

## **ADB Kerala urban loan conditionalities: Fact or Fiction? 16 December 2006**

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On December 9, 2006 Inderjit Singh, Kerala's Resident Commissioner in New Delhi and Tadashi Kondo, India Country Director of the Asian Development Bank (ADB) inked an agreement sanctioning a loan of \$221.2 million (Rupees 995 crores<sup>2</sup>) for the Kerala Sustainable Urban Development Project (KSUDP)

The total cost of the KSUDP is \$ 316.1 million (Rupees 1422 crores). The Government of Kerala will contribute \$ 59.8 million (Rupees 269 crores) and 5 municipal corporations, (Kochi, Kollam, Kozhikode, Thiruvananthapuram and Thrissur) where much of the money will be spent, will contribute \$ 35.1 million (158 crores).

The loan document mentions that the money will be used in 4 areas<sup>3</sup>

1. Urban infrastructure and services improvement which includes a) urban water supply b) sewerage and sanitation c) urban drainage d) solid waste management e) roads and transportation
2. Target poor communities through basic infrastructure and services improvements and livelihood enhancement
3. Provide Urban local bodies with technical assistance for urban infrastructure sub projects
4. Capacity building activities to facilitate the sustainability of activities mentioned in point 1. Project management activities such as consultancies and support of the Project Management Unit at Thiruvananthapuram and Project Implementation Units at the city level will be covered as well,

The estimated completion date of the project is December 2011.

This paper is a preliminary analysis of only the loan agreement downloaded from the ADB's website ([www.adb.org](http://www.adb.org))

Project Number 32300. November 2005

Proposed Loan India: Kerala Sustainable Urban Development Project.

Asian Development Bank

An examination of the loan document shows that the ADB has put forth several conditionalities that the Government of Kerala and the 5 municipal corporations will have to comply with to avail the loan amount.

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<sup>2</sup> At 45 Rupees to 1 US dollar

<sup>3</sup> ADB. (2005). 'Proposed loan India: Kerala Sustainable Urban Development Project'. November. Pg. 5

Relevant sections of the loan document are reproduced verbatim in italics and comments are given below.

### **1. Facilitating privatisation:**

*‘There has been limited private sector participation in urban service delivery in Kerala...  
..... The strategy for private sector participation in the delivery of urban services requires a multifaceted approach involving (i) an enabling regulatory framework; (ii) technical and managerial skills within municipal corporations to formulate and manage private operations; (iii) transparent prequalification, tendering, and contracting processes; and (iv) implementation of charges and fees at reasonable levels. The capacity building component will explore the scope for private sector participation in O&M (Operation and Maintenance) activities in the short term. It is envisaged that there will be private sector participation in the solid waste-composting component<sup>4</sup>.*

*‘the Kerala Water Authority (KWA) continues to own the water supply system assets and does most of the maintenance on the water systems in Kerala. GoK has yet to clearly define the role of KWA or the responsible authority for water supply<sup>5</sup>’*

*‘By midterm review of the Project, Government of Kerala (GoK) will develop a road map on the role of KWA (Kerala Water Authority) and relevant statutory authorities/ULBs for water supply in the area covered by the Project to ensure empowering these with related services and cost recovery in accordance with the Kerala Municipalities Act 1994 and Decentralization of Powers Act, 2000<sup>6</sup>’.*

**This is a clear indication of the push for privatisation. The ADB conditionality is that by the mid term review the state government ‘will’ have to redefine the role of the KWA into ‘an enabling regulatory framework’ to facilitate private sector participation. The role of the KWA as a public institution will be undermined and will be focussed on deregulation in favour of private sector players. The push for deregulation in sectors such as water defies logic – as it is clear that the existing regulatory mechanisms are inadequate to handle private sector actors – especially in water delivery. This project is also likely to absorb the existing KWA facilities to meet its objectives. Who has the final say on these entities is not clear from the loan document.**

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<sup>4</sup> Ibid. Paragraph 61. Page 13

<sup>5</sup> Ibid. Paragraph 15. Page 3.

<sup>6</sup> Ibid Paragraph 82. Page 18

## 2. Undermining democracy:

*'GoK will allocate, and ensure that municipal corporations allocate counterpart funds from their annual budget in order to meet the counterpart funding requirements of the Project. GoK will also ensure that each municipal corporation will make available all necessary land, staffing and facilities as required for timely completion of subprojects<sup>7</sup>'*

*'GoK will ensure that all the municipal corporations pass a resolution by March 2008 to introduce service tax and/or other revenue mobilization measures in each municipal corporation to meet shortfall of revenues needed to fund O&M of the expanded water supply<sup>8</sup>'*

**After the agreement is inked, the ADB makes it clear that the Government of Kerala and the municipal corporations have to fall in line. This is a direct attack on democracy and undermines the ability of local governments to prioritise their annual budgets and revenue mobilisation according to their specific political and developmental objectives.**

## 3. Mandatory increase in tariffs and conversion of public standposts

*'GoK will ensure that all the municipal corporations will prepare and implement a financial improvement action plan to (a) introduce a sewerage charge, (b) introduce a solid waste management charge, and (c) improve collection efficiency, by no later than 1 year after related subproject completion<sup>9</sup>'*

*'the tariff will be increased twice during the project implementation period to a level which is sufficient to cover the O&M costs of new and existing infrastructure...'<sup>10</sup>*

*'the impact of the new user charges on people living below the poverty line varies from one municipal corporation to another, and the charges represent from 2% to 7% of their household incomes. However, the figures are only for analytical purposes and do not reflect reality. Those below poverty line are likely to rely on street taps for the day-to-day source of water, which are, and will continue to be in a scaled down version, provided free to the public. Without any expenditure for water, the expenditure of the poor on improved urban services is less than 5% of household income...'*

*'By not later than March 2007, GoK will formulate a policy on conversion of standposts to individual metered house service connections and/or metering standposts, for the purpose of efficient demand side management and reduction of*

<sup>7</sup> Ibid Paragraph 82. Page 18.

<sup>8</sup> Ibid. Paragraph 82. Page 19.

<sup>9</sup> Ibid

<sup>10</sup> Ibid. Appendix 12. Page 54.

### *Non Revenue Water'*

**These paragraphs clearly indicate that a central conditionality for the ADB loan is an increase in tariffs and taxes as well as the introduction of new charges. The problem here is not so much with the tariff increase but that it will be determined not through a democratic process within the respective municipalities but by the mandatory need for municipalities to find ways to recover the high costs of the ADB loan.**

**An additional problem is that as far as increased water charges are concerned there is no exemption even for people living below the poverty line (BPL). The loan also stipulates that Public standposts, which the ADB terms as Non Revenue Water, will be converted to metered connections and their numbers scaled down. This will have damaging effects on access for the poor.**

#### **4. High cost consultancy and procurement components**

*'An international consulting firm will be the Project Management Consultant....'*

*'Two domestic consulting firms will be engaged as design and supervision consultants (DSCs)'*

*'Goods, works, and services financed by ADB will be procured in accordance with ADB's Guidelines for Procurement'*

*'To the extent possible, goods to be procured will be grouped into packages larger than \$1 million to be suitable for international competitive bidding (ICB) procedures'*

*Civil works contracts over \$10 million will be procured through ICB. Given the nature of the works, civil works contracts costing \$10 million or less will be procured through local competitive bidding (LCB) procedures.*

**Expensive consultancies and procurement procedures are a fait accompli with all ADB projects. The state government will have to ensure that all consultants in the project will be selected in accordance with the ADBs '*Guidelines for Use of Consultants*'. The detailed cost estimates as available from the loan document indicate that \$ 10.2 million<sup>11</sup> (Rupees 46 crores) will be spent on a few consultancy firms who will script much of urban policy in the 5 municipalities. This begs the question of the role of bureaucrats in the State Urban Department who are expected and paid to write and implement urban policy.**

**Added to this several hundreds of crores will be spent on equipment, materials, furniture, vehicles, trainings, workshops, studies and research.**

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<sup>11</sup> Ibid. Appendix 5.

## **5. ADB as the knowledge provider on Kerala's urban woes and solutions**

*'According to an assessment of urban services provision in Kerala, the total urban capital investment requirement is \$840 million (Rupees 3780 crores) in the medium term and \$1.2 billion (Rupees 5400 crores) in the long term..... A financial assessment of sample ULBs showed that the average debt-servicing ratio is only 5.3%. The results indicate that there is a considerable scope for ULBs to explore nonbudgetary financing sources to enable them to meet urban capital investment requirements...<sup>12</sup>'*

*'The strategy for private sector participation in the delivery of urban services requires a multifaceted approach involving .....technical and managerial skills within municipal corporations to formulate and manage private operations.....<sup>13</sup>'*

**Much of the analysis quoted to legitimize its projections on investment, need for cost recovery, feasibility of tariff hikes, need for private participation is based on the ADB's own studies and surveys. Like its partner institution the World Bank, the ADB also intends to produce its own brand of knowledge to justify its urban development approach. By excessive reliance on the ADB, the state government and the urban department are not only undermining their roles but also subverting people's access to essential services. Independent generation of knowledge on the urban sector will be the casualty here. The ADB will over this project period forge partnerships with local institutions in influencing analytical work and disseminating knowledge – such activities will manufacture domestic consent for its vision.**

## **6. Conclusion:**

**This is a preliminary analysis of only one of many documents that encompass this far-reaching project.**

**The Government of Kerala should immediately make available both in Malayalam and English all relevant documents (including annexures) related to the KSUDP. It should undertake a detailed assessment of these documents, including all conditionalities demanded for by the ADB.**

**This assessment should be placed before the people of Kerala, the municipal corporations and the legislative assembly and any stand on the loan should be finalized only after due process of debate and consultations.**

**The prudent policy option before the Government is to annul the hurried signing of the loan agreement. Kerala's urban centers need democratic reform, not commercialization dictated by the ADB.**

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<sup>12</sup> Ibid Paragraph 17. Page 3

<sup>13</sup> Op cit. footnote 3.