Delhi Water Supply & Sewerage Project

An Analysis by Parivartan

History & Context

- 1998: Delhi Govt approaches World Bank for a loan
- World Bank provides $ 2.5 million (about Rs 10 crores) loan for consultancy
- 2001: Price Waterhouse Coopers (PWC) appointed as consultants
- 2004: PWC submits Draft Final Report and recommends hiring of several other consultants
- GKW, Trilegal, CURE etc hired subsequently

Analysis based on study of following documents:

- Draft Final Report 3 of Price Waterhouse Coopers
- Draft Final Report of GKW
- Reports submitted by CURE
- Part of Draft managing operator contract prepared by Trilegal
- Tariff restructuring proposal of DJB
- Material obtained from DJB's website
- Correspondence between World Bank & DJB between July 1998 to April 2001

All references to international experiences have been downloaded from the internet

This analysis is not exhaustive because we have still not received many documents like

- Drafts of Bulk Water agreements, managing operator agreement, engineering consultancy agreement, works agreement to be signed between water companies and DJB
- Correspondence between DJB, World Bank and consultants between April 2001 till date
- Copy of latest study & recommendations for supplying water to the poor

What is being proposed?

- Management of each of 21 zones of DJB to be handed over to a company
- Company will not invest any money. They will simply manage a zone. This includes distribution of water in that zone, billing, collection, grievance redressal, maintenance etc
- All DJB employees in that zone would report to that company
- Water company to receive a fixed "management fee"
- Company would be given annual targets to achieve
- Penalties to be imposed if company fails in targets, bonus if it succeeds
- Water company to supervise implementation of all capital works.

Water companies would handle only this

Total O & M Costs in 2003-04 (BE): Rs 534 crores

Rs 371 crores

Bulk Water & Sewer

Part A

Rs 163 crores

Distribution

Part B

Total Revenues in 2003-04 (BE): Rs 235 crores

This is collected at Distribution end but is meant to cover entire costs of bulk water & sewage handling and distribution

Our concerns

Tariffs will go up substantially because....

Three types of payments

- Management fee – to meet salaries of employees sent by companies
- Operational expenses – to run zones on day to day basis
- Capital investments – to make improvements

Management Fee

Management fee of Rs 5 crores per annum per zone

- To meet salaries of four experts @ $ 24,400 (almost Rs 11 lakhs) per month per person
- Rs 105 crores for 84 experts for 21 zones
- O & M in 2003-04 for Distribution (BE) : Rs 163 crores
- Now, 65% of this would go to meet the salaries of experts
- This is 40% of total revenues of DJB (About Rs 270 crores)
- Where would the money come for operations? Naturally, to pay such huge salaries, tariffs will need to be increased steeply

DJB's explanation:

Amount of salaries would be decided through bidding. These figures are not final

Our concern:

These extra-ordinarily high salaries have been suggested by the World Bank consultants and have not been categorically rejected by the authorities so far.

Operational Expenses

Unlimited operational expenses

- Company to submit annual demands for operational expenses
- DJB has theoretical power to vet these demands – company could be free of obligations, if DJB denies/ curtails these demands
- Company could seek additional funds any number of times during the year
- No upper cap prescribed

DJB's explanation:

Operational expenses provided to the company would not exceed the revenues collected by the company from that zone.

Our Concern:

- This is not written anywhere.
- Company will perform only one function whereas the revenues have to cover several functions
  - Part A: Bulk Water & Sewage handling, which includes water & Sewage Treatment & transmission
  - Part B: Water distribution & Internal Sewers
- Only Part B would be done by the company
- If all revenues would be given to the company, how would DJB perform Part A functions?

DJB's explanation:

- Operational expenses would be around Rs 30 crores per zone
- Consultants suggest Rs 25 crores per zone for the first year

Our concern:

- This gives Rs 525 crores for entire Delhi, against Rs 163 crores in 2003-04 for Part B functions
- If we include expenses for Part A functions also, total operational expenses would increase from around Rs 700 crores (BE 04-05) to over Rs 1100 crores.

Our concerns:

- DJB unable to recover present level of operational expenses at Rs 700 crores
- How would it recover Rs 1100 crores?
- Revenues for the year 2004-05 (BE) : Rs 400 crores
- Tariffs will have to be increased almost 3 times to recover increase in operational expenses and to pay huge salaries.

Capital investments

How much Capital investment required in a zone?

- Neither known nor estimated
- Given unlimited powers to decide future investments

Capital Investments

- Every year, company would present capital investment plans
- DJB has theoretical powers to vet it – Company could threaten adverse impact if money not provided
- DJB has to provide the money
- Company would then give out contracts, supervise implementation and certify quality and completion – DJB has neither any role nor any control over any of these processes

In effect

- No control of DJB on
  - What to spend on?
  - How much to spend?
  - When to spend?
- DJB simply provides money
- No control of DJB on
  - Whether money was actually spent
  - Quality of work
  - Utility of work

PWC cash flow projections wrong

Do not account for

- Management fee
- Engineering fee
- Increased operational expenses
- Increased cost of capital investments

Aren't these series of blank cheques being written by the Delhi Government?

Our concerns

- Where are the checks and balances on expenditure? How are the companies accountable and to whom?
- The company will simply present wishlists. **Government will simply write cheques.**
- Since company not spending any money, it will have little incentive to show prudence in expenditure.Costs of operations and costs of implementing capital works would go up substantially

Water Companies pressurize Governments, which they cannot resist

- The companies repeatedly approach governments with demands for additional funds/ renegotiation of contracts.
- Water being essential to life, governments cannot allow disruption.
- The Governments end up obliging them.

Puerto Rican experience

- Vivendi (1996)
  - Operational deficit increased to $ 240 million by 1999
  - To $ 680 million by 2001.
  - Central Bank of Puerto Rico had to intervene several times with emergency funding to prevent disruption of services
  - Vivendi had to leave in 2001
- Suez in 2001
  - Promised to decrease operational deficit by $ 250 million per annum
  - But demanded additional $ 100 million as soon as it signed the contract
  - Suez left in 2003

Vivendi & Suez are now coming to Delhi

PWC & World Bank recommendations

- Remove subsidies
- Full cost recovery
- De-politicize tariff by having water regulator
- Phase out cross-subsidies

Government has already accepted the first three

Water tariffs would go up

- Almost 6 times
- This includes interest, depreciation, likely increase in operations costs and management fee.
- It does not include likely increase in interest costs on account of increased borrowings as the amounts that would be finally borrowed are not known.

Internationally, water prices skyrocketed

- In Manila, water prices went up by **700%** within three years of privatization, when the companies had promised no increase in tariffs for the first ten years.
- In Bolivia, water prices increased by **200%** within a few weeks after water utility was handed over to the private water companies.
- Water rates went up **300%** in Nelspurit in South Africa. Connections of those who could not pay were cut off.
- Cost of new water and sewer connections rose to 450 dollars in El Alto in Bolivia, where many residents live on half-dollar per day.

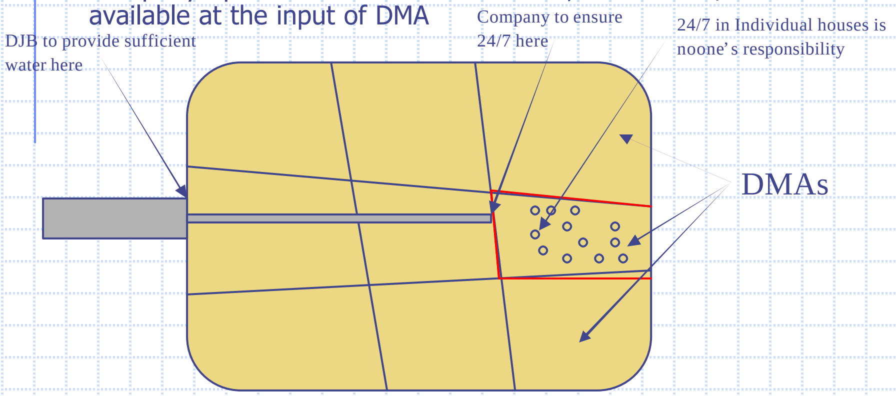
Higher tariffs but no improvement in services….

24/7 – A myth

- Responsibility of supplying sufficient water to each zone remains with DJB
- How much is "sufficient quantity of water" for 24/7 is not disclosed
- Does DJB have that much water?
- Government says 24/7 would be achieved by preventing leakages
- How much water is required for 24/7? How much would be saved by preventing leakages?

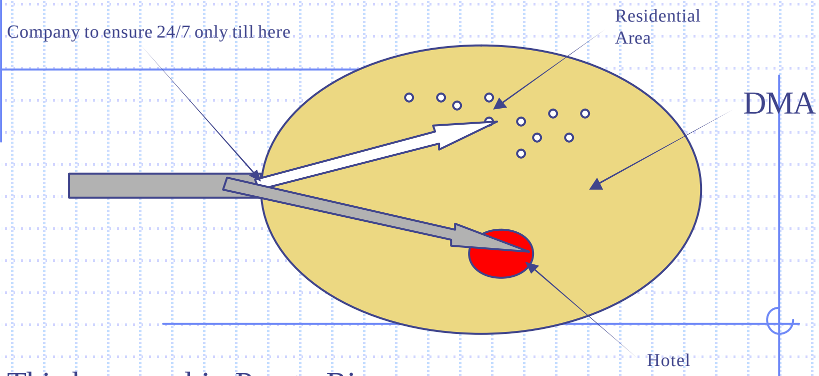
24/7 – A myth ….

- If 24/7 water available at the input of District Metering Area (DMA), it shall be assumed that all houses in that DMA received 24/7
- Company's performance will be assessed, whether 24/7 was available at the input of DMA



Possibility of diversion of water

Water could be diverted from residential areas to hotels, swimming pools, amusement parks within the same DMA



This happened in Puerto Rico

Reduction of Non-Revenue Water (NRW)

- Present levels of NRW unknown
  - DJB estimates: 24% in South II & South III
  - Price Waterhouse Coopers (PWC) estimates: 48%
  - GKW estimates: 59%
- Target to reduce NRW from 55% to 34% in 3 years
- Are NRW targets bogus?

Internationally, companies failed to reduce NRW

- In Philippines, Manila water Company (which is one of the companies shortlisted for Delhi) promised to reduce NRW to 16 percent by 2001 but was still losing almost 50% water by that time.
- In Puerto Rico, the Rican Office of the Comptroller estimated that six years after handing over, Puerto Rico was still losing almost 50% of its water through leaking pipelines.

Access to water by poor

Present sources of supply

- Water tankers
- Tubewells
- Leaking pipelines
- Community taps

All these sources would be shut. There would be no "free" & "illegal"water

Project Proposal & our concerns

- One group connection for five families – won't it lead to conflict?
- No investments on extending water distribution network to JJ clusters – how would group connections be given?

Impact on poor in other countries

- In South Africa, ten million South Africans lost water connections due to their inability to pay. Poor had to use polluted water. Several people lost lives in cholera outbreak.
- In El Nato and La Paz in Bolivia, the water company failed to provide water to 2,00,000 people in violation of contract terms.
- In Manila, thousands of families could not afford to pay for one time meter installment costs of 4,000 pesos.
  - Many were "not allowed" to be connected since they were to be evicted in the next "five years".
  - The water company further prohibited those connected to share or sell water to those unconnected.
  - An old faucet, which used to be a free source of water, was also taken over by the water company leaving those unconnected with no water.

Accountability of companies

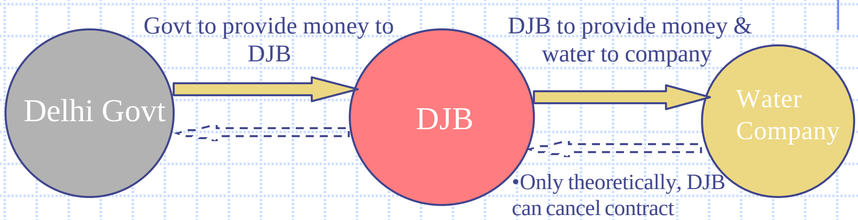
- Penalty to be imposed if they fail to meet targets
- Bonus if they exceed targets
- How much penalty? How much bonus? Procedure for imposition of penalty? DJB refuses to reply.
- World bank said to some journalists- total penalty not to exceed 30% of management fee in a year. Is this correct? Is this a sufficient deterrent?
- If a consumer is aggrieved, where would he go? Government would have no controls over day-to-day affairs.
- International experiences show that with such low penalties companies prefer to face penalties than improve services.

Control of DJB over companies

- Short of cancellation of contract, DJB or Delhi Government have no powers to make companies perform if there are day to day grievances or if they violate any terms.
- Government in extremely weak position to cancel contract because water supply cannot be disrupted

Role of Delhi Govt and DJB

Company in complete control of DJB. DJB's role limited to just supplying money & water



- Only theoretically, DJB can cancel contract
- No control over day to day activities
- Companies hardly accountable because of vague parameters and loose targets

One way traffic to provide money to the water companies.

Why should a water company perform?

- Fixed "Management Fee" – With company failing on all fronts, only 30% could be deducted
- Fixed "Engineering fee" – Noone can reduce or refuse it
- Absolutely no stakes in improvement of DJB – Company looses nothing if DJB does not perform, gains nothing if it does.

A farcical system?

Impact on Government's finances

Before the project:

- Government provides a subsidy of about Rs 350 crores every year to meet revenue expenditure
- Government provides about Rs 700 crores loan every year.

After the project:

- PWC recommends that Government provide a cash grant of Rs 1000 to 1500 crores every year.
- In addition, the Government will have to pay interest to the World Bank on this loan

So, there would be much greater strain on government finances after this project

Impact of this project

- Steep increase in Tariffs
- Water availability to poor would reduce
- Water could be diverted from residential areas to commercial areas
- Overall water availability may not improve because leakage reduction targets bogus
- Grievance redressal would deteriorate
- Operational & capital costs of DJB would increase
- Government finances would be worse off
- The companies would acquire total control over DJB and its finances without investing a single penny and with no accountability

So, the companies and its experts would gain tremendously

What is the problem?

- Per capita availability is 220 lpcd. After leakages, 110 lpcd available
- This is said to be more than most Indian and International cities
- Where is this water?

Leakages?

- 50% leakages claimed i.e. almost 350 MGD water lost
- We do not see so much leaking water daily on Delhi roads?
- Where is all this leaking water going?

Water scam?

- Investigate where is all the water going? And make the findings public
- Only then can we find the solutions

PWC does not investigate this problem

- Problem lies at Distribution end – to identify where is the water going?
- But PWC did not investigate this problem
- Because it was not a part of their TOR
- Because the TOR was decided by the World Bank and not by the DJB or the people of Delhi

There is no co-relation between the problems of DJB and World Bank consultants' recommendations

Track record of companies short listed for Delhi

Four companies

- Manila Water led by Bechtel
- Degremont (subsidiary of Suez)
- Veolia (also called Vivendi)
- SAUR

Bechtel

Cochabamba in Bolivia

- World Bank made other debt relief to Bolivian Government conditional to their privatizing water.
- Year of contract 1999
- Within weeks, prices became three times (200% increase)
- Water became inaccessible to poor
- Water riots – 175 people injured, one died
- April 2000, Bechtel finally forced to leave.
- November 2001, Bechtel filed a legal demand for $25 million – compensation for its lost opportunity to make future profits.

East Manila, Philippines

- World bank/ ADB loan
- Year: 1997
- Promise: No increase in rates for next 10 years. Rates increased several times within 3 years
- Promise: To reduce NRW to 16 percent by 2001 but by that time was still losing 50% of its water.
- Promise: 24/7 within three years. Failed to do so.

Suez

El Nato & La Paz in Bolivia

- **World bank Loan**
- **Year of contract:** 1997
- Failed to provide water services to 2,00,000 people in violation of contract terms.
- Many of the residents of El Alto live on the equivalent of half-dollar per day, but cost of new water and sewer connection rose to 450 dollars
- Large scale public protests and unrests with blockades and marches in January 2005
- In January 2005, President Mesa decreed an end to the contract
- It refuses to withdraw.
- World Bank justified failure of the company by saying that adequate financial incentives were not made available to the company.

Puerto Rico

- **Year of contract**: 2001
- Promised to cut expenses by $ 250 million per annum, but asked for an additional $93 million citing "economic realities very different from initial projections"
- Solicitor General Carlos Lopez stated "Although a multimillion dollar contract exists between the government of Puerto Rico and Ondeo they have made no improvements in the most basic needs…"
- Suez left in 2003

West Manila Philippines

- **World Bank/ ADB Loan**
- **Year of contract**: 1997
- Promised to reduce (NRW) from 56 to 32 percent. NRW increased to 66 percent.
- Promised uninterrupted 24-hour water supply within three years to all connected customers - Failed
- Cholera and Gastroenteritis outbreak (as of 11 Nov. 2003).
- Promised not to raise water tariffs for the first ten years. However, tariffs increased by 700% within three years.
- The one time meter instalment cost went up so high that many urban poor could not afford that. Many others were **not allowed** to connect to water services.
- An old faucet, which used to be a free source of water, was taken over by Maynilad leaving those unconnected with no water.

West Manila Philippines (Contd..)

- Only 200 of a total of 5,400 employees remained. Rest laid off.
- December 2002, Suez pulled out of contract when Government denied further raise in tariff.
- The company sued the Philippino government for over $ 300 million.

Other countries

- Company performed miserably. So, contracts terminated in
  - Buenos Aires, Argentina – IMF/World Bank
  - Potsdam, Germany
  - Nkonkobi, South Africa
  - Brazil
- Campaign against privatisation going on in Jakarta, Indonesia – World Bank Loan

SAUR

Abidjan, Ivory Coast, Africa

- Water rates soared.
- The rates became unaffordable to even the middle class families.
- People had to wash their clothes at the local streams and rivers.
- Those with indoor plumbing could flush their toilets only few times a week in order to save the high priced resource.

Dolphin Coast, South Africa

- World Bank Loan
- The contractual agreement states no increase in water charges for the first five years but steep hikes in tariffs in violation of agreement.
- 300 people died in a cholera outbreak due to poor quality water
- Campaign against privatisation ongoing.

Lesotho, South Africa

- Alleged to have bribed officials with as much as US$733,404 in order to receive beneficial treatment in contract.

Vivendi

Tucuman, Argentina

- **Year of contract**: 1994
- The contract included 95 per cent tariff increase in first year and gradual decrease later. However, prices doubled
- Quality of water fell. Water supply turned brown
- The quality of maintenance went down. The main water source, the reservoir of El Cadillal, contained high concentrations of dissolved manganese coming from the walls of the dam.
- Consumers boycotted payment of water bills
- The company asked government to pay US $ 250 million for losses due to payment boycott.
- Claim of US $ 300 million from the government in the ICSID (World Bank's dispute settlement body) in 1996
- In 1998, contract terminated

Puerto Rico

- **Year of contract**: 1995
- PRASA had serious problems with its performance and hoped a private company would have the ability to improve services. These hopes quickly turned hollow.
- Puerto Rican Office of the Comptroller produced two reports severely critiquing Vivendi's services
- It noted "deficiencies in the maintenance, repair, administration and operation of aqueducts and sewers, and required financial reports that were either late or not submitted at all."
- Puerto Ricans complained that Vivendi workers didn't know where to find aqueducts and valves in need of repair, but that they were always able to find a way to bill their customers for unconsumed water.

Puerto Rico (Contd…)

- Despite the higher bills, Vivendi had already put PRASA’s operational deficit at $241.1 million, and the Government Development Bank had to contribute emergency funding on multiple occasions.
- It charged Vivendi with 3,181 deficiencies in infrastructural administration, operation, and maintenance.
- The report estimated that approximately half of PRASA's water was wasted because of leaky aqueducts.
- The operational deficit had also increased almost threefold, to $685 million.
- Vivendi was made to leave in 2001 due to bad performance.

Indianapolis, USA

- Lawsuits have been filed complaining not only about the treatment of workers but also about the legality of the contract itself, and a coalition of Indianapolis citizens is aiming to nullify the contract and bring the system under public management.

Our Concerns:

- With this track record, why are these companies being allowed in Delhi?
- Has the DJB satisfied itself about the background of these companies?
- Have these companies been successful in any developing country?

Level of World Bank intervention

What do the papers reveal?

World Bank has final say in

- Adding/ deleting names in list of pre-qualified bidders
- Deciding entire agenda of reforms
- Seek cancellation of bids
- Over ride the decisions of Governments and elected reps

Did we need PPF loan?

- Loan amount is just Rs 10 crores.
- But the World Bank has dictated entire agenda
- Shouldn't we have first done our own study of problems and solutions with our own money and then approached Bank for necessary funds?

Cost of loan in foreign currency

- IBRD lends at commercial rate, roughly 0.5 to 0.75 % above LIBOR
- LIBOR ~ 3%
- So, interest in dollar terms ~ 3.75%
- Foreign exchange fluctuations ~ 3-5%
- Therefore cost ~ 8%
- No tax flowback

Cost in domestic market

- Can easily raise this amount at lower cost
- 2.4% flowback as tax
- So, net cost is less than 5.6%
- No strings attached

Do we need the final loan?

- Loan amount less than Rs 700 crores for six years i.e. about Rs 120 crores per annum
- Govt invests close to Rs 1000 crore every year
  - Rs 350 crores subsidy
  - Rs 700 crores as loan
- Do we need such a small amount at such high costs in terms of interest payouts and stiff conditions?

When is such a loan taken?

- One is broke and needs money
- One needs foreign exchange
- One needs certain technology and one is forced such a tied loan

None of these conditions exist here. This is a tied loan and all tied loans come with heavily padded project costs

Our Demands

- Withdraw loan application to World Bank for this project
- Hold this project
- Initiate water sector reforms in consultation with people.

What should be done – some suggestions

- Appoint an independent agency to investigate where is all the water going?
- Identify solutions to address problems thrown up by these investigations
- New Tariff structure
- Metering problems
- Sign an MOU with an EXEN – Give him the independence and hold him accountable.

Suggestions for tariffs

Total annual expenditure (including depreciation and interest) divided by total Revenue Water (RW) is Cost of Water (COW).

- Water to NDMC and Cantonment areas at COW, as laid down in DJB Act.
- Water to domestic sector in MCD areas: No fixed charges.
  - Below 20 KL, at Rs 2 per KL.
  - Above 20 KL: The entire consumption at COW.
- Water to commercial sector at twice the COW.
- Water to Industrial Sector at thrice the COW.

Advantages:

- At higher consumption levels, people will be forced to invest in water saving or water recycling technologies.
- Automatic targetting of subsidies to the poorest.

Thank You