



Water Distribution Improvement the World Bank style in K-East Ward

- Shubha Sehgal

On 30th November 2004, I first read news in Times of India which said something to the effect of H₂O privatization in K-East ward in Mumbai. Clara Lewis had written the story of potential privatizing of water supply in K-East ward and had cited instances of what had happened when water was privatized in other parts of the world earlier. Her article also mentioned very clearly that K-East is one of the four wards in Mumbai City which generates surplus revenue for the Hydraulic Department.

I was curious and filed a Right to Information (RTI) application asking the Hydraulic Department in the Municipal Corporation of Greater Mumbai (MCGM) to explain what regulatory framework was in place which allows a private party to supply water. The Hydraulic Department had replied back stating that everything was in a preliminary stage and nothing was decided yet. It also stated that there was no legal framework which regulates a private operator supplying water to the people of Mumbai. There is not one yet even though the study in K-East is moving ahead.

It has been two years since and a number of developments have taken place in K-East. The study that is being conducted to explore problems in water distribution in K-East is now called Water Distribution Improvement Project (WDIP). However, the beginnings of WDIP date back earlier than 2004. World Bank had funded the Bombay Sewage Disposal Project (BSDP). Funds were left over from this project. World Bank asked the Hydraulic Department to use the funds to carry out a study which would explore the option of Public-Private Partnership (PPP). The Hydraulic Department at that time refused stating that it had problems with the methodology proposed by the Bank and that if it were to do such a study, it would do it by its own methodology and its own financial resources.

The events in the interim are not known yet, but according to the file notings obtained through RTI, 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." The file notings state that the World Bank approved a sum of US \$6,92,500 in consultation with MCGM which was done without the knowledge of the MoUD/DEA, by changing the Terms of Reference (TOR). **However, the PPIAF grant did not come to the MCGM. It went straight to the World Bank which is operating the grant on behalf of PPIAF. Therefore, the World Bank has appointed the consultants for the K-East WDIP study and the TOR was signed between the World Bank and the consultants Messrs Castalia. Such is the reforms oriented democracy of the World Bank which bypasses the authority of the local government!**

The study of the water supply systems in K-East ward began in February 2006. At the end of this study, Messrs Castalia will present recommendations to MCGM for improving water distribution in K-East ward.

There are four main parties involved in the K-East WDIP. They are:

1. **PPIAF:** The Public Private Infrastructure Advisory Fund (PPIAF) is a transaction advisor of the World Bank. 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 the World Bank 'as a resource to assist developing country governments to improve the quality of their infrastructure through private sector involvement'.

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 had arbitrarily interfered in selecting consultants for the project. The Delhi 24x7 project proposal did not contain concrete suggestions for both 24x7 water and for improving water distribution in the two proposed pilot zones.

2. **Castalia:** Castalia is a New Zealand-based strategic consultancy¹.

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

- a) *Market Sounding* - 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;
- b) *Pre-Qualification of Operators*;
- c) *Preparation of drafts of bidding documents, consultation with pre-qualified operators, evaluation with stakeholders*;
- d) *Assistance to bid evaluations and negotiations*

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

3. **World Bank:** PPIAF has appointed World Bank to supervise the grant for the project.

4. **MCGM:** The Task Manager for this project from the World Bank, 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. However tomorrow, if the TOR is suddenly changed, the MCGM will have no say in it. The World Bank does not represent the people of Mumbai. Therefore, by what authority can it execute a grant for a study which will impact not just the lives of the people of K-East, but all of the people in this city?

At this point, it is worth asking the question why K-East was chosen as a pilot for the WDIP study. K-East is one of the four wards in Mumbai which generates a profit. Its distribution network is fed by four zonal reservoirs and it consists of multiple supply

¹ 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 World Bank and Asian Development Bank (ADB). Funding for EAPIRF has been provided by PPIAF. Castalia has thus been involved with the World Bank and the activities of PPIAF prior to the K-East study.

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; 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 because it is bound to result in successful implementation of WDIP. Given the remarkable water distribution systems in this ward, 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 yes².

The promise of 24x7 water: If you ever get a chance to sit through any of the World Bank presentations on water supply, you will find that the Bank officials and consultants tom-tom the fact of how a world class city must receive 24x7 water. You will also hear that the Bank justifies 24x7 water by stating that when there is interrupting water supply, there is seepage of foul water from the underground sewage pipes into the water pipelines. So if there is 24 hours water in the pipelines, there will be no seepage of foul water.

But is 24x7 water a basic need or is it simply a political promise? 24x7 water is an engineering miracle if it can ever be achieved. In the case of the Delhi 24x7 project, the private companies would supply 24x7 only if the DJB (Delhi Jal Board) supplied this water. It is likely that in order to supply K-East with 24x7 water, the water will have to be taken from other wards.

Performance of the water company will be assessed not on the basis of whether each person received 24x7 water in their house or not, 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!

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

² In a management contract model promising 24x7 water supply in Puerto Rico (in an area similar to the K-east ward), water was diverted to commercial outlets like amusements parks, swimming pools, five star hotels, etc. If the entire exercise of the K-East WDIP study was genuinely meant to introduce certain improvements in the distribution network, should not the agencies involved in this project have opted for a ward which is not as well serviced as K-East ward?

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 the World Bank is promoting water distribution improvement is certainly not in the best interests of the people 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 the World Bank.** 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.

Why is this form of water distribution improvement problematic?

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)

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

a) The Water and Sanitation Project – South Asia (WSP-SA) which is one of the arms of the World Bank, 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-SA opens the window for WB, USAID and other International Financial Institutions (IFIs) funding for 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 provision of utilities from the municipal governments. Surpluses from these utilities which would previously accrue to the municipalities and would be used to cross-subsidize other utilities, under privatization go straight into the MNC's treasury. Thus, for instance, the surpluses from Hydraulic Department of the MCGM subsidize provision of sewerage and storm water drain facilities (which does not generate any revenue of its own) to the citizens. Under the water distribution improvement, the surplus will go to the private operator and therefore such cross-subsidization would become difficult.

c) WSP-SA seeks reforms in the water and sanitation sector by pressing the 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) The financial risks involved in such water privatization projects are largely borne by the municipal bodies and through them, citizens instead of the private agencies which in turn means that the 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.

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 the transfer of control and management of operations to private companies**. 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

It seems the 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 lately, 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 such as the Bhabha Atomic Research Centre (BARC), management institutes in Mumbai such as Jamnalal Bajaj and S. P. Jain Institute of Management Studies, IIT Mumbai, Victoria Jubilee Technical Institute and the India Water Works Association (IWWA). Groups such as Mumbai Transformation Plan (MTP), 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 Parliament (*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.*), 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. The integrity and genuineness of this project is under question.

g) **The parties involved in the project 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 the 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 the MCGM will be greatly reduced. Who will then ensure checks and balances on the operator? If the operator/manager is more powerful than the MCGM, how accountable will the operations be to the public?

h) **Lack of Transparency:** All the documents, correspondence and file notings concerning this project have not been made public. People need to know every detail about this project since water is a basic need and necessity of life and concerns all.

So here we are, with World Bank style water distribution improvement. Now doesn't this call for some questions to be answered World Bank?

We want to know whether:

- ✓ What is being suggested overall under K-East - is it an improvement or an experiment?
- ✓ Can you improve water distribution without mentioning any of the same in the TOR/contract?
- ✓ What kind of previous expertise and experience do the consultants have in improving water distribution in cities?
- ✓ What is PPIAF's position on the success of this project? After all, it has given an unconditional loan of US \$6,00,000 to the MCGM?
- ✓ If the World Bank tom-toms transparency and accountability and above all good governance, and has nothing to hide from the public, why is it not putting out all

✓ the documents, correspondences and file notings before the people?

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 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 and donor agencies)
Loan – when taken from WB and IFIs	Conditional Funding
Management Contract	Operator's Commercial Risks to be borne by Municipal Corporation (and therefore 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 article has been written 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*

The author can be contacted on shubha_sehgal@yahoo.com

CASUMM

Dec 2007

With the Support of Action Aid India

We welcome your comments and questions on this Working Paper

Email: casumm@gmail.com