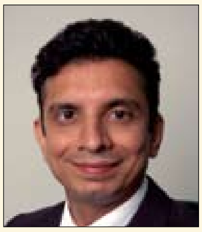
INDIA

Public Private Partnerships in the water sector in India



By Amitabh Sharma and Shashank Vikram Singh

"A little water clears us of this deed" – Shakespeare, Macbeth

The Constitution of India divides legislative jurisdiction over water between the Union and the States by categorising bodies of water as territorial waters, interstate rivers and other water bodies. The legal framework regulating water supply, irrigation, canals and drainage, being within the legislative competence of the States (to the exclusion of Union), varies from State to State. Furthermore, water supply as a legislative subject is delegated by State legislature to the municipalities/water boards for implementation. Thus control, authority, tariff regime, permission/prohibition on private participation in water treatment, supply and distribution, operation and maintenance, tariff setting and billing, and collection varies across the Indian landscape.

The 2002 National Water Policy of the Government of India encouraged private participation in planning, development and management of water resource projects. More recently, the Eleventh Five Year Plan (2007 – 2012) put forward by the Government's Planning Commission estimates Rs 113,000 Crores (approximately US$24.4 billion) worth of investment in the water supply sector. Accordingly, this should be a promising time for Public Private Partnerships (PPPs) in the Indian water markets.

Unfortunately, however, there are intrinsic obstacles which make investments in water supply and sanitation projects unattractive to potential investors. PPPs depend on government statistics and customer's willingness to pay. A PPP has to carry out a study to assess the feasibility of any project, yet often the government statistics are incorrect. A PPP is also expected to supply free water to the percentage of population that lives below poverty line, yet there are no reliable statistics to determine the target population in this regard as well. Further problems exist; water and sewer tariffs in India are low in both urban and rural areas and do not recover operating and maintenance costs, whilst subsidies are also poorly targeted.

Another cause of concern is the irregular 'water metering' system in India. Despite water metering being a prerequisite for billing water users on the basis of volume consumed, customers are charged flat rates. Many cities have no metering at all or only meter commercial customers, whilst political considerations can also often prevent tariffs from being increased. Furthermore, cost recovery in rural areas is dismal and a majority of the rural water systems are non-operational due to a lack of maintenance.

Unless comprehensive municipal water sector reforms and tariff structure reforms are introduced, we cannot expect positive developments in the delivery of water services. The States of Uttar Pradesh and Maharashtra are two of the few States that have legislation in place to set up an independent Water Regulatory Authority. The regulators, as envisaged by the relevant Acts, will have powers to allocate water entitlements, approve and clear all water projects, set tariffs for the use of water in the State, and more. Efficacy of such regulators in bringing private capital in the water sector is yet to be tested, whilst a further problem for private investments in water supply projects concerns raising debt for water sector projects, which essentially emanates from the high risk associated with low tariffs and poor billing and collection.

A new horizon is yet to be explored. To secure the fundamental right of every Indian citizen to clean drinking water, municipal reforms and PPP policies should aim at equitable allocation of project risks between the private entrepreneurs and authorities, and tariff setting aimed at cost recovery, thus creating a facilitative and conducive framework for private participation to enable high quality service delivery through an efficient and financially sustainable water market.

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