

K-East Water Distribution Improvement Project (WDIP)

Frequently Asked Questions

How did K-East Water Distribution Improvement Project (WDIP) come about?

1998: In 1998, Mr. Subodh Kumar, Additional Municipal Commissioner (AMC) in the Municipal Corporation of Greater Mumbai (MCGM), proposed the idea of removing the water and sewerage departments from the Corporation and creating a para-statal body. It is said that in his time, proposals for Public Private Partnerships (PPP) in the water sector began to circulate.

Around 1999-2000, the Municipal Corporation of Greater Mumbai (MCGM) received a loan from the World Bank (WB) for a study of its water supply systems. The Water and Sanitation Program (WSP), an external agency of WB, conducted the study¹. Findings of this study revealed problems in the water supply system such as poor leakage detection, illegal connections, lack of a foolproof metering system, etc. MCGM tried to return the balance loan to WB. But WB suggested using it to improve the system through PPP. The then AMC, Vidyadhar Kanade, refused the offer on the grounds that the Hydraulic Department makes an annual profit of about Rs. 500 crores and that improvement of the water supply system would involve building internal capacities and not by bringing in external partners. Currently, the Hydraulic Department makes 130% annual profit.

February 2003: On 22nd February 2003, Mr. B. C. Khatua, Secretary of the Water Supply and Sanitation (WSS) Department in the Government of Maharashtra, wrote a letter to the Water Supply Director of the Ministry of Urban Development (MoUD) stating that preparation of documents *“for privatization of Water Supply operations in K-East ward is the first ever attempt in any state for privatization of water supply, though on a limited basis ... This project needs to be supported for furtherance of full privatization in drinking water sector in due course of time.”*

March 2003: On 25th March 2003, the Ministry of Finance (Department of Economic Affairs (DEA)) supported “the proposal of the Government of Maharashtra recommending an application of Greater Mumbai Municipal Corporation for obtaining the PPIAF grant amount to US \$3,00,000 for preparation of documents for privatization of Water Supply operation in K-East ward.” However, WB approved a sum of US \$6,92,500 in consultation with MCGM, which according to the file notings obtained through Right to Information (RTI) was done without the knowledge of the MoUD/DEA, by changing the Terms of Reference (TOR).

February 2006: The study of the water supply systems in K-East ward began in February 2006. At the end of this study, the consultants conducting it will present recommendations to MCGM for improvement of water distribution in K-East ward.

Who are the parties involved in K-East WDIP?

¹ The Water and Sanitation Program (WSP) acts as a technical advisor to governments on water and sanitation sector reforms and projects. Through research studies and pilot projects, WSP influences governments to consider the option of public-private partnerships (PPP) in the water sector.

1. **PPIAF:** The Public Private Infrastructure Advisory Fund (PPIAF) is a transaction advisor of the WB. A transaction advisor exists when there is privatization. **PPIAF was established in July 1999 as a joint initiative of the governments of Japan and the United Kingdom (UK). It works closely with WB 'as a resource to assist developing country governments to improve the quality of their infrastructure through private sector involvement'.**

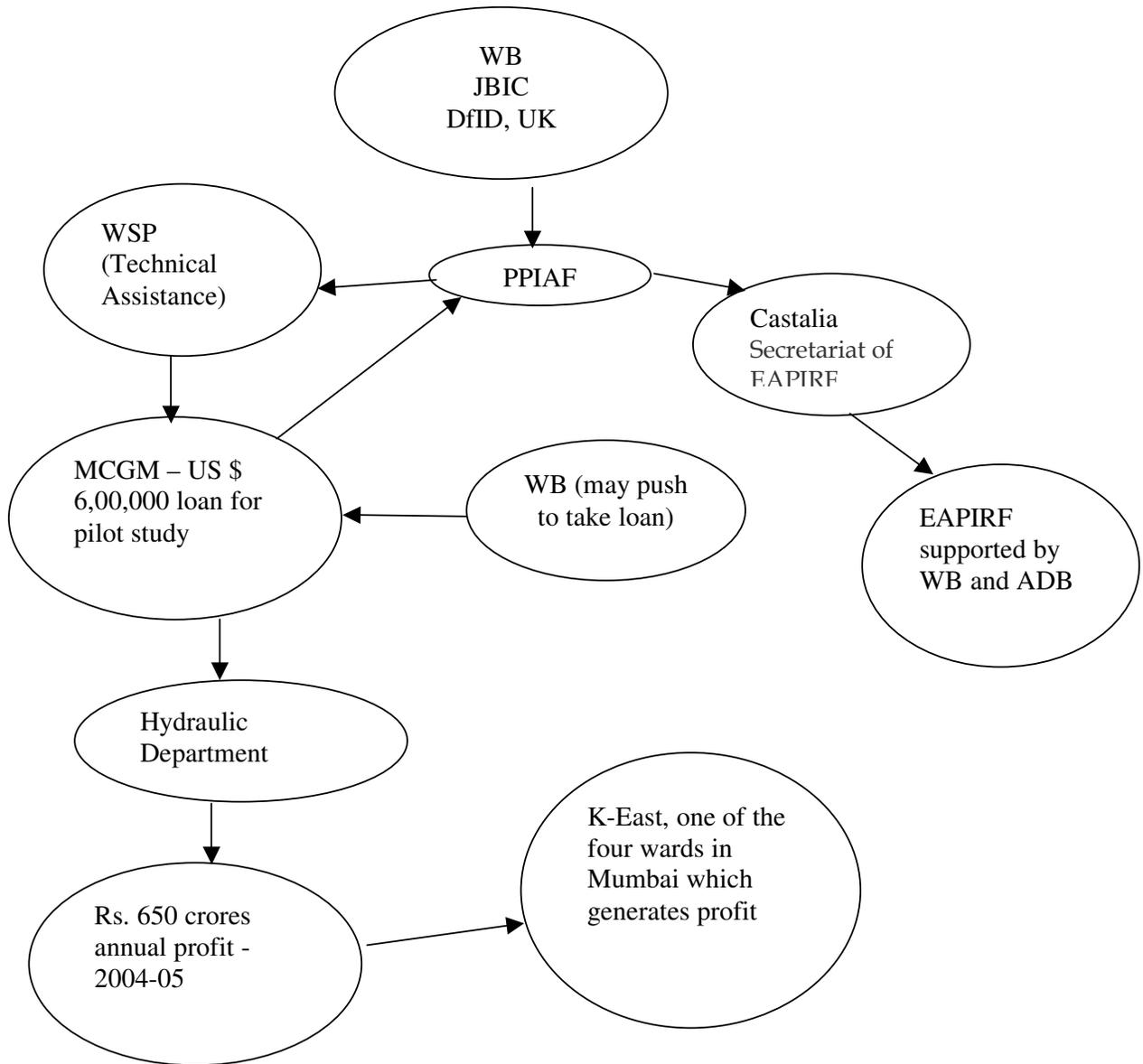
PPIAF has given an 'unconditional grant' of US \$6,00,000 to MCGM for completing the pilot study in K-East. The aim of this study is to suggest improvements in the water supply systems of K-East. PPIAF has requested WB to supervise the grant to be given to the consultants².

2. **Castalia:** Castalia, the consultants appointed for the K-East WDIP study, is a New Zealand-based strategic consultancy. Among its other engagements, Castalia is also the interim secretariat for the East Asia and Pacific Infrastructure Regulatory Forum (EAPIRF) together with IDP Consult in Manila since 2005. EAPIRF is supported by WB and Asian Development Bank (ADB). Funding for EAPRIF has been provided by PPIAF. Castalia has thus been involved with WB and the activities of PPIAF prior to the K-East study.

3. **World Bank (WB):** As mentioned above, PPIAF has appointed WB to supervise the grant for the project. WB has appointed the consultants for the K-East study. The TOR for this study have been signed between WB and Castalia.

4. **MCGM:** WB's Task Manager for this project, Mr. Shyamal Sarkar (who is also the Task Manager for the Delhi 24x7 project and the Greater Bangalore Water Supply and Sanitation Project (GBWASP)) says that **MCGM is the manager of the project.** *If this is so, was the MCGM involved in designing the TOR signed between WB and Castalia? Why was the TOR not signed between MCGM and Castalia? Will MCGM and the citizens be consulted if the TOR is changed at any point in time?*

² PPIAF had also funded the initial study of the Delhi 24x7 project. The Delhi 24x7 project was stalled in November 2005 because citizens found that the World Bank (WB) had arbitrarily interfered in selecting consultants for the project. The proposal did not contain concrete suggestions for both 24x7 water and for improving water distribution in the two proposed zones.



Actors involved in K-East WDIP and connections between the various actors

PPIAF is a fund created by the WB, JBIC (Japan) and DfID (UK) while Castalia, the consultants appointed to conduct the study in K-East ward, have PPIAF connections through previous consultancies.

Who benefits from K-East WDIP?

K-East WDIP is claimed to be a project for the citizens and stakeholders of K-East. MCGM claims that K-East WDIP is a 'Win-Win Situation' because it will serve as an indicator to bring reforms to the water distribution system in all of Mumbai and the study is being conducted free of cost since the money for the study is an unconditional grant. But ...

- **As per the TOR, Castalia will prepare bid documents to contract the operations of water supply in K-East to private operators.** This study then assumes from the start that the only way to improve water distribution is by contracting it out to private operators.
- **Will the bidding for contracting water operations in K-East be fair?** In a correspondence obtained through RTI, it was found that the bidding process will be pre-fixed. Local operators will be kept out to involve large international operators. In an email that Shyamal Sarkar wrote to David Ehrhardt, CEO of Castalia, (17th March 2006), Sarkar tells Ehrhardt that **the communications strategy for the project should deal with local operators who would object to bringing in international operators since managing operations of water in K-East is not rocket science and they can do this as well. Sarkar suggests that reputable Indian companies with limited or no expertise in the delivery of public service can be brought to the WSS (Water Supply Services) sector.** In this letter, Sarkar also says that the communications strategy should address International Professional Private Sector 'because following the 'Delhi mess', international private players are cautious to enter the Indian urban water market'. This communication suggests that the manner in which WB is promoting water distribution improvement is certainly not in the best interests of the citizens of K-East, leave alone the fact that the way things are being planned is almost pre-decided.
- According to another piece of correspondence obtained through RTI, it was found that the **bidding process will be one where the rules for bidding are accepted by all the bidders. Once the contract is awarded, it will be renegotiated between the bidder and WB.** The correspondence further states that the bid documents will be designed in 'collaboration' with the potential bidders so that more bidders can come in.
- The same correspondence also specifies that **private operators will have to be assured Partial Risk Guarantees (PRGs)** which means security against all kinds of risks that may be involved in running the project. This includes losses incurred during the initial operations, non-payment of tariffs by customers such as the army and hospitals who the private operator will not be able to cut off in case of non-payment, etc. The correspondence states that **regardless of whether the agreement (signed between MCGM and the private operator) is a lease³, a concession⁴ or a management contract, public financing should be brought in substantially and that the private sector should initially be putting up with relatively little of their capital at risk.** Thus the private operator will be given PRGs at the expense of public money. For the operator's PRGs then, the public will have to bear tariff hikes or increased indirect taxation.

It seems then that a win-win situation exists for the private operator. His interests are secured at the expense of the citizens for who this project was meant to be.

What are the consultants doing in this study?

³ **Lease agreement:** A private company leases, operates, and maintains a state-owned asset for a prescribed period. The public sector retains the responsibility of financing the investments in fixed assets.

⁴ **Concessions contract:** A private operator is responsible for developing or rehabilitating and operating a State owned asset or service for a prescribed period on the principle of BOT (Build-Operate-Transfer) or ROT (Rehabilitate-Operate-Transfer)

A correspondence obtained through RTI stated, *“Of course, consultants have to do some home work before the first meeting with pre-qualified companies; but experience has shown that there is often no need to spend too much time firming up data, in particular on the status of the distribution network, as the bidders will do their own due diligence, when preparing their bid ...”*

As per the contract signed between WB and Castalia, Castalia is responsible for:

1. **Market Sounding⁵**
2. **Pre-Qualification of Operators**
3. **Preparation of drafts of bidding documents, consultation with pre-qualified operators, evaluation with stakeholders;**
4. **Assistance to bid evaluations and negotiations.**

How are the above responsibilities linked to water distribution improvement for the citizens of K-East?

Castalia is expected to gather data about the water supply and distribution system in K-East ward including data on illegal connections, actual leakage and Unaccounted for Water (UFW), etc. However, thus far, the **consultants have been approaching MCGM for all data requirements. If WB and WSP believe that public utilities are ineffective and corrupt, then why is Castalia relying on the data provided by the Hydraulic Department?** If this was really the case of distribution improvement then Castalia, in their capacity as expert consultants, should be looking at alternatives to the problems of water supply faced by citizens of K-East. But the consultants seem to have already concluded that only private sector involvement will solve water problems for the citizens of K-East. *After all, they are not supposed to do much homework!*

Why has K-East Ward been chosen for a pilot?

K-East is one of the four wards in Mumbai which makes a profit. Its distribution network is fed by four zonal reservoirs and it consists of multiple supply sources which enable 24 hours water supply. **K-East can easily be isolated from the rest of the city and hence, can be conveniently shown as a model for 24x7.** The water distribution system in this ward was developed from 1950 onwards; 50% of the infrastructure is at least post-1970. All the connections in this ward are metered. Technologically and infrastructure-wise, K-East is one of the best wards in Mumbai.

The choice of K-East ward is therefore strategic. It is bound to result in successful implementation of WDIP. Given the remarkable standards mentioned above, there is no doubt that even the most basic of all water distribution improvements will succeed here. *Since the success of this ward will decide whether the city of Mumbai should/should not improve water distribution by the proposed model, the answer may well be yes⁶.* If the entire exercise of the K-East WDIP study was genuinely meant to introduce certain improvements in the water distribution network of Mumbai City, should not the agencies involved in this project have opted for a ward which is not as well serviced as K-East ward?

Is 24x7 water possible?

24x7 water is an engineering miracle if it can ever be achieved. In the case of the Delhi 24x7 project, private companies were to supply 24x7 only if the DJB (Delhi Jal Board) supplied this water. It is likely that in

⁵ Market Sounding involves determining which private players can bid for the project, determining who are the consumers and their willingness to pay and how much “free” water will have to be provided to some consumers who will not pay;

⁶ In a management contract model promising 24x7 water supply in Puerto Rico (in an area similar to the K-east ward), water was diverged to commercial outlets like amusements parks, swimming pools, five star hotels, etc.

order to supply K-East with 24x7 water, the water will have to be taken from other wards.

In the Delhi 24x7 project, performance of the water company was to be judged not on the basis of whether each person received 24x7 water in their house, but on the basis of whether the water company provided 24x7 water at the input of each zone or not. Thus, if you are not getting water for the last three months in your street, whatever may be the reasons, it will be assumed that the water company provided water 24x7 to all the houses in the entire zone because that water was available at the input of that zone during that period. What's more, the company may get a bonus for good performance!

24x7 is a political promise, not a basic need. 24x7 is promoted because some people want Mumbai to be a world class, global city. But what the citizens may require is four to six hours of guaranteed, affordable, and reliable water supply at decent hours in the day, not at some unearthly hour.

Why is this form of water distribution improvement problematic?

Certainly water supply in K-East and in Mumbai needs improvement, but the manner in which WB and other agencies involved in this project are trying to promote it is problematic because:

- a) WSP is funded by several donor agencies including SIDA (Swiss International Development Agency), DfID (Department for International Development, UK), etc. Under the guise of being a technical advisor, WSP opens the window for WB, USAID and other International Financial Institutions (IFIs) to fund water privatization projects. These agencies, in turn, open the entry for large Multi-National Corporations (MNCs) to enter the urban public services sector.
- b) In the name of 'progressive reforms', these MNCs gradually take over service provision from the municipalities. **Surpluses from these services which would previously accrue to the municipalities and would be used to cross-subsidize other services, under privatization go straight into the MNC's treasury. Thus, for instance, the surpluses from Hydraulic Department of MCGM subsidize provision of sewerage and storm water drain facilities (which do not generate any revenue of their own) to the citizens. Under water distribution improvement, the surplus will go to the private operator and therefore such cross-subsidization will not be possible.**
- c) WSP seeks reforms in the water and sanitation sector pressing Indian Government to disallow projects from approaching national sources of funding such as Canara Bank, HUDCO, etc. Projects and the government agencies involved must be "motivated" to take loans only from IFIs and private banks such as the WB, ADB (Asian Development Bank), ICICI, IDFC, etc.
- d) As mentioned above, the financial risks involved in such water privatization projects have to be borne by the municipalities and the citizens. This means that citizens have to pay for the risks through tariff hikes in water or through other indirect taxation. This can be seen above where the private operator will have to be assured PRGs at the expense of the citizens and public financing.
- e) Water privatization, as promoted by the WB and Europe-based water transnational corporations such as Suez, Vivendi, Saur (all based in France), RWE Thames Water, International Water and Severn Trent (all based in the UK) and Bechtel (based in USA) have failed to provide water which is accessible and affordable to all. Several models of privatization have been developed and experimented with. Many of them were unsuccessful, in particular the concession model. Currently, **the most propagated model is privatizing operations and management (O&M) to private operators through management contracts.** Under management contracts,
 - The government must bear all the risks related to the project,
 - The private companies are under no obligation to invest,
 - All conditions necessary for improving the supply of water (quality and quantity), generating the capital for the required investment, etc. has to be met by the government and,
 - The Private manager/operator simply charges an annual fee for its "management expertise",
 - There is no guarantee if all the employees of the Hydraulic Department will be employed by the Private manager/operator

Use of the term privatization is a strict no-no! It is conveniently being replaced by phrases such as public-private partnerships (PPPs), private sector participation (PSP) and now, water distribution improvement project (WDIP).

- f) Support for the K-East WDIP will be built by co-opting civil society groups, political parties and leaders and eminent persons and groups in society. On 2nd March 2006, David Ehrhardt, CEO Castalia wrote an email to Kartik Upadhyay of Hanmer and Partners stating the communications strategy for building support for the K-East WDIP should target non-political champions for the project including eminent persons from research institutes, persons on the Chief Minister's Taskforce, the All India Institute of Local Self Government (AIILSG) and thinkers and NGOs on the Taskforce, some Members of Parliament⁷, organizations working with slum dwellers such as SPARC (Society for Promotion of Area Resource Centres), Mahila Milan (MM), Apnalaya, YUVA (Youth for Unity and Voluntary Action) and the Slum Rehabilitation Society (SRS) were suggested to be inducted as champions for the project. According to Ehrhardt, this will ensure greater support for the project and the project will be seen as pro-poor. If co-option is the way in which this project is going to be put before the citizens, then its integrity and genuineness is under question.
- g) **The parties involved in K-East WDIP are pushing for greater autonomy for the private operator in relation to hiring of employees and discretion in making investment decisions.** It is not certain if all the employees of the hydraulic department of MCGM will be hired by the private operator when the new arrangement comes into force. By stressing on more autonomy for the private operator/manager, the role of MCGM will be greatly reduced. Who will then ensure checks and balances on the operator? If the operator/manager is more powerful than MCGM, how accountable will the operations be to the public?

Involve Citizens in K-East Water Distribution Improvement

In a meeting organized by the MoUD sponsored by WSP-SA (South Asia) on 22 and 23 May 2006 at YASHADA in Pune, Civil Society Organizations (CSOs) passed a resolution stating that WB should not interfere in the water sector in India. Both WB and WSP do not add value to improving water supply in Indian cities. They simply appoint foreign consultants when the expertise is well available among technicians in India and within the water departments of municipalities. Most importantly, the resolution affirmed that WB approach interferes with local governance of town and city councils. It imposes conditions and mandates changes in laws, rules and regulations of local governments to avail of the Bank's assistance. **The resolution stated that WB should put up all documents and correspondences related to the various water projects in Indian cities in the public domain and that it should not be exempt from RTI simply because it is 'third party'.**

There are examples of successful public operated water supply services such as in Hong Kong where revenue from property taxes is used to provide water to the people and a system is put in place where high water users compensate low-usage households. The Hong Kong government does not treat water as a commodity but as a public good which should be accessible to all. (For more details, see <http://www.tni.org/altreg-docs/water.htm>).

Given all of the above, we want to know whether:

1. What is being suggested overall under K-East is an improvement or an experiment?
2. Can you improve water distribution without mentioning any of the same in the consultant's TOR/contract?

⁷ While referring to Members of the Parliament, Ehrhardt states, "At the MP level, Mr. Sarkar suggested someone as worth trying to enlist. I'm afraid I've forgotten her name, but she's the daughter of a previous MP, recently elected in a by-election, I believe."

3. What kind of prior experience do the consultants have in improving water distribution in other cities?
4. What would be PPIAF's position on the recommendations and outcomes of the study conducted by Castalia?
5. Where is citizen's participation in all of this?

What they Say?	What it Means?
24x7 – a promise	24x7 – a myth
24x7 – not foreign, not private	24x7 – private water
24x7 – water for all	24x7 – no guarantee of 24x7 water in each and every household
24x7 – standards favouring foreign operators	Strategy to keep out local operators, small and medium scale operators, bringing in large MNCs with poor track records in supplying water across the world.
“Fair” bidding	Fixed Bidding – bidders pre-qualified, bid documents and terms developed in collaboration with bidders, criteria for bidders not to be too restrictive
Transfer of employees of Hydraulic Department to private operator – no firing of former municipal employees	Private operator in control of former municipal employees – “discretion” to decide about employees
Technical Assistance from WSP	Push for Loan from WB (technical assistance becomes a strategy to push local governments to acquire loans from International Finance Institutions (IFIs) and donor agencies)
Loan – when taken from WB and IFIs	Conditional Funding
Management Contract	Operator's Commercial Risks to be borne by the Municipal Corporation and by the citizens)
No tariff hikes	Indirect tax hikes. Also private operator's subsidies will be paid through money which could have been used for public investments)

This FAQ has been compiled by CASUMM, Bangalore, with support from Action Aid India.

This FAQ has been prepared by referring to documents, reports and correspondences obtained through RTI applications filed with the Hydraulic Department (MCGM), Department of Economic Affairs (New Delhi), Ministry of Urban Development (New Delhi) and the Ministry of Water Resources (New Delhi). Some of the reports and documents referred to here among others include

1. Contract No. 8002529 (contract entered between International Bank for Reconstruction and Development and Castalia Ltd.),
2. India Design and Development of Public Private Partnership model for water distribution in K-East ward, Mumbai,
3. Minutes of Negotiations and Terms of Reference (Final), Draft Terms of Reference – Assistance to

Implement a Pilot Private Sector Participation Scheme in the Distribution of Drinking Water in Mumbai and attached reports and correspondences, etc.

4. *File notings obtained from Ministry of Economic Affairs, New Delhi*

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