

Water Supply in Lahore : Public Sector Reform, Not Privatization



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The Punjab Urban Resource Centre (PURC) was established in October 2001 by a group of individuals comprising development professionals, community activists, architects, sociologists and teachers.

In general, urban development planning in Pakistan is top down and takes place without consultation with interest groups, especially poor communities. For this reason, development is often non-representative and unable to effectively meet the needs of citizens. PURC seeks the involvement of citizens and communities in the planning and decision-making process in order to make development more responsive to the needs of people. Through research we attempt to understand urban and development-related issues, and with advocacy affect these in light of a pro-poor approach.

The objectives of PURC include promoting dialogue between the broad range of urban actors, advocating for the participation of citizens and academia in all stages of development, encouraging transparency and accountability of government and private bodies in the development, planning, and policy making processes, and eventually providing alternatives to projects which are likely to have adverse environmental, social, technical or economic effects on the city and its vulnerable communities.

PURC's current activities include issue-based information collection, research, documentation and publication, discussion forums, networking and liaison with the actors of the urban development process, publications, and monthly newsletter 'Urban News'.

Preface

In October 2004 it was learned that the Punjab government had made plans to privatize Lahore's Water and Sanitation Agency. In the absence of public hearings and consultations, throughout 2005 and 2006 steps taken by the government towards this ends were followed by citizens largely through the print media and informal sources. The last reports on the issue were seen in mid 2006, after which coverage about the government's plan or the status of privatization have faded.

PURC has attempted to understand the privatization of Lahore WASA with a focus on the privatization process, the current problems faced by WASA, and worldwide experiences of the privatization of public water utilities. This was done through discussions and interviews with actors and stakeholders, reports and publications by government and NGOs, newspaper articles etc. With the objective of bringing government and people closer, this publication is a compilation of lessons and conclusions from this process.

PURC owes its thanks to all those who have shared knowledge and helped us in understanding the impacts of WASA's privatization on citizens, particularly the poor. We would especially like to thank Lahore WASA, the Department of P&D, the Urban Unit P&D, the WASA trade union, and the Lahore Water Action Committee for their valuable support and cooperation.

Foreword

All eras are ruled by politico-economic systems that develop out of ‘interest’, coupled with power structures that promote and strengthen them. The free market globalization paradigm undoubtedly dominates our time, as it transforms national policies, economies, and cultures across the world. In Pakistan, in keeping with the principles of neo-liberalism the IFIs and MDBs have determined the course of development with directives such as deregulation and the privatization of public utilities since the 1980s. The impacts of these policies have been widely criticized, as they are seen to have worsened the lot of the poor in developing countries.

Only 2.5%¹ of the world’s water is freshwater² and due the contamination of water resources only a fraction of this remains drinkable. Statistics show that the earth’s total water consumption is doubling every twenty years, and water resources are being rapidly polluted, depleted, diverted, and exploited³. The United Nations reports that 31 countries are facing water scarcity, and 1 million people worldwide still lack access to clean drinking water.

Over the last 200 years the majority of the world’s water utilities have been publicly owned and run. While ‘municipalisation’ was introduced in nineteenth century Europe as a cure for the corruption and inefficiency of the private contractor, today there is much hue and cry surrounding the performance of the same public sector. The last fifteen years of donor policy in the developing world have been based on the privatization of state-owned water utilities. While warning that two-thirds of the world’s population will suffer from a lack of clean and safe drinking water by 2025, the IMF, World Bank, and regional development Banks continue to push third world governments towards what are termed ‘public private partnerships’ and ‘private sector participation’-arrangements awarding a major share of autonomy to the private sector.

¹ United Nations Environment Programme, *Water Quality for Ecosystem and Human Health* (United Nations Environment Programme Global Environment Monitoring System Water Programme 2006)

² ‘Freshwater’ is drinkable, while ‘seawater’ is not fit for drinking due to a high salt and mineral content

³ P. Raja Siregar, *People’s Resistance and Alternatives to the Privatization of Water and Power Services* (Jubilee South Asia Pacific and Freedom from Debt Coalition, April 2004)

Major global corporations have been moving into what is now seen as the 'water market'. 'Giant water, energy, food, and shipping companies have plans to buy water rights, privatize publicly owned water systems, promote bottled water, and sell bulk water by transporting it from water rich areas to markets desperate for more water'⁴, reports the print media.

Great controversy and contradiction surround these major shifts. The privatization of public water utilities continues to collapse in cities worldwide, leading to chaos and the suffering of countless poor communities. At the same time IFI-backed international bodies such as the World Water Council and the World Water Forum are being challenged by People's movements as they become known to promote the interest of the world's large water companies.

Rather than taking urgent action and responsibility to protect their water resources and the needs of people, governments around the world are retreating from their duties. While the rich-poor divide both at the global and local levels is not a new phenomenon, it is increasingly felt by citizens that globally determined actions and their national repercussions threaten their welfare like never before. What one can learn from the experience of countries particularly those with an overwhelmingly poor population is that it is essential to judge the impact of all development visions against the plain truth told by the lives of people.

It remains the duty of civil society to reflect upon reality and ensure that the facts on the ground are heard. The aim of Punjab Urban Resource Centre has been to understand the broad impacts of the privatization of public water utilities on citizens. This study argues that unless the needs and voices of those that are deemed the 'recipients' of development are heard and represented, development will not be to the benefit of those that are most in need of it.

⁴ Hamid Ali, *Water Works* (The News 17.10.2004)

Abbreviations

ADB- Asian Development Bank
CDGL- City District Government Lahore
GOR- Gazetted Officer's Residences
ICSID- International Centre for the Settlement of Investment Disputes
IFI- International Financial Institutions
IFC- International Finance Corporation
IMF- International Monetary Fund
KWSB- Karachi Water and Sewerage Board
LSWC- Lagos State Water Company
LDA- Lahore Development Authority
LIT- Lahore Improvement Trust
MDB- Multilateral Development Banks
NPM- New Public Management
OECD- Organization for Economic Cooperation and Development
P&D- Department of Planning & Development
PRSP- Poverty Reduction Strategy Papers
PSIRU- Public Services International Research Unit
PURC- Punjab Urban Resource Centre
RWA- Regional Water Authority
SAP- Structural Adjustment Programs
TMA- Tehsil Municipal Authority
UN- United Nations
UNEP- United Nations Environment Programme
WASA- Water and Sanitation Agency
WDM- World Development Movement
WWC- World Water Council
WWF- World Water Forum

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Chapter 1: The Context and Chronology of Water Privatization

1.1 The Historical Development of Water Services

The vast majority of water services in the world today are provided and operated by the public sector, the overall proportion being as high as 95%⁵. The history and processes of water supply networks in the countries of the North and the South varies considerably. By and large, public water supply networks did not exist in India prior to British annexation. Even after the advent of colonisation these were provided only to a small colonial elite and it was with independence that the ideals of developing infrastructure and public services for all⁶ were introduced. In Europe urban water systems began developing in the 17th and 18th centuries also as a limited service to affluent customers⁷. The growth of European cities in the 19th century saw a growing demand for water consumption and with these, initial water systems were started by private companies. During the 19th century however, these utilities were soon taken over by municipalities in nearly all European countries, where ‘municipalisation’ was seen as a way to overcome the ‘inefficiencies, costs and corruption of private contractors’, and democratically elected city councils brought more effective control, higher employment, and greater benefits to the local people’⁸.

During the 19th century water utilities in nearly all European countries were taken over by municipalities, where ‘municipalisation’ was seen as a way to overcome the ‘inefficiencies, costs and corruption of private contractors’, and democratically elected city councils brought more effective control, higher employment, and greater benefits to the local people’

1.2 The Structural Adjustment Programs and the PRSP's

The International Financial Institutions have played a major role in Pakistan's development decisions and processes since the 1950's. This ‘donor community’ has consisted of Multi-lateral Development Banks such as the World Bank, the International Monetary Fund (IMF) and the Asian Development Bank (ADB)

⁵, David Hall and Emanuele Lobina, *Water as a Public Service* (PSIRU, Business School, University of Greenwich, 2006)

⁶ Ibid.

⁷ Ibid.

⁸ Ibid.

who have by and large determined 'development' in the country. The MDB-driven Structural Adjustment Programs of the 1980s and the Poverty Reduction Strategy Papers introduced in the late 1990s have been major policy determinants of Pakistan economic and social development decisions. While it is acknowledged that governments in developing countries have not been able to provide sufficient coverage in water and sanitation, the past two decades of policy directives by the IFIs have in fact worsened the problem. Behind a parallel-running pro-poor rhetoric, the MDBs have advised Pakistan's government to cut spending on public services and social infrastructure, in order to generate capital for national debt payments. The standard policy demand of the IMF and the World Bank to Pakistan, has been cuts on government subsidies, increasing revenues, and shrinking the public sector through privatization, also often as a conditionality for future loans. This has meant selling public enterprises such as the water, electricity, and communications sectors to private corporations⁹.

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1.3 Global Interest in Water Issues

1.3.1 The IFI's Reform Strategies

Coupled with challenges such as population growth and increasing poverty, citizens of a large number of the world's developing countries remain without access to clean drinking water. The 1981-1990 was declared the 'Drinking Water Supply and Sanitation Decade' by the United Nations. Prior to the 1980s the method of improving the performance of water utilities was to provide the necessary 'hardware' to improve services, with the understanding that it was gaps of a technical nature that caused the hindrance in efficient service-provision¹⁰.

By the mid nineties, it became clear that concentrating on the technical aspects of service provision alone was not enough to improve performance¹¹. Attention

⁹ Ibid.

¹⁰ Klaas Schwartz, *Managing Public Water Utilities* (UNESCO-IHE institute for Water Education, Delft, The Netherlands 2006)

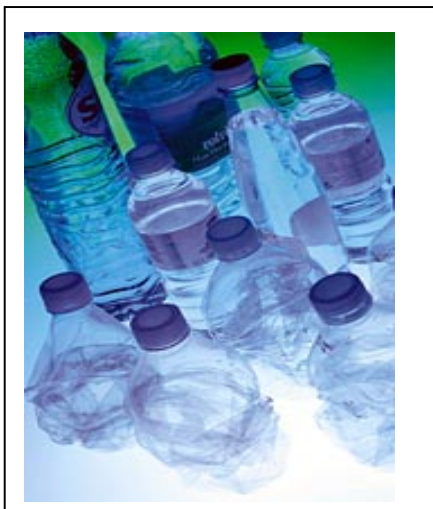
¹¹ Ibid.

shifted from ‘technical’ solutions to ‘managerial’ and ‘institutional’ solutions in the early 1990s. The managerial approach to improving water service provision followed two strategies applied consecutively: first that management of the public water utility would be delegated to the private sector through concession contracts and other contractual arrangements; and following the failure¹² of these, reforms that kept management of the utility within the public realm but introduced management practices associated with the private sector¹³.

1.3.2 Global Interest in ‘Sustainability’

Water was identified as a key issue amongst global environmental concerns by the World Commission on Environment and Development (Brundtland Commission) in 1987 in the report ‘Our Common Future’. Discussions on water and environmental issues followed in the World Water Conference in Dublin in 1992. In 1996, the ‘World Water Council’ and the ‘Global Water Partnership’ were established with the joint support of various international donor organizations.

1.3.3 The Growing Interest of International Water Companies



The current global development mantra proclaims that the public sector has failed to adequately provide water to the world’s population. With the policy agendas of the IFIs running parallel to these developments, water began to be increasingly seen as a profitable business by some of the world’s large water companies, who’s entry in the public water systems of the developing world in particular has been facilitated by the IFIs over the last fifteen years. There are a handful of major international private water companies, but two French

multinational

Figure 1: International Water Companies

¹² The Cochabamba (Bolivia) concession and the Buenos Aires (Argentina) concession are two of the world’s concession contracts known to have collapsed.

¹³ Klaas Schwartz, *Managing Public Water Utilities* (UNESCO-IHE institute for Water Education, Delft, The Netherlands 2006)

corporations dominate the sector: Vivendi SA and Suez Lyonnaise des Eaux¹⁴.

1.3.4 The Controversial 'World Water Forum'



Figure 2: 4th World Water Forum

To achieve the goals of deregulation and privatization of water resources, the World Bank along with the major water companies and government development agencies, has established a range of international organizational bodies¹⁵ over the years. The Global Water Partnership and the World Water Council both founded in 1996, are the most notable of these. With a claim to support discussions towards the solution of international water issues in the 21st century and to formulate proposals, the 'World Water Council' proposed the 'World Water Forum'- an international event¹⁶ which receives governmental endorsement via the signing of a Ministerial Declaration. The first world Water Forum was held in Morocco in 1997. The second held in the Hague in 2000 brought together many of the world's water investment and management organizations and private water companies, and gained large scale criticism

¹⁴ Alan Smitow and Deborah Kaufman, *The New Economy of Water*

¹⁵ Public Citizen, *The IMF, the World Bank, and the Global Water companies: A Shared Agenda*

¹⁶ The 'World Water Forum' is held once in three years, the last one in March 2006 took place in Mexico City

from People's organizations. The Vision Statement adopted and endorsed by the World Water Council at this Forum promoted 'a model for water management that relinquishes all control over water resources to the private sector through commercialization, privatization, and large-scale development'¹⁷. At the same time, the World Water Council gained notoriety as 'an unrepresentative and undemocratic body that derives its influence from an exclusive membership of international financial institutions, large multinational water corporations, and non-governmental organizations' and 'claims to have achieved a "consensus" on the future of the world's water without any consultation, discussion, or approval by grassroots organizations that represent the peoples of the world'¹⁸.

According to the WDM, the World Water Forum has wrongly gained legitimacy as a representative of the international debate on water, and in reality has no official UN status and reports to no UN body

In 2003, the third World Water Forum held in Kyoto received extensive resistance on the privatization of water utilities in the developing world where NGOs and other civil society groups staged protests and demonstrations against a perceived corporate takeover of water. The fourth World Water Forum of 2006 in Mexico was marked by exclusivity, with 'the corporate dominance of water, privatisation and the marginalisation of civil society' according to participating Pakistani journalist Aoun Sahi. Notified 'barriers' included an extremely high cost of participation¹⁹ and a majority of stage time being occupied by private companies and national governments. While governments are reported to have 'session after session admitted their lapses and failure, the private sector advocated privatization arrangements such as 'concessions' and Build-Operate-Transfer schemes as solutions'²⁰.

Protestors opposing the event claimed that the forum is being held in the interest of big corporations and their profits, rather than that of the poor²¹. In the words of a construction worker from the outskirts of the city, "we just want to have a say over our own water and manage it ourselves, like we always have".

¹⁷ www.waterinfo.net.pk, *Pakistan Water Gateway: A Civil Society World Water Vision for Action*

¹⁸ Ibid.

¹⁹ The participation cost of each day was fixed at \$100 or \$700 for all seven days at the Mexico World Water Forum 2006

²⁰ Aoun Sahi journalist 'The News', participating in the World Water Forum 2006

²¹ www.bbc.co.uk, *Mexico Water Marches Turn Violent* (17.3.2006)

In response, an 'alternative' water forum was organised by civil society and Mexican NGOs and took place simultaneously in Mexico City.



Figure 3: Protestors at 4th World Water Forum, Mexico City

1.3.5 Populist Movements for Water

With growing awareness of the water privatization debacle, various civil society initiatives have been launched across the world, such as the 'Dirty Aid, Dirty Water' campaign by the 'World Development Movement'. According to the WDM, the World Water Forum has wrongly gained legitimacy as a representative of the international debate on water, and 'in reality it has no official UN status and reports to no UN body'²². Further, the World Water Council which is the main organiser of the WWF is known as a think-tank with a strong pro-private-sector bias. 'The President of the WWC is the President of the Marseilles Water Supply Company (SEM), a subsidiary of Suez. Among the associations and institutes within its membership are major water companies such as Suez and Degremont²³. British members of the WWC include Severn Trent and Biwater. Alongside the water utilities are other companies with business interests in the water and sanitation sector, such as the international accountancy and consultancy firm PricewaterhouseCoopers'.²⁴ A growing number of water forums, many in opposition to the 'World Water Forum' have taken place recently, such as the 'First People's Water Forum in Italy (2003), and the 'Social Water Forum' (2003) in Brazil.

²² World Development Movement, *Special Briefing: 4th World Water Forum Mexico 2006*

²³ Suez and Degremont are two major French water companies

²⁴ Trent and Biwater are two major British water companies

1.4 International Charters and National Policies

It is reported that 95% of Pakistan's water resources are used for agricultural purposes²⁵. Treaties signed by Pakistan, as well as laws and legislation regarding water thus pertain mostly to freshwater, marine & coastal water, agriculture, and energy/hydel power.

International donors have been active in developing water policy and water-related institutions, with the ADB playing the dominant role in 'water resource management' in the Asia/Pacific region²⁶. Pakistan's National Water Policy which is still in its draft form predominantly focuses on the development of water resources and agriculture. For municipal water supply, among its general aims are 'steps to ensure acceptable and safe quality of water', and 'institutional reforms to make managing organizations more dynamic and responsive', with policy directives proposing the 'promotion of investment through public-private partnerships'.

Pakistan is also a signatory to the United Nations Human Rights Charter and in 2006 became a member of the new UN Human Rights Council, which obliges countries to respect human rights and uphold international human rights standards. While the Charter has no specific clause on water as a basic human right, Article 25 clearly states: 'Everyone has the right to a standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing and medical care, and necessary social services, and the right to security in the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances beyond his control'²⁷. Questions such as 'who owns water' have become part of both grassroots concerns as well as international debates in recent years.

²⁵ Ministry of Water and Power, *Pakistan Water Sector Strategy* (Executive Summary)

²⁶ Pakistan National Water Policy draft

²⁷ Universal Declaration of Human Rights

Chapter 2: Lahore WASA and the Move towards Privatization

2.1 Urban Water Supply in Pakistan

Following devolution, Punjab's larger cities are run as 'City District Governments' where the responsibility of the administration, management, and extension of water supply and sanitation falls under Water and Sanitation Agencies. Lahore WASA is a sub-organization of the Lahore Development Authority which is headed by the CDGL. Devolution introduced in 2001 also ended the urban-rural divide, hence Punjab's smaller towns and villages are run as 'Tehsils' where water and sanitation services are delivered by the relevant Tehsil Municipal Authority (TMA). By and large public water and sanitation services in Punjab are 'bundled', in other words provided and managed collectively as one service.

Groundwater accounts for the overwhelming majority of the earth's freshwater, while water from rivers and lakes amounts to less than one percent of the total. Across Pakistan, both groundwater and surface water are used for drinking purposes, with groundwater being the pre-dominant source falling in the ratio 70:30 in comparison to surface water sources²⁸. According to government statistics, approximately 60% of Pakistan's current population has access to municipal water supply²⁹. In Karachi, Hyderabad, Rawalpindi Faisalabad and several small towns and villages, water is supplied via surface sources like rivers, streams and lakes, while the country's remaining urban areas such as Lahore are supplied with ground water obtained through electrically-operated deep tube-wells.

A large number of individual households also obtain water through dug wells and bore holes equipped with hand and motor pumps³⁰. Ground water in Lahore is

Across Pakistan, both groundwater and surface water are used for drinking purposes, with groundwater being the pre-dominant source falling in the ratio 70:30 in comparison to surface water sources¹. Approximately 60% of Pakistan's current population has access to municipal water supply¹.

²⁸ Wateraid UK, Wateraid Country Strategy Pakistan 2007-9

²⁹ 85% in urban areas and 55% in rural areas; Pakistan National Water Policy draft

³⁰ Ibid.

available between 100 and 200 feet³¹, however much of this is not potable due to the pollution and contamination of Lahore's shallow water³².

2.2 Lahore

Pakistan is a Federation of four Provinces, of which Lahore is the capital of Punjab and the country's second largest city with a population of over 8 million.

Pakistan has a current estimated population of 165 million, an annual per capita income of US\$925³³ (approx. Rs 69000) and an average family size of 6.6 persons. The country's annual population growth rate is 2.28 per cent, while that of Lahore is currently at 3.32%. Pakistan has a low Human Development Index (HDI) ranking 138 out of 173 countries³⁴.

The country's larger cities such as Lahore are run as 'City Districts', and are subdivided into 'Towns' and further into Union Councils. The Lahore City District has 9 administrative Towns and a total of 150 Union Councils.

Lahore is situated on the left bank of the river Ravi on mildly sloping terrain approximately 213 metres above mean sea level. The total Lahore Metropolitan area spans 2,300 square kilometres, and is bordered at its North and West by Sheikhpura District, to the South by Kasur District, and to the East by India. The city has an extreme climate with summer lasting from April till September where peak temperatures reach 48 degrees Celsius.

2.3 Lahore WASA

The late colonial era saw the creation of Improvement or Development Trusts in the major cities of pre-partition India. The Lahore Improvement Trust (LIT) was created in 1936, and continued post-independence as Lahore's principal urban development agency. From 1966 to 1976 water supply in the city were delivered under the 'Water Wing' of the LIT. In 1975 the Lahore Development Authority was created under the LDA Act 1975 and replaced the LIT, and in 1976 the Water and Sanitation Agency (WASA) was formed as an Agency of the LDA.

³¹ World Bank standards do not recognize water at this depth as potable

³² According to Azam Arain Sub-division Staff in-charge (Gunj Buksh Town), Defence Housing Authority is pumping ground water from a depth of 400 feet while WASA tube-wells are currently pumping from between 700 and 800 feet

³³ Finance Division, Government of Pakistan, *Economic Performance 2006-07: An Update*

³⁴ UNDP Human Development Report 2002

POPULATION IN WASA-SERVICED AREA	4.831 million
POPULATION SERVED	3.280 million (70%)
WATER SOURCE	Tubewells
a) Presently in Operation	316
b) Pumping Hours	16-18 Hrs
c) Water Production	290 MGD
d) Design Criteria	80 Gallons/Capita/Day
TOTAL WATER CONNECTIONS	431,366
a) Metered	30%
b) Un-Metered	70%
SYSTEM OPERATION	Direct Pumping

Table 1: Lahore Water Supply- Basic Facts

NESPAK, Integrated Master Plan for Lahore, (Presentation June 2004)

Sub-Division	Total Houses (000)	Houses Connected (000)	Population Served (%)
North	123	85	71
Central	101	68	67
East	112	74	71
Total North Division	336	227	70
West	131	96	77
South	105	70	61
QAT	59	39	69
Total South Division	295	205	69
Grand Total	631	431	70

Table 2: WASA Water Supply- Detail by Subdivision

NESPAK, Integrated Master Plan for Lahore, (Presentation June 2004)

2.3.1 Functions of Lahore WASA

Lahore WASA is responsible for Lahore's water supply, sewerage, and drainage services (See Tables 1 and 2). This includes the forecasting of demand for services of water supply, sewerage, and drainage, & preparation of plans for their extension, rehabilitation, and replacement; the construction, improvement, maintenance and operation of water works, sewerage works & main storm water drainage channels, and pumping stations; and the billing and collection of all rates, fees, and charges, for the services provided to consumers³⁵.

The total population served by Lahore WASA amounts to approximately 4.8 million³⁶. WASA is responsible for the provision of water and sewerage services to Lahore³⁷, with the exception of Railway Colonies, PWD colonies, GORs, and private housing societies such as Cantonment, Defence Housing Society, and Model Town. Within the areas that fall under its jurisdiction, WASA claims 90% coverage in water supply amounting to over 534,000 connections³⁸, and 80% coverage in sewerage. According to the WASA trade union, WASA's movable and immovable assets today amount to Rs 103 billion³⁹. These include land and buildings, equipment and machinery, tube-wells etc.



Figure 4: WASA trucks

³⁵ www.lda.gop.pk, *Functions of WASA* (Lahore Development Authority, 2008)

³⁶ WASA, *Up-to-date Service Levels* (2007)

³⁷ See map Annex 1

³⁸ Ibid.

³⁹ Azam Arain, WASA Sub-divisional Staff in-charge (Gunj-Buksh-Town-II) and former Secretary General WASA Union

2.3.2 Administration

In order of seniority, WASA is headed by the Chairman LDA⁴⁰, the Director General LDA, and Managing Director WASA. The Agency is run by a Lahore 'head-office', while its execution functions are divided into twenty-four area-based sub-divisions, which carry out service operations, maintenance, and computerized billing. It is also here that citizens are able to lodge service complaints. On average, each of Lahore administrative 'Towns' contains four WASA sub-divisions. Today WASA has 4226 employees for both water and sanitation.

2.3.3 Water Distribution System

As mentioned earlier, Lahore's primary water source is ground water obtained through electrically-run deep tube-wells distributed across the city. The Agency currently operates approximately 400 tube-wells and is pumping ground water from a depth of 800 feet⁴¹. A large number of households in Lahore also obtain water through individually dug hand and motor pumps. WASA runs a total of 3300 km of water pipeline and 3700 km of sewerage pipeline. Lahore's sewerage is carried into 8 main drains spanning a total of 212 km, and is disposed untreated into the Ravi river.

Water supply in Lahore is intermittent, with two main types of distribution system: area-based tube-wells and over-head water tanks. In WASA-operated areas, water is distributed directly from tube-wells to households via water pipeline. In non-WASA operated areas, a mix of tube-wells and overhead water tank distributions systems exist. In the case of the latter, water is pumped directly from the aquifer to the over-head water tank, and then distributed to water pipeline through gravity flow.

While the flat-rate tariff is calculated on the basis of property size and value regardless of amount consumed, stepped tariffs are charged per gallons consumed. Non-metered Annual Rental Value accounts have not been revised and continue to stand at the value at which the user's property stood at the inception of the connection¹.

2.3.4 Billing & Collection

⁴⁰ The Nazim (Mayor) of CDGL also functions as Chairman LDA

⁴¹ Azam Arain, WASA Sub-divisional Staff in-charge (Gunj-Buksh-Town-II) and former Secretary General WASA Union

WASA's collection rate is low, where staff cites a large number of government Departments and political office-holders as long-time defaulters. Water and sanitation tariffs are paid by citizens collectively through computerized bi-monthly bills. Connection types include 'domestic', 'commercial', 'construction', and 'charitable'. Currently WASA has a combination of 'flat rate' in the case of non-metered connections, and 'stepped' billing in the case of metered connections. From July 1997 onwards, all new WASA water connections are charged in metered accounts, while older non-metered connections are also being converted to metered connections. While the flat-rate tariff is calculated on the basis of property size and value regardless of amount consumed, stepped tariffs are charged per gallons consumed. Important to note, non-metered Annual Rental Value accounts have not been revised and continue to stand at the value at which the user's property stood at the inception of the connection⁴². A small 'sewerage'⁴³ fee in the case of privately installed tube-wells is also procured from users.

2.3.5 Budget and Decision Making

Lahore WASA is not autonomous in its decision-making, with major directives and plans being determined at the Central level, often with political interference. WASA's main running costs include power and energy (45%), payroll and burden⁴⁴ (31%), repairs and maintenance (20%). These costs are met through

WASA officials complain that there has been no staff recruitment within the Agency for over ten years, hence with growing demand the Agency has not been given the freedom to upgrade its institutional strength.

WASA's water sales (47%) and sewerage & drainage charges (34%). Importantly, the decision of any increase in WASA tariffs is made by the Central government. WASA tariffs were increased by approximately 10% in 1998 and 40% in 2004, after which tariffs have not been revised. A third source of WASA funds is

Lahore's annual Urban Immovable Property tax, a tax collected by the Provincial government and re-distributed in part to WASA and other institutions⁴⁵. Other

⁴² Excise and Taxation Department annually updates the 'Annual Rental Value' of all property in Lahore. WASA water connections however are not 'revised' in accordance with these.

⁴³ Aquifer charges are not procured from privately-operated tube-wells such as those installed by industries; instead sewerage charges for amount drained are procured from users.

⁴⁴ burden: perks and benefits to employees

⁴⁵ The other recipient of this fund is the CDGL

than the above, the Agency receives no allocated budget from the Punjab government. It is only through area-based schemes for extensions and rehabilitation, or projects with specific focus that capital is procured by WASA. Such projects also undergo an approval process at the Central level.

2.3.6 From Revenue Generation to Loss

What has made Lahore WASA unique is the

fact that until 2003 the Agency was a profit-making water provider, being the only WASA in Punjab to be generating its own revenue and with these meeting its running costs⁴⁶ without budgetary assistance from the Federal or Provincial government.

Until 2003 the WASA was a profit-making water provider, being the only WASA in Punjab to be generating its own revenue and with these meeting its running costs¹. Inter-departmental charges make up a significant portion of WASA's recurring costs, among which electricity provided by WAPDA. In May 2000 however rate of electricity was drastically increased by WAPDA and led to WASA's spiral into loss. 56% of WASA's budget is today consumed by inter-departmental electricity bills.

Why did WASA fall into loss? During the financial year 2007-2008 WASA's revenue amounted to approximately Rs 2 billion, while its expenditure amounted to roughly Rs 2.8 billion; the total deficit being Rs 772.5 million. In relative terms, this is not a large debt burden for a public water utility, the current deficit of the Karachi Water and Sewerage Board being Rs 2.5 billion⁴⁷ in comparison.

Inter-departmental charges make up a significant portion of WASA's recurring costs, among which electricity provided by WAPDA (Water and Power Development Authority) and used in the operation of tube-wells comprises a major part. Prior to May 2000 WAPDA charged WASA an inter-departmental electricity tariff of Rs 2.60 per unit. In May 2000 however this rate was drastically increased by WAPDA to 8 Rs per unit of electricity. WASA then held negotiations with WAPDA, as a result of which a compromise was reached settling the tariff at Rs 5.89 per unit. Today in 2008, this rate stands at Rs 6.25 per unit⁴⁸ of electricity. Following WAPDA's tariff increase, 56% of WASA's budget was consumed by inter-departmental electricity bills. Today this figure

⁴⁶ World Bank Report on WASA (2003)

⁴⁷ Karachi Water and Sewerage Board, 2007

⁴⁸ PURC interview with Director Finance, WASA

has increased to 65% and amounts to Rs 1228 million. WASA now has a total budget deficit of Rs 770 million⁴⁹.

2.4 Issues & Gaps Cited by WASA

WASA officials complain that there has been no staff recruitment within the Agency for over ten years, hence with growing demand the Agency has not been given the freedom to upgrade its institutional strength. According to an official, the total shortage of staff in different categories is above 1200, as well as a shortfall of roughly 40 engineers and 10 finance and human resource personnel⁵⁰. At the sub-division level, officials⁵¹ emphasize a severe shortage of ground staff; while WASA has an average of one sewer man for every 2 km of pipeline⁵², the internationally accepted standard⁵³ for this is two sewer men per km of pipeline.

Another major problem faced by WASA has been the constant element of political interference and pressure in decision making. The installation of a large number of new tube wells, without consideration of electricity costs and groundwater depletion, is a recent instance⁵⁴. Also, because the Agency is not autonomous in decision-making it faces parallel organizational controls under the City District Nazim, DG LDA, Minister Housing, Secretary Housing and Chief Minister's Secretariat⁵⁵. All of the above issues create obstacles in WASA's 'efficient' performance, and signal the need for basic solutions and reforms.

Also, according to WASA officials, a major part of the Agency's revenue problems can be solved if it is assisted with the recovery of more than Rs 28 billion outstanding in arrears. This includes arrears from over 250 departments of the federal and provincial governments such as the Police, educational institutions, government hospitals, the Chief Minister's House, Governor House, Zoo, and many other agencies- which haven't been paid for the last several years, with efforts made by WASA having failed.

⁴⁹ Ibid.

⁵⁰ Ibid.

⁵¹ Azam Arain, WASA Sub-divisional Staff in-charge (Gunj-Buksh-Town-II) and former Secretary General WASA Union

⁵² Ibid.

⁵³ World Bank standard for sewerage pipeline

⁵⁴ Hamid Ali, *Water Works* (The News 17.10.2004)

⁵⁵ Ibid.



Figure 5 and 7: WASA Drain; WASA Head Office

2.5 Addressing the Needs of Citizens

It cannot be denied that citizens are not satisfied with the quality and general characteristics of water supply in Lahore. Common complaints range from the shortcomings of intermittent water supply and low water pressure, to contaminated water being supplied at the tap. Basic analysis points to the need for the rehabilitation of old infrastructure and the extension of new infrastructure to new areas and settlements. Investment in sewerage treatment plants is also the need of the hour. While these problems are not new, the government- coupled with pressure from MDBs- has had to look at privatization as a reform option. The question however is whether this is in reality a realistic and feasible 'solution' for both the Agency's gaps and its service-users, particularly the poor.

2.6 The Move towards Privatization

As discussed in Chapter 1, the policy shift towards the privatization of public utilities in Pakistan began with the IFI-pushed Structural Adjustment Programs and has continued in the form of the Poverty Reduction Strategy Papers. These policy directives by the IFIs have been concurrent in the developing world, with the World Bank and Asian Development Bank (ADB) playing the dominant role in the privatization of state-owned water utilities in Pakistan.

2.6.1 The World Bank's Water Privatization Policy

What the World Bank has called ‘reforms’ in Pakistan’s water sector aim primarily at privatizing water utilities and commercialising water resources. A 1992 policy paper entitled ‘Improving Water Resources Management’, is based on the idea that making water available at ‘low’ or ‘no’ cost is inefficient and uneconomical, and that even the poor should pay⁵⁶. In its ‘Country Assistance Strategy’ (CAS) the World Bank has also stated water privatization as one of the conditions that will allow Pakistan to access future loans.

The World Bank policy paper was based on the idea that making water available at ‘low’ or ‘no’ cost is inefficient and uneconomical, and that even the poor should pay¹. The World Bank has also stated water privatization as one of the conditions that will allow Pakistan to access future loans.

In the ADB’s view, “water must be utilised by those who render the most economic advantage”. A memo by a visiting ADB mission also stated water privatization as a condition for extending further financial assistance to Pakistan¹.

As a solution to the much hyped ‘failure’ of service delivery by the public sector, the Bank vigorously pushes water privatization arguing that increased cost recovery and privatization will actually increase access to clean water and sanitation, even for the poor. In the World Bank’s view “effective water resource management requires that water be treated as an economic good”, and “private participation in water and waste-water utilities has generally resulted in sharp efficiency gains, improved service, and faster investment in expanding service”. In turn, government officials such as those of the Department of P&D have invited World Bank assistance, citing corruption, inefficiency, lack of funds, and inability to provide piped water access to the poor. Meanwhile, the blaring experience of

developing countries that the privatization of public services has reduced the poor’s access to basics such as health care, water, power, and education continues to be ignored⁵⁷.

2.6.2 The ADB’s New Water Policy

The ADB has a long history of involvement in the Asian water sector in the form of project investment loans⁵⁸ however interventions in water policy reform are more recent. In January 2001 the ADB developed a comprehensive water policy, in which water use efficiency, full cost recovery, institutional strengthening, and

⁵⁶ P. Raja Siregar, *The World Bank and ADB’s Role in Privatizing Water in Asia* (Jubilee South Asia/Pacific, April 2004)

⁵⁷ P. Raja Siregar, *The World Bank and ADB’s Role in Privatizing Water in Asia* (Jubilee South Asia/Pacific, April 2004)

⁵⁸ Ibid.

private sector participation are key instruments for the Asia and Pacific region. In the ADB's view, "water must be utilised by those who render the most economic advantage". A memo by a visiting ADB mission also stated water privatization as a condition for extending further financial assistance to Pakistan⁵⁹.

2.6.3 The Case of Pakistan

In the mid 1990s, the World Bank and Pakistan government decided in favour of privatizing water as part of the push towards the privatization of services, starting with the privatization of the Karachi Water and Sewerage Board (KWSB). It is generally believed that due to public outcry and protest on the details of the scheme, the plan was cancelled⁶⁰.

In July 2001 at the behest of the ADB, the government of Pakistan initiated the 'Water Resources Strategy Study' undertaken by the Ministry of Water and Power. The study funded through the ADB's Technical Assistance Programme, had the objective of preparing a 'roadmap' or strategy for the development of the water sector towards more efficient service delivery and optimum utilisation of resources to meet the competing demands of all water users in the country. The Strategy and 'Medium Term Investment Plan' (MTIP) argue in favour of institutional management, financial sustainability, and infrastructure, all of which mean privatization at full cost recovery of water utilities and water resources⁶¹.

In more recent times, the government's plans of privatizing water have resurfaced. These are discussed below.

2.6.4 The Attempted Privatization of KWSB

Karachi's Water and Sewerage Board (KWSB) was the first public water utility in Pakistan to undergo privatization attempts by the government. This process was initiated in 1994 with the World Bank study entitled "Private Sector Participation (PSP) for Karachi Water and Sewerage Board (KWSB)", and by January 1998 seven international companies were short listed as managers of the city's water supply. The move which was met with large-scale resistance from civil society and pressure from interest groups, finalized in a decision

⁵⁹ P. Raja Siregar, *The World Bank and ADB's Role in Privatizing Water in Asia* (Jubilee South Asia/Pacific, April 2004)

⁶⁰ P. Raja Siregar, *People's Resistance and Alternatives to the Privatization of Water and Power Services* (Jubilee South Asia Pacific and Freedom from Debt Coalition, April 2004)

⁶¹ P. Raja Siregar, *The World Bank and ADB's Role in Privatizing Water in Asia* (Jubilee South Asia/Pacific, April 2004)

against privatization by the Sindh High Court in April 1999. By June 1999 the World Bank suspended its support to the KWSB for privatization.

2.6.5 The Attempt to Privatize Lahore WASA

The proposal for the privatization of Lahore WASA was first introduced in 1997 during the government of Prime Minister Nawaz Sharif in a climate of relative secrecy⁶². The plans were neither announced publicly nor was the process leading to their cancellation openly documented. Resistance by the WASA Union included protests and a writ filed in May 1999 but dismissed by the Lahore High Court in July 1999. The process finally ended in the toppling of the government of Nawaz Sharif in October 1999.

2.7 Lahore WASA: The Second Attempt towards Privatization

2.7.1 The Private-Sector-Participation-Feasibility-Study and the Strategic Options Report

It is now for a second time during the tenure of General Pervaiz Musharraf that plans for Lahore WASA's privatization have resurfaced. In June 2004 a meeting was held between officials of the World Bank private sector lending arm IFC (International Finance Corporation) and key officials of the Punjab government including the Punjab Chief Minister Pervaiz Ellahi, District Nazim Lahore, and the Chairman Planning & Development (P&D) Board Punjab, in which prospects of Lahore WASA's privatization were discussed. In the words of the Punjab Chief Minister, WASA needed to be privatized because the provincial and local governments could not provide the large funds needed for improving water and sewerage facilities in Lahore and other cities of the province⁶³. Similarly, officials of IFC-Pakistan emphasised how Lahore presented an attractive case for the private sector, and cited the privatization of Manila's water utility- a case which collapsed and ended in contract cancellation in 2002 only five years after its initiation- as a role model for Lahore⁶⁴.

In the last quarter of 2004, the World Bank's private sector lending arm IFC (International Finance Corporation), signed a contract with its two partners from the Government of Punjab- the Department of Planning and Development

⁶² Azam Arain, WASA Sub-divisional Staff in-charge (Gunj-Buksh-Town-II) and former Secretary General WASA Union

⁶³ Hamid Ali, *Water Works* (The News on Sunday 17.10.2004)

⁶⁴ Ibid.

and the Lahore City District Government- to carry out a \$1.5 million study. The objective of the study was 'to assess the potential to attract private sector participation through possible long term concessions in the water distribution system and sewerage network in the district of Lahore'⁶⁵. A special cell or 'Urban Unit' was also set up at the P&D department with a World Bank loan, to enable the process. Entitled 'Private-Sector-Participation-Feasibility-Study' its outcome was to be a 'Strategic Options Report' underlining the forms that the privatization of WASA may take. Neither of the two reports was made open to public. Until March 2006 upon enquiring about the report, citizens were told by government officials that the document was in the process of finalisation.

In October 2004, a five-member World Bank delegation held meetings in Lahore to discuss private investment opportunities in the water and sanitation sectors, prior to which meetings with officials of the Provincial and District government, WASA, LDA, and the Solid Waste Management Department had been held⁶⁶.

2.7.2 Newspaper Reports and General Developments

In December 2005, newspapers reported⁶⁷ the government's 'decision to privatize WASA by 1st July 2006', with 'International bidding in which local companies would be allowed to compete'. Prior to this, the task of recovering WASA arrears worth Rs 1140 million had already been allocated to the private sector.

In January 3rd 2006, the Punjab Minister for Housing & Urban Development announced that 'a French company will invest 4 million Euros in water supply projects for big cities in Punjab as grant-in-aid'. This included Euro 1 million in Lahore, and Euro 3 million in Multan, Gujranwala, Rawalpindi, and Faisalabad collectively. A month later in February, it was announced that an 'Investigative report on Lahore's water and sanitation by a French company had begun, to be completed within 6 months'. On 3rd February newspapers reported that 'machinery worth Rs 78 million for sewerage and drainage has reached Lahore from Japan, for which an office has been constructed in Sabzazar'. On 14th February officials of French company 'MS Seureca' were reported to have set up an office in the WASA headquarters.

According to news reports, Lahore WASA's privatization was being planned as a model for the privatization of water and sanitation agencies across the rest of Punjab.

⁶⁵ A letter by IFC-Washington investment analyst inviting private companies for consultancy on the Lahore WASA project (The News, 17.10.2004)

⁶⁶ Hamid Ali, *Water Works* (The News on Sunday 17.10.2004)

⁶⁷ Due to the government's reluctance in sharing basic information with citizens, press clippings and news reports acted as a major information base and timeline.

Meanwhile, water privatization failures continued to receive attention worldwide. On 22nd March 2006, UK newspaper The Guardian covered the 'UN Second World Water Report' which revealed that "due to political and high-risk operations many multi-national water companies are decreasing their activities in developing countries".

2.7.3 The World Bank's Recommendations for WASA

In November 2006, a workshop on the World Bank's recommendations for WASA was jointly held by the World Bank and P&D Urban Unit at Royal Palm Country Club⁶⁸, a private and exclusive recreational club in Lahore. Participation to the workshop was by invitation only and for the large part comprised government officials.

The objective of the workshop was to share the reports and recommendations of World Bank consultants for the Punjab water and sanitation sector. The recommendations for WASA were termed "private sector participation" for the improvement of water and sanitation services. The Department of P&D also stressed on private sector participation and reassured officials from the World Bank that people resisting WASAs privatization are small in number and that their activities would not hamper the process initiated by the government.

A presentation was made by Fichtner a consulting firm working with the Urban Unit, based on the study conducted by them in eight cities of Punjab including Faisalabad, Dera Gazi Khan, Gujranwala, Multan, Bahawalpur, Sargodha, Sialkot and Rawalpindi. The broad findings of the study were that there are no quality standards available in water, water supply is insufficient, there is water contamination due to overlapping of sewerage and water supply lines, and industrial waste and open drains. Administrative issues highlighted were incomplete office records and insufficient staff salaries.

At the same event, another presentation was made by a World Bank representative outlining remedial measures for WASA based on the water and sanitation study. The crux of these recommendations for WASA was that water supply should be treated as a business. Directives included the unbundling of water and sanitation services, restructuring of the WASA Board of Directors such that its composition becomes business-oriented, and the hiring of professionals from the market on fixed-term appointment. It was also advised that tariffs should be fixed according to WASA costs⁶⁹, should be linked with inflation,

⁶⁸ A private golf club in Lahore used exclusively by upper income clients on the basis of membership

⁶⁹ Including both running costs and investment costs

regular tariff adjustments should be made after every six months or one year, and that direct and indirect subsidies received by WASA should be reduced.

2.8 The Status of WASA's Privatization Today

Surprisingly, approximately after mid-2006, press coverage of WASA's expected privatization faded. Of late, it has been learned that the 'Strategic Options Report' was in fact finalised in early 2007, and recommendations being silently carried out include 'privatization' or 'corporatization' in the form of unbundling. This involves a public management of the Agency, with an unbundling of functions such as billing & collections and operations & maintenance, which are to be divided and handed over to separate private corporations⁷⁰.

2.9 The Crux of the Issue

The Department of Planning & Development cites grave gaps in both the performance and investment needs of WASA in proposing its privatization as a solution. Most critical is the view held by the Department that there is "no capacity within WASA to heal itself". Independent research and analysis on the other hand highlight a different scenario: *While Lahore WASA is no doubt in need of reform, privatization is neither a desirable nor feasible option for citizens in terms of an equitable access to affordable water supply*. Reasons behind this fundamental finding are discussed in the following chapters.

⁷⁰ See Chapter 3, '3.38 Nigeria'

Chapter 3: Water Privatization Failures across the World

3.1 Context and Background

It is widely agreed that in the 200 year history of municipal water systems⁷¹, public water utilities have been a highly successful model for the extension of water and sanitation services to urban and even rural populations. It is estimated that only 3-10% of the world's current population is served by private water utilities, of which the majority resides in high income countries⁷². France and the UK are the only two OECD countries whose water operations are mostly run by private companies. On the other hand, the privatization of water supply has been made illegal in the Netherlands and Uruguay in 2004.

In developing countries today, the trend of IFI directives regarding the privatization of water services is a reflection of the strong economic and political demands of international agencies and donors on water services⁷³, where ironically the MDBs have used pro-poor rhetoric to back their policies.

3.1.1 Forms of Water Privatization

Forms of water privatization have had the consistent element of transferring control and management of operations to private companies⁷⁴. With the exception of the UK where the complete water system was sold to private companies, in most cases privatization has been based on concessions, leases, management contracts, and Build-Operate-Transfer (BOT) schemes. The word 'privatization' has been unpopular. The earlier attempts of water privatization during the 1990s involved large-scale involvement of the private sector, and were commonly known as Private-Sector-Participation or 'PSP's. In more recent years the PSP jargon has been replaced with terms such as "Public-Private-Partnerships" (PPP's), and "Private Sector Participation" (PSP), which refer to

⁷¹ Approximately 200 years in Europe, 60 years in South Asia

⁷² Klaas Schwartz, *Managing Public Water Utilities* (UNESCO-IHE Institute for Water Education, Delft, The Netherlands 2006)

⁷³ David Hall, *Water as a Public Service* (PSIRU, Business School, University of Greenwich 2006)

⁷⁴ Public Citizen, *Broken Promises and Social Turmoil: Water Privatization Fiascos from Across the World* (March 2003)

the same broad concept. In the case of Lahore WASA too, the Public-Private-Partnership terminology has been used in documents favoring privatization.

3.1.2 Acknowledgement of Failure

The earlier of the PSP's in the 1990s include the much publicized concession contracts of water utilities in Buenos Aires, Jakarta, and Manila. With the collapsing of these schemes and a termination of contracts in the late 1990s, evaluations initially promoting privatization acknowledged that 'private sector participation to increase efficiency and investment has been much less effective than anticipated and therefore have contributed little to ameliorating performance problems of urban water and sanitation systems'⁷⁵

In recent years thus, the 'gospel' of private sector involvement in the water supply and sanitation sector has faded, and led to a policy shift in the World Bank⁷⁶. From 2003 onwards, the Bank re-engaged itself with public service providers of the developing world. This time the reform strategy introduced institutional arrangements and management practises typical of the private sector while keeping the water utility within the public realm. The reform model also known as the 'New Public Management' (NPM), demands an increase in the autonomy of state-owned utilities and a shift in their management to a more commercial, market-oriented and output-based approach as an alternative to the traditional 'bureaucratic'⁷⁷ model of public administration.

However, despite an apparent shift in strategy and terminology, the World Bank strategies of the 1990s and 2000s are not substantially different from each other, as they are both based on the fundamental promotion of a market-oriented management of water utilities on commercial basis. While there is no clear announcement of privatization per se, a business-oriented management of the water utility is still being pursued, such as in the case of the Lagos State Water Company (Nigeria) as well as Lahore WASA (See 2.7.3 'World Bank Recommendations for WASA').

3.2 The Nature of Private Water Services

Along with food and air, water is a basic need for human life. It is around this fact that the main criticism of water privatization has centred: the private water

⁷⁵ Klaas Schwartz, *Managing Public Water Utilities* (UNESCO-IHE Institute for Water Education, Delft, The Netherlands 2006)

⁷⁶ Ibid.

⁷⁷ The 'Bureaucratic' model was influenced largely by Weber's writings, and is characterized by 'an apolitical and institutionalised civil service, hierarchy and rules, permanence and stability, internal regulation, and equity'.

company responds to purchasing power, not need. The survival or 'lifeline' needs of the largely under-served poor hence remain unaddressed by the commercial interest. Because water is necessary to survival and is demanded at any cost, the water company has little reason to respond to the concerns of its users. As documented cases show, poor communities have suffered miserably at the hands of the market mechanism which has turned a blind eye to their minimum drinking water needs.

Secondly and very importantly, water supply is a sector in which by its very design competition cannot be introduced. Unlike a service such as telecommunications where a relative amount of competition exists due to multiple providers and the 'mobile' nature of the service, water services are bound in space by 'infrastructure', making the water user a 'captive consumer'. The water provider- public or private- hence operates in relative monopoly, and the only way in which some competition may be introduced, is where different city districts are managed by competing water utilities and where citizens can vote 'with their feet' by choosing a residential locality based on the quality of water supply. This however is seldom an option, particularly for the poor. Also, in the case that it is practised, it is always the poor who are left with the 'lower' or sub-standard end of the service.

An often overlooked critical detail is that the price of water in many of the world's privatized utilities has been set at the market rate against the US dollar. This was also among World Bank directives in the case of KWSB's attempted water privatization- a move which if implemented would have led to tariff increases with every increase in the rate of the dollar against the Rupee. The World Bank directives for Lahore WASA⁷⁸ also propose the 'adjustment' of water tariffs with inflation. Needless to say, such tariff increases border on the inhumane in their blind oversight of lifeline needs, particularly of the poor.

Further, the majority of countries of the third world where privatization has been attempted have been ruled by dictatorships and corrupt regimes, where there is contempt for human rights, undemocratic processes, & a lack of accountability and transparency. It is to a large extent this factor that has provided favourable climates for the private firm as experience has shown.

3.3 The Meaning of 'Failure': Cases from Across the World

Water privatization has failed in more than 90% of attempted cases worldwide.

In tangible terms failure has meant either a cancellation of the contract by the company, or unrest by citizens forcing the company to cancel its contract. The vast majority of these are cities of the developing world, such as Buenos Aires

⁷⁸ World Bank presentation at Royal Palm Country Club, Lahore, November 2006

(Argentina), Atlanta, Georgia (USA), Manila (Philippines), Cochabamba (Bolivia), Jakarta (Indonesia), Nelspruit (South Africa), UK, Tanzania, Mozambique.

Referred to by citizens as the 'Water Wars', the case of Bolivia's water privatization failure has received extensive media coverage. In reaction to unrest, the Bolivian government then imposed military takeover of the city, with clashes resulting in 175 injured people, two blinded youths, & three deaths. A popular phrase capturing the sentiment of citizens in the case has been 'they will buy our rainfall too'.



Figure 6: Bolivia's Water Wars

Shortfalls seen across the board include drastic increases in water tariffs, a lack of promised investment in infrastructure by the firm (as this does not translate into direct returns for the company), job losses, health problems suffered by citizens, and environmental pollution. Importantly, despite the private sector's claim of transparency, weak regulation of the private water company by the local regulatory body, as well as corruption, bribes, and secret deals have been noted.

Failure's harshest truth is that it characterises repeated leaks from the citizen's pocket, intensifying already existing poverty. When tariffs are initially raised, people pay expecting better service and quality. When tariffs are increased in following rounds, people either pay up, or get supply cut at the tap. And once water contracts are cancelled, companies take legal action against host governments, demanding compensation for lost future profits, for which residents again pay in the form of direct and indirect taxes.

Latin America was among the first regions of the developing world to undergo privatization, starting with Argentina's city Buenos Aires in 1993, followed by Manila (Philippines) in 1997. Without exception it was seen that within a period of 1-3 years, privatizing contracts were collapsing.

Multinational water companies have retreated from Latin America in the last 5 years. The two key reasons have been public opposition, and failure to make

large enough profits⁷⁹. The largest operator of private water contracts in Latin America, announced that it would withdraw from operations in developing countries unless the return on capital was at least 13%. In 2007, Suez announced that its withdrawal was complete, and that it no longer has any employees in water in Latin America. David Hall of 'Public Services International' reports that few multinational companies from outside the region now remain in possession of water operating contracts in Latin America. Those which do remain have no intention of expansion, and have even attempted to sell some of their remaining holdings.

Highlighted below are the general features of broadly selected water privatization 'failures' across the world and their negative repercussions on citizens.

3.31 Argentina

Argentina privatized water services to a greater extent than other countries in Latin America. The privatization of the public water utility of Buenos Aires in 1993 was widely celebrated by the World Bank, and carried out by 'Aguas Argentinas', a subsidiary of the French water company Suez. The first 8 years of the contract were characterized by weak regulatory practices and contract renegotiation. Most shockingly, the contract permitted Suez to link water prices to US dollar leading to gross tariff increases⁸⁰. This provided the company with a 20% profit rate, "which is far higher than acceptable or normal for the water industry in other countries⁸¹". Residential water rates increased 88.2% between May 1993 and January 2002 although there was no relationship between this rate and the inflation rate. Service cut-offs were common, and Union resistance was crushed by promising financial returns and pay-offs.

In 1997 the company had failed to meet 45% of its contract commitments for improvement and expansion of services, resulting in massive pollution. Aguas Argentina's went back on its contractual obligation to build a new sewerage treatment plant. 95% of the city's sewerage was still dumped directly into the river. On top of great losses suffered by citizens in July 2003 Aguas Argentinas filed an international arbitration suit in front of the World Bank's ICSID

⁷⁹ David Hall and Emanuele Lobina, *Water Privatization and Restructuring in Latin America*, (PSIRU, Business School, University of Greenwich, 2007)

⁸⁰ Public Citizen, *Broken Promises and Social Turmoil: Water Privatization Fiascos from Across the World* (March 2003)

⁸¹ Profit rates considered very reasonable in USA: 6-12.5%, UK: 6-7%, France: 6%

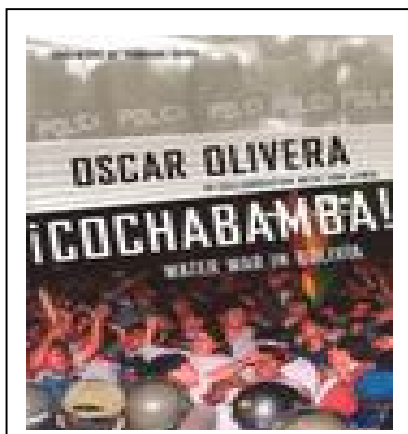
(International Centre for Settlement of Investment Disputes), claiming US\$1.7 billion in losses caused by currency devaluation⁸².

As the case in other water privatization failures in Latin America, Buenos Aires' water utility is now undergoing a process of re-nationalization. Following the Argentine government's decision to terminate the Aguas Argentinas concession in March 2006, state-owned water operator AYSA (Aguas y Saneamientos Argentinos) was appointed to operate water supply and sanitation services. AYSA was 90% owned by the Argentine government and 10% owned by the trade union⁸³.

3.32 The Philippines

Advised by IFC, Manila privatized its 'Metropolitan Waterworks and Sewerage System' (MWSS) in 1997. The 25-year lease agreements were then the biggest water privatizations in 1997. MWSS granted the private company named 'Maynilad' rights to operate and expand water and sewerage services⁸⁴.

6 months into the contract 750 workers were laid off and one year into the contract, Maynilad asked for the first rate increase. Because of the guarantee of higher tariff returns, Maynilad was more motivated to carry out development in already affluent areas. Investment targets were postponed and promises of investment, such as treatment plants and new infrastructure were not met as these are not lucrative ventures for the private company. The expectation of 'regulation' was met with weak monitoring and oversight practices by local regulatory institutions. Meanwhile Maynilad continued to seek contract re-negotiations. The private water contract was cancelled in 2002, five years into its initiation. The water company then sought US\$303 million in compensation from the Philippine government⁸⁵.



3.33 Bolivia

Bolivia is one of the world's poorest and most indebted countries. In 1999, the Bolivian government granted a 40-year concession contract to Aguas-del-Tunari, a subsidiary of the giant corporation Bechtel. The privatization of water was the latest in the World Bank backed

Restructuring Water Services in Latin America (2007)

⁸⁴ Public Citizen, *Broken Promises and Social Turmoil: Water Privatization Fiascos from Across the World* (March 2003)

⁸⁵ Ibid.

proposal to sell Bolivian public enterprises to private investors, including the airline, the train system, and the electric utility⁸⁶. Tariffs were also indexed to the US\$, meaning that every

Figure 7: Protests in Cochabamba

time the local currency fell against the dollar, water tariffs increased. The average water bill was estimated to equal 22% of the monthly pay of a self-employed man and 27% of that of a woman⁸⁷. Families were eventually paying one fifth of their income for the water service⁸⁸. Shockingly Bechtel convinced the government to pass a law that obliged residents to obtain a permit to collect rainwater, hence the often quoted sentiment of the Bolivian people 'they have privatized our rainwater too!'.

Unable to bear the burden of increased water rates after privatization which in some cases went up to 300%, citizens of Cochabamba where the minimum wage is less than US\$ 100 per month, began a campaign to drive out the water company. Referred to by citizens as the 'Water Wars', the case of Bolivia's water privatization failure has received extensive media coverage. In reaction to unrest, the Bolivian government then imposed military takeover of the city, with clashes resulting in 175 injured people, two blinded youths, & three deaths.

In April 2000 after seven days of civil disobedience and protest, the president of Bolivia was forced to terminate the water privatization contract. In return, the water company Bechtel filed suit against the Bolivian government demanding \$25 million in compensation for lost future profits, with the World Bank's ICSID. In January 2006 Aguas-del-Tunari decided to drop the case against a 'token' payment of US\$ 0.3 million. Continued pressure by international and local citizens was cited by sources as the reason for the company's decision to settle⁸⁹. Like the water utility of Buenos Aires the Cochabamba water utility is now undergoing a process of re-nationalization⁹⁰.

⁸⁶ David Hall and Emanuele Lobina, *Water Privatization and Restructuring in Latin America* (PSIRU, Business School, University of Greenwich, 2007)

⁸⁷ Ibid.

⁸⁸ www.democracynow.org, *Interview with Oscar Larivera* (5.10.2006)

⁸⁹ David Hall and Emanuele Lobina, *Water Privatization and Restructuring in Latin America* (PSIRU, Business School, University of Greenwich, 2007)

⁹⁰ Ibid.

The privatization of the water utility of Nelspruit (South Africa) ended in tragedy. When the city's poorest residents could not afford to pay increased rates, water supply was cut-off, forcing people to find water in streams, ponds, and lakes polluted with manure and human waste. This resulted in the country's worst cholera epidemic in 2002, admitted by the government to be the direct result of the privatization of the waterworks.

3.34 South Africa

In 1999, British water multinational Biwater was awarded a 30-year water concession in Nelspruit, South Africa. Biwater had difficulty in raising money and depended on finance from the public sector. A range of problems were reported by citizens: people could not use toilets at night because water was switched off, when communities reported broken water pipes it generally took Biwater more than 4 days to repair them, water bills were grossly inflated and inaccurate, 'white' areas in Nelspruit were getting much cheaper water than the townships⁹¹. Also communities were not getting the 6000 litres of free water they are entitled to under the national law, and there was an increase in water disconnections, which were performed illegally without prior notice to households.

Water privatization's most horrific consequence on the poor, was when the country's poorest residents could not afford to pay increased rates, and water supply was cut-off, "forcing people to find water in streams, ponds, and lakes polluted with manure and human waste" according to a newspaper article. This resulted in the country's worst cholera epidemic in 2002, admitted by the government to be the direct result of the privatization of the waterworks.

3.35 USA

Contrary to general perception, it is not only in cities of the developing world but also the developed world where water privatization has failed.

In 1998 the City Government of Atlanta signed a 20-year contract with 'United Water', a subsidiary of French corporation Suez. In January 2003 the contract was terminated. It was openly reported that United Water was billing the city for work it didn't do: \$37.6 million for service authorizations, capital repair and

⁹¹ Black majority areas in South Africa, largely comprising the urban poor

maintenance costs, and the city paid \$16 million of these costs. Further, routine maintenance was billed as “capital repairs” and much-needed infrastructure rehabilitation was neglected. Sewerage bill rates rose 12% annually, and United Water cut the number of employees from 700 to just over 300. Ironically, trust in the company eroded to the point that the city government spent \$1 million to hire inspectors to verify United Water’s reports!

3.36 UK

The RWA privatization was summed by British newspaper ‘The Daily Mail’ in July 1994: “the water industry has become the biggest rip-off in Britain. Water bills, both to households and industry, have soared. And the directors and shareholders of Britain’s top ten water companies have been able to use their position as monopoly suppliers to pull off the greatest act of licensed robbery in our history..”

Privatization of UK’s water utilities have been among the most controversial of the developed world. Initially proposed by the Thatcher government, in 1998 ten

Regional Water Authorities (RWAs) in the UK were transformed into private profit-making ventures. The RWAs were sold as 25-year concessions by issuing shares in the stock market, creating private monopolies. These private monopolies were granted a range of government subsidies. This resulted in profits of the 10 water companies rising 147% between 1990 and 1997.

For citizens, the disconnection rate tripled in the first five years. A 1994 study showed cases of dysentery rising in most urban areas. Water companies installed ‘pre-payment’ meters which supplied water when customers had paid through a plastic card. When the user’s account was empty, supply was cut off.

Due to public outrage the Parliament had to pass a Water Industry Act 1999 forbidding disconnections for non-payment and the use of pre-payment meters. Other transgressions by the private companies included a lack of conservation measures, sewerage back-flow, waterway pollution, and poor drinking water quality. The RWA privatization was summed by British newspaper ‘The Daily Mail’ in July 1994: “the water industry has become the biggest rip-off in Britain. Water bills, both to households and industry, have soared. And the directors and shareholders of Britain’s top ten water companies have been able to use their position as monopoly suppliers to pull off the greatest act of licensed robbery in our history..”

3.37 Tanzania

In May 2005 a ten-year contract between UK water company Biwater and the Government of Tanzania was terminated after just two years of the company's operation. The Tanzanian government claimed that "no domestic pipe work has been installed, the company has not spent the money it promised, water quality has declined, and revenue has decreased".

3.38 Nigeria

The water and sanitation sector in Nigeria is in need of both extension and improvement. Between 60% and 70% of the population is currently without either water or wastewater services but that still leaves 40-55 million customers receiving such services, a greater number than anywhere else in Africa⁹².

Like in other developing countries, privatisation policies in Nigeria's water sector have been developed in response to conditionalities from external agencies, primarily the World Bank. Although the World Bank regarded all its water projects in Nigeria from 1979 to 2004 as failures, a water privatisation plan for the Lagos State Water Company was initiated by IFC in 1999. The Lagos water privatisation was one of many IFC projects in Nigeria at the time, and was coupled with the privatisation of the national airline. Privatisation was expected to reduce the cost of water, enable investment, and improve public health and economic growth. International water companies Thames Water, Severn Trent, Veolia and Suez pre-qualified as bidders, however lost interest following their global withdrawal from developing countries, and the IFC plan for a private concession was abandoned⁹³. Like the World Bank's proposal for Lahore WASA, the current position in Lagos is that the water company has been corporatised along commercial principles, but there remains much confusion about exactly what form of privatisation is now envisaged⁹⁴. A new law was passed in 2004 and created a 'holding company' with a number of subsidiaries. The policy of the company is now to sell the LSWC itself on the stock market, as well as "to target domestic Nigeria investorswhile equally encouraging them to seek partnership with international water sector operators".

Similar to the case of Lahore, a major criticism faced by the Lagos water privatisation has been that the privatisation policy was never exposed to popular debate. Nigerian development experts have also pointed out that the World Bank's involvement in water and sanitation projects in Nigeria is 'wholly

⁹² David Hall, *Water and Electricity in Nigeria* (PSIRU, Business School, University of Greenwich, 2007)

⁹³ Ibid.

⁹⁴ Ibid.

externally induced and driven' with a lack of democratic process and learning from local experiences⁹⁵.

3.4 Conclusion

Water privatization failures and contract collapses continue. Interestingly, many of the formerly privatized water utilities of the developing world are being re-nationalised. Further, the celebrated private-sector model of water companies in Paris too are now surprisingly being handed back to the public sector.

An overview of the world's many failed cases of water privatization establishes several fundamental causes of failure, from the 'host' country lacking a climate of transparency and accountability, to weak regulation, and the disabling of the practise of equity by the market mechanism. It is clear that the privatization of public water utilities has been to the detriment of people's welfare, particularly the poor; because they are the governments only real treasury, all costs borne by the utility are finally extracted from the citizen's pocket in the form of direct and indirect taxes and tariffs. 'Failure' therefore isn't merely a 'risk factor' or simply a matter of civil unrest, but a guarantor of increased poverty, both in terms of financial costs as well as people's decreased access to affordable and safe drinking water. Also, the failures have proven the claim of the water corporations and their supporting MDBs- that the private sector is more efficient, cost-effective, competitive and brings the needed financing- is in fact not true.

⁹⁵ David Hall, *Water and Electricity in Nigeria* (PSIRU, Business School, University of Greenwich, 2007) Report by Babatope Babalobi 2004

Chapter 4: Public Sector Reform, not Privatization

4.1 The Challenges Faced by WASA

Arguing in favour of privatization, the Punjab government cites ‘a lack of efficiency in WASA’s performance, a scarcity of funds for the extension of its services to other areas, high losses, and a non-availability of investment for treatment facilities⁹⁶’. In truth, the problems faced by Lahore WASA are no enigma, nor are they any different from issues typical of utility-providing state institutions. There is no doubt that WASA’s water and sewerage infrastructure is obsolete and needs rehabilitation, the Agency has been running in loss for the past 4-5 years, Lahore needs sewerage treatment plants and extended infrastructural coverage, water conservation measures need to be introduced into the system, and funds are needed for all of the above. Unbiased analysis demonstrates that the answer lies not in an argument for or against privatization, but an understanding of the reform needs of WASA and the misconception that the private company will be a better provider of water to citizens at large.

4.2 Myths about the Benefits of Water Privatization

Ultimately, all investment is paid for by people- either through charges for the use of water, or through taxes of some kind¹. All expenditure on water supply or sanitation will cost the citizen, whether this is procured from government accounts, or those of the private firm.

4.2.1 ‘Investment for Extension’

International donors have promoted the role of the private sector as investors in water. The fact is that the private water company invests only if and when the local water utility can be a clear source of profit. The perceived expectation of investment is hence a major misconception, as few new connections have been made in regions of the world where the need is the greatest. *Collectively* in Sub-Saharan Africa, South Asia, and East Asia (excluding China) only 600,000 new household connections have been made as a result of investment by private sector operators since 1997⁹⁷.

⁹⁶ PURC interview with Chairman P&D, December 2004

⁹⁷ David Hall and Emanuele Lobina, *Pipe Dreams* (World Development Movement, 2006)

4.2.2 'Funds'

The myth that within the package of privatization the private firm 'brings' ready-to-invest capital to the recipient country, stands in urgent need of correction. Ultimately, all investment is paid for by people- either through charges for the use of water, or through taxes of some kind⁹⁸. All expenditure on water supply or sanitation will cost the citizen, whether this is procured from government accounts, or those of the private firm. The fact is that the private company borrows money from International banks and financial institutions, just as the public water utility borrows from the State and State banks. The difference is that while the State will charge for its costs, the private firm will charge for costs plus the maximum possible profit margin.

With privatization, the costs borne by the Utility- whether comprising capital or running expenditure- are merely taken off the government's books, but cost the citizen just as much if not more.

4.2.3 'Corruption vs Transparency'

Criticism surrounding corruption in the public sector has led to the general notion that public sector organisations are corrupt by their very nature. The truth however is that in the absence of transparency and accountability, corruption in any organisation is merely the outcome of a corruption-friendly climate. Contrary to popular belief, experience shows that not only are State institutions in their given set-up corruption prone, but so are the private firm and the 'independent body' regulating it⁹⁹.

Across the world, public water has been improved through increased popular control and democratic reforms. Water utilities in the Netherlands have workers on the supervisory board, and representation of user's interests through locally elected bodies. The re-nationalized water utility of Buenos Aires is 90% owned by the Argentine government and 10% owned by the trade union. The restructuring of one of Honduras's state-owned water companies was based on joint working with trade unions through a process aimed at involving the workforce.

⁹⁸ David Hall and Emanuele Lobina, *Pipe Dreams: The Failure of the Private Sector to Invest in Water Services in Developing Countries* (World Development Movement, 2006)

⁹⁹ According to the Department of P&D, regulatory capacity will be created within the city government to monitor the private firm

4.3 A Way Forward

4.3.1 From Inefficiency to Efficiency

Until 2003 one of WASA's strongest claims to success was that unlike its counterparts in other cities, it had met all its operational costs through self-generated revenue, without any subsidy or annually allocated budget from the government. In an age where great scepticism surrounds the performance of the public sector, this is no small feat.

As cited by both WASA officials and unionists, the main cause for the Agency's spiral into financial loss was when its inter-departmental costs faced a sudden increase as WAPDA increased a previously subsidized rate of electricity by almost 200%¹⁰⁰.

The inference that changing the ownership of water and wastewater operations will significantly reduce these costs is false. Any owner will have to meet the costs of inter-departmental charges. And although a private corporation will take capital financing off the government's books, it will cost residents far more¹⁰¹.

Across the world, public water has been improved through increased popular control and democratic reforms¹⁰². A motivated workforce is essential for an efficiently functioning public utility. Successful reforms in many State-owned utilities across the world have been centred around an involvement of the workforce in the stakes of the organization. Those in France and Britain are one example. If a percentage of direct bonuses and shares in the profits of WASA is reserved for its management, employees, and union as incentives, the performance of employees and hence of the agency- from the incentive to look for creative solutions for revenue generation, to strategizing for billing and recovery- is bound to improve¹⁰³.

This ensures an underpaid workforce financial gains as a direct result of their performance, and allows for their empowerment, in turn refuelling the self-esteem conducive to productivity. This has been done in water utility reforms in the Netherlands.

¹⁰⁰ See Chapter 2

¹⁰¹ Toronto Civic Employees Union, *Water and Wastewater Utility Study* (Submission to the Chief Administrator's Office, City of Toronto, April 2002)

¹⁰² Corporate Europe Observatory (CEO) and Transnational Institute (TNI), *Reclaiming Public Water: Achievements, Struggles, and Visions from Around the World* (March 2005)

¹⁰³ PURC interview with Arif Hasan, March 2005

In reality corruption is not an inborn quality of State-run services. Rather, it is enabled by unrewarding salaries and opportunities created by an absence of transparency.

4.3.2 Countering Corruption & Ensuring Accountability

The impression that State-run services are corrupt by their very nature has become commonly accepted in Pakistan. In reality corruption is not an inborn quality; rather, it is enabled by unrewarding salaries and opportunities created by an absence of transparency. Malpractice is common in the private sector too, where executives of water companies have been convicted for bribing government officials to obtain contracts¹⁰⁴. The Department of P&D argues that following privatization “regulatory capacity” will be created in the City Government to keep checks on the private firm. But privatization experiences in Manila and cities across the UK have shown that regulatory bodies created to impose checks on the private firm and ensure the minimum standards in protecting the public interests, have also been corrupt.

Essentially, it is a climate of accountability and transparency that counter corruption. The answer hence is not in the formation of a body alone, but in its composition. If the WASA Board of Directors is restructured such that it comprises in the majority of Lahore citizens and water-related interest groups, the practise of transparency and fair play will be enabled by the representation of a broad cross-section of realities and direct interests. Water ‘interest groups’ would include domestic water users, big and small industrial users of water, low-income communities, environmental associations, groups and organizations responsible for the running of WASA such as trade unionists, its range of workers, and its management, as well as banks from whom WASA borrows money or to whom it is in debt.

Reforms such as these are common in many of the world’s State-owned water utilities. The municipally owned water companies in the Netherlands for example have workers on the supervisory board, and representation of user’s interests through locally elected bodies. The re-nationalized water utility of Buenos Aires is 90% owned by the Argentine government and 10% owned by the trade union. Similarly the Board of Directors of Cochabamba’s re-

¹⁰⁴ Public Citizen, *Broken Promises and Social Turmoil: Water Privatization Fiascos from Across the World* (March 2003)

nationalised water utility¹⁰⁵ has been restructured to enable broader stakeholder participation.¹⁰⁶ The restructuring of one of Honduras's state-owned water companies too, was based on joint working with trade unions through a process aimed at involving the workforce.

Further, water and wastewater assets and operations need to be accountable to public and open to complete public scrutiny. All proposals for improvement or development undertaken by WASA should be finalized through a process of public hearings. All citizens should also be provided the right of access to public documents produced by WASA, and WASA accounts in particular. This is a practise in India's state Kerala, and well as many cities of the USA.

Thirdly, a single government servant should be made in charge and held responsible for each development project undertaken by WASA, from day one until completion¹⁰⁷. This will ensure the delegation of full responsibility and accountability to a single official, contrary to the current practise which is characterised by constant transfers of officials and hence a shifting of responsibilities such that no one individual is in the end responsible.

Contrary to the myth that the private firm 'brings' finances and capital, the private water company merely borrows money from International banks and financial institutions, usually against higher interest rates than the State.

4.3.3 The Need for Funds

Just as every Rupee that goes into government spending is passed on to citizens as tariffs or taxes, the private firm recovers all its costs through the price of its product. But while the public sector will charge for investment, the private sector will charge for investment plus profit maximization. The actual costs of 'funding' water and sanitation services therefore fall on users and become critical to public welfare.

The Department of Planning & Development quotes a figure of Rs 20 billion as the total amount of finances needed to meet Lahore's growing water and sanitation needs. The only source for these finances it says is foreign funds.

¹⁰⁵ The new composition of the Board includes Cochabamba's mayor acting as the Board chairman, another representative of the municipal administration, 3 representatives of Cochabamba's consumers, one trade union representative and a representative of the 'Association of Professions'

¹⁰⁶ Hall and Lobina, *Water Privatization and Restructuring in Latin America* (2007)

¹⁰⁷ PURC interview with Arif Hasan March 2005

Contrary to the myth that the private firm 'brings' finances and capital, the private firm merely borrows money from International banks and financial institutions, usually against higher interest rates than the State. Further, 'development' work particularly that pertaining to infrastructure, is most effectively executed when phased-out. It therefore follows that the total finances needed for WASA are also not all required at one time.

Funds for WASA's improvement can hence be raised from Pakistani banks and leasing companies over time. WASA can also utilize its assets to raise funds, which according to its union are worth approximately Rs 81 billion.

The goal of WASA's pricing policy should be to encourage domestic water usage of a minimum per capita standard per day, and to discourage water use where it is in excess of a certain per capita standard per day. Cross-subsidy in which the poor are subsidized by charging rich users more, has been introduced across the world to protect the needs of poor communities by ensuring a basic minimum water supply. The re-nationalized water utility of Buenos Aires has introduced a social tariff policy in favour of low-income residential users.

4.3.4 The Problem of Pricing and the Need for Conservation

to an acceleration in the rate of draw-down of Lahore's aquifer, for which unchecked water consumption of both domestic and industrial usages is a major cause. While on the one hand WASA needs to develop a water-conservation strategy, on the other a protection of the basic water needs of the poor is also one of its duties.

The goal of WASA's pricing policy should be to encourage domestic water usage of a minimum per capita standard per day, and to discourage water use where it is in excess of a certain per capita standard per day. A report on South Africa's water authority recommends these to be 50 lcd (litres per capita per day) and 200 lcd respectively.

Cross-subsidy in which the poor are subsidized by charging rich users more, has been introduced across the world to protect the needs of poor communities by ensuring a basic minimum water supply. In the current practise,

WASA cross-subsidises domestic water tariffs through commercial tariffs. A higher degree of 'progressive' cross-subsidization can be introduced by WASA for domestic water tariffs. AySA the re-nationalized water utility of Buenos Aires has introduced a social tariff policy in favour of low-income residential users unable to afford water bills. By the end of December 2006 this policy had over 114,000 beneficiaries and implied a cost of Peso 4 million per year¹⁰⁸.

¹⁰⁸ David Hall and Emanuele Lobina, *Water Privatization and Restructuring in Latin America 2007* (PSIRU Business School, University of Greenwich, 2007)

Secondly, to ensure accountability and water conservation in usage patterns, metering of water supply for domestic, commercial, and industrial consumption is necessary. Regular and transparent monitoring of unchecked water usage must also be introduced. The practise of water metering was introduced by Lahore WASA in July 1997, after which all new connections receive metered bills. Old connections are also gradually being converted into metered accounts according to WASA officials. Water metering charges for quantity of water consumed as opposed to previous 'Annual Rental Value' slab rates which did not take consumed quantity into account. Also, metering enables the checking of both technical and illegal leakages on water pipelines.

A rich knowledge base exists within WASA in the form of a large number of experienced, long-serving professionals and staff, who have a far deeper understanding of issues than is assumed. It is imperative that WASA officials at the operational, management and design levels are given a say in the decision-making of the Agency.

4.3.5 Listening to WASA

By and large, major WASA decisions are made at the Federal or Provincial level, through political interference, or by high-paid consultants of foreign donor organisations. A rich knowledge base exists within WASA in the form of a large number of experienced, long-serving professionals and staff. The majority of WASA employees have a far deeper understanding of issues than foreign consultants and short-term advisors. It is imperative that WASA officials at the operational, management and design levels are given a say in the decision-making of the Agency. Unfortunately, the climate, structure, and processes of the bureaucracy are not conducive to utilising this knowledge base to reach effective and creative solutions. Also, in general there is a lack of coordination between Government Departments, and the added drawback termed by some government officials as inter-departmental rivalry. An environment of interaction, learning, and dynamism is crucial to the WASA's development, contrary to the current structure of rigid hierarchy.

Chapter 5: The Response of Lahore Civil Society

5.1 Introduction

The first detailed press report of WASA's privatization appeared in Lahore's daily 'The News' in October 2004, and was met with broad public outcry. The response of civil society actors consisted of various valid concerns, the major question being "will citizens -especially the poor- have affordable and equitable access to water after WASA is privatized?" While in the authentic democratic tradition, public hearings and broad-based public consultations by government are a part of any decision affecting citizens, this was absent from the process. With the exception of some coverage by the print media, citizens were kept largely uninformed regarding the privatization initiative.

The privatization of public utilities is generally seen as undesirable by civil society, as the private interest primarily seeks its own interest and not that of citizens. Particularly in the case of the basic necessities of life, leaving these up to the will of market forces spells danger. This concern was consolidated at a seminar held by NGO Actionaid in December 2004, which brought together citizens, media, some government officials, non-profit organisations, and development professionals.

LWAC's primary demand from government was access to information and the rightful participation of citizens in the decision-making process. The committee's strategy involved attempts at dialogue with government, and networking across the various sectors of civil society to generate debate and arrive at an informed understanding of the impacts of the privatization of the water utility.

With a focus on research-based advocacy, Punjab Urban Resource Centre began a process of understanding WASA's privatization before forming any position on the issue. The simple objective of this effort was to analyze the possible advantages and disadvantages of privatization for Lahore's citizens.

Soon, the collective concern of citizens translated into a joint effort by civil society through the formation of 'Lahore Water Action Committee'¹⁰⁹, with a range of roles played by

members including research, activism, and advocacy. LWAC's primary demand from government was access to information and the rightful participation of citizens in the decision-making process. The committee's strategy involved attempts at dialogue with government, and networking across the various sectors of civil society to generate debate and arrive at an informed

¹⁰⁹ See Annex-V for 'List of Members LWAC'

understanding of the impacts of the privatization of the water utility. The methods adopted at parallel levels are discussed below.

5.2 The Role Played by Civil Society

5.2.1 Networking

LWAC worked with the common concern for clean and affordable access to drinking water for all citizens, with particular emphasis on safeguarding the needs of the poor. Networks were created across civil society in order to consolidate the effort, facilitate communication, and study the repercussions of water privatization on citizens. 'Lahore Water Action Committee' members included community activists, unionists, lawyers, journalists, NGOs, and one political party¹¹⁰.

Regular meetings of LWAC ensued and acted as an important platform for action and knowledge-sharing. In the following months LWAC played an active role in demanding access to information on WASA's privatization, and denouncing any decision without the broad consent of citizens. Public meetings were held in three of Lahore's then six administrative 'Towns'¹¹¹, organised by members Labour Party Pakistan and NGO Ecowatch. An important milestone in the campaign was the involvement of practising lawyers, culminating in a public meeting held by LWAC in the historic 'Karachi Hall' of Lahore High Court Bar. This meeting was presided by some of Pakistan's key social and human rights activists such as Chairperson HRCP¹¹², and lawyer and former President of the Supreme Court Bar Association¹¹³. LWAC also held a press conference emphasising the risks in privatizing WASA, at the Lahore Press Club in June 2005. Simultaneously, LWAC members attempted regular dialogue with government through telephone calls, letters, and emails to WASA and IFC, and meetings and visits to WASA and the Department of P&D.

5.2.2 Information Collection & Research

The basis of understanding the water privatization issue was information collection and liaison with relevant actors and stakeholders. These were the Department of P&D, WASA trade unionists, water consumers, development professionals, and WASA officials, with whom discussions and interviews were held regularly over a period of two years and continue to date. Various attempts

¹¹⁰ Labour Party Pakistan, which was among the key activists in the campaign

¹¹¹ Lahore now has nine administrative Towns

¹¹² Asma Jahangir

¹¹³ Hamid Khan

at dialogue with the Lahore City District Nazim were also made, but failed due to a lack of response. An important part of the research process was the study of water privatization failures across the world, followed by the dissemination of lessons and analysis. Further, contact was made with national and foreign organisations working on water issues, such as the UK-based NGO 'Public Services International', and the 'Network for Consumer Protection' Islamabad, as well as internet-based activist's groups, all of which acted as a major resource base.

5.2.3 The Generation of Debate

In December 2004 after news of Lahore WASA's privatization had become widespread, a seminar was organised by NGO Actionaid in order to openly discuss the broad aspects of the issue. Keynote speakers at the seminar included development consultants¹¹⁴ and the Federal Minister for Privatization¹¹⁵. While development professionals represented the broad civil society view and spoke of the negative repercussions of water privatization, government stressed its argument in favour of privatization, largely to the dissatisfaction of citizens.

A series of monthly and bi-monthly discussion forums on water issues was initiated by LWAC member PURC and acted as platforms for debate and dissemination. The forums covered the broad range of municipal water issues, and were supported by media coverage in the form of press releases, reports and editorials.

At a forum in October 2004, development professional and activist Professor Nauman Ahmed was invited to speak about lessons learned from the attempted privatization of the Karachi Water and Sewerage Board in 1999. In February 2005 President WASA Union¹¹⁶ discussed the problems faced by WASA. This was followed by a third forum on water metering presided by the Public Health Engineering Department. Several invitations were extended to WASA officials to speak of their plans for the Agency, but were declined. Following the Fourth World Water Forum held in Mexico City in March the same year, participating journalist Aoun Sahi discussed his experience and observations, highlighting the dominance of the MDBs and large water multinationals in the global water sector. PURC presented its findings on the world's failed cases of water privatization, at forums held in Lahore and Islamabad. A discussion on Lahore's water issues was held in September 2007, presided by development professional Reza Ali and attended by WASA officials, where challenges faced by the Agency

¹¹⁴ Kaiser Bengali

¹¹⁵ Hafeez Sheikh

¹¹⁶ Amjad Butt

A study of cases from across the world showed that water privatization has led to increased poverty and decreased access to affordable water supply, and that the private sector has not delivered as promised.

were discussed at length. Finally, based on the need to understand WASA's water and sewerage 'Operations and Maintenance', WASA sub-division in charge was invited as Speaker¹¹⁷, and emphasized that an inappropriate number of ground staff is a main shortfall for the Agency in meeting Operations and Maintenance demand adequately.

5.2.4 Conclusions by Civil Society

Research and investigation led to the conclusion that the privatization of WASA would be to the detriment of Lahore's citizens, particularly the poor, and is hence unacceptable. The study of WASA and its current gaps made it clear that the Agency can be repaired with *public sector* reforms. Study of documented cases irrefutable evidence of the fact that water privatization has led to increased poverty and a decreased access to an affordable water supply, and that the private sector has not delivered as promised. Within the given institutional conditions of developing world cities, and the nature of the private firm and the market mechanism, it became clear that the privatization of Lahore WASA would fail. Finally, the World Bank's recommendations for WASA (October 2006) spelled out forms of management, billing, and ownership starkly along the lines of a business run on commercial principles. The most appalling of these was regular tariff readjustments, and the linking of water tariffs with inflation (See Chapter 2, 2.7.3). This research-based approach hence enabled civil society to present a stronger fact-based argument in its resolve against the privatization initiative.

5.2.5 Advocacy & Dissemination

Lessons learned were then widely disseminated to relevant groups, organisations, and individuals in the form of leaflets published by LWAC, newspaper articles, discussions and presentations by LWAC members, internet networking, liaison and so on. The target audience comprised both government and citizens, civil society groups, media, CBOs and NGOs, independent professionals, and political parties. Dialogue with WASA and the Department of P&D in the form of formal meetings was also carried out by several citizens groups.

¹¹⁷ Azam Arain, WASA Sub-divisional Staff in-charge (Gunj-Buksh-Town-II) and former Secretary General WASA Union

Further, the research process undertaken by LWAC acted as an information base for activists such as those within the WASA Union, who used validated facts, both from local sources and from cases across the world, to further their cause. One such instance was a letter written by the then Chairperson WASA Union¹¹⁸ to the United Nations headquarter in Islamabad, advocating that water is a basic human right according to the Human Rights Charter to which Pakistan is a signatory, and that its privatization would hinder its access to citizens. On the basis of this letter, another letter was then written by the UN to the Ministry of Foreign Affairs advocating the same point and hence their reservations towards the privatization of WASA. In a similar way information on water privatization failures were quoted in press releases by the Union.

5.3 Conclusion

Through the process of debate and investigation it was concluded that the privatization of Lahore WASA is unacceptable, and that water is a basic human right which must be guaranteed to all citizens under all circumstances.

The success of the Lahore Water Action Committee and civil society initiatives, was in making the proposed privatization of WASA an issue of public concern, and establishing open consultation with citizens as a fundamental right.

Through the process of debate and investigation, it was concluded that the privatization of Lahore WASA is unacceptable, and that water is a basic human right, which must be guaranteed to all citizens under all circumstances. The chaos and losses suffered by citizens across cities of the developing world where public water utilities have been privatized, bear overwhelming testimony to the fact that within the given context of poverty, non-transparent practises, and weak institutional structures in developing countries, water privatization leads to increased poverty and decreased access to affordable drinking water.

The coming together of civil society actors can be termed a form of 'active citizenship', whereby the demand of citizens was simply to have a say in the decisions that affect their lives. While the acceptance and encouragement of citizen's participation in development has been largely missing from the scenario in Pakistan, it is widely practised in the world's developed countries and increasingly in the developing countries of Latin America.

¹¹⁸ Ibid.

In the response of civil society to the proposed privatization of WASA, with the inclusion of various actors at multiple layers and capacities, a chain of actions is created and gains momentum, in the end completing a cycle. It is through such processes of communication and knowledge-sharing that people are better informed, and the gap between government and people may be filled.

Chapter 6: Towards Reform

6.1 The Real Issue

On the one hand, reform in WASA is needed in order to improve water quality and delivery, and extend services. On the other hand, potable water itself is becoming scarce, as water consumption is increasing manifold and water resources are being polluted. Under these circumstances, it becomes essential to secure the basic water needs of vulnerable groups such as the poor, as well as protect the natural aquifer and regulate wasteful patterns of water consumption. While critics refer to water privatization as a ‘new and failed social experiment’, and the testimony of bitter experiences across the world proves that water privatization fails to deliver its promise, WASA’s privatization continues to be promoted as a solution to the above gaps. Research clearly demonstrates that the Agency’s privatization is inadvisable from the public interest perspective, which should essentially form the backbone of any intervention in WASA. It is also clear that privatization is simply not necessary, and that the Agency is reparable through basic public sector reforms.

Among the decisions that will guide the impact and type of reforms in municipal water supply, is whether water is treated as a public trust or a marketable commodity

6.2 Water as a Basic Human Right

Among the decisions that will guide the impact and type of reforms in municipal water supply, is whether water is treated as a public trust or a marketable commodity¹¹⁹. Both wisdom and social justice point to the need to treat water as a basic human right and hence a sacred public trust. Governments and citizens worldwide are realising the need to formalise this relationship between

¹¹⁹ Following the broad marketing and promotion of bottled water, many argue that drinking water has already become a commodity

people and their right to water. In October 2004 a referendum in Uruguay proposed a constitutional amendment on water, which was approved by 62% of voters. The amendment included the statement that access to piped water and sanitation are fundamental human rights, and that social considerations take priority over economic considerations in water policies. In 2004 the Netherlands parliament also passed a law which states that 'drinking water services to consumers may only be provided by entities which are 100% public or publicly owned'.

Further, several water utilities in Latin America's countries where privatization was attempted and failed are in the process of re-nationalisation, such as in Brazil, Bolivia, and Argentina. Much has been written and researched on the reform of public water utilities by development professionals and grassroots groups. These valuable lessons from the experiences of people across the world need to be understood and disseminated.

6.3 Essential Principles for Reform

Broad recommendations for the reform of Lahore WASA have been discussed in Chapter 4. A step prior to framing institutional, managerial, and technical aspects of reform however, is the establishment of a people-centred orientation based on several essential *principles* for reform.

6.3.1 Openness and Transparency

As a principle of democratic reform, a culture and process of openness and transparency is fundamental. All people by virtue of being citizens and stakeholders of basic urban services have a right to information regarding WASA, from its development decisions, to its accounts. An example of the current lack of a culture of information-sharing, was the by-invitation-only workshop held by the World Bank and the Punjab government in October 2006, highlighting the Bank's finding and recommendations for the Agency in the form of 'Private Sector Participation'. Needless to say all citizens are stakeholders of a municipal water utility such as WASA, and their exclusion from such a platform is inexcusable.

6.3.2 Independent Research

Development in Pakistan is determined for the large part by decisions and loan-conditionalities imposed by donors such as the World Bank and ADB. Any successful reform for WASA needs to be determined on the basis of independent and unbiased research, as opposed to the current practise of loan-driven research, which is often geared towards the justification of pre-determined policy decisions. Institutions and processes for independent research can be

developed, such as the linking of educational institutions with institutions of service-delivery. This independent research must also look at water supply issues from the user's-end, as well as technical, administrative, and other bottlenecks faced in municipal urban water supply, and eventually form the backbone of Pakistan's National Water Policy.

6.3.3 Giving WASA Employees and Unionists a Greater say in Decision-Making

As discussed in Chapter 4, WASA has a large number of experienced and competent workers at all levels, including officials as well as operations and maintenance workers. It needs to be acknowledged that the diverse body of WASA employees has a more practical and experience-based understanding of issues than foreign consultants and short-term advisors, who are ironically given priority in the Agency's development. Often, simple issues and bottlenecks for which solutions are obvious to WASA officials and workers are overridden by complex studies and inappropriate decisions made by short-term foreign consultants, who in the end also cost citizens more. WASA officials, workers, and unionists must be made a part of the Agency's decision-making. The climate, structure, and processes of the bureaucracy must also be made conducive to utilising this knowledge base through administrative reform.

6.3.4 An Independent Regulatory Body

Any reform in WASA must be accompanied by the creation of a broad-based regulatory body, the goal of which should be to monitor and regulate the performance of the Agency and ensure its fair-play. Often, regulatory bodies inappropriately represent water-related interests due to a flawed composition, comprising only 'selected' stakeholders¹²⁰. The regulatory body must include and give authority to a broad range of citizen's representatives, water users (in particular poor communities) and water-related interest groups. Only when a regulatory body represents diverse needs and interests, can it be ensured that through a cross-checking the Agency's performance meets the desirable standards and transparency and fair-play are ensured.

6.3.5 Creating Forums for the Representation of Citizens and Interest Groups

In order to merge the objectives of policy makers with those of the people at the grassroots, platforms for discussion and information sharing between government and citizens must be created and made broadly available. Through

¹²⁰ Narrowly-composed or non-representative regulatory bodies have been known to overlook cases of negligence and mal-practice by water providers, usually at the paying of bribes by the regulated entity

such mechanisms the needs of interest groups¹²¹ and the gaps in drinking water provision can be addressed.

6.3.6 National Water Policy

Both Pakistan's draft National Water Policy and Drinking Water Policy must undergo a process of wide dissemination and critique prior to their finalisation. Other than the knowledge and views of experts and professionals, it is necessary to learn from water-users, WASA staff, environmental groups, and low-income communities who are usually at the receiving end of sub-standard water supply. Needless to say, a clear definition and articulation of drinking water as a human right, and an emphasis on securing the basic needs of vulnerable groups such as the poor, are fundamental in Pakistan's national policy on water.

6.3.7 Political Will and a Genuine Aspiration to Serve the People

In addition to the above principles, a fundamental cornerstone of reform is that of political will and the government's genuine aspiration to serve the public good. A culture of honesty to citizens and the courage to alter prevailing detrimental development mechanisms and systems¹²², are essential. Once a truly people-centred development orientation based on the desire for equity, welfare, and inclusion is in place, appropriate solutions and practices will automatically follow.

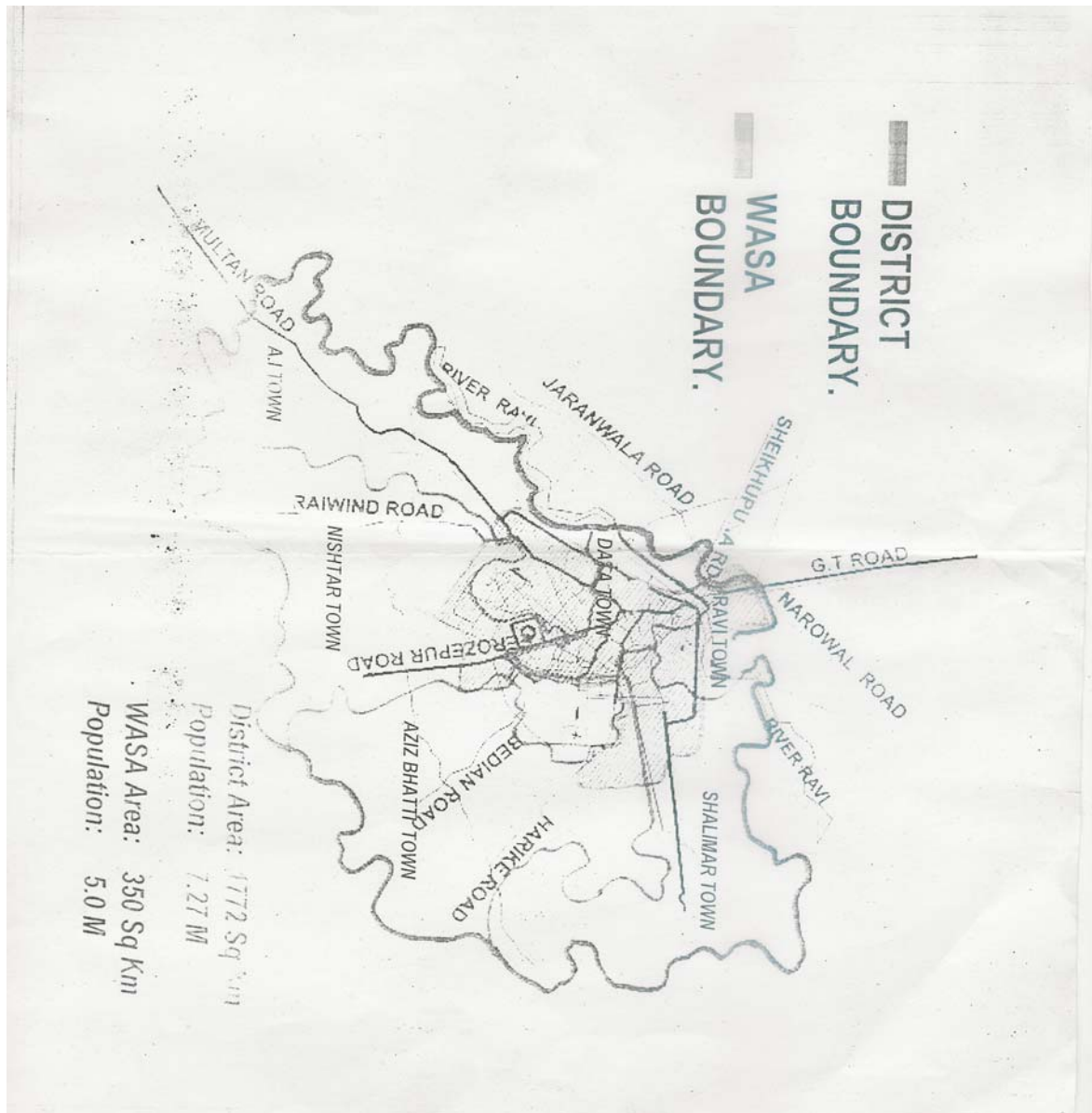
¹²¹ Interest groups for water include domestic, commercial and industrial users of water, environmental associations, and banks to whom WASA is currently in debt

¹²² The dominance of international donors in Pakistan's development policy and decision-making has deterred a truly need-based people-centred development

Annexes

Annex-I: WASA Area and Boundary

Courtesy Lahore WASA



Annex-II: WASA Up-to-Date Achievement/Service Levels

Courtesy Lahore WASA

UPTODATE ACHIEVEMENT / SERVICE LEVELS

(Year 2007)

Sr. No.	Description	Total in the year 2007
WATER SUPPLY:		
1	Total Population (Million)	5.548
2	Population served (Million)	4.827
3	Number of Tubewells	406
4	Water Production (mgd)	360
5	Water Supply (Gallons/Capita/Day)	75
6	Water Connections	534,000
7	Length of Pipelines (Km)	3380
	30" i/d Primary Mains (km)	9
	24" i/d Primary Mains (km)	15
	20" i/d Primary Mains (km)	9
	18" i/d Primary Mains (km)	33
	16" i/d Primary Mains (km)	10
	3" to 12" i/d Secondary & Tertiary Pipelines (km)	3304
SEWERAGE:		
1	Length of Sewers (Km)	3,780
2	No. of Sewer Connections	5,07,000
3	Disposal Stations	12
4	Pumping Capacity of Major Disposal Stations (cusec)	2,231
5	Lift Stations	61
6	Pumping Capacity (cusec)	826
7	Pumping Capacity (cusec)	3,057
DRAINAGE:		
1	Length of Drains (Km)	212
2	Major Drains	8
3	Tributary Drains	75
4	Carrying capacity (cusec)	7400
5	Pumping stations	4
6	Pumping capacity	663

Annex III: WASA Water and Sewerage Tariffs

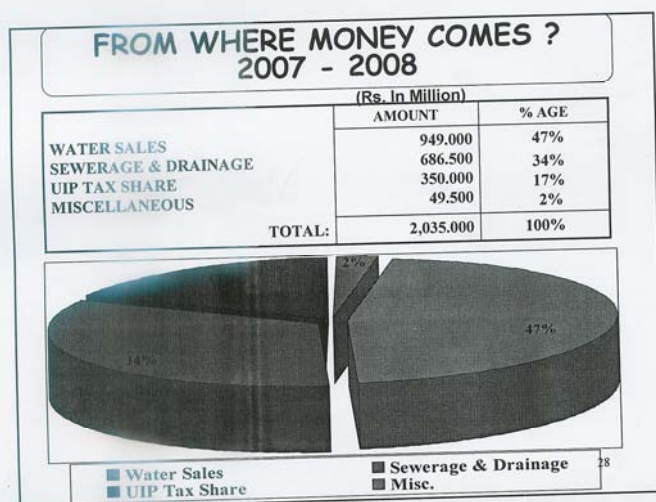
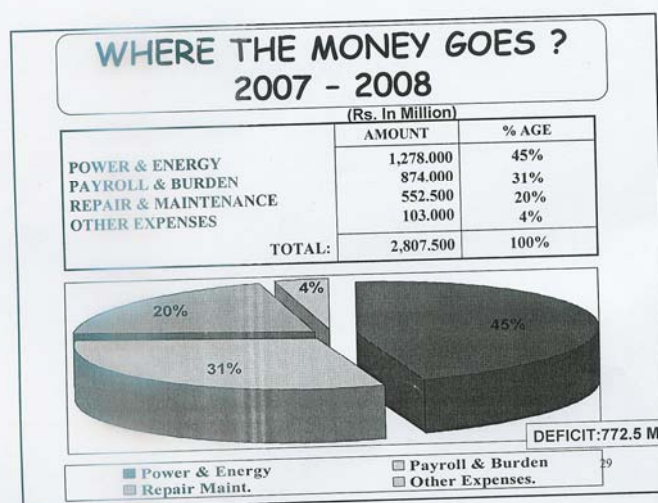
Courtesy Lahore WASA

Water and Sewerage Tariff w.e.f. 01-05-2004 (Increase after 1998)				
DESCRIPTION		WATER Rate P.M (Rs.)	SEWER Rate P.M (Rs.)	TOTAL Rate P.M (Rs.)
DOMESTIC-UN-METERED: ARV Slabs (Rs.)				
001	400	58.10	40.67	98.77
401	500	89.60	62.72	152.32
501	720	152.60	106.82	259.42
721	1000	266.00	186.20	452.20
1001	1500	375.20	262.64	637.84
1501	2388	394.80	276.36	671.16
2389	4370	420.00	294.00	714.00
4371	4499	439.60	307.72	747.32
4500 & Above		(84% of ARV)	(70% of Water)	
NO WATER CONNECTION IS SANCTIONED AS UN-METERED W.E.F 1-7-1997 ₉				

DOMESTIC METERED		RS. PER 1000 GALLONS		
CONSUMPTION SLABS (GALLONS)		WATER	SEWER	TOTAL
Upto	5,000	12.88	9.02	21.90
5,001	20,000	20.86	14.60	35.46
20,001	& Above	27.30	19.11	46.41
COMMERCIAL - METERED		RS. PER 1000 GALLONS		
CONSUMPTION SLABS (GALLONS)		WATER	SEWER	TOTAL
Upto	5,000	27.34	19.14	46.48
5,001	20,000	48.85	34.19	83.04
20,001	& Above	70.67	49.48	120.15
SEWERAGE/DRAINAGE FOR PRIVATE TUBEWELLS (Non Residential)		RATE PER MONTH		
1 Cusec		Rs. 7,700		
½ Cusec		Rs. 3,850		

Annex IV: WASA Budget Sources and Expenditure

Courtesy Lahore WASA



Annex-V: List of Members LWAC

- Human Rights Forum, Lahore
- Punjab Urban Resource Centre, Lahore
- Umeed Trust, Lahore
- Action-Aid, Lahore
- Action-Aid, Islamabad
- Ecowatch, Lahore
- Green Circle Organisation, Lahore
- World Wildlife Fund, Lahore
- Labout Party Pakistan
- Asr, Lahore
- Punjab Lok-Sujaag, Lahore
- The Network for Consumer Protection, Islamabad