

ADB's Water Management (a.k.a. Privatization) Projects in Asia

Violeta Q. Perez-Corral, NGO Forum on ADB (April 2001)*

On 16 January 2001, the ADB approved its Water Policy in response to what the Bank perceives as a growing inefficiency in water allocation across the globe particularly in major urban centers. With the water policy, focus on water sector reforms across DMCs will be promoted, integrated management of water resources will be fostered and the delivery of water services will be improved and expanded. This came about with the Bank's alarming forecast on the inability of water supply to meet the rapidly increasing demand for domestic and industrial water. In the same outlook, it is projected that water availability per capita will fall further by 2025. Hence, the need for a more efficient means of distributing water mainly to maintain good health and sanitation in the populace.

PHILIPPINES: ADB's public and private sector loans to Manila water

Over the past ten years, the Asian Development Bank (ADB) has poured several loans amounting to \$426 million to improve the water supply and distribution of Manila's Metropolitan Waterworks and Sewerage Services (MWSS). These included a \$92 million loan to the Philippine government in 1995 to bore tunnels through mountains to divert water from Umiray River in faraway Quezon province to Angat Dam near Metro Manila. Apart from the environmental damage which the construction of the tunnel has created, critics of this 'transbasin dam' deplored the lack of transparency and consultations, particularly indigenous peoples water users who depend on the waters of the Umiray River for their daily sustenance and livelihoods.

In 1997, the World Bank's IFC advised government on the privatization of MWSS, the largest ever in the region of a public water utility. After hiking water rates pre-privatization and a two-stage 'early retirement' of affected public sector workers, what followed was the change in MWSS management from government to two private sector concessionaires for the next 25 years. The 'public-private partnership' that seemingly transpired was for government to guarantee the supply of water to the private concessionaires which distributed the water and collected the bills in behalf of government. In return, the concessionaires promised to make more investments in water distribution and

sewerage services, as well as pay government regular concession fees.

In 1999, the ADB approved a \$170 million loan to one private concessionaire -- Maynilad Water Services Inc (French Lyonnaise des Eaux is 'strategic' foreign investor). The loan was roughly 50% of the total \$350 million debt package being raised by Maynilad to meet its investment requirements till 2002. The much-vaunted capital financing that the private sector supposedly brings in is nothing more than borrowing activities that have the potential to 'crowd out' public sector lending from the ADB's (and other IFIs) regular lending portfolio.

Today, the MWSS Regulatory Office (RO) receives its budget from the concession fees of the private concessionaires. It lacks teeth in enforcing its regulatory role -- partly arising from its weak legal mandate as it was created out of a chapter in the Concession Agreement -- and partly because the private sector 'duopoly' can simply threaten to return the management of MWSS to government (at great immediate costs to water consumers) if its current demands for water rate increases are not met satisfactorily by the RO. In fact, the private concessionaires, who now have control over water supply, can simply switch off the taps to show government and contrary consumers that they mean business!

It is not known whether the underfunded and under-qualified MWSS RO (the ADB continues to pour technical assistance grants for 'capacity-building') has been monitoring the actual number of poor consumers benefited by this 'poverty-reducing' project. Or whether privatizing management of the water utility has had an immediate impact on public health -- as when repair of water leaks (translated into 'non-revenue water') by the private concessionaires should at least redound to lesser incidence of water-borne diseases.

In the pipeline is ADB assistance towards the construction of Laiban Dam, which is touted to be as big as the controversial San Roque Dam, to augment the water supply in Metro Manila. This project may be implemented through BOT; funding required is \$1

* The NGO FORUM ON ADB (FORUM) is a network of diverse non-governmental organizations (NGOs), peoples' organizations (POs), community-based organizations and other public interest groups with advocacy and campaigns relating to the Asian Development Bank (ADB). The Manila-based Secretariat can be reached at: Room 402, 107-A Kalayaan Avenue, Diliman, 1101 Quezon City, Philippines; Telefax: +632 9297987; E-mail: forum@pacific.net.ph. Visit our homepage: www15.brinkster.com/ngoforum.

billion.. Moreover, a 'Small Towns Water Supply and Sanitation Sector' project is also in the offing which will again invite greater private sector participation in the sector.

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STATEMENT OF FDC ON MAYNILAD'S AUTOCERA PETITION

(6 March 2001, Freedom from Debt Coalition, Philippines)

According to news reports, the MWSS administrators and the Maynilad Water Services Inc. have already approved in principle Maynilad's petition for an automatic currency exchange rate adjustment (AUTO CERA). The Freedom from Debt Coalition (FDC) cautions the MWSS Board of Trustees from pushing through with its formal approval of the Maynilad petition. As a government entity, MWSS' mandate comes from the people, hence it should be accountable to the people. Granting the water concessionaires' petition for an AUTOCERA would translate to the doubling of water rates that would further burden consumers of this vital public good.

Under the agreement forged by MWSS and Maynilad in 1997, the water concessionaires must file a petition for an Extraordinary Price Adjustment before the MWSS Regulatory Office if they want to adjust tariff rates as a result of significant (above 2%) exchange rate fluctuations. The MWSS-RO then decides whether to grant their petition or not. Furthermore, the agreement says they can collect from consumers the additional costs resulting from exchange rate movements over the remaining life of the concession. This is the process that the petition should go through.

But Maynilad has found a way to circumvent the process. Instead of working within the parameters of the contract, Maynilad now wants to have the terms of the contract changed. It wants to recover the costs automatically without having to apply for an Extraordinary Price Adjustment. And it wants to recover the costs within one or two years instead of the remaining life of the Concession.

Worse, it is MWSS Chief Regulator Rex Tantiogco himself who is paving the way for the revision of Maynilad's contract. The chief regulator even agreed to head the task force set up by the MWSS Board to draw up the AUTO CERA formula. He sees no conflict of interest between his role as Chief Regulator to preserve the integrity of the privatization agreement, and the task of facilitating the amendment to the agreement. He is working hard to protect the interest of the concessionaires.

Tantiogco and Maynilad's unjustifiable excuse for the imposition of the AUTO CERA is that Maynilad needs to recover its losses so it can improve its operations. By using this argument, Maynilad is virtually blackmailing the MWSS administration: Grant us our petition, or we will not provide quality service.

We call on the MWSS not to succumb to Maynilad's hold-up tactics. At the very least, MWSS should conduct an independent diagnosis of the situation and make its own counterproposal to Maynilad. If their terms are unacceptable to Maynilad, then the MWSS can start looking for qualified replacement operators in case Maynilad chooses to make good on its threat to walk away from its contractual obligation. After all, the Concessionaire Agreement stipulates that the MWSS can hire qualified replacement operators and pay them out of Maynilad's US\$200-million performance bond.

We urge the MWSS administrators to defend the public interest. They should not make consumers carry the burden of Maynilad's so-called losses. When Maynilad submitted its bid along with all other rival prospective concessionaires, it knew that any unforeseen costs would be recovered from consumers not in one or two years but over the remaining life of the Concession. Maynilad did not seek a revision of the contract then but submitted its bid along with its competitors. Now that it has been awarded the concession, Maynilad has no right to amend the contract so that it can recover more quickly from consumers the additional cost it incurred due to peso-dollar rate fluctuations.

Maynilad's cash flow problem is serious and needs to be addressed. But the MWSS, primarily through the Regulatory Office, must carefully investigate how this problem came about. In doing so, the concessionaires together with the MWSS will prudently avoid passing on to consumers the full burden of resolving problems that may have resulted partially from the concessionaires' own shortcomings, e.g. mismanagement, failure to meet performance targets, etc.

For one, Maynilad has not been able to resolve its problem of high water wastage. Contrary to its commitment that non-revenue water (NRW, due to leakage and pilferage) would be reduced annually, its actual performance shows that non-

revenue water has in fact increased. At present Maynilad earns only a third from the water it distributes through its pipes. Its failure to address NRW means lost revenues, which will have a significant bearing on its cash flows.

By pushing for AUTOCERA, Maynilad wants consumers to carry the full burden of its inefficiencies and inability to meet its own targets. The signal it sends to Filipinos not only in Metro Manila but in all other urban centers is that privatization may not always be more efficient, but it will definitely be more costly. (We know that local water districts are being targeted for privatization in Cebu, Davao, Cagayan de Oro, Zamboanga and Leyte, among others.)

This experience likewise points out the need for a stronger and independent regulatory body to oversee the behavior of private concessionaires. Without an autonomous body composed of individuals of unquestionable integrity, the consumers will remain prey to the vested interests of big business.

NEPAL: Melamchi water diversion scheme

To bring remedy to a persistent water shortage problem affecting 1.5 million residents in Kathmandu Valley, ADB approved the Melamchi Water Supply Project loan amounting to US\$120 million in December 2000 which the Bank itself dubbed as an "ambitious" water supply project. The project, estimated at a total US\$464 million, is cofinanced with the Nepal government, the Japan Bank for International Cooperation, Norwegian and Swedish aid agencies, the Nordic Development Fund, OPEC Fund and the Government of Japan.

Due to be completed in September 2006, the project involves the construction of a 26-kilometer tunnel primarily to divert 170 million liters of water from the Melamchi River on a daily basis as well as to contain water channeled from the Yangri and Larke rivers. Moreover, the loan involves the construction of a water treatment plant that can initially process 170 million liters a day and can expand threefold. Finally, access roads to project facilities will be constructed to enhance the existing distribution system.

Importantly, as well as tapping new water sources, the project will improve the management of existing water resources. It will bring in institutional reforms and establish a regulatory body for water supply and sanitation. An accompanying technical assistance has been carried out to explore cost recovery and tariff policy, water sector policy, urban water supply policy, the formulation of a regulatory framework for private sector management, public awareness, groundwater monitoring and licensing and charging for use. In short, the study proposes that the whole of the Kathmandu Valley water supply system needs to be under private sector management. Currently, the Melamchi Water Supply Development Board has been designated to implement the project.

A social program will help some 40,000 people (ADB estimates only) who will be affected by the project. Facilities to improve living conditions for affected people will include buffer zone development, rural electrification, health and education amenities and income generating community development. These will be maintained through a water levy paid by water consumers in Kathmandu Valley to benefit the people of Melamchi Valley.

This early, the project has already earned resounding objections from Valley residents essentially from lack of consultation as to how water can be provided for through other means (including harvesting of rainwater!) that will not tax consumers of what is primarily a free good. The project's intent to privatize the public water utility has no foreseen benefits to the poor who cannot pay the new water rates.

In a recent meeting, the Bank's mission lead for the project -- Arthur MacIntosh -- maintains that the essence of water privatization is to reduce the cost of accessing to water and any impending adverse effect of the project becomes a problem of government management and not of the project itself.

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Sri Lanka: 'Strengthening' Water Resources Management

In September 2000, the ADB approved a \$19.7 million loan to improve water resources management in Sri Lanka. Institutional reforms include the creation of the National Water Resources Authority (NWRA) as the single government agency to manage and have stewardship over the country's water resources. While Sri Lanka does not face a water management crisis, there are signs of increasing stress on water resource and competition between users. Lower river levels and increasing salinity intrusion into the Kelani River mouth is threatening the entire water supply to Greater Colombo.

The construction of the Kelani Conservation Barrage will provide improved domestic water supplies to some 330,000 people in specific parts of Greater Colombo that are currently suffering interruptions in supply and low pressure. Almost half of the population rely on communal stand posts for water with 40 to 200 households sharing one stand post. The project will also support two pilot studies in water resource management in the river basins of Menik Ganga and Deduru Oya, where poverty is prevalent. A third basin, Attanagalu Oya, will be studied at a later stage once additional water resources data has been collected.

Peasants' and other people's movements in Sri Lanka raise the fundamental issue of the privatization of water, a resource freely available in nature and a requisite to life itself. Under the guise of water resources management, a new government policy -- largely kept under folds -- adopted in March 2000 vests all water rights in the state and now allows the government to sell its water. This is but part of a continuing trend promoted by the multilateral banks (e.g., ADB, WB) which, in 1996, supported legislation that would have

the country's 1.8 million farming families pay for irrigation water. This was also in line with the move to wean farmers away from growing non-export food crops, the rationale behind being that as long as government continues to supply water freely to farmers, the latter will continue to cultivate what they wish. Hence, the proposal to charge user fees for water.

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