

Pakistan's Karachi Water and Sewerage Board – World Bank's Guinea Pig on Water Privatization in South Asia

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Sustainable reforms in the provision of water services should be defined by three themes --

- Public interest requires universal access to minimum levels of services
- The crisis of provision demands simultaneous institutional and organizational restructuring
- Acknowledge that markets will not satisfactorily mediate critical social relationships of rights and obligations in essential services.

In other words, reforms should not diminish the social responsibility toward citizen rights in exchange for efficiently responding to consumer privileges. If the World Bank would have its way, however, reforms in our major cities would transform public water agencies into private monopolies.

The official privatization strategy of the Karachi Water and Sewerage Board (KWSB) was formulated through a million-dollar consultancy from the Paribas-Halcrow consortium. All system assets will be handed over free-of-charge as a "concession" for 20 or more years. Other than a provincial regulatory authority, there will be no separate oversight body except the Sindh legislature by default. Other major issues that need to be scrutinized in the privatization strategy include --

- *Damning the poor* Improvements in water delivery are given no specific targets; during the entire concession period, poor and lower income households will continue to be accorded low priority. Sewerage collection will never be provided to more than half the population.
- *Skyrocketing private tariffs* As prelude to privatization, tariffs have jumped 30%, and are planned to increase annually by 20% in real terms. This will yield a cumulative increase of 300% by the fifth year of privatization for all consumers, rich or poor, domestic or commercial. Irrelevant comparisons are made to tariffs in richer Southeast Asian cities; ignored are substantially lower public tariffs in Bombay and almost equal private tariffs in Manila.

Consumers will also face additional burdens as taxpayers as the existing debt of \$280 million will be serviced by government. Given the highly inequitable tax system, the poor will end up paying a great deal more than tariff increases.

- *Illusory private efficiency* Water utility staff will be reduced by 1,500 before privatization, and another 4,000 after. It is not obvious how cost-effective retrenchment will be after expatriates take over senior management, and downsizing is accomplished through golden handshakes. Bill collection ratios are expected to more than double for connected customers, and four-fold for unconnected customers. The problem of theft by industrial, commercial and domestic customers is not seriously taken up, nor how to tackle the formidable 'tanker Mafia'. Despite substantial public investment, better private management will reduce physical water losses from 40% to 30% in five years of privatization; it is puzzling why the much-vaunted private efficiency will do no better than public systems in Bombay (24% in 1993) and Delhi (30%).
- *Guaranteed profiteering* Despite its monopoly, private equity finance will bring less than 10% of funds needed for rehabilitation and expansion. The bulk of investments will in fact be financed by additional international agency loans and rapidly increased revenues through a 3000% real increase in tariffs and doubling of collections. Virtually no private risks are present because of minor equity finance; the WB advises that the private concession should assume no financial risks whatsoever. Recovery of equity with a 15% real rate of return is guaranteed through a revenue reserve facility which could cost taxpayers \$50 million just over five years. Presumably in deference to international reputations of the water cartel, no penalties are proposed for bad performance. No limits are placed on exploitation of transfer pricing and expatriate compensation. Taxpayers should continue to

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service all existing debt; servicing of all future debt is also required to be guaranteed by government.

- *Unaccountable privatization* Not content with coddling the private system through the absence of specific minimum and verifiable targets for service improvements, the privatization strategy further recommends that any commitments be open to re-negotiation after five years. No penalties are proposed for failure to meet targets, and measures of service levels are to be based on self-assessment by the operator, ensuring the death-knell of regulation. Tariff regulation, however, is to be guaranteed by government, i.e., through enforcing disconnection.
- *Alternative restructuring* The required focus in all restructuring is a rapid and sustained expansion of services to the unserved and underserved in water and sewerage. Yet another priority must be large-scale conservation through reduction of enormous system leakage and consumer waste. Karachi should get no additional water until it ensures collection and safe disposal of present supplies.
- *Unbundling monopoly* Efficiency and consumer welfare require substantial break-up or unbundling of KWSB operations, both vertically by functions and horizontally by locations. Introducing competition and contestability for the market, unbundling will considerably reduce the subsequent burden of regulation and oversight of conduct. If some functions are to be privatized, unbundling will encourage direct local participation through private enterprise and community control.
- *Equitable financing* When focused on equitable services, there is likely to be a sharp drop in the level of investments required in the immediate future, hence reducing the unfair pressure to privatize. Unbundling and limited-duration franchises can permit substantially smaller tariff increases for the poor as well as on average. In any case, there should be an explicit element of cross-subsidies from affluent to poor consumers. Taken together with subsidy block grants from the city, cross-subsidies in tariffs must ensure universal access to the final service and effectively protect the environment. For public financing of activities, some thought should be given to raising funds through tax-exempt municipal bonds. Preferential outsourcing of activities to retrenched employees could be tied to conversion of golden handshakes into shares in restructured public entities.
- *Securing public interest* Citizens fear regulatory capture by service providers;

introducing competition through structural unbundling could get a long way in protecting consumer interests. Time-bound contracts of short duration must become the rule for both public and private providers. Whether it is a management contract or franchise, efficiency and service incentives would be strongest when providers face a credible threat of being ousted for bad performance. Contracts must specify target outcomes in service and environmental standards, and these must be the benchmark for tariff adjustments. Stiff penalties for deterioration in services must be prescribed beforehand, and paid to consumers directly as rebates. An oversight body is extremely important; a Public Utilities Commission is recommended with federal, provincial and city representation to adjudicate between stakeholders. There should also be a transparent system for public dissemination of all information available to regulatory and oversight bodies.

Water is essential for maintaining bodily and social life. Yet the political ecology of urban water provision excludes large parts of the population from nature's water. Therefore the issue of sustainable urban development must raise the questions, Whose water? Whose city?

As of May 2000, urban water privatization has not taken place. Both the WB and ADB continue to demand privatization in return for further loans. The military regime is more amenable to renewed proposals for privatization to halt the continuing deterioration of services.

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