Provision in Tamil Nadu, ◆ ***Approval Date****- 29 June 2004, (Technical Assistance), Grant amount : US$ 390,300.00* ◆ *Cofinancing from Other Sources: US$ 54,000.00*	Active Active Pipeline Ongoing
		• *Assisting the government of Tamil Nadu in preparing a policy framework to create an appropriate enabling environment for scaling up public-private partnerships to help address the state's infrastructure needs. This would also include policy, regulatory and institutional reforms.*		
18.	Uttar Pradesh	• *A series of sector reform steps to be taken like unbundling WRM, tariff regulation, WUA strengthening, UP Irrigation Department downsizing, Public Private Partnerships, private sector participation.* • *Changes in the existing institutional and policy framework for comprehensive water sector reforms.* • *Creation of State Water Regulatory Commisison.*	◆ ***Loan Amount*** *- US$ 149.2 m, Approval Date- 19 Feb 2002, Project ID- P050647* 1. WB - Uttaranchal Rural Water Supply and Environmental Sanitation Project, ◆ ***Loan Amount*** *- US$ 120 m, Approval Date- May 2006, Project ID- P083187*	Active Active
19.	Uttaranchal	• *Rural Water Sector Reforms.* • *The RWSS project will push policy and institutional level reforms, the project will also attempt to execute that in a total Sector Wide Approach.*	1. ADB PPTA - Uttaranchal Urban Development Project, ◆ ***TASF*** *- US$ 600,000, TA Approval Date 14 July 2005, PPTA - IND 38272-01*	Active
		• *It seems that ADB is preparing a roadmap to push full-scale urban reforms for improvement in urban service delivery & management.* • *Objectives of TA -* "To support the GOU in preparing a project suitable for ADB financing and will promote urban reforms for sustainable urban service delivery."		

States Where State Level Water Sector Reforms are Underway or Proposed

No.	Name of State	Features	WB, ADB & other Loans	Status
	Uttaranchal Contd.	"The ensuing investment project is expected to blend urban infrastructure and services improvements with interventions for sustainable urban service delivery through necessary urban policy and institutional reforms and capacity building assistance."		
		• *An ADB supported US$ 50,000 project for a multi-stakeholder platform for urban water supply comprising the public sector, private sector and civil society, for reforms of Dehradun Water Corporation.*	1. ADB - Advocacy for Change: Multi Stakeholder Platform (MSP) for reforms of Dehradun Water Corporation, ◆ ***Start Date:*** *December 2005, Proposed Completion: November 2006.*	Ongoing
20.	West Bengal	• *Reforms in urban water sector.*	1. ADB - Calcutta Environmental Improvement Project, ◆ ***Total Amount*** *- US$ 250 m, Project Number - 29466-01, Project Loan - 1813 - IND, Board Approval Date - Dec 2000,* ◆ *Estimated Completion Date - June 2007*	Ongoing

Note:

1. *Statements in Quotes are taken verbatim from World Bank/ADB and other project documents, viz. PIDs, PADs, PPTAs, RRPs, etc.*
2. *Only those projects/ loans which have impacts on water sector and are likely to involve reforms and restructuring are listed here.*

JNNURM

The recently launched Rs. 1,00,000 crore Jawahar Lal Nehru National Urban Renewal Mission (JNNURM) is an initiative directed at substantial improvement in urban infrastructure. This seems to be a sequel to the Urban Renewal Infrastructure Fund (URIF) first conceived during the previous NDA rule.

As per the website of Ministry of Urban Development, "JNNURM aims at the development of 63 identified cities (35 cities with million-plus population, capital city in every state, and a small number of other cities of historical, religious or tourist importance)." The Mission Statement puts it as: "The aim is to encourage reforms and fast track planned development of identified cities. Focus is to be on efficiency in urban infrastructure and service delivery mechanisms, community participation, and accountability of Urban Local Bodies (ULBs)/ Parastatal agencies towards citizens.

"The release of funds from the NURM would be contingent upon the States and their ULBs signing a tripartite MoU with the Union Government and accepting to undertake reforms listed out under the mission programme.

"The thrust of the JNNURM is to ensure improvement in urban governance and service delivery so that ULBs become financially sound and sustainable for undertaking new programmes. It is also envisaged that, with the charter of reforms that are followed by the State governments and ULBs, a stage will be set for PPPs."

Mandatory Reforms at the Level of ULBs, and Parastatal Agencies include levy of "reasonable user charges by ULBs and Parastatals with the objective that the full cost of O&M or recurring cost is collected", but also specify "Provision of basic services to the urban poor including security of tenure at affordable prices, improved housing, water supply and sanitation. Delivery of other existing universal services of the government for education, health and social security is ensured."

"Mandatory Reforms at the Level of States includes (f) Enactment of the Community Participation Law to institutionalise citizen's participation and introduce the concept of the Area Sabha in urban areas."

Source: *Jawaharlal Nehru National Urban Renewal Mission documents, Ministry of Urban Employment and Poverty Alleviation , and Ministry of Urban Development, Government of India, http://www.urbanindia.nic.in*

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National Institute of Urban Affairs (NIUA)

The National Institute of Urban Affairs (NIUA) website notes that, "NIUA was assigned by the Government of India the nodal role and responsibility to promote, analyse and disseminate the policy change agenda and also to coordinate and conduct capacity building training workshops in the demonstration cities."

NIUA activities include "...drafting of the Seventy-fourth Constitution Amendment Act, 1992, training workshops, seminars and research under the Indo-USAID collaborative programme, the Financial Institutions Reform and Expansion (FIRE-D) programme, being conducted at the Institute, [sensitising] the State Governments to the concept of full cost recovery for directly chargeable urban infrastructure and motivated city governments to increasingly go in for credit rating."

"Since inception NIUA has completed a large number of research studies and evaluation and consultancy assignments for the Ministries of the Central Government, National Planning Commission, State Governments, development corporations, and municipal bodies. Projects have also been undertaken with support from a number of international organisations such as the UNICEF, Asian Development Bank, United Nations Centre for Regional Development, World Bank, Ford Foundation, USAID and International Development Research and Cooperation." Among the thrust area of research are "Financing urban infrastructure through capital market, pricing and cost recovery in municipal services, public-private partnership in urban infrastructure and services, and private sector investment in infrastructure."

Source: *National Institute of Urban Affairs Website*
http://www.niua.org/aboutindex.htm

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Maharashtra Water Regulatory Authority*

The Maharashtra Water Resources Regulatory Authority Act came into force on 8th June 2005. Shri Ajit Nimbalkar, former Chief Secretary of the state has been appointed as the first Chairperson of the Authority. The Authority has two other members. Shri Shekhar, formerly with the Planning Commission has been appointed Member, Water Resources Engineering, while the second, Member, Water Resources Economy is yet to be appointed. Though the Authority was set up in June 2005, it has started work only around May 2006. Some Powers and Functions of the Authority:

- *to establish a regulatory system for the water resources of the state, including surface and ground waters, to regulate their use and apportion entitlements to use water between different recognised categories of use.*
- *to promote the 'efficient' use of water, to minimise wastage and to fix 'reasonable' use criteria.*
- *allocating specific amounts to specific users or groups of users according to the availability of water.*
- *to establish a water tariff system as well to fix the criteria for water charges. This is to be done on the basis of the principle of full cost recovery of management, administration, operation and maintenance of irrigation projects.*
- *laying down criteria for the issuance of bulk water entitlements for all the main uses of water including irrigation, rural and municipal water supply as well as industrial water supply.*
- *setting up of criteria for trading in water entitlements or quotas. The premise for trading is that entitlements 'are deemed to be usufructuary rights which may be transferred, bartered, bought or sold on annual or seasonal basis within a market system and as regulated and controlled by the Authority'.*

As its first task, the Authority has taken up 6 pilot projects to work out 'entitlements'. The six pilot project include 2 major projects - Kukdi and Ghod, both in the Krishna Basin, one medium project, Mangi and three minor projects, the last being defined as projects with command of 250-650 ha.

The World Bank appears to be giving lot of 'input' in the work of the Authority. It may be noted that the Authority has been formed as a part of the conditionality of the World Bank loan to Maharashtra for Water Sector Improvement Project given in June 2005.

P. Sainath writes, about the Water Regulatory Bill:

> *"The bill was brought to the State Assembly in the last hours of the last day of the session on April 13, 2005.*
>
> *"As one legislator, Narasiah Adam, put it: 'They brought in perhaps 16 bills on the last day. And this one came in around 6 p.m.' It was chaotic. 'This did not allow the bills to be read, let alone debated.' It was rammed through in a voice vote. The Maharashtra Government was duly rewarded. The Bank announced Rs.1,700 crore towards water projects in the State days after it passed the law."***

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*Drawn from Note '*Water Law Reforms in the Context of Water Sector Reforms*', by Dr. Philippe Cullet, prepared for Tata-IWMI Partners Meet, Anand, March 2006 and information provided by the Office of the Authority.

**The Hindu, Online Edition, http://www.hindu.com/2006/03/22/05hdline.htm, Accessed on 28 Mar 2006

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Delhi Water Supply and Sewerage Project

The World Bank funded US$ 140 million Delhi Water Supply and Sewerage Project (DWSSP) proposed 24x7 water supply and distribution and handing over the management of each of the 21 zones of Delhi Jal Board (DJB) to foreign private water companies. A fixed 'management fee' was to be paid to each company for running a zone. A set of performance parameters and targets had been set. The companies would get a bonus if they exceeded their targets. Penalty would be imposed on them if they failed. Two zones viz. South II and South III were the first planned to be handed over.

The project was named 'Towards 24x7', by the DJB. The World Bank had provided an initial loan of US$ 2.5 million for conducting studies, which was used for hiring consultants. Some of these were Price Waterhouse Coopers (PWC), GKW, CURE, Trilegal, etc. Indeed, documents obtained by Parivartan showed that the World Bank has exercised undue pressure to make sure the study contract went to PWC. The consultants advised, unsurprisingly, handing over management to private water companies. They also recommended reforming the DJB leading to commercialisation and presented a roadmap for the same.

Detailed study and analysis showed that the restructuring roadmap given by PWC was not going to address the basic problems of the system. On the other hand, privatisation and in particular the 24x7 contracts were structured in a highly skewed manner in favour of the private companies. They were going to put enormous financial burden on DJB and offer high profits to the companies; meanwhile, the water woes of the ordinary person were unlikely to be addressed even as the threat of high tariffs loomed large.

It was the DJB's responsibility to supply water to the private companies at the input of each zone, and if DJB failed the company would be under no obligation to supply 24x7 water supply. DJB was not able to answer rudimentary questions like the quantity of water that would be required for 24x7 supply and what would be the sources from where it would draw water? The company was to depute four experts for each of the 21 zones in Delhi who would be paid to the tune of US$ 24,400 per month each. The total of this comes to around Rs. 105 crores for all the 21 zones that is 60% of O&M cost of DJB. In addition to

this the company would be paid bonus for exceeding targets and also an engineering consultancy fees. In the beginning of every year the company would present the estimated annual operating expenses to the DJB for running a zone. DJB would have to make this amount available otherwise the company would be free of its obligations.

The reforms recommended by the consultants had also suggested phasing out subsidies and cross-subsidies and implementing the principle of full cost recovery. The implication of all this was that water tariffs were likely to shoot through the roof for lower and middle income citizens. For example if these suggested steps were to be implemented the monthly bill of a middle class family paying Rs. 192 currently would hike up to Rs. 990 and for a family living in a slum and paying Rs. 52 would increase to Rs. 200. This increase has been calculated at the present levels of operating expenses. With operating expenses likely to increase sharply under private water companies, the actual rise in tariffs would be far higher. It may be noted that the Delhi government had already increased the tariffs by around 250% before privatisation.

Interestingly, no tariff increases have been projected by the consultants for the New Delhi Municipal Corporation (NMDC) and cantonment areas - populated by higher income groups - for the next five years, which means that the people living in Municipal Corporation of Delhi areas, generally among the lower income segments, would heavily cross-subsidize the people in NDMC and cantonment areas.

One of the parameters to judge the performance of the company would be the amount of Non Revenue Water (NRW). If the company succeeds in reducing NRW beyond a certain limit it would be eligible for receiving bonus. On the other hand if it failed to do so it would be penalised for non-performance. But there seems to be a huge confusion in determining the exact amount of NRW in Delhi. According to DJB, it is 36%. According to PriceWaterhouseCoopers, it is 48%. According to GKW, it is 59%. For the first year it was proposed that the targets should be to reduce NRW from 59% to 48%. In effect, it would have meant a bogus target as the NRW was actually already well below this. Also DJB is making huge investments to the tune of Rs. 3500 crore to reduce NRW to 22% by 2008, so why should the companies be paid bonus for this?

The social implications of NRW would be serious for lower income groups and people living in slums as they mostly draw water from public stand posts or

'illegally' from leaking pipes. The company's performance would depend on how much they reduce NRW from these categories. Even the DJB admits that supplies through standposts and tankers would be phased out. According to DJB, extraction of groundwater through tubewells would also be stopped. Leakages would be plugged. But then how would people living in these areas get water? The investment plans suggested by the consultants do not have anything to extend water network to these areas. DJB says that it would provide group metered connections to the families in these areas. But since there are no plans for extension of water supplies to these areas how would these group metered connections would be provided? Would not group meter connections lead to conflicts amongst neighbours? Or would these be pre-paid meters?

If people's 'illegal' and 'free' sources of water were cut off without making legal and affordable arrangements for supplying them water, it could lead to social unrest, as witnessed in several other developing countries where such measures were implemented. There is also no concrete answer on subsidised tariffs to the poor from DJB. Also no proposal can be found on investments in the slum areas for sanitation facilities to the people.

Another issue of significance has been brushed aside by DJB that is of the accountability of water companies. The only thing that is known is that there have been seven parameters that have been identified to hold the companies accountable. But there are a lot of questions. How would the bonus and penalties would be calculated? How would the performance of the company be evaluated? Does the public opinion and feedback form any basis for evaluation? A look at the performance parameters indicates that they are hardly adequate to do any meaningful assessment of performance of water companies. They are loose, vague, without basis and have little relevance to direct improvement of services at the level of consumers.

The crucial aspect of handling of consumer complaints has been dealt with quite leniently for the sake of private companies. At present the DJB has a time frame of 24 hours to 3 days to redress complaints. But private companies have been given 5 to 20 days to redress consumer complaints.

The consultants' report showed that even after privatisation and steep increase in prices, Delhi government would need to put in huge sums of money in the water services. For the year 2005-06 the amount estimated is Rs. 1435 crore, for 2009-10 and 2010-11 it would be Rs. 1045 crore.

These are some of the key points from the large number of documents that were obtained by Parivartan under the Right to Information Act.

All this information when disseminated led to a huge uproar against the privatisation and reform plans of the government. People from all sections of the society came together to oppose the plans - including civil society representatives, NGOs, slum groups, RWAs, concerned citizens etc. The government eventually had to respond to the pressure and has stalled both, the privatisation of the two zones, South II and III and the in pipeline World Bank funded DWSSP.

After successfully putting a halt to privatisation, the same groups are now involved in a process of trying to make the DJB more accountable, transparent and effective.

- Based on inputs from and documents brought out by Parivartan

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Greater Bangalore Water Supply and Sewerage Project (GBWASP)

In an attempt to solve the water crisis in the peripheral areas of Bangalore, the Government of Karnataka has envisaged the Greater Bangalore Water Supply and Sewerage Project (GBWASP) to cover the eight Urban Local Bodies (ULBs) in Bangalore. The estimated cost of the project is Rs. 658.65 crores. The Water Supply component that is estimated to cost Rs. 340.55 crores has been taken up for implementation in the first stage. The cost of the water project, however, has since suffered an escalation due to several additions in the civil works. It is now estimated at Rs. 400.62 crores. This would be financed by a combination of grants (Rs.74.28 crore), loans (Rs.46.8 crore), private financing through Municipal Bonds (Rs.100 crore), and beneficiary citizen contribution (BCC) of Rs. 119.44 crore (based on 50% of residents signing up).

In GBWASP the government aims to introduce privatisation of water supply by outsourcing operations and maintenance (O&M) to a private sector operator. IFC of the World Bank group has been given the assignment to make recommendations on appointment of a suitable private sector operator for GBWASP.

The core principles like beneficiary capital contributions, users' pay, full cost recovery, etc. being introduced in GBWASP, will inevitably lead to denial of access to water for the urban poor. Firstly, the lowest slab for beneficiary contributions is Rs. 2,500/-, which the urban poor cannot afford. Secondly, the urban poor are to pay another Rs. 1,740/- for domestic water supply for individual houses. Thirdly, it has been made clear that there will be a hike in water tariffs. Those who do not put up the beneficiary contribution will not be included in the water supply scheme.

Another issue of grave consequence is the financial implications of this project on the ULBs. Each ULB is to maintain a dedicated Water Project Account (WPA) to which an amount equivalent to 1.5 times the annual debt service payments on account of the market borrowings would be transferred from the participating local body's general revenues towards debt servicing. This diversion of ULB revenues towards the debt repayment comes at a time when these

ULBs are already facing a serious financial crunch. The Indo-US FIRE-D project report, under which the project has been designed and prepared, itself admits that with the implementation of the project, ULBs will have very limited resources for other sectors.

Interestingly, in GBWASP, citizen's participation was attempted to be institutionalised as part of the project itself. Janaagraha, a Bangalore-based NGO, was appointed as the agency to ensure citizens participation by setting up citizens committees, training of committee members and building a communication package to equip them to interact with citizens, etc. This exercise is being called Participatory Local Area Capital Expenditure (PLACE). This process came under heavy criticism, with people raising questions about whether this was really participation or only a way to force acceptance of privatisation, higher tariffs and high beneficiary contributions. However, around February 2006 Jannagraha walked out of the project stating differences with the state government.

Attempts had already been made in 1998 to introduce a similar project with private sector participation. BWSSB, with the assistance of Kirloskar Consultants and Water and Power Consultancy Organization (WAPCOS), had prepared a Detailed Project Report for the said project, in conjunction with AUSAID who were financing it. While the Government claims that the project could not be implemented due to the lack of adequate financial resources, the stiff opposition faced from the BWSSB Union was one of the main reasons for shelving the project at that time.

Currently, BWSSB has awarded L&T a Rs.186 crore contract to construct the distribution network. It has supposedly completed about 1700 kms out of 2500 kms of the distribution network. Till recently over Rs.60 crores of user fees have been collected from users as BCC. KUIDFC has floated tax-free bonds worth 100 crores, each with a 5.95% interest rate (based on quotes from merchant bankers) and 15-year maturity. All issued bonds have been purchased by commercial banks in Bangalore.

In anticipation of privatization of water supply in Bangalore the BWSSB has started to disconnect public stand posts in slum areas. This is being done to ensure that people living in these areas will take new individual water connections, of which people are not financially capable.

Over the past months, in Bangalore, several organisations, NGOs, CBOs and concerned individuals have organised themselves under the banner of 'Campaign Against Water Privatisation' in response to the state government's decision to privatise water supply.

Post the formation of the Campaign Against Water Privatisation in Bangalore and its agitations, the Government has taken the decision to exempt the urban poor (those living in houses less than 600 sq. ft.) from paying the Beneficiary Citizens Contribution and has set about the task of preparing a policy on access to water of the urban poor.

The Campaign, from the beginning has taken this issue to the general public. Over the past months various groups have held awareness–building meetings, cycle *jathas*, pamphlet distribution, street plays, etc. in various localities especially slum areas and schools, colleges and with resident welfare associations. Alongside this awareness building exercises, the Campaign has organised several public protests. At present due to pressure from the people of Bangalore supported by different organizations and groups the privatisation element seems to have been stopped for some time, though that does not mean that the government has altogether stopped thinking about it.

A multi-lateral funding mechanism called Water and Sanitation for Urban Poor (WSUP) has recently been involved with the water issues in Bangalore through a 'urban water supply to the poor' project. The aim however seems to create an acceptance for privatization among the urban poor.

- Based on inputs provided by Clifton D'Rozario, Alternative Law Forum, Bangalore.

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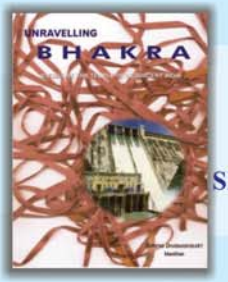
Other Publications of Manthan

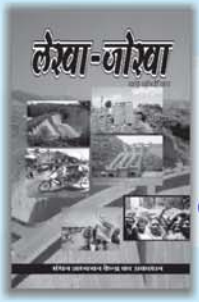


Unravelling Bhakra
An indepth study evaluating the legendary Bhakra Nangal Dam;
Shripad Dharmadhikary (2005)

Rahiman Pani Bik Raha Saudagar Ke Haath
Hindi version of Water: Private, Limited;
Shripad Dharmadhikary (2002)

Sudhar Ya Bazaar
A report on commodification of water in MP;
Rehmat (2005)

Kasbe Ka Pani
A study of traditional water sources and their degradation over time due to neglect and ignorance in a small town;
Rehmat and Mukesh Jat (2003)



Lekha-Jokha Bade Bandhon Ka
Summary of WCD India Country Study;
Compilation : Mukesh Jat (2004)

Manthan Adhyayan Kendra

Manthan Adhyayan Kendra (Manthan Research Centre) is a centre set up to monitor, analyse and research water and energy related issues, with a special focus on the latest developments resulting from the liberalisation, globalisation and privatisation of the economy. The Centre is located at Badwani, a district town in western Madhya Pradesh. While the focus of the work is on water and energy issues, this is in the larger context of equitable, just and sustainable development.

Manthan maintains live links with various people's movements, social activists' organizations and other similar research organisations.

ABOUT THIS BOOKLET

There is a surge of privatisation in the water sector in India. It is being justified in the name of bringing in new investments and increasing efficiency to address the myriad problems of the water sector. At the same time, a series of restructuring programs in many states are attempting to reform the water sector and transform it into a fully commercial and market operation.

This booklet attempts to present:

- *Key issues in privatisation and commercialisation of water*
- *Global experiences of the promises and practices of privatisation*
- *An overview of privatisation projects in the country*
- *A broad picture of the commercialisation of the water sector under the reforms program*
- *Impacts of privatisation and commercialisation and emerging resistance*
- *Key players including the World Bank and Asian Development Bank and the roles played by them*
- *Possible options to privatisation*