

ADB's Policy for All But Water for a Few

- Piyush Pant

"Fishing into the troubled water" is the most appropriate phrase to describe ADB's "Water for All" policy formulated in the year 2001 for implementation in the countries of Asian region. A serious study of the policy clearly reveals that in the name of alleviating the water crisis already confronting the people or fast emanating to be so, ADB's water policy queers the pitch further for them as it aims to commodify Asia's water. In fact the policy aims at promoting full-cost recovery in water pricing and stepping up the entry of the private capital in the water sector. For achieving this, ADB is said to be taking parallel steps along with the World Bank and Japan Bank for International Cooperation to push for privatization in the region and even going further by stressing on the concept of "tradable water rights". Here the loans offered by the Bank come handy. Through these loans the Asian Development Bank forces the national governments of the receiving countries to put in place the requirements for profitability so as to facilitate private takeover of public services.

What surprises most is the fact that despite receiving jolts in its water privatization programmes and failure in mitigating the water related woes of the people, ADB has kept on promoting water privatization in Asia. ADB's cumulative investment financing for the water sector exceeds 16 billion US dollars. Since the time of its operations, an average of 18 per cent of its total lending has been in the water sector. When broken down it comes to 18 per cent in irrigation, 28 per cent in water supply and sanitation, 17 per cent in hydro power and 33 per cent in multi-sector power projects. The Review of its Water Implementation Policy in 2005 again affirmed the need to accelerate the privatization by more than doubling the Bank's investment in the water sector. That's why ADB's new Water Financing Programme targets 20 billion US dollars worth annual investments for 2006-2010 for making water "a core business area of ADB operations". Such is the hold of global corporates on ADB that remaining unruffled by the increasing criticism of its water policy and programmes, it is moving ahead with co-organizing the first Asia Pacific Water Forum Summit in Japan in the month of December 2007. This summit will focus on water financing.

It is estimated that about 750 million people in Asia's rural areas and another 100 million in urban areas still have no access to safe drinking water.

No doubt, the whole of Asian region is under the grip of acute water crisis with ground water labels decreasing rapidly and creating a sort of situation whereby it is being estimated that there will be no water by the year 2020 and it is being prophesised that next world war will be fought over water, yet privatization of water is no panacea for the region. The result of implementation of ADB's water policy in many of the countries in South Asia and South-East Asia bear testimony to this. The various studies done on ADB funded water projects in South Asia have shown that several ADB water and sanitation projects take away the water rights of the local communities. These projects have also failed to recognize and respect existing indigenous use of protected watersheds and wetlands, besides forgetting to appreciate how seasonal flooding is necessary to the livelihoods of the communities it seeks to protect. In a way these projects have oversimplified the multiple uses of water. That's why the implementation of ADB's urban water supply projects have failed to acknowledge the existence of multiple water users and their rights of the river water thus leading the project to result in alarmed increase in the clashes between the citizens of urban areas, farmers and the city administration on the question of sharing of river waters.

Past and present experiences of privatizing water utilities have only led to increased water tariffs, deprivation of the poor of access to water and, in some cases, taking away a significant portion of poor people's income. Big companies like Suez Ondeo and its subsidiaries Nalco, Degremont, Hydroplus; Vivendi; and Thames Water and its subsidiary RWE are already encroaching on the water sector in the Asia-Pacific region.

In this issue of **INFOPACK** we are giving the summary of the documents related to ADB promoted water projects in Asia, particularly in South Asia.

Water for All

A study on the effectiveness of Asian Development Bank funded Water and Sanitation Projects in ensuring sustainable services for the poor.

A Synthesis Report

By:

WaterAid; March 2006)

Bird's Eye View

The objective of this report prepared by WaterAid is to give an overall understanding of ADB's involvement in the Water Supply and Sanitation (WSS) sector in South Asia, particularly India, Bangladesh and Nepal, and create an awareness of some of the key issues that need to be addressed if Water for All is to become a reality. The objectives of ADB are poverty reduction and make significant investments in the water and sanitation sector aiming to reach the poor.

The report says that since the establishment in 1966, the ADB has invested over US\$20 billion in the water sector, of which around a quarter is in urban (21%) and rural (3%) water supply. The ADB approved its first water policy, Water for All, in 2001 and in 2005 a Comprehensive Policy Implementation Review was being conducted by WaterAid and its partners to exert influence on a major regional stakeholder.

The report further says that the study looked at eleven ADB supported Water Supply and Sanitation (WSS) projects in Bangladesh, India and Nepal through a common methodology. The objective of the study was to provide an informed, evidence-based input to the review process and to use the findings to seek changes to ADB's project design, implementation and evaluation procedures so that ADB supported projects ensure sustainable water supply and sanitation services for the poor.

The report points out that while there is tremendous variation between ADB funded projects in the selected countries, a set of research questions were used to guide the research across the three countries including India, Bangladesh and Nepal. Some of the questions are:

- How effective are selected ADB water and sanitation projects in ensuring sustainable services to the poor?
- How does ADB monitor and evaluate WSS projects and do these procedures need to be changed to enable ADB to know if projects are ensuring sustainable services for the poor?
- What are the financial implications of ADB projects funding for WSS at various levels?

In chapter titled "**ADB's involvement in the WSS sector in Bangladesh, India and Nepal**", the document talks about the main findings, issues and recommendations on ADB's involvement.

It says that 24 WSS related projects have been identified in these three countries, of which ten (42%) are water and sanitation related projects only, and fourteen (58%) are multi-component projects. Of these 24 projects, 14 have been completed and ten are currently being implemented. Around one fifth of the projects identified are rural-based, in Nepal, rest are in urban areas including small and medium towns, but now a recent shift to capital cities is evident.

Based on a review of Project Completion Reports (PCR) and Reports and Recommendations to the President, it is estimated that ADB's total investment in WSS in these three countries is around one billion US dollar. The average size of WSS only loans is around US\$29 million and for the multi-component projects including WSS is US\$ 100 million.

The document further points out that ADB's Country Strategy and Programme (CSP) documents for the three countries prioritise the WSS sector, and at least, two projects are in the pipeline in each country. In Nepal, the next rural project is being planned along with a follow up to the

on-going Urban Environmental Improvement project in small towns. In Bangladesh, ADB is planning a large investment in the Dhaka Water Supply and a Project Preparatory Technical Assistance (PPTA) to design the third WSS investment in Secondary towns is going on, as is planning to support arsenic mitigation. Of the three countries, the greatest ADB investments in the WSS sector are seen in India. There, the CSP indicates that one Integrated Urban Development Project (IUDP) will be approved each year. Since this study began, IUDPs have been approved in Jammu and Kashmir and in the North-Eastern states, a project for Kerala is on stand-by and a project is being designed in Uttaranchal.

The document says that three countries where studies were undertaken have all signed up to the Millennium Development Goals (MDG) and have set their own national targets. In this study, the document further says that an attempt was made to calculate ADB's contribution to this target, based on its recent and on-going projects in the three countries. But it was found that many project documents do not provide breakdowns of expenditure and number of people benefiting from the various services. Therefore, an exact calculation of ADB's contribution is not possible.

The document also says that based on available data, it is evident that ADB is making a significant contribution to the NDG targets for WSS in all three countries and the largest contribution is found to be in Nepal.

Based on experiences and lessons learned, ADB attempts to influence sector policies and bring about reform. ADB was found to take a lead role in supporting Government in sector policy implementation. For example, in Nepal, ADB was found to take a lead role in supporting Government in sector policy formulation. In Bangladesh, the ADB played more of a supporting role in the formulation of a National Policy for safe water supply and sanitation in 1998.

While concluding the document points out that the ADB is making a large investment in WSS in Bangladesh, India and Nepal through funding projects and this investment has been increasing since the approval of the Water for All policy.

It says that in Nepal, ADB is the largest sector investor and a long term partner and hence has policy influence and this is being used to push the principles of Water for All, including the pro-poor principles. In Bangladesh and India, where investments are less significant, ADB is less engaged in policy formulation.

In the chapter titled "**Effectiveness of ADB funded WSS projects in ensuring sustainable services for the poor**", the document says that the projects studied in all these countries were found to be resulting in overall improvements in access to water and sanitation, but our concern is whether the poor are benefiting from these overall improvements.

The document points out that in urban projects land tenure continues to be a major barrier to serving the poor. Selection of settlements of poor people and slums for inclusion in ADB funded projects are based on Government lists. These lists undercount slums and hence many poor communities are excluded from the projects. For example, at Jodhpur, in India, there are estimated to be 220 slums of which 119 are notified on Government lists. Of the total slums only 68 (31%) slums were selected for the project. Of the total project cost of US\$362 million, only 3% (US\$11.5 million) is allocated to the slum improvement component. Non-tenure settlements are never included on these lists.

Overall allocation in WSS projects for slum improvements is very low. For example, in the four projects studied in India the allocation averaged less than 3% of the total project cost. Even when projects are classified as those on "Poverty Intervention", the allocation for slum improvement were found to be below 2%, only 4-7% of the slum population in the selected cities is to be served by one such project (Urban Water Supply and Environment Improvement Project in Madhya Pradesh, India.).

The document further says that non-poor households were found to be benefiting more than the poor households from water supply services provided under the ADB projects. Failure to distribute investments equitably arises partly due to lack of accurate data on where the poor live, and also due to the politicised nature of resource allocation.

In some cases, services provided by the projects were found to be expensive and unaffordable for the poor. However, it is the cost of connection to the piped network that is often a barrier to the accessing services. In the projects studied, this charge was found to range from between less than one to more than ten months' income of poor households (US\$ 13-270). In some cases, this charge is not a part of project designs and is introduced by local authorities in an attempt to raise revenues.

Tariffs are found to be as high as 6% of a poor family's monthly income and this will increase if tariffs are raised as stipulated in the project conditionalities. No examples were found of different tariffs for the poor.

Towards the end of this chapter, the document says that it cannot be assumed that improvements in water supply and sanitation, be it at the village, town or city level, lead to improvements in poor areas. Serving the poor remains peripheral to most projects.

In the chapter titled "**Financial implication of ADB project funding on Government and the Poor**", the document points out that ADB project funding for WSS in the three countries namely Bangladesh, India and Nepal is in the form of loan. It also says that National Level debt varies considerably across three countries, equating to 18% (2004), 33% (2003) and 63% (2003) of GDP in India, Bangladesh and Nepal respectively. Total outstanding debt to ADB in Nepal and Bangladesh is significant. In Nepal, around 38% of country's outstanding external debt is owed to ADB, with this figure standing at 27% for Bangladesh. In India where ADB loans are exclusively from the more expensive Ordinary Capital Resources, ADB lending is on the increase with India now the largest borrower of all ADB's Development Member Countries.

In India, the State Government debt in 2004 had reached 29% GDP and debt repayment had reached 25% of revenue receipts. It also says that the rate is on the increase. For example, in Madhya Pradesh in India, state debt as a proportion of Gross State Domestic Product increased from 38% in 2002-03 to 53% in 2003-04.

Given the poor track record of towns in ADB projects to repay even O&M costs, the practice of capital cost sharing seems unlikely to be financially sustainable and places a heavy burden on the users.

Water: Private, Limited

Issues in Privatisation,
Corporatization and
Commercialization of Water
Sector in India

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Bird's Eye View

This booklet titled "**Water: Private, Limited**" has been published by Manthan Adhyayan Kendra in January 2007. The aim of this booklet is to try and give a picture of ADB-funded projects in water sector in India and their impacts on the lives of the poor people of the country.

In the prologue titled "**From the PSP to PPP to WSR**", it has been pointed out that in India, efforts to introduce privatization in the water sector have been increased dramatically in the last few years. The Borai Industrial Estate Build Own Transfer (BOT) Water Supply Project on the Sheonath river in Chhatisgarh, the proposed private sector management contracts for several zones in Delhi, proposed privatization of water services in Bangalore under Greater Bangalore Water Supply and Sewerage Project (GBWSSP), the Maheswar Hydro Power Project on Narmada in Madhya Pradesh, the Coca Cola factory in Plachimada, Kerala, exploiting public ground water to manufacture soft drinks-all are examples of the rapidly growing privatization of water services and resources in India.

The prologue says that some of the important claims made by ADB in favour of the private sector were that it would bring:

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

But privatization has failed to deliver almost all the claims mentioned above, and whatever little it has delivered has been at very high cost. A study conducted for the Asian Development Bank (ADB) on the water systems including privatization in 18 Asian countries concluded that the reasons behind the failure of delivering the ADB's claims are the investment money has not flowed as expected into the major concessions and steep rise in water tariff was resulted as a result of privatization across the world despite of promising to present cheaper tariff for the users.

The new technology which privatization promised to bring seems to have been used to exclude poor people who cannot pay for accessing water.

The prologue further points out that in other parts of the world, companies and International Financial Institutions working in India seem to have realised that privatization with accompanied measures like full cost recovery, high salaries and profits, increase in tariff, disconnecting those who cannot pay is leading to severe unrest and political backlash thereby making profits difficult whereby the very rationale for private companies is lost. So the International Financial Agencies have devised a plan that will divest the water sector of social obligation and make it a purely commercial operation. This plan is euphemistically being called "Reforms" and "Restructuring of the Water Sector". The Water Sector Reforms (WSR) is now pushed by the ADB and World Bank extensively all over the country and has implications that are more grave and serious than mere privatization.

The reforms aim to clean up the sector of all non-paying elements, remove burdens like cross subsidies and public stand posts, and force the governments to take the unpopular decisions and their backlash in order to bring in the private sector. In all the states of the country, these reforms are being implemented as parts and conditions of ADB projects.

It has been mentioned in chapter titled "**Privatization of Water**" that these policies have the underlying thrust of converting the whole water 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 stand posts, 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.

In this chapter, the topic titled "**Issues and Experiences with Privatization in Water**" points out that the basic aim of a private company is to make huge profits. It will want to recover its investments, the interest and the principal of debts incurred by it. This topic also mentions that the water charges will have to pay for the lavish lifestyles of senior officials and executives of the company. Even if it means that the water it is selling becomes too expensive for the poor.

It has also been pointed out in this topic that tariffs for water have gone up drastically in cities all over the world where water supply has been privatised. For examples, in Ho Chi Minh City, the rate 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. Even when privatization 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 privatization was initiated.

The topic also points out that since neither the high capacity consumers nor the Governments are willing or able to subsidise the poor users with lower paying capacity, the prices are bound to increase. If people cannot pay the higher prices, they would be disconnected and would stop receiving water supply. In short, phasing out cross-subsidies, increase in tariffs, and disconnection on non-payment is all necessary- indeed inevitable- elements of the privatization process. Thus water sector ceases to be a social responsibility, and changes from being a 'social good' to a mere commodity. 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.

It says once a private company gets a contract, it tries to control over water resource itself. For example, in Sheonath Industrial Water Supply Project in Chhattisgarh, even though only the water supply was privatized, 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. Thus directly or indirectly, privatization of the service will ultimately lead to privatization of the water source too.

In chapter titled "**The Indian Scenario**", surge in water privatization in India has been mentioned in detail. It says that there is a surge in the privatized urban water supply projects in India. The proposed privatization in Delhi is currently on hold due to the struggle of local people, but work on designing the privatization of one of Mumbai's larger wards is on. The Bangalore Water Supply and Sewerage 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**".

"The Delegated Management" is euphemism for privatization.

It has been mentioned in the chapter that there are cases of over-extraction of ground- water 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.

The chapter further discusses the case of Sheonath River Industrial Water Supply Project, which was one of the earliest privatization project in the water sector in India, and quickly became a symbol of all the problems that privatization can pose.

It has been mentioned that 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 a full right to the 23.6 km water reservoir to supply water to the industrial area.

The booklet also points out that as the push for privatization is increasing, so is resistance. Private Hydropower projects like Maheswar (M.P), Allain Duhangan (H.P), Karcham Wangtoo(H.P) are all facing opposition from affected people. Local communities in places like Plachimada (Kerala), Mehdigunj (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 mentioned above, faced intense local resistance and a state-wide and national campaign was launched against it. Similarly strong local action led to the cancellation of privatization in Sangli-Miraj in Maharashtra. Groups like Research Foundation for Science, Technology and Ecology were among the first to challenge early privatized projects like Sonia Vihar in Delhi as well as raising larger issues about privatization in the water sector. Strong protest has also been emerged in Bangalore against water privatization.

In the chapter titled **"Reforms-Commodification and Commercialization"**, it has been mentioned that there are 20 states in India where reforms projects are going on in water sector. These reforms are being pushed by the ADB and the World Bank with an aim to transfer the water sector into market. The World Bank and ADB loans are associated with these reforms. In India, the sates undergoing the most extensive and comprehensive reforms include Madhya Pradesh, Maharashtra, Karnataka and Delhi.

The topic also talks about some major elements of the ADB-Loan. It says that in six cities of Madhya Pradesh in India, a loan of 200 million US dollar, (Rs.900crores) has been granted by ADB for the Urban Water Supply and Environment Improvement Project It further says that though ADB claims that the project is meant to remove poverty and benefit the poor in the country, on the contrary, the ADB-funded project are having following adverse impacts on the country:

- The poorest of the poor - in slums and bastis - will not be reached by the project. They are 24% of urban population
- Only Rs. 31 crore (2.31% of project) is provided for the slums, while 77 crore provided for Consultants
- Compulsory metered connections have been pushed for all households
- Phasing out of public standposts
- Metered standposts under responsibility of community water committees - can lead to mafia driven water distribution or pre-paid

water meter

- Disconnection policy to be put in place
- Increase in water charges to recover full costs
- Increase in property taxes in all cities
- Tariff and tax increases laid down by the ADB for six years upto 2010 - loss of self-determination of Municipal Bodies
- Collections 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 decentralized water resource development options not considered.

The booklet says that the ADB, the World Bank and other international donors and contractors are the major drivers of water privatization and commercialization in Asia, Africa, and Latin America.

WB and ADB's Role in Privatizing Water in Asia

By:
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Bird's Eye View

The document says that an estimated 1.1 billion people in the world do not have access to safe water and 2.4 billion do not have access to adequate sanitation. It says that the WB and the ADB had recognized that the poor, especially, in developing countries suffer most from water shortage. Extending access to clean water for the poor and improving water management has, in fact, been used as the main campaign of the World Bank and as the basis for ADB's water policies. Unfortunately, these policies already spell more harm for the poor and forebode greater degradation of the world's diminishing water resources.

The document further talks about the loan conditionalities. It says that the banks and funders force borrowing countries to adopt free market policies, such as slashing government spending by privatizing public services like water, health and education, towards removing barriers to trade, and forcing nation into export orientation. But the experience of developing countries shows that privatizing public service assets has increasingly reduced the poor's access to water, health and education.

The document points out that ADB seeks to promote water as socially vital economic good that needs careful management to sustain equitable economic growth and reduce poverty. ADB advocates a participatory approach in meeting the challenges of water conservation and protection with a national focus on water sector reform as one of the principal elements. As per ADB policy, all borrowing countries must formulate integrated cross-sectoral approaches to water management and development.

The document further says that water use efficiency, cost recovery, institutional strengthening and private sector participation are the key instruments of the ADB policy. From ADB's perspective, water must be utilized by those who render the most economic advantage. As a consequence, those who afford the cost will be prioritized over the poor who have the least purchasing power. Ironically, the ADB Water Policy falls under its Poverty Reduction Strategy, which can only rebound to water commodification and privatization. The ADB strongly believes that low value users should trade their right on water.

The document also points out that the agriculture sector, whose contribution to national income is declining, is coming under increasing pressure to release water to meet other more productive needs. Furthermore, under ADB's loan facility, government and regulatory agencies are being

persuaded to eliminate direct subsidies to the poor for the access of basic water services in line with an affordable level.

Despite the vulnerability of the poor to problems of water resource and access, improving performance and efficiency still remains a market-oriented paradigm. State-owned water resource has been replaced by privatized resources. Those capable of paying higher prices now determine water allocation. This water management paradigm leads to increased inequality between rich and poor, between the industrial and agricultural sector, and between urban and rural areas.

The document further says that privatization of water utilities and increased water tariffs eventually bar access to water by the poor. In fact, privatization costs push the poor away from the piped water system and give them little choice but to depend on alternative water source, which are potentially polluted.

The document also discusses about ADB's loan and its role for the privatization of water sector in Asian region. It says that ADB's loans are contingent upon water policy reform. ADB also insists that Governments secure greater private participation in projects. Direct loans have been extended by ADB to private companies. Following are some of the examples related to ADB's loan in water sector in some countries in Asia.

Sri Lanka

The Government of Sri Lanka received US\$ 10.7 million ADB loan to improve water resources management. ADB's efforts are to wean farmers away from growing non-export food crops and charging farmers for irrigation water. Farmers and poor who have their own water rights will be forced to sell these rights to sectors that export food crops, industrial sectors or modern economic sectors in urban areas.

The major recommendation is that all the water resources shall vest with Government. Once implemented, every water user has to obtain water entitlement for a price. This is a step closer to transferring the ownership of the water resources to international companies making profits through distribution.

The document says that agriculture, more particularly; paddy cultivation will be affected, if water becomes a commodity on the market.

Thailand

Although ADB conditions and processes could be in violation of the Thai Constitution, ADB nonetheless demands a fundamental reform of National Policy on water resource through Agriculture Sector Programme Loan or ASPL as a condition for the loan.

ADB also demands for the formulation of a National Water Resource Policy, enactment of Water Law and an application of policy on cost recovery in irrigation.

The 600 million dollar ASPL also requires the Thai Government to adopt a free market paradigm. Sectors or water user groups, who can make a high profit from water, are given priority in access to water resources. Farmers who do not produce much value added products are given the lowest priority in terms of water allocation.

Vivendi, a multinational company in water sector, in Thailand benefited from a US\$230 million ADB loan for the Samut Prakarn Waste

Management Project - which has become the target of ongoing protests by local farmers and environmental groups.

Nepal

The ADB approved a US\$1.4 million Technical Assistance (TA) grant to support water and sanitation sector reform in the Kathmandu Valley, including the establishment of the National Water Supply Regulatory Board (NWSRB) and the Kathmandu Valley Water Authority (KVWA), and private sector participation (PSP) scheme. It is linked to the enhanced bulk water supply under the Melamchi Water Supply Project.

The ADB says that the water supply utility, The Nepal Water Supply Corporation (NWSC) failed to supply efficient and affordable services or significantly to expand its service coverage for residents of the Kathmandu Valley. The ADB project in Nepal is pushing for implementation of cost recovery, water costs and charges, and privatization. The Nepal Water Supply Corporation's management too is included for privatization of water resource - a basic condition of ADB loan around US\$500 million to Melamchi Water Supply. The private management at the corporation would gradually escalate the price until it reaches at least the five times the current rate by the time Melamchi Water Supply starts flowing through the pipelines in Kathmandu.

The document says that the main issue arising from all these factors that refer to lack of protection of water rights of the communities. Instead of clearly recognizing and protecting water for people, it gives more access to private investment to have concessions over a whole range of water resources, from ground water to surface water.

Implementation of ADB's Water Policy in India: A Review

Water Aid India

WaterAid Reviews ADB South Asia Projects

2006

Bird's Eye View

The 94-page document contains nine sections. In section three, the document discusses ADB's funded Water Supply and Sanitation (WSS) projects in India.

It says that the Asian Development Bank entered the WSS sector in India in 1998. Total ADB lending to the WSS sector (through five Integrated Urban Development Projects) has been US\$960 million.

In India urban sector funding comprised just 23.7% of all loans, or US\$1.25 billion in 2004. Of the entire urban portfolio, the following projects listed under WSS and Waste Management received 14% of the total India's share.

The projects are:

- Kerala Sustainable Urban Development
- Urban Water Supply and Environmental Improvement in Madhya Pradesh
- Multi-sector Project for Infrastructure Rehabilitation in Jammu and Kashmir
- Private Sector Infrastructure Facility at State Level
- Calcutta Environmental Improvement Project
- Rajasthan Urban Infrastructure Development Project
- Gujarat Earthquake Rehabilitation and Reconstruction Project
- Urban and Environmental Infrastructure Facility
- Karnataka Urban Development and Coastal Environmental Management Project

ADB has invested 960 million dollar in Integrated Urban Development

(IUD) projects. One loan of 250 million dollar to Kerala is on standby. Based on the five IUD projects approved to date, it is estimated that 56.3% of the costs of these projects, ie, 540 million dollar are for WSS related activities.

The latest ADB Country Strategy and Programme document anticipates ADB support for one new IUD project per year. Hence, between 2005 and 2015 another 10 new IUD projects could be financed.

ADB's investment for IUD between 2005 and 2015 is estimated at 2.5 billion US dollar, with 56% (US\$1.4bn) for WSS. ADB's investment in WSS in India for the period of 1990 to 2015 will be around US\$ 2bn.

The document says that according to UNICEF/WHO estimates, ADB's investment is equivalent to 23% of the required amount.

The document points out that financials of the Corporation prepared by the Consultants indicate that to repay the loan, the Corporations and the Urban Local Bodies (ULB) are required to increase their revenues by increasing house tax, water charges and other sources of revenue which will be politically and administratively impossible to achieve. It gives the example of project in the city of Ratlam (M.P) which had turned down the ADB loan for the following reasons:

- It would be difficult for the Corporation to repay the loan (the city demanded an interest free loan coupled with a three-fold increase in the compensation for octroi)
- The interest rate of 12 per cent was too high and should be reduced to 8 per cent
- The allocation to consultancy at 7.3 per cent (2.2% Project Management Consultants and 5.1% Design and Construction Supervision Consultants) of total base costs of US\$ 234.2 million for the 6 cities in M.P appears to be excessive
- Transport Nagar project not included in the overall project
- Rising main not included.

The document says that similarly Water Aid conducted a review of ADB South Asia projects. It says that the review-study looked at eleven ADB supported Water Supply and Sanitation (WSS) projects in Bangladesh, India and Nepal. A common methodology was followed to allow for an examination of the same themes in each country. The theme examined related to ADB's involvement in the WSS sector; the effectiveness of the ADB projects in ensuring sustainable services for the poor; monitoring and evaluation systems and what they tell ADB about serving the poor; the financial implication of ADB project funding; and implementation of certain policy actions from the ADB water policy. The methodology included a combination of primary data, collected in 21 villages/towns/cities, and a review of documents.

The document further points to the main findings of the Study. It points out that on the effectiveness of projects in ensuring sustainable services for the poor, the projects have generally resulted in overall improvements in water supply and sanitation services. However there is a distinct poor/non-poor divide in access to services as the poor are excluded from the benefits due to budget allocations, project design and affordability.

Following are some of the drawbacks of the ADB-supported projects:

- Allocations in urban WSS projects for slum improvement components are very low and inadequate for providing services to all the poor in the project area.

- In urban projects, land tenure is a major barrier to serving the poor. Many poor settlements are excluded at the project design stage because projects do not provide services to people living on non-tenured land
- Connection charges ranged from between less than one to more than ten months' income for poor households. These charges are a barrier to the poor's ability to connect to a piped water supply (in some cases this charge is not a part of project designs and is introduced by local authorities in an attempt to raise revenues)
- Tariffs to be found as high as 6% of a poor family's monthly income and set to increase if tariffs are raised as stipulated in the project's conditions of service. No examples were found of different tariffs for the poor.

The document further says that in some projects the cost recovery principle is over-zealously applied with users required to pay O&M and capital costs, in some cases 50% of the capital costs of the water component. Attempts at capital cost recovery result in unrealistically high tariff projections, high and unaffordable connection costs and lack of political support for projects.

Water for All: The 2nd Five Years

ADB's Water Financing Programme 2006-2010

ADB's Water Committee and the Energy, Transport and Water Division of the Regional and Sustainable Development Department.

Bird's Eye View

In response to growing demands, ADB has developed a strong pipeline of water project for 2006-2008. ADB's Management has decided to give a higher priority to water investments in the medium term through a new Water Financing Programme (WFP).

The document outlines the main thrust of the WFP for 2006-2010, which will make water a core area of ADB's operation.

It says that WFP will greatly increase ADB's investment in water operation for 2006-2010. It is expected that such investment will be over US\$ 2 billion annually, representing approximately 25% of overall ADB lending over a 3-year moving average period and a doubling of ADB's investment in water compared to 1999. WFP will also mobilise co-financing and additional investments from governments, the private sectors, and multilateral and bilateral partners. An initial target of US\$100 million in bilateral grant assistance has proposed to support the implementation of WFP, which will be implementing through ADB's regional and private sector operations departments. For 2006, the programmed level of water investments already exceeds US\$2.4 billion. When the programme is expanded to 2009-2010, total delivery could reach US\$12 billion over five years, exclusive of co-financing.

Under its programme WFP, the ADB is offering to double spending on water projects as a means for ramping up investments in infrastructure that is critical to capturing and sustaining the huge new opportunities emerging in Asia's booming economies.

WFP will initially focus on six countries of South Asia, including India, Indonesia, Pakistan, China, Philippines and Viet Nam.

The document points out that ADB's investment in the water sector over the last 15 years has been modest and unpredictable, averaging US\$790 million a year from 1990-2005, and ranging from US\$330 million in 2004 to US\$1.4 billion in 2005. WFP is an offer to increase ADB's overall investments in water operations to an average that is well over US\$2 billion annually in the next five years.

The document further discusses the initial operations of WFP of ADB in

the countries in South Asia.

In **India**, the Union State Governments have opened up for ADB's new Water Financing Programme (WFP) to increase water investments. At present ADB is supporting India's Jawaharlal Nehru National Urban Renewal Mission (JNNURM) which is a National Fund.

The Indian Government asked ADB for finance worth US\$270 million through the newly-created Multitranch Financing Facility (MFF). The funds will be drawn down over 8-year period to finance overhaul of the infrastructure and institutions governing the States Water Supply.

In **Indonesia**, there is huge demand for improving water-supply services in rural and urban areas. Indonesia's leadership in river basin management, in particular, holds promise and is widely regarded as a success, with the WFP envisioning lending of US\$700 million a year from 2006 through 2010.

In **Pakistan**, ADB's WFP has introduced new financing modalities, including the flexibility of ADB's new MFF. Programmed lending under the WFP would raise loans to Pakistan to over US\$1.5 billion over 3 years, i.e., 2006-2008, from roughly the same amount in the 10 years ending in 2005.

In **People's Republic of China's** (PRC) water sector, ADB has focused on improving the urban environment, public health, and quality of life for urban residents through improving waste-water management and supply of potable water, construction and rehabilitation of sewer networks, and strengthening water resource management.

For example, in China, the recently completed and ADB-financed Suzhou Creek Rehabilitation project to clean up the Suzhou Creek was a big success.

A second phase of a project to improve the handling of waste water in Wuhan, capital of Hebel province, was approved this year with a US\$100 million loan. A third project, in Fuzhou, will improve waste water treatment.

In **Philippines**, the ADB approved the Small Towns Water Supply Project in 1966 to enhance urban water supply coverage.

ADB has also prepared Multitranch Financing Facility (MFF) for the rehabilitation and improvement of the Angaat Dam Water-Source System. The MFF improvement project would provide a US\$ 400 million credit line for the Metropolitan Waterworks and Sewerage System (MWSS), and would be part of a 10-year investment programme amounting to about US\$ 1.4 billion.

In **Vietnam**, with ADB's new WFP and its new financial services, the country's officials have begun serious talks about water financing with ADB, as the country needs US\$5 million for water projects.

ADB is proposing to the Government of Viet Nam MFF funding for project preparation in the country of US\$ 300 million or more, including US\$50 million for first trench for Tien Giang water supply project, with another trench of the same amount for a Tien Giang sanitation project.

ADB has also been discussing with State-owned Hanoi Water Company No. 1 regarding the US\$ 60 million Phase-I of the Red River water supply project for the capital and a non-revenue water project of about US\$ 25 million to lower 42% leakage rate in Hanoi.

ADB Kerala Urban Loan Conditionalities: Fact or Fiction?

By:

Benny Kuruvilla, Focus on
the Global South, India

December 2006

Bird's Eye View

This document is a preliminary analysis of the loan agreement between Asian Development Bank and the Government of Kerala (GoK).

The document here points out that in the name of providing services to the poor communities for their upliftment through basic infrastructure and services improvement, particularly water supply and sanitation, and livelihood enhancement, the ADB is facilitating privatization in the water sector, undermining democracy by pushing conditionalities for obtaining the loan.

The document says that on December 9, 2006, an agreement sanctioning loan of US\$ 221.2 million (Rs. 995 crore) was concluded between ADB and the Government of Kerala for the Kerala Sustainable Urban Development Project (KSUDP) which is proposed to be completed by December 2011. The total cost of the KSUDP is US\$ 316.1 million (Rs. 1422 crores). The GoK will contribute US\$ 59.8 million (Rs 269 crores) and five Municipal Corporations including Kochi, Kollam, Kozhicode, Thirananthapuram and Thrissur will contribute US\$ 35.1 million (158 crores).

The document also points out that an examination of the loan document shows that the ADB has put forth several conditionalities that the GoK and the five Municipal Corporations will have to comply with to avail the loan amount.

The document further says that ADB is facilitating privatization and undermining democracy by pushing its conditionalities. It says that Kerala Water Authority (KWA) continues to own the water system assets and does most of the maintenance on the water systems in Kerala. By midterm review of the project, GoK will develop a road map on the role of KWA and relevant statutory authorities/Urban Local Bodies (ULBs) for water supply in the area covered by the project to ensure empowering these with related services and cost recovery in accordance with the Kerala Municipalities Act 1994 and Decentralization of Powers Act, 2005.

This is a clear indication of the push for privatization. The document says that one of the ADB's conditionalities is that by the midterm review the State Government will have to redefine role of the KWA into an enabling regulatory framework to facilitate private sector participation. The role of the KWA as a public institution will be undermined and will be focused on deregulation in favour of private sector players. This project is also likely to absorb the existing KWA facilities to meet its objectives.

The document further says that GoK will ensure that all the Municipal Corporations pass a resolution by March 2008 to introduce service tax and/or other revenue mobilization measures in each Municipal Corporation to meet shortfall of revenues needed to fund O&M of the expanded water supply.

After the agreement is signed, the ADB makes it clear that the GoK and the Municipal Corporations have to abide by the conditionalities set by the ADB. This is a direct attack on democracy and undermines the ability of local governments to prioritise their annual budgets and revenue mobilization according to their specific political and developmental objectives. The GoK will also ensure that all the Municipal Corporation will prepare and implement a financial improvement action plan to introduce a sewerage charge, a solid waste management charge, and improve

collection efficiency. And the tariff will be increased twice during the project implementation period to a level which is sufficient to cover the O & M costs of new and existing infrastructure.

The document also points out that the impact of the new user charges on people living below poverty line varies from one municipal corporation to another, and the charges represent from 2% to 7% of their household incomes. But by not later than March 2007, the GoK will formulate a policy on conversion of stand posts, on which the poor communities rely for their day-to-day source of water, to individual metered house service connections and/or metering stand posts, for the purpose of efficient demand side management and reduction of Non Revenue Water.

The document points out that the above mentioned policy framework clearly indicates that a central conditionality for the ADB loan is an increase in tariff and bases as well as the introduction of new charges which will be determined not through a democratic process within the respective municipalities but by the mandatory need for municipalities to find ways to recover the high costs of the ADB loan. There is no exemption of charges even for the people living below the poverty line. The ADB loan also stipulates that public stand posts termed by ADB as Non Revenue Water will be converted to metered connections and their numbers scaled down. This will have damaging effects on access for the poor.

The document further says that a lion share of loan money will be spent on high cost international consultancy and procurement components. Expensive consultancies and procurement procedures are the main shortfall of all the ADB projects. The ADB demands that the GoK will have to ensure that all consultants in the project will be selected in accordance with the ADB's guidelines for the use of consultants. The detailed cost estimates as available from the loan document indicate that \$10.2 million (Rs. 46 crores) will be spent on a few consultancy firms who will script much of urban policy in the five municipalities. Added to this several hundreds of crores will be spent on equipment, materials, furniture, vehicles, trainings, workshops, studies and research.

According to the assessment of urban services provision in Kerala, the total urban capital investment requirement is \$840 million (Rs. 3780 crores) in the medium term and \$1.2 billion (Rs. 5400 crores) in the long term.

Much of the analysis quoted to legitimize its projections on investment, need for cost recovery, feasibility of tariff hikes, need for private participation is based on the ADB's own studies and surveys. ADB also intends to produce its own brand of knowledge to justify its urban development approach. By excessive reliance on the ADB, the state government and the urban department are not only undermining their roles but also subverting people's access to essential services.

Implementation of ADB Water Policy in Karnataka

Urban Infrastructure Development and Coastal Environment Management Project (KUDCEMP) in South.

By:

Gururaja Buddhya

Bird's Eye View

The document says that all the projects in Bangalore have aimed at providing and upgrading essential urban infrastructure and services including development of slum areas.

But the civil society organizations on the coast and in other cities have been opposing the implementation of the project for being top-down, high cost planning and non-participatory.

The document points out that this case study looks into the implementation of Karnataka Urban Development and Coastal Environment Management Project (KUDCEMP) and also the component of water supply and sanitation in this project. It further says that the policy reforms by the ADB has led to tax open land, solid waste and motor vehicle cess, to raise resources, hike water charges, expand the water supply infrastructure; bring in Private Sector Participation (PSP) through the projects. It has been observed that the components of ADB water policy are reflected in the water policy of the Government of Karnataka.

The document further points out under the topic titled "**ADB relationship to local water policy, local water projects. How many water projects ADB is involved etc**", that the Ministry of Urban Development, India undertook an Urban Sector Policy Analysis in 1994, facilitating the commercialization of urban infrastructure and alternate forms of service provision, including privatization and Private Public Partnership as one of the general agreements arrived between the Government of India and the ADB. The agreement of Karnataka Urban Infrastructure Development Project (KUIDP) is considered as a milestone for urban development because of the inclusion of policy reforms to support the central and state governments, efforts to decentralized urban management responsibilities, including resource and revenue generation and improving Operation and Management (O&M) of assets.

The document further says that the most challenging reforms are in the urban water supply and sanitation sub-sectors, in the Karnataka Urban Development and Coastal Environment Management Project (KUDCEMP), it is agreed that a framework must be created to provide the basis for government action in the regulatory and operational areas.

Efforts are now being made to support demand-side management by raising tariffs, so that water supply and sanitation agencies may at least cover the O&M expenditures in the short term and debt repayment liabilities from the service charges in the long term.

At the beginning of the KUDCEM Project, the state is already assessing different approaches for promoting private sector participation in the water supply sector through the creation of a joint venture water operation company to undertake water supply operation, distribution, billing and collection of water charges.

The document further says that the ADB has supported Government of Karnataka on the projects related to Urban Infrastructure Development since 1995 by providing loans.

It says that the fundamental objective of this project is to promote decentralization of population growth and economic activity in Bangalore by addressing the basic infrastructure deficiencies and related environmental aspects in selected urban areas in the Bangalore sub-region, namely Channappitna, Ramnagaram, and Tumkur.

The document further talks about the experiences of the project. It says that the NGO Task Force on ADB funded project in Mangalore observed in their field visit to KUIDP towns that the quality of works carried out was bad, improper work on storm water drains lead to water stagnation and stink, sewerage treatments are not operational which are causing problems to people.

In Ramnagaram, the project components on water supply and under ground drainage are incomplete in many wards though the allocated financial resources are almost spent.

It has also complained that the drainage project is a waste due to the consultants' mismanagement in Tumkur. The Lkayukth (Ombudsmen of Government of Karnataka) investigated the complaints and submitted an adverse report to the Government of Karnataka on officials and consultants.

The document points out that KUDCEM Project is also under criticism for high cost planning and non-understanding of the topography by the consultants, many objections have been raised by the citizens from the beginning like high risk foreign funding, high contingency costs, unnecessary norms, unprofessional approach and estimates, unnecessary expenditure on sub-projects, no transparency, repayment beyond municipality capacity and unproven implementing agency.

The document further points out the adverse impact of the project on the people. It says that the migrants and the poor are more vulnerable due to the increased constructions of buildings on vacant sites. The introduction of vacant land tax by the Government of Karnataka to raise resources and meet the assurances given to ADB for the KUDCEM project, has contributed to the selling of vacant lands by owners. This resulted in new constructions, felling of trees and inflow of more migrants, living in areas not having any civic amenities.

The project is conceived by the State Government with Global Knowledge from ADB through Technical Assistance for the KUDCEM project. The municipalities were forced to accept and repaying the loan. The burden of repayment of loan is an issue that would burden the citizens.

The promotion of the state agency by ADB as a model organization, as a Special Purpose Vehicle (SPV) and the assurance that the 74th Constitutional Amendment Provisions will be implemented totally contradicts as such a project in reality, the state agency is dominating and encroaching the autonomy of urban local government.

The document says that the policy conditionalities and the assurances as part of reforms are violating the constitutional rights of citizens of India. The water rates, property taxes and cesses are being raised without consultation with the municipalities. The policy conditionalities have gone in the direction of increasing revenues, ensuring conducive atmosphere for charging for services, bringing private sector and promoting the state agencies at the cost of local democracy. The projects have negative impacts on public participation, benefits to poor and ensuring localness.

The document further points out that though the loans are extended by ADB for specific project in a sector, the policy conditionalities and the reforms in urban sector has been carried throughout the urban areas in

Karnataka. This is an important aspect for debate as to what extent the governments can forego the constitutional provisions made to citizens, for receiving loan. ADB is pursuing this vehemently in bureaucratic circles on one side and ignoring the quality of implementation of projects on the other. This has serious repercussions on undermining the existence of urban local governments and strengthening the state control.

The document then concludes by saying that the ADB Water Policy projects, its position of being pro-poor and wanting to reach the benefits to poor. The other priorities of the policy - to influence Developing Member Countries (DMCs) to make policy changes, promote open organizations, formulate rules, ensure government de control, introduce private sector, encourage private investments etc are clearly expressed.

By being pro-poor is statements and documents, expressing concerns to reach out to poor, social equity and the intentions of reforms, Private Sector Participation (PSP) clearly indicates that the ADB is using pro-poor mask to sell projects to capture country's natural resources. The implementation of urban infrastructure development projects in Karnataka have clearly showed that the poor, in specific, and citizens, in general, have totally been left out in the process.

The document also points out that a critique of ADB-TA (Technical Assistance) 3791 (Enhancing Private Sector Participation in infrastructure Development at the State Level (IL&FS and IDBI) by Equations (a Bangalore based organization) reveals that, ADB-TA report overlooks the basic principle of **Right to Water**, the ADB-TA recommendations are aimed towards giving private parties rights without responsibilities and providing them legal immunity. The ADB-TA does not appreciate the democratic spirit of local self governance as is enunciated in the Indian Constitution. The ADB recommendations will lead to the creation of a completely parallel system of governance and regulation at the local level. The ADB-TA report does not appreciate the specificity and sensitivities of development in certain parts of the country, identified as ' Scheduled Areas' by the Constitution and the ADB's recommendations are paving the way for a GATs-regime in basic services in India.

The document further points out that the ADB Water Policy contradicts the objective of reaching Millennium Development Goals (MDGs). Though the ADB claims to be assisting the DMCs in reaching MDGs, looking at water as an economic good and pursuing reform, but actually it deprives the citizens of their constitutional right to water.

Impact of Asian Development Bank (ADB) Investment in the Water Sector in Bangladesh

By:

Zakir Kibria

Bird's Eye View

The objective of this document is to investigate and analyze the relevance of ADB Water Policy to Bangladesh National Water Policy and the impact of ADB-funded water sector projects in Bangladesh. It also aims to investigate people's participation in ADB funded water projects in Bangladesh.

The document says that in Bangladesh the ADB funding in water sector has been concentrated in flood control and irrigation (FCDI) sector. ADB lending in this sector is increasing with a number of on-going projects, and further projects are in the pipeline. In recent times the ADB has renewed its intervention in public water and sanitation (WatSan) utilities. These include structural upgrading of existing facilities, reform of the policy framework, cost recovery and facilitating private sector participation.

The document further mentions that ADB Water Policy which was approved in October 2001 promotes the concept of water as a socially vital economic good. The policy is linked to ADB strategy for poverty reduction. The policy also reflects ADB's strategy for private sector development.

The document says that the National Water Policy in Bangladesh and ADB Water Policy have many similarities. Both policies intend to introduce cost recovery and facilitate private sector participation. The scope of the Bangladesh National Water Policy (BNWP) to further supplement with laws, legislation and institutional change allow ADB to intervene in reforming it. A number of recent ADB lending has stated objectives to further reform policy framework clearly shows that. Almost all the current lending and Project Preparatory Technical Assistance (PPTA) spells out intention to further reform the policy framework of water resource management in Bangladesh.

The document points out that the ADB entered into the water resource management of Bangladesh, already paved by the World Bank policy interventions and projects as an investment heaven. In recent times the ADB funded six projects in the water sector of Bangladesh. There are also nine Project Preparatory Technical Assistance. Besides these there are also two other projects that also requires attention, namely, Padma Multipurpose Bridge Project, Chittagong Hill Trades Rural Development.

The document also talks about ADB-funded project called Khulna Jessore Drainage Rehabilitation Project (KJDRP). It says that ADB designed and funded the project with an objective of reducing poverty by alleviating river drainage congestion by constructing a series of sluice gates and regulators on rivers to protect the wetland area from tidal and seasonal floods and supporting agricultural extension. But the local communities have been saying all along that the idea of controlling the tidal flow of the river will not provide solution to any problem. Rather the heavy siltation, a natural characteristic of the rivers in the region, will make the sluices and regulators redundant. The local communities opposed the project from the very beginning and suggested alternative plan. But the ADB ignored people's demand and went ahead with its project. In the end, local communities were proved right and the project did not bring promised result and created massive environmental problems.

The document further talks about the social and environmental impacts of the ADB funded project. To illustrate the environmental impact the

document here cites the example of KJDRP. It says that earlier ADB has funded a similar project and was not very successful in achieving its goal. The ADB experience has shown that blocking the natural tidal flow causes congestion and siltation along gates. Then why they again fund a similar project to relieve river drainage congestion? A recent visit by Bank Information Centre (BIC) revealed that the project area has become an ecologically damaged zone. A number of rivers have died out because of deposit of sedimentation depriving the fisher-folks of their livelihood as the local fisher-folks dependent on open water-capture fishery now have no work. Most of the regulators and sluices are not working properly because of sedimentation along the sluices. The local communities continue to suffer from the ill effect of the KJDRP project.



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