

NEPAL WATER PRIVATIZATION: Role of ADB and PSI's Call for Quality Water Services and Public Water Management ¹

Private sector participation (PSP) or the privatization of water supply services in Nepal is a conditionality of various loans and technical assistance projects of the Asian Development Bank (ADB), with co-financing from other donors such as the Japan Bank for International Cooperation (JBIC) and the Nordic countries. In December 2000, the ADB approved a US\$ 120-million loan to finance the controversial Melamchi Water Supply Project (MWSP) which will divert 170 million liters daily (MLD) of water from Melamchi River via a 26 km long tunnel to a water treatment plant and distribution facility yet to be constructed in the Kathmandu Valley. The ADB-funded project aims to introduce PSP through a performance-based management contract. Three years later, ADB approved an additional loan of US\$ 15 million for the Kathmandu Valley Water Services Sector Development Program (KVVSSDP) that will, among others, restructure the public water utility and "rightsize" the new water entity.

Water is a human right, and access to safe, sufficient and affordable water is essential to equity. Public Services International (PSI)² union members in 150 countries demand safe and affordable water for all. PSI unions are working to deliver quality public water services to all citizens. This is not an easy task when public utilities are so starved of capital that they cannot afford to pay a living wage to its workers, ensure proper training or supply the necessary safety equipment, let alone to invest in expanding and maintaining the network to those not served. Governments must invest in water and sanitation and keep water in public hands. Water management must be public, effective and responsive, with public participation in decision-making. PSI stresses the need to consult workers and their unions in all efforts to reform and improve public services.

Melamchi Water Supply Project (MWSP). The Melamchi project aimed to solve the chronic water supply shortage in the Kathmandu Valley in Nepal. The existing water supply network and associated equipment would also be rehabilitated and/or replaced. To add to its complexity, the MWSP also sought to develop a comprehensive institutional framework for water resource management within the valley.

The total project cost was originally estimated at US\$ 464 million; JBIC, Norway and Sweden agreed to co-finance the project. Tunnel construction would cover 32 percent of the total cost, rehabilitation of the network, 46 percent, and the management contract plus institutional reforms, 4 percent. The World Bank earlier agreed to provide financial support to the PSP process but pulled out in mid-2002; ADB then came in to help prepare a 5-year management contract.

Full cost recovery for urban water supplies is among the reforms instituted through the Melamchi project. In 2004, the government decided in 2004 to increase prices annually by 15 percent. For the past two years the tariff has remained the same, which means the next increase would be a whopping 30 percent. Consumers paying Rs 50 for 10,000 liters, for instance, would have to pay Rs 66.

The Melamchi project is being pushed through at huge social, economic and environmental costs. In May 2004, water rights activists and affected community groups filed a complaint at the ADB's accountability mechanism, citing noncompliance by the Bank of its own policies in Melamchi project implementation viz: Access to information; Environmental Impact Assessment; Land acquisition, compensation and resettlement; Indigenous peoples; Social Uplift Program; Agriculture; and Forestry.

¹ By Violeta P. Corral, Public Services International Research Unit (www.psirru.org), April 2007.

² PSI is a global union federation made up of more than 600 trade unions, and represents more than 20 million workers who deliver public services in 160 countries around the world. PSI and its affiliates are committed to build quality public services that meet the needs of workers and communities. Priorities include global campaigns for water, energy and health services. PSI also promotes gender equality, worker rights, trade union capacity building and equity, and social dialogue. (www.world-psi.org)

In July 2005, Norway pulled out from the project, citing developments after the February 1 royal takeover as “a serious setback to multiparty democracy, constitutional monarchy and human rights”. Sweden formally terminated its commitment in 2006. Also in July 2005, Nepal’s former Prime Minister, a minister and Melamchi project officials were convicted of corruption and got two years jail sentence.

In March 2007, a Joint Review Mission of project donors agreed to scale down the project from US\$ 464 million to US\$ 350 million, raising serious concerns about the original cost estimates of the project. Earlier scheduled to be completed by 2006, the Melamchi project will now go beyond 2011.

Kathmandu Valley Water Services Sector Development Program (KVVSSDP). Institutional reforms attached to this ADB loan include restructuring of the public water utility, Nepal Water Supply Corporation (NWSC). The utility’s Kathmandu Valley operations have been split into three new entities: (a) a Water Authority called the ‘Kathmandu Valley Water Supply Management Board’ for policy setting and asset-owning; (b) a Water Utility Operator ‘Kathmandu Valley Water Limited’ or KVWL for operation and management of the urban water supply and wastewater systems; and (c) a regulatory agency ‘Water Supply Tariff Fixation Commission’ to protect consumer interests.

Tied aid brings in water reforms and PSP. The NWSC is a government corporation set up in 1990 and is responsible for water supply and sewerage for Greater Kathmandu and 11 other towns. In 2003, the five urban centers of Kathmandu have a combined population of 1.1 million. It is estimated that 52% of households have individual connections to the piped supply, and another 30% get water from public taps. The remaining 18% of households get water from wells, stone spouts, springs, and streams. Non-revenue water (NRW) is estimated at about 40% of production. About 22% of households are connected to the sewerage system; the others rely on septic tanks (70%), and a few rely on latrines. Private operators are involved in desludging septic tanks. As arguments to introduce PSP, Melamchi donors claim that NSWC has not been able to deliver efficient services on a sustainable basis because of undue political intervention, weak management, and weak revenue collection. In January 2007, parliament passed a bill amending the NWSC Act which terminated its control of Kathmandu Valley’s water supply system and brought in the British firm, Severn Trent Water, as a management contractor.

Campaign vs Severn Trent When three other bidders withdrew, Severn Trent bagged the US\$8.5 million contract to manage Kathmandu’s water supply for six years, amidst questions of the legality of selecting a single bidder and the lack of competition. Severn Trent should guarantee two hour water supply to 190,000 taps in Kathmandu in the two years before the Melamchi project is completed. Government officials argue that Nepali companies were not qualified enough to take up the job and hence the need to bring in foreign expertise. It should be noted, however, that Severn Trent’s record elsewhere in the world had not been as sterling as painted by government. In February 2007, for instance, the government of Guyana cancelled a five-year water management contract with Severn Trent citing the company’s failure to meet five out of the seven objectives in the contract. Several Nepali water rights activists and workers unions have launched a campaign for Severn Trent to withdraw from the contract.

Workers issues Water workers and their unions argue the state must not act irresponsibly in the sectors of essential services such as health, drinking water and education, and that such services should be provided to consumers at the grassroots level. Workers demand that government seek the participation of NWSC employees and consumers when making structural changes at the corporation. Workers are an essential partner to improving and delivering quality public water services. At the Nepal Drinking Water Corporation (NDWC), the fate of its nearly 2,222 employees is fraught with uncertainty with plans to sell NDWC in segments to the private sector; workers demand representation at the NDWC Management Board. The ADB’s many policies on access to information, participation, consultation, and social protection – including compliance with relevant labor laws and international core labor standards – should ensure that workers voices are heard and legitimate concerns acted on with fairness. Workers need to be consulted and their prior informed consent sought on, among others, any ‘rightsizing’ of the new water entities, including in the implementation of so-called voluntary retirement schemes.

Public water management and alternatives to PSP Public water management is still the solution, with reforms put in place to support the autonomy and efficiency of public water operators. NWSC has been saying that it had not been given any chance for reform, or to perform autonomously. The role of Kathmandu Valley's five municipalities and community-based enterprises such as local cooperatives in water supply should also be strengthened. What Kathmandu needs is public investment in its water supply and management - to cut the leakage rate and upgrade the water supply network served by the many small local rivers and springs and ponds. Nepali water experts argue that just upgrading the ageing water mains and cutting back on leakage would augment supply by anywhere between 40 to 70 percent. International donors had been quick to dismiss other cheaper and more appropriate options such as proper groundwater re-charging and collection; rainwater harvesting; constructing shallow tube well; rehabilitating hand dug well and traditional stone spouts; improving billing collection efficiency and cross checking for proper metering. Construction of reservoirs on the Kathmandu Valley rim to store monsoon runoff is much less expensive than drilling a long tunnel. Finally, the collaboration of NWSC and Kathmandu Valley's municipalities in 'public-public partnership' (PUP) schemes should also be explored, where the provisioning of water remains a social good and controlled by a transparent, accountable and participatory public rather than viewed as a source of profit.

REFERENCES

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