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**“An assessment of water sector reforms in the Indian context:
The case of the state of Maharashtra”**

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prepared for the UNRISD Project on

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“An assessment of water sector reforms in the Indian context: The case of the state of Maharashtra”

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This paper contributes to the UNRISD project on “Commercialisation, Privatisation and Universal Access to Water”. The paper deals with a historical perspective of the evolution of the water supply and sanitation sector in India, focusing on the urban context. Further the paper looks at the case of Maharashtra, a state in India, where progressive water sector reforms were initiated. With 42.4% of Maharashtra’s population living in urban areas, there is an urgent need to improve the State’s public sector performance in the water supply and sanitation sector and to look for sustainable investments that will address the needs of the urban population. Within Maharashtra, four cities have been studied where innovative measures were tried by the Municipal Corporations to improve the water supply mechanisms. Pune and Sangli are case studies of privatization and Nagpur and Thane are case studies of innovative approaches in systems improvement.

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Executive Summary

With enormous natural resources, a growing economy and the second largest pool of technical and scientific personnel in the world, India has emerged as an important developing nation. Two hundred and eighty five million persons or about 28% of India's population of over 1 billion live in urban areas spread over 5161 towns. Although the rate of urbanisation in India is among the lowest in the world, in terms of absolute numbers, the urban population is quite huge due to the large population of the country. The impact of urban growth has been adverse on urban infrastructure and services, which, in most cases fail to keep pace with the growing population.

India has achieved significant development of water resources and drinking water infrastructure since independence in 1947. Today between 69 to 74% of rural and 91 to 93% of urban population is 'covered' by installed water supply capacity. However, there are some basic problems in the water supply sector, which include those related to O&M, transmission and distribution, water quality, unequal distribution within the city, and unaccounted for water.

Since 1992, the urban water supply sector has been operating on the guiding principles of the New Delhi Declaration, which was adopted by the UN General Assembly in December 1990. The emphasis of the approach is on protection of the environment and safeguarding of health through integrated management of water resources, organizational reforms, community management of the services and sound financial practices. Supply of water is to be based on the principle of effective demand corresponding to the standard of services affordable to consumers.

Water supply is basically a municipal function, to be executed by the ULB (Urban Local Body), or municipal bodies. However, since water supply schemes are capital intensive, these are financed from the state budget, borrowings from financial institutions or the external funding agencies. The Government of India provides assistance through a few centrally sponsored schemes.

Urban local bodies (ULBs) are instruments of self-governance; they are elected bodies with tenure of five years, and are responsible for urban management and governance. There are two main sources of revenue for water utilities; water tax based on property values and water charges based on water consumption. Water tariffs are generally ridiculously low and revenue collection efficiency is very poor. Neither the tariff rates nor the revenue collection methods are guided by any definite principles. Different methods are used for collecting tariff, which range from flat rates, slab rates to volumetric rates. Few ULBs generate sufficient revenues, while most of the medium and small towns do not even cover operation and maintenance costs. The minimum tariff is set by the state and the ULBs have to seek the approval for all proposed increases. Some ULBs have initiated innovative cost recovery mechanisms such as advance registration charges, connection charges, water tax, application of general revenues etc., though such cases are few.

Urban India's population of 28% accounts for about 50% of the country's gross domestic product (GDP), and in the near future, is expected to be the boom centre of economic growth. For making water available for everyone by the year 2021, 324 million people would need to be

provided with services, and 115 million people would require augmentation of existing facilities. The water sector therefore is in urgent need of large-scale investment, which, it is felt can only come from the private sector.

For the past 10 years, the World Bank through their Water and Sanitation Programme (WSP) for South Asia has been working with the Ministry of Urban Development, Government of India, to formulate a set of guidelines for promoting private sector participation in urban India. Parallel to this process, private firms, local corporations and financial institutions initiated dialogues and contracts across the country. However, many contracts fell through during the discussion stage. About 25 big and small contracts were initiated and abandoned as deals fell through. Not a single project reached the implementation stage in these 10 years.

Maharashtra is the second largest state in the country in terms of population and third largest in terms of area. It is one of the most developed states of the country with high per capita income, which is 40% higher than the national average. Maharashtra is the second most urbanized state, with 42.4% people living in urban areas. However, the differences in terms of development and poverty ratio within the state are grave, with 26.81% of the urban population being below the poverty line.

Maharashtra is the first state in the country to prepare a White Paper on the state of the drinking water supply programme and to initiate institutional reforms with a view to improving the performance of local bodies that are responsible for provision of drinking water and sanitation facilities. The State Government has facilitated the reform process by bringing out enabling orders and actually implementing them in the field. Maharashtra state has both positive and negative experiences with private sector participation and private-public partnerships, in the water sector and other sectors as well. In order to encourage Urban Local Bodies (ULBs) to improve the efficiency of their water supply systems, the State Government provides incentives of capital grants and guarantees for loans for water supply schemes. In June 2001, the State Government issued guidelines for private sector participation in urban water supply and sewerage. The guidelines indicate that many aspects of the existing schemes could be managed more efficiently with PSP such as metering, billing, collection, and O&M.

For this paper, the ULBs of four cities in Maharashtra were studied where efforts were made to improve water supply systems. These cities are Pune, Sangli, Nagpur and Thane. All four cities have relatively well managed civic bodies, and have involved the private sector in some aspects of water supply and distribution, and O&M. In addition, in Pune and Sangli, attempts were made to issue contracts for privatization of the entire distribution system. In Nagpur and Thane, innovative measures were taken to improve the existing systems.

The experiences in Maharashtra have clearly indicated that an atmosphere of openness and transparency along with the demystification of privatization is required to make it acceptable to the consumers. It is clear that local political opinion and support is necessary for PSP to succeed, particularly since water supply is being managed by local self-government bodies. The process of private sector participation in addition to being made transparent, also requires a mechanism for involving the community as monitoring and regulatory bodies. The contracts and bidding process results as well as action plans for implementation need to be made available in the public

domain and access to them by citizens needs to be made easy and convenient. Attempts at privatization failed mainly due to lack of transparency, unequal access to water in different parts of the city, exclusion of the poor slum communities from the coverage and projected high water tariffs.

PSP experiences in all four cities have shown that ULBs can increase the efficiency of existing systems by contracting or leasing out certain functions like O&M, billing and collection, water treatment, conducting repairs and also upgrading of infrastructure. These options may be more viable and will certainly have greater political and local support from the citizens than privatization of entire distribution systems where decision making and control is taken away from the ULBs who, because they are elected bodies, have some degree of accountability to the citizens.

The present institutional arrangements for water supply are not citizen friendly. More space for participation by the community in design and implementation and O&M needs to be created. This can be achieved by setting up platforms for dialogue with all stakeholders where the progress of the water supply scheme can be discussed on a continuous basis. In these meetings, issues related to equitable distribution, taking into consideration all sections of the society especially urban poor, revision of tariff structure and problems in O&M can be discussed so that meaningful solutions can be found. This process of dialogue will also help in building a feeling of ownership amongst the citizens about the water supply facility in their city.

Although the private sector tends to look at failed contracts as “failed opportunities” to increase efficiency of water supply systems, what is encouraging is that one of the reasons why these proposals did not gain popular and political support was that they did not address the needs of the poor. In India, where democratic processes plays a strong role in influencing decision making at the local level, private sector interventions in implementing water supply systems will have to take into account the needs of the poor if they are to receive political and local support.

Finally the lack of an independent regulatory body to monitor regulations and tariff fixing reduces the accountability of any service provider, whether private or government, to maintaining a high standard of service. Regulatory bodies which include representatives from the local communities would need to be set up if information and decision making is to be kept

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