

Karnataka 24 x 7: Impact and Lessons going forward

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Background

- Thrust is on asset building rather than on the service delivery.
- Shortage of the required capabilities to manage water supply systems against benchmarked performance standards.
- Lack of financial viability as
 - tariff levels are low,
 - political will to revise it is weak,
 - willingness of the consumers to pay is unknown and is usually confused with ability to pay &
 - the municipalities are not quite effective to enforce recovery.

Background

- There is a general reluctance to experiment due to the lack of necessary managerial confidence and of required political will.
- Therefore, there is relatively less experiential learning to look out for in the urban water supply sector in India - of having tried, even if failed.
- Against this background, KUWASIP provided an opportunity to break free from these mental barriers and make a concerted effort for paradigm shift in the sector.

Background

■ Objectives of the Project

- Reforms & service improvements through Private Sector Participation (PSP) in the water sector in Karnataka.
- Implement the strategy enunciated in the Urban Drinking Water & Sanitation Policy of the state Government.
- Phased approach.

■ Scope of the Project

- Belgaum, Gulbarga & Hubli-Dharwad
- Improvement of bulk water supply to the above ULBs
- Continuous pressured (24X7) water supply in selected Demonstration Zones of the three cities.
- Scaling up to the rest of the areas in the three cities

What did demo-zone project prove?

- Technical feasibility of providing continuous pressurized water supply
 - All the performance parameters were adhered to-continuity, quantity, quality, pressure, responsiveness to complaints
- Political and administrative acceptability of doing it in PSP mode
 - Operator was allowed to perform
 - Demand from other cities to adopt this model

What did demo-zone project prove?

- Consumers paying for the service
 - Creating willingness to pay
 - Benefits of simple definition of poor
 - Efficacy of good communication with the community

Design of a project-

Apportionment of risks

- Technical risk has to be necessarily with the contractor in a contract where output will be service of a predetermined quality.
- Financial risk may be shared depending on the financials of the project- cost, funding sources available (grants, VGF), consumers' mix etc.
- Commercial risk has to be necessarily with the city due to the political sensitivity of the sector

What challenges remain?

1. Technical replication

- Up-scaling on city-wide basis
 - KUWASIP was designed as a green-field project while any city-wide scaling has to necessarily be a brown-field project
 - So the question is how do we optimize use of existing assets when there is a lack of credible information
 - Can contract create an efficient incentive for avoiding over-engineering without creating too much performance risk?

What challenges remain?

2A. Sustainability of tariff

- City councils' powers to revise tariff can't be curtailed legally
 - Tariff was revised downward by Hubli-Dharwad Corporation due to some extraneous/political reasons.
- A full-fledged regulator was considered an untimely proposal and so instead, [Water Council](#) was proposed as its precursor
 - Due to the relative immaturity of the sector where the environment in which water supply is considered as a paid service is yet to be properly built.
 - And the political sensitivity of the sector with water still being considered as only a life-good rather than also a service.

What challenges remain?

2B. Sustainability of tariff

- Have publicly declared political commitment to reduce volatility
- A comprehensive municipal resolution was drafted covering
 - Tariff policy
 - Metering policy
 - Public stand-post policy
 - Pro-poor policy
 - Capital cost funding options analysis
 - Apportionment of risk and responsibility

What challenges remain?

2C. Sustainability of tariff

- Insulation was sought to be built into the contract itself to handle the practical risk of non-execution of the political commitment
- Structured Commercial Risk was evolved
 - Transparency in publicly disclosing the beneficiaries of the subsidy
 - Should ideally find its own city-specific politically acceptable equilibrium
 - ‘Right’ targeting of subsidy

What challenges remain?

3A. Procurement

- Need for standardizing procedures
 - Standard procedures, bidding documents and contracts for variety of PSP contracts
 - For up-scaling project and replication elsewhere, documents are being developed ab-initio
- Project development and contract management capabilities
 - Much more deep and intensive contract management
 - Much longer association with the contractor

What challenges remain?

3B. Procurement

- Main issues on qualification criteria
 - Do we need to restrict competition only to operators?
 - How do we develop local market of suppliers?
- Necessity of prior experience as operator in the qualification condition may limit competition (to foreign companies) and raise costs.
- On the other hand, ignoring the requirement of operating experience will result in sub-optimal procurement and possible failure in achieving desired outcomes.

What challenges remain?

3C. Procurement

- A solution was proposed by [juxtaposing](#) experience of the firm with that of the personnel deployed for the project. Eligible experience would be based on scope and scale of their earlier projects
- Therefore a company having the necessary engineering experience of constructing water supply works of a comparative scale, could be eligible provided that they appointed project manager and other key professionals for this project who had the requisite water supply service contract experience

Thank You