

## **Institutional Reform of Kathmandu Valley Water Supply & Sanitation Service**

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### **1. Background**

Long time commitments and step-by-step improvements will give successful water management services. It is necessary to mention policies developed by GON for water supply and sanitation sector. In Ninth and Tenth Five Year Plan (1997), HMGN has set the policy of involvement of local governments and private sectors in development of water supply and sanitation, and invited expression of interest in 1999 for lease contract of Kathmandu Valley water supply services to private sector. The government has approved concept of formation of Kathmandu Valley Water supply Authority in 2000, and set strategy policy for operation of water supply services by private sector. The government has invited expression of interest second time again in 2001, for lease contract of Kathmandu Valley Water supply services to private sector. Government has approved policy of management contract of Kathmandu Valley water supply and sewerage operation to the private operator. In 2003, ADB has agreed for institutional reform and management contract of operation and agreement of 15 millions US \$ has been made between ADB and GON. The government has formed Kathmandu Upatyaka Khanepani Limited (KUKL) as water utility operator under operating license issued by Kathmandu Valley Water Supply Management Board (KVWSMB) and asset lease agreement between them. Following the reform process the government has invited expression of interest for management contract and approved format of Request for Proposal (RFP) in 2004. Due to insurgency problem and political instability, the dead line for submission of REP was extended up to four times and lastly received only one REP from STWI on 5<sup>th</sup> December 2005. After evaluation, ADB has given no objection on Technical Evaluation Report submitted by the Ministry of Physical Planning and Works on August, 2006. The government approved for contract agreement with STWI. After change in political condition, the Ministry did not issue letter of award to STWI and the Ministry submitted proposal of reconsideration for management contract on May 2007.

### **2. Institutional Reforms**

Nepal Water Supply Corporation (NWSC) is a fully government owned cooperation responsible for planning, and investing, operation and managing the water utilities, regulation and monitoring for the valley in addition to other municipalities of the country. The NWSC has been facing the challenges over the years of acute shortage of water supply and sanitation in the Kathmandu Valley. Being capital of the country, and centre of all social-economic and political activities of the nation, the government is serious to alleviate the shortage. Water has become a serious problem for the people of the valley both in terms of quantity and quality. The Centre Bureau of Statistics study (2005) carried out in Kathmandu shows that 59% of the surveyed households do not have adequate water supply from the piped water line and on average, water is available only four days a week. Similarly in the case of wastewater treatment system in Kathmandu valley, most of the wastewater plants and equipment are either out of operation or are only partially operational. Big demand of good services in water and sanitation is found everywhere in the valley. Demand driven management seems attainable than supply driven.

It is estimated that at present the supply satisfying the demand in the valley supplied area is less than 80 percent in wet season and less than 40 percent in dry season. Substantial improvement in the valley water supply both in terms of water quantity and quality is extremely urgent. To overcome the deplorable state of water supply and sanitation situation in the valley, GON has adopted two pronged strategies of *infrastructural development and institutional reform in the water sector* of the valley. The infrastructure improvement aimed to augment the supply both in terms of quantity and quality includes diversion of 170 MLD water from Melamchi River through 27 Km tunnel, provision of treatment facilities, strengthening of distribution network by reduction in leakage and provision of equitable water distribution and expanding the distribution network laying new primary and secondary pipelines. The institutional reform aimed to establish a mechanism for representation of municipalities & the public at a policy level, to protect the operating company from political interference in management and operational decisions, to implement an efficient set of tariffs based on the principle of cost recovery, to run operating company in a professional and commercial way, to introduce PSP modality to manage service delivery of operating company, and to develop the capacity to implement improvement programs and Maximize benefits of Melamchi Water Supply Project.

The proposed institutional framework for the provision of water supply and sanitation facilities in the Kathmandu Valley has objectives: (a) to make it independent of NWSC and (b) to separate three basic functions namely

ownership (planning and investment), operation and regulation (fixing tariff) as shown in Fig. 1. Thus three entities are formed for Kathmandu Valley water supply and sanitation sector namely Kathmandu Valley Water Supply Management Board (KVWSMB), Kathmandu Upatyaka Khanepani Limited (KUKL) and Water Supply Tariff Fixation Commission (WSTFC). These are briefly described as follows.

- i Kathmandu Valley Water Supply Management Board (KVWSMB):** The Board has been established under Water Supply Management Board Act, 2063. The Board is a public body responsible for policies and ownership of water service infrastructure. The Board will take over from NWSC the ownership of assets of water supply facilities inside the valley. The Board will be overall responsible for planning the service improvement and investing funds for them, and has financial responsibility for raising funds to finance infrastructure development and service associated debt. It will not be involved in the operation of the services, implementation of the works and fixation of water tariff. The Board is represented by 11 members, from GON, local Government (Kathmandu Metropolis, Lalitpur Sub-Metropolis, Bhaktapur Municipality, Madhyepur Thimi Municipality, Kirtipur Municipality), Federation of Nepal Chamber of Commerce and Industries (FNCCI), one representative from three District Development Committee (DDC) within valley, representative of Consumer Association operating in the valley, representative nominated of Water/Sanitation service related NGOs and expert nominated from Water Supply & Sanitation field. Assets of the Board transferred from NWSC will be given to KUKL on lease accordance with lease agreement between them. The Board will issues license for the operation of water and sanitation services to KUKL and receive license fee, lease payments, government transfers and donor funding. The functions, duties and powers of the KVWSMB are as follows;
- (a) To acquire, construct, extend, improve and rehabilitate or cause to be acquired, constructed, extended, improved and rehabilitated the Service System,
  - (b) To frame the policy relating to use of Service and to execute or cause to be executed such a policy, and to prepare short term and long term plan relating to Service System and execute or cause to execute such a plan,
  - (c) To prevent the misuse of drinking water and protect drinking water from being polluted, and to conduct study, research and survey relating to source of drinking water, distribution of the same and sanitation,
  - (d) To identify the financial sources required for extension and development of Service and receive the same, and to ascertain the financing required for the operation of Service and prepare a plan thereof and to arrange or cause to make arrangement for financial resource,
  - (e) To arrange to get the Tariff rate for provision of Service be fixed pursuant to the laws in force, and to collect or cause to be collected the Tariffs for the Service to be provided to the consumers, and recommend service charge or tariff if approved charge is to be restructured
  - (f) To make or cause to be made necessary arrangement of monitoring for the effective and qualitative service provided by Service provider as per set performance standard or not. If any grievance is occurred to the consumers while providing Service by the Service Provider, to conduct hearing there for and to give appropriate remedy.
  - (g) To issue a license to the Service Provider for operating the Service or cause to be provided the Service by entering into an Agreement.
  - (h) In order to avail the Service within its Geographical Area by diverting natural water from a source out of its Geographical Area, to enter into an agreement with any person for receiving such water. Provided that while diverting water to its Geographical Area from the sources out of its Geographical Area, it may provide reasonable amount to the local body or users of that area against the water so diverted
  - (i) If it requires to acquire the Service System operated by any Municipality or Service Provider at the time of commencement of this Act, it shall undertake such Service System under its ownership by paying reasonable compensation and shall operate and manage or cause to be operated and managed. It is duty of the Board to monitor and supervise the operation of Service System operated by any governmental agency according to Act and operating condition at the time of transfer of such operating system to the Board.
  - (j) Except as otherwise provided for in other laws in force, to regulate, to get approval of necessary strategy plan for groundwater use from GON and control or prohibit the abstraction and use of groundwater within its Geographical Area as prescribed and to issue a licence for abstraction or use of such water to consumer or Service Provider for use and abstract the groundwater within its geographical area assuring of not occurring negative environmental impact.
  - (k) To prepare annual program and budget of the Board, and to approve human resource structure

- (1) To perform all necessary work to fulfil the aim of the Board, and carry out such other function as required for operation of Service as prescribed.

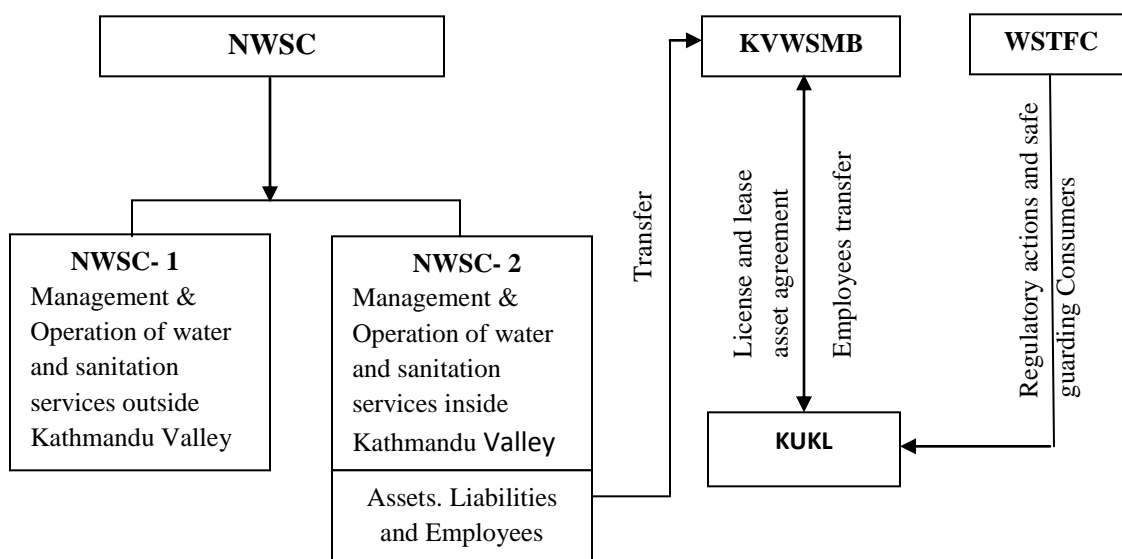


Fig1. Institutional Reform on Water Supply and Sanitation Sector of Kathmandu valley

**ii. Kathmandu Upatyaka Khanepani Limited (KUKL):** This is a public company registered under the Company Act 2063, with objective to undertake and management of the water supply and sanitation system of the valley operated by NWSC and provides quantitative, qualitative and reliable service to the consumer on their full satisfaction at affordable price. KUKL will be responsible for operation and management of water and wastewater services in the Valley. It will operate the water supply and sanitation services under a license and lease agreement with the KVWSMB. KUKL will be responsible for maintenance of all assets received on lease from KVWSMB. The company will issue preference share to KVWSMB against the assets transferred to it and not more than 10% dividend to shareholders if company is able to make profit. The Limited will pay an annual license fee to the Board. The share holders of the company owning with respective initial common shares are GON (30%), Municipalities in the valley (50%) [Kathmandu Metropolis- 30%, Lalitpur Sub-Metropolis- 10%, Bhaktapur Kirtipur and Madhyepur Thimi – 10%], private sector organization (15%) [ FNCCI- 3%, Laitpur Chamber of Commerce - 1.5%, Nepal Chamber of Commerce- 9%, Bhaktapur Chamber of Commerce -1.5%], and employee trust to be paid by the government (5%). The KUKL will be managed and supervised by a seven Board of directors. Four directors are nominated by shareholders (one each from GON, Kathmandu Metropolis, Lalitpur Sub-Metropolis and private sector) and three independently appointed. Two of the three independent Board of directors will be selected on competitive basis and one will be nominated by ADB until its loan is paid back. The company will also take over the responsibility of infrastructures built by Melamchi Water Supply Project. The service will be continued to be operated by the NWSC deputed staff initially and staffs unwilling to work with KUKL will be returned back to NWSC or given opportunity of voluntary retirement with additional benefits. The KUKL will be headed initially by three international water utilities experts (General Management Advisor, Operational and Technical Management Advisor, and Financial Management Advisor). The international experts will be assigned three key components- providing start-up support for KUKL (operating structure, business processes, financial management and administration), managing the ongoing operations (including prudent use of pilot investment funds and developing and implementing a capacity development strategy that addresses ownership, knowledge transfer modalities and exit or hand-over plan and indicators.

**iii. Water Supply Tariff Fixation Commission (WSTFC):** A Water Tariff Commission Act has been passed by the parliament and GON has formulated with three members Commission. All the commission members, including the Chief Commissioner are appointed on competitive basis. The function of the Commission is to determine water tariff based on commercial principles and set scientific criteria. It is a independent regulator of tariffs for water supply and wastewater services throughout Nepal. KUKL will be required to submit proposals

for tariff fixation to the Commission together with its documentary evidence of cost and expenditure and the Commission will scrutinize the proposal, make necessary amendments and approve after a thorough public hearing. It will monitor service provided by Service provider to maintain quality It will assist in the resolution of customer complaints by providing an mediator service to which customers can appeal if the procedures of service provider do not yield a satisfactory outcome. The jurisdiction of the Commission is presently for Kathmandu Valley and it will be expanded later to other municipalities. WSTFC will obtain and publish information relating to services provided by the service provider. Fund is available from regulatory fees from service providers and government transfer if needed.

