



Contracting-out water utilities management

Rattan Kumar Siddhi, Nepal

NWSC HAS THE responsibility to efficiently manage the operation of water utilities in the fifteen major towns in the country including the five towns in the Kathmandu Valley. NWSC was formed in 1989 under a statute of its own and has been granted autonomy to function as a commercially viable entity. In reality this has not been the case due to various reasons both within and outside the control of NWSC. Institutional strengthening has been a weak point in the development of NWSC and its predecessor organizations dating back to 1972. As a result of the lessons learned from the past and experiences reported by other developing countries, private sector participation (PSP) has been considered to be beneficial in NWSC's management.

While the institutional transformation as desired is not taking place due to lack of full autonomy, the services delivery situation in most of the towns are being adversely affected. Adequate and good quality water is not being supplied and the physical facilities are deteriorating due to lack of proper maintenance. Therefore, tariff increases have been difficult and NWSC has not been able to transform itself into a utility responsive to its customers.

His Majesty's Government of Nepal (HMGN) is committed to improve the water supply and sanitation situation in the urban areas in general and the Kathmandu Valley towns in particular. To rectify the poor services delivery situation, HMGN has now decided to involve an experienced and qualified private firm in the management of NWSC's operations in the Kathmandu Valley towns through a management contract (MC). To initiate this process HMGN established the Private Sector Participation Committee (PSPC) in July 1997 to oversee the preparation of the MC and to facilitate the work of the consulting firm recruited to do the job. The PSPC has been given a time-frame of 23 months to complete all necessary preparatory work and successfully award the MC.

The objectives of the preparatory work are:

- to review and assess the regulatory and institutional framework and prepare all necessary legal amendments and administrative adjustments needed to implement the MC, and
- to undertake the process of pre-qualification of bidders, bidding evaluation, and in the negotiation of the contract with the selected operator.

Private sector participation policies and strategies in the national plans

Private sector participation (PSP) received attention in national economic development in the early nineties with

the launching of the Eighth Plan (1992-1997). This period saw the privatization of some public sector enterprises in the industry sector. Clear policy statements with respect to PSP in the water supply and sanitation sub-sector (WSS) were first spelt out in the Eighth Plan as follows:

- Non-governmental organizations (NGO), local bodies and the private sector will be involved in the rural areas of the Terai.
- The formation of companies to execute water supply projects will be encouraged.
- Implementation arrangements: Out of the total physical targets set for the WSS sub-sector, about 60 per cent of the target for drinking water and 54 per cent of that for sanitation will be achieved through the execution of programmes by NGOs.

The Ninth Plan (1997 – 2002) document has, also, laid greater emphasis on PSP in which the main thrust is to be in institutional/management arrangements for improving the service levels in urban areas. The following institutional arrangements, as appropriate, will be adopted for ensuring commercially viable WSS services –

- central government (public) agency
- central public corporation (state-owned enterprises)
- local municipality
- local users committees
- autonomous corporations for urban centres
- various options in PSP

It has also been explicitly stated that for encouraging PSP in the construction and operation of WSS projects clear policy and legal framework will be required for which the necessary policy matters, legislation, investment guarantees, etc. will be developed.

NWSC operations in the Kathmandu Valley

The consumer survey carried out by SILT Consultants for NWSC in 1996-97 has shown that of the 93,000 customers in NWSC's books, 74,000 did not pay their dues in time – the receivables as of July 15, 1996, being NRs. 140 millions, averaging NRs. 1 900.- per connection (US\$ 1.00 = NRs 60.00 approx.) Financially, NWSC performed well from fiscal years 1993/94 to 1995/96 but it had accumulated a loss of NRs. 100 millions to date. The working of the branch offices revealed that NWSC does not have a uniform, scientific and computerized ledger system to register, bill and receive cash payments from its consumers. Household collections are, therefore, low and those who

Table 1.

fail to pay their bills are seldom disconnected. All of these underlines the serious difficulties in the key financial and accounting functions of NWSC.

The assessment of the operation of the system has identified the potential changes to bring about an improvement in the overall level of service. The prime areas are:

- Volume of water delivered to customers
- Quality of water delivered to customers
- Revenue collection
- Sewage disposal
- Customer satisfaction.

The prime areas have been assigned key performance indicators against which a management contractor would be measured and ultimately judged.

There is no doubt that after the acute shortage of water in the Kathmandu Valley, the most pressing problem is the number, attitude and skill of current staff. This has been reported in a number of studies carried out so far that but without any resulting change. The main opportunity that a management contract presents is to bring about a drastic change in the culture from an attendance-based organization to a performance based organization. With the introduction of the MC there will be ample opportunity to review the structure and go for a mixture of managers and functional experts in a matrix structure combined with the reduction of the branch offices by half. Three options for the transfer of staff to the operator viz. transfers, secondment and recruitment, have been identified. After ratification of the functional transfer requirements and mechanism, a suitable process for the transfer of individual staff is to be formulated. A secondment arrangement offers the

The other activities under the preparatory work that have

been completed include socio-economic studies, PSP option analysis, demand projection, legal framework assessment, development of the investment plans and programmes, the selection/prequalification document (draft) and financial/economic report. An enabling umbrella Act to be called “the Drinking Water Supply and Sanitation Act, 1998” has been drafted.

Table 1 summarises the water balance scenario. It is envisaged that the water supply system in the Valley will continue to be supply driven rather than demand driven till the bulk supply from the proposed Melamchi Water Supply Project becomes available. It will be seen that for the present population of 953,159 the supply available varies from 88 million litres per day (MLD) in the dry season to 121 MLD in the wet season. The demand in the year 2006 is anticipated to reach 303 MLD which is 114 per cent more than “the without Melamchi” scenario. It shows the highly suppressed demand without Melamchi.

Future activities

The detailed design phase is currently underway, the design phase is to be taken up and will be focussing on the following:

- object, scope and duration of the MC
- area within the Kathmandu Valley to be served and procedures to be followed by the operator and others to expand area to be served during the lifetime of the contract
- Rights and obligations of the operator: determine what should be the specific roles and responsibilities of the operator in planning, construction, operation, mainte-

nance and managerial process, as well as the conditions under which these should be performed. The responsibility of the operator in the solution of environmental liabilities and the minimum working capital, if any, to be provided by the private operator should also be analysed. The flexibility needed for the operator to perform its responsibilities should also be studied, including possibility of sub-contracting

- Obligations of the grantor: analyse the resources to be provided to the operator like working capital, assets, employees from NWSC, etc. In addition, the setting of base and incentive fees as compensation to the operator should be analysed. The currency of payment, payment procedures and schedules, valuation of currencies, taxes and duties are among
- Responsibility for capital expenditures: although responsibility for capital expenditures will be retained by the government, analyse and propose : (a) responsibilities and procedures to be followed by the private operator and government in the cases of maintenance, rehabilitation and expansion works including purchase of bulk water supply; (b) definition of maintenance, rehabilitation and expansion works; (c) obligations and responsibility on replacement equipment and spare parts; and (d) minimum internal cash generation for investments, if any, to be generated by the private operator
- Operation and maintenance risk: analyse the ways to mitigate the risks involved in the MC and discuss them with the pre-qualified firms
- Performance obligations, monitoring and enforcement
- Guarantees of contract
- Commencement, completion and modification of the contract
- Conflict of interests and settlement of disputes
- Linkages with other government agencies.

Finally, this will be followed by the implementation phase covering the following activities:

- bidding, for which the draft bidding documents to be discussed with the pre-qualified operators will be prepared. In general, the bid documents will contain the invitation to bid, instructions to bidders, form of bid, form of contract, and conditions of contract. They will contain all pertinent information and the procedures for bid evaluation and bid selection, including modifications proposed by bidders to the draft bidding docu-

ments, if any. This is to be followed by bid evaluation, review, adjustment and finalization of the MC, as well as the negotiations of the contract prior to award

- promotional activities relating to the participation of major local and international potential bidders in NWSC's operations by preparing information on the main characteristics and specifications of the MC. Also, the relevant activities necessary to inform the local population and stakeholders about the MC and its benefits will be taken up
- transfer of operations leading to the orderly hand over of NWSC's operations to the private operator to ensure minimum disruption in services during the transition period. This will necessarily entail the preparation of a pragmatic and workable schedule of transfer events.

Some unavoidable slippages due to over optimistic planning in order to meet the March 1999 (IDA Credit closing) deadline have crept in. This means that bid invitation may only be possible towards the end of the year. The tendering and contract award, if there are no further delays, will be completed by May 1999.

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RATTAN KUMAR SIDDHI, Member, PSP Committee.
