

ABSTRACT

Case Title:

India: Issues in introducing a realistic water pricing regime in urban local bodies (#253)

Sub Title:

Describes unsuccessful efforts to introduce a realistic water-pricing regime in the city of Jabalpur, due to lack of political will.

Description

Jabalpur, a city of about 1.2 million people, is well-provided with water resources with the river Narmada located close by. However, the water supply was below the per capita requirement. A scheme called Narmada Phase III, which would augment the water supply to the city by about 40% had been languishing for the past 10 years due to funds crunch. The present water charges, fixed in 1997-98 as per the directives of the state government, were uneconomical and were uniform irrespective of quantity of water consumption in the absence of proper metering. In 2000-01, the operational expenditures stood at Rs 130 million whereas the water charges were Rs 80 million, out of which only Rs.56 million was collected on account of collection inefficiency.

From January 2000, the corporation decided to give priority to completion of the scheme. The project cost was around Rs.130 million, which included the state government share of Rs.34 million. The corporation approached HUDCO, a Central government financial undertaking, for a loan of Rs.96 million in 2001. On account of the good terms of the Mayor with the state political leadership, the state government immediately disbursed its share.

On submission of the project report, HUDCO asked for a guarantee from the state government for repayment and a unambiguous resolution from the Corporation indicating how water charges would be increased to ensure repayment. Though no systematic survey was conducted, the general perception through interaction with individual citizen revealed that the consumers were willing to pay more to get better water services. The Corporation did not agree to any kind of an increase for residential consumers and only a token increase for commercial consumers, as they were afraid of repercussions of increased charges on their vote bank. The state government asked the corporation to reconsider its stand. This time the corporation agreed to an increase in water charges for commercial consumers but not for residential consumers. In spite of the corporation's stand, the HUDCO agreed to sign the loan agreement in October 2002 with the Municipal Corporation conditionally on the corporation securing the state government guarantee. The state government on pursuance by the Mayor gave the guarantee in January 2003. HUDCO has started making disbursements from October 2003. The project is nearing completion now. However, water charges have not been increased in 2002-03 or 2003-04.

Lessons learned and replicability

- In an unmetered water supply scenario, across the board subsidy of water charges benefits the richer consumers more than others since they have more availability of water due to more storage capacity on the same monthly fixed charge per connection.
- Elected bodies lack the willingness to increase charges since they are afraid of backlash affect of the decision on their vote bank. The public is willing to pay provided reasonable services are made available to them and reasons for the water charges increases explained to them.
- The state government did not insist on economically sustainable water charges while issuing the state government guarantee. Thus a fully competent local body did not have to take a decision which could have marked a beginning towards financial self sustainability.

Importance of case

Illustrates how an empowered local body is responsive to the issues of increasing of water charges when faced with the prospect that the planned water supply augmentation scheme may not materialize if it fails to increase the charges.

Main Tools used: C7.1 Pricing of water and water resources
C7.4 Subsidies and incentives

Keywords: Subsidies, Water Pricing, Water Authorities

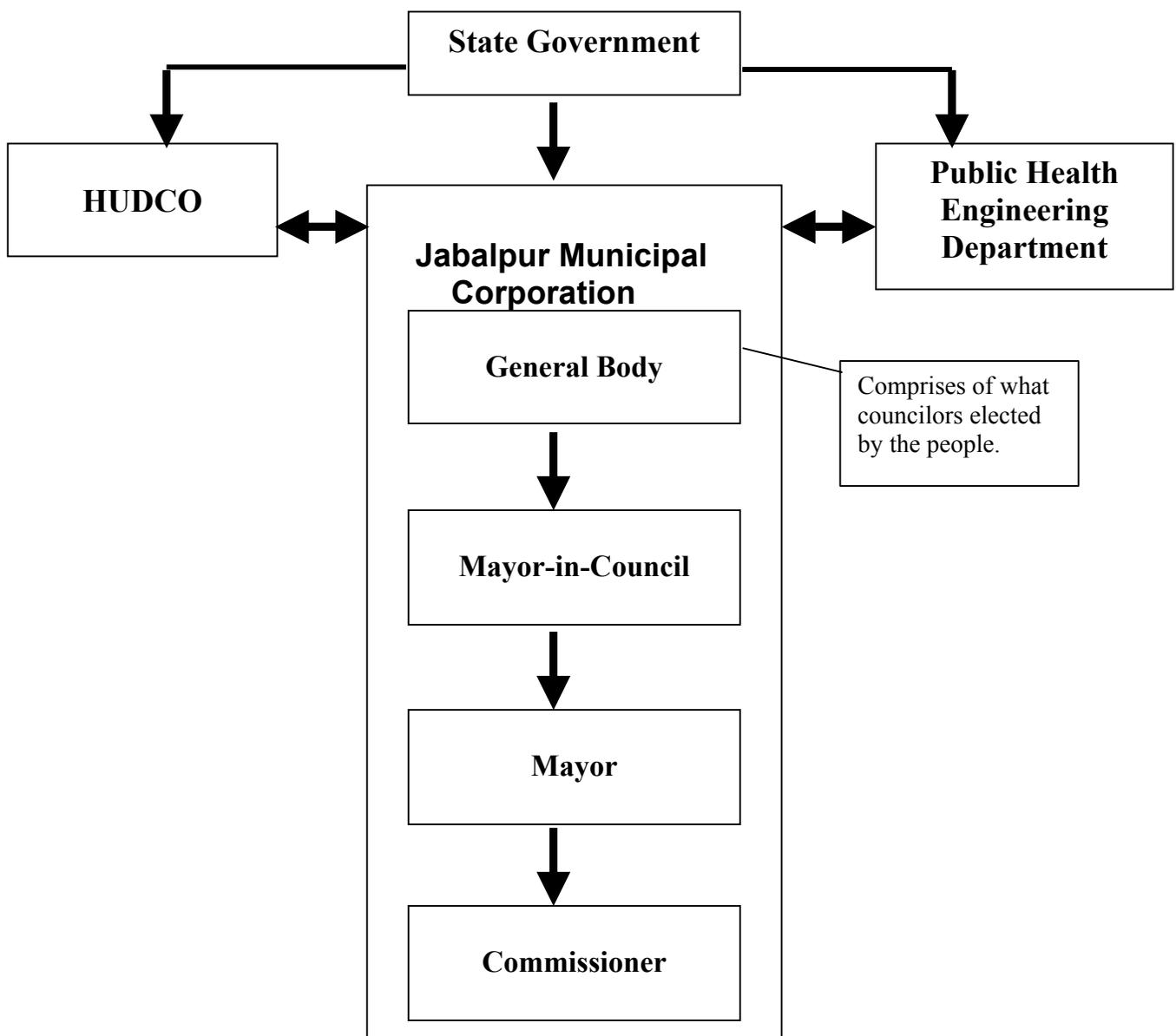
MAIN TEXT

1. Background and Problems

Jabalpur, a city of about 1.2 million people, is situated in an area well provided with water resources, being fed by two reservoirs, Khandari and Pariyat, the rivers Gaur and Narmada as well as a number of hand pumps/tubewells. The Jabalpur Municipal Corporation (JMC) manages the drinking water supply and the current water available from all sources is about 28 MGD. Out of this 4 MGD is supplied to bulk consumers including various manufacturing units. Thus the remaining 24 MGD works out to a supply of 20 gallons per day per capita, which is well below the per capita standards for the country. This is due to expanding population but lack of commensurate increase of water supply. The two reservoirs as well as the Gaur river cannot be exploited any further, so that the only potential source of water supply is the river Narmada, which is fortunately located quite close to the city so that minimal pumping is required to get the water to the city. It may be added that overexploitation of groundwater resources has led to rapid fall in groundwater levels, and now the needs of substantial parts of the city have to be met by water tankers. During summers the number of tanker trips increases to around 250-300 trips per day.

The JMC general body had so far paid little serious attention to this growing problem, apart from making pious noises and passing ineffectual resolutions. Maintenance of water supply at adequate level requires JMC to be financially self-reliant. But the collection of water charges is much less than the expenditure. There is considerable deficit because billing is not related to the water consumption but is on a fixed rate depending on the diameter of water connection pipes. Deciding the water charges payable by various users falls under the domain of the JMC's general body. However the elected body has never had the courage of increasing the water charges to any reasonable levels due to apprehension that people may not approve the move, which may cause backlash effect on their vote bank. The previous increase in water charges was forced on the municipalities by the State government through a notification in the financial year 1997-98 which was applicable to all municipalities whereby the minimum water charge per connection was fixed at Rs 60/- per month for the big cities. On the basis of the government's directions the JMC fixed the rates at the minimum specified. In 2000-2001, the annual water dues demand of the corporation stood at Rs 80 million (US\$ 1.77million), annual collection at Rs. 56 million (US\$ 1.24 million) while the expenditure on operation & maintenance of the water supply system was Rs. 130 million (US\$ 2.9 million). The unmetered supply connection and large number of stand posts for free water supply as well as large a number of illegal connections were the main cause of less collection of water charges. There was lack of dedication among the JMC staff for the recovery of dues as well. Thus the municipal corporation was in a huge deficit position on this front and there was a need to increase the water charges and to improve the collection efficiency to bridge the gap. However this had not been attempted in the last 3 years. In April 2000, the State Government took a decision that water rates be fixed by the Municipal Corporation themselves and issued orders annulling the 1997 notification. However the rates were kept unchanged by the JMC. Despite the deficit on the water supply head, the JMC had to maintain water supply mainly by diverting collection under other heads like property tax, combined tax for fire, sanitation and street lighting services as well as from grants received from the government for the maintenance of Narmada water supply scheme.

A capital works scheme called Narmada Phase III which would augment the water supply to the city by 50% was under execution by a division of the Public Health Engineering Department (PHED) department of the State government responsible for potable water supply to the urban and rural areas for the last 10 years but progress was tardy due to paucity of continuous funds from the State govt. The scheme involved laying of raw water rising main (600m), clear water pumping main (8.6Km), construction of overhead tanks and service reservoirs, water treatment plants, raw water turbine pumps, construction of workshop, provision of vehicles etc for augmentation of water supply. Due to interrupted release of the fund from the government, only part of the work had been completed by 2000. For the completion of remaining works, a sum of Rs.130 million was required.



Linkages among the state government, Jabalpur Municipal Corporation (JMC), Public Health Engineering Department (implementing agency for Narmada Phase-III augmentation scheme) and HUDCO, the financial institution.

2. Description & Actions Taken

The newly elected ward councillors and for the first time a directly elected mayor from all the city wards assumed office in January 2000. One of the election manifestos of the mayor was increasing the per capita water supply to the city. The JMC general body decided to provide the Rs 130 million (US\$ 2.9 million) needed for completion of the works which would increase the city supply by 12 MGD thereby increasing the per capita supply by 50%. It passed a resolution in February 2000 to approach the Housing and Urban Development Corporation (HUDCO), a Govt. of India undertaking, for a loan of Rs. 96 million and the State Government for the remaining Rs. 34 million as its share. The resolution contained no details about how repayment would be done. However after passing of the resolution no progress was made and the project proposal was not even submitted to HUDCO, due to

the apathy of the concerned officers. In May 2000, the State Government gave the JMC the choice of deciding the agency for implementation of the project. After considerable delay, the PHED was authorized by the JMC in November 2000 to continue with the implementation. Execution was very slow for most of 2000 - 2001 in the absence of funds as well as the uncertainty of the continuance of the PHED as the implementing agency.

A new Municipal Commissioner joined in January 2001 and the mayor immediately requested him to take up the matter on top priority. The project report was prepared & submitted to HUDCO for approval in February 2001. On appraisal of the report, HUDCO asked the state government for its guarantee for repayment as well as a resolution from the JMC showing their willingness to increase water charges and the basis of repayment of the loan. On the account of the good terms of the state political leadership with the Mayor, the state government disbursed its share of 34 million in March 2001. After satisfying all the technical queries, the proposal after routing through HUDCO's zonal office finally was submitted to HUDCO's head office in May 2001.

The state government in April 2001 wrote to the JMC asking for a clear cut resolution elucidating the increases proposed to be made in the rates and how the installments would be repaid. The JMC Commissioner proposed increases in water charges for the financial year 2001-2, a period of 4 years since the last increase had been made, to bring it to realistic levels. He proposed increase in rates of commercial / industrial use to the extent of 50% in 2001-2 and 100% in 2002-3. For residential use he proposed no increases in 2001-2 and for 2002-3 a 50% increase. It was also proposed to end the practice of maintenance of public stand posts by the JMC by handing over 5000 out of 15000 public stand posts to a water panchayat (a body comprising of a group of citizens of that area) in 2001-2 with the remaining 10,000 to be handed over in 2002-3. The water panchayats would pay the corporation at the rate of Rs. 30 per month instead of zero payment as of the present. The security deposit for new water connection would be doubled from Rs 750/- to Rs. 1500/-, while the rates for regularization of illegal connection was proposed to be increased from Rs. 3076/- to Rs. 3700/-. This would lead to annual water dues demand reaching Rs. 140 million (US\$ 3.1 million) and Rs 185 million (US\$ 4.1 million) in 2001 -2 and 2002 -3 respectively.

In the working of municipal corporation, the Commissioner as the Chief Executive officer of the corporation submits his proposal regarding any policy matter to the Mayor in Council (MIC). The MIC is chaired by the mayor with ten out of the elected councilors nominated by him as the members of the MIC. The MIC may modify or straightway recommend the proposal of the Commissioner to the General Body for final decision. The General Body of the Jabalpur Municipal Corporation (JMC) consists of all the mayor, 60 councilors, the 4 members of the legislative assembly (MLAs) of the state pertaining to the city and the Jabalpur member of parliament (MP) which can modify, remand or reject any proposal of the MIC. In JMC the mayor and 16 councillors belonged to the party which was in power in the state while 38 councillors belonged to the main opposition party in the state. Thus the MIC and General Body were controlled by different parties and often the general body would not agree with the proposals of the MIC. In this case the proposal of the Commissioner was modified by the MIC in June 2001, which proposed a 50% increase in the rate of commercial/ industrial use but no increase in rates for residential use for 2001-2. The MIC did not take any decision on the rates for 2002-3 on account of possible political repercussion. It agreed to the doubling of the security deposit for new water connection, increasing the rates for regularizing illegal connection as well as handing over of the public stand posts to the local water panchayat as proposed by the Commissioner. The MIC also come up with a populist proposal called Golden Jubilee water supply scheme to give water connection at reduced rates of Rs 300 (US\$ 0.66) security deposit and Rs. 30 (US\$ 0.33) per month charges to the registered slum dwellers. As per the MIC's calculation the proposals would increase the water dues demand from Rs 80 million (US\$ 1.77 million) to Rs. 150 million (US\$ 3.3 million). The Commissioner realising the difficulties in getting the proposal passed advised the mayor to have discussions with the leader of the opposition before presenting the above proposal to the General Body. However his advice was not heeded and the proposal was placed before the General Body without any discussion with the opposition.

The MIC's proposal was discussed in the General Body in July 2001 which rejected the proposal for doubling the security deposit for new water connection and modified the proposal of regularisation of illegal water connection to the same rates as that of new water connection plus two years water charges amounting to Rs 2800/- (US\$ 62.2) thus reducing it even from the present levels. The General Body also further reduced the rates for Golden Jubilee Water Supply Scheme to a security deposit of Rs 100/ and Rs 10/- per month charges and amended the increase in rates of commercial / industrial use to 25 % without making any increases in the water rates for residential use. The Mayor vociferously pleaded to the General Body to pass the MIC's proposals without modification since he was aware that there would be difficulty in obtaining both the state government guarantee as well as HUDCO's sanction of the loan because the above decision of the General Body would reflect lack of sufficient willingness to increase water charges by the JMC. However this was to no avail since the whole matter had changed in to a battle of political one-upmanship with the opposition trying to project that they were with the common masses and were

preventing unnecessary increases in water charges proposed by MIC. The General Body's proposals were put to vote and were passed by the majority.

Subsequently the Mayor wrote to the State Government in August 2001 to use their extraordinary powers to quash the resolution of the General Body as being against public interest thereby deeming the MIC resolution as passed. Since, as stated previously, fixing of water charges had been completely devolved to the local bodies, the State Government did not want to interfere in the jurisdiction area of JMC and instead wrote to the JMC in October 2001 asking it to reconsider its decision and pass the MIC's proposal as it was in public interest for securing the loan from HUDCO.

The matter was placed before the General Body in November 2001 for reconsideration. Learning from previous experience, this time the Mayor had discussions with opposition councillors prior to the General Body meeting and a negotiated settlement was arrived at beforehand and formally passed in the General Body. It was agreed to increase the rates for water charges for industrial/ commercial users by 50% with no increases for residential consumers. Everything else remained as per the earlier resolution of the General Body. The JMC hoped that this would show adequate willingness to increase charges for obtaining the State Guarantee and HUDCO loan. The HUDCO agreed to sign the loan agreement in October 2002 with the Municipal Corporation conditionally on the corporation securing the state government guarantee. The state government on pursuance by the Mayor gave the guarantee in January 2003.

3. Outcomes

HUDCO has started making disbursements of Rs.30.6 Million in October 2003 and Rs.54.40 Million (US\$ 1.20 million) in July 2004. The project is nearing completion now. So far out of Rs.130 million (US\$ 2.88 million), the expenditure incurred amounts to Rs.126 million (US\$ 2.8 million). The remaining will be utilized very soon (for the construction of an overhead tank). The PHED division as per specifications has executed the remaining works without any major cost escalation despite delay in project completion. However, water charges have not been increased in 2002-03 and 2003-04.

The Narmada Phase-III scheme on completion will cause augmentation of water supply from 20 gallons per capita per day to 30 gallons per capita per day. The JMC has the staff for maintenance of the existing as well as the augmentation scheme. There will be no need for increase of man power but capacity building of the technical staff as well as improvement in collection of water charges are required, otherwise the deficit would increase due to the running of the augmented facility.

4. Lessons learned & Replicability

- In unmetered water supply scenario across the board subsidy of water charges benefits the richer consumers more than others since they have more availability of water due to more storage capacity on the same monthly fixed charge per connection.
- Elected bodies lack the willingness to increase charges since they are afraid of backlash affect of the decision on their vote bank. The public is willing to pay provided reasonable services are made available to them and reasons for the water charges increases explained to them.
- The state government did not insist on economically sustainable water charges while issuing the state government guarantee. Thus a fully competent local body did not have to take a decision which could have marked a beginning towards financial self sustainability.

5. Contacts

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