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**Papua New Guinea
Privatisation Of Water - “Eda Ranu”**

**Case Study Prepared for the
Civil Society Consultation on the
2003 Commonwealth Finance Ministers Meeting**

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Abstract

The main objective of this research project was to document and analyse water privatisation in Papua New Guinea and evaluate whether private provision of such basic essentials is able to successfully deliver the Millennium Development Goals and poverty reduction in Papua New Guinea. There are three sections to this case study. The first describes the process leading up to the privatisation of water in the National Capital District (NCD), the second part presents a report on its impact on the users of water in NCD, and in the third, recommendations are made for the future with respect to privatisation of basic essentials.

The government's first move towards the privatisation of basic essentials was the privatisation of water in the National Capital District (NCD) in the city of Port Moresby. 'Eda Ranu,' or 'Our Water,' is a privately owned water company operated by *JC-KRTA*, a Malaysian company, and the government-owned company called Water and Sewage Pty Ltd. These two companies trade under the name Eda Ranu. The National Capital District Commission (NCDC) found itself stripped of its traditional responsibility of managing NCD water and sewerage.

This study revealed startling accounts of bribery and corruption in the initial process leading up to the final awarding of the contract to *JC-KRTA* by a few politicians. The awarding of the contract was dubious, raising serious questions about: how much money was actually brought into the country to support the arrangement; the qualification of so-called 'experts' within *JC-KRTA* in operating water and sewerage projects; and the 22-year commitment to *JC-KRTA* built into the contract.

In implementing water rates, the classification of water users using the user-pay policy is questionable considering:

- that some sectors of the community do not pay for water,
- the lack of water accessibility in some parts of the city,
- low water pressure,
- that the water quality is highly questionable,
- that land-owners are denied access to their water,
- that overcharging and lack of proper records of water users and their movements, and wrong classification leading to overcharging create an environment that threatens people's very survival whenever water is cut for non-payment.

Given the high inflation rate in Papua New Guinea, consumers of water increasingly do not have the buying power to enable them to pay their water bill. Revealing these weaknesses raises serious doubts about the push for privatisation and the argument that it will improve efficiency, transparency, quality of service, and accessibility to these services.

The recommendation to Finance Ministers is to terminate any move towards privatising basic essentials and to seek alternative means of generating much needed funds for the country. Denying poor people basic services is not only illegal but violates every human rights law and threatens the spirit of democracy.

Introduction

Papua New Guinea

Melanesian people have a close and intimate relationship with their land. Nearly 80 per cent of the people still live in villages as subsistence farmers. Economic development is highly urban. There is no such thing as social security or unemployment benefits: most Papua New Guineans turn to their traditional land in times of economic hardship.

In Papua New Guinea, like in all Third World countries forced into a market-driven economy with overtones of neo-liberal agendas, the pyramid structure of development where a few at the top control the resources, has pushed the masses to the periphery. Recent policies pertaining to foreign aid, the structural adjustment programme (SAP), privatisation and land mobilisation are predominantly foreign-driven and supported by the few emerging 'modern' elites, namely politicians and top bureaucrats often acting on the advice of foreign consultants. There we witness high levels of corruption of diverse nature gaining roots and even having a ripple effect on ordinary citizens.

In Papua New Guinea, acting on the advice of the World Bank and IMF, one of the many conditions of the SAP is for the state to privatise its statutory bodies including basic essential services such as water and electricity. It is hoped that by taking these services away from the state, there will be greater accountability to clients and the performance of these services will improve. At the same time, these new infrastructure developments are geared towards generating profit to meet the country's 10 billion Kina debt repayment owed to foreign banks and their governments. Further complicating this economic hardship for the country is the devaluation and floating of the Kina; costs of goods and services have risen; unemployment is on the increase with downsizing of the public service and even the private sectors; there is serious concern in the nation about the level of corruption among our leaders. Inflation has soared over the last couple of years so that the majority of people are seriously affected. Economic hardship is now affecting the middle class and many paid workers are opting to live in squatter settlements where one is not required to pay rent and water bills and where one can grow one's own food. There are an increasing number of people forced into criminal activities and prostitution to simply survive.

While the concept of 'civil society' input to development is gaining momentum in the country, it seems, so far, that 'civil society' groups are brought together only after major development agendas and policies have been decided behind closed doors. Nevertheless, this is an opportunity to open up channels of communication between the major global players, our governments and the people who will directly be affected by these policies.

The broad aim of this case study is to explore the process involved in the water privatisation in the National Capital District (NCD) and its impact on consumers, and whether privatising such essential services alleviates poverty by way of making water accessible to consumers.

Hypotheses of the Study

- a) If water, being one of the basic essentials of life, is made easily accessible and at a subsidised rate or provided free, people's general livelihood and well being will improve.
- b) Privatising water discriminates against women and the poor in general who would not be able to access clean water.
- c) Political corruption and injustices perpetuated by the state undermine any effort to promote efficiency and achieve any level of development and in the long run, alleviate poverty.
- d) Adopting a proactive approach to the issue of water will build a peaceful, healthy and sustainable future and enhance the quality of life for all in the NCD and similarly, throughout the country.

Objectives of the Study

The study sought to:

1. Identify the influence of the World Bank/IMF's Structural Adjustment Policy on the state's move to privatise its essential services.
2. Describe the state's role in privatising water in NCD.
3. Establish why the Water Board was not given the responsibility to manage NCD water.
4. Explain why and how 'Eda Ranu' came into being.
5. Describe how the landowners have benefited from their water being privatised -- if they are the traditional owners of water resources in NCD.
6. Analyse the impact of the privatisation of water on the consumers in NCD.
7. Recommend to the Finance Minister of Papua New Guinea that if the country is to implement the Millennium Development Goals, the issue of water is essential to alleviating poverty and therefore it must easily be accessible to the public and especially the poor in both the formal and informal sectors under a more just and fair policy framework.

Methodology

The methods applied to obtaining data for this case study comprised analysing written documents, reports, newspaper reports and policy statements and structured and unstructured interviews with stakeholders covering: key state organisations namely the Water Board, National Capital District Commission (NCDC), Ombudsman Commission (OC), Independent Public Business Corporation (IPBC)¹, individuals involved in the privatisation exercise of the former and present governments, the Independent Consumer & Competition Commission (ICCC), the University of Papua New Guinea as a specific case, Eda Ranu, the consumers (urban planned and unplanned settlements, villagers on the outskirts of the NCD), private and government institutions and consumers in both government and private institutions, and the Koiari 'land-owners'.

¹ IPBC was known in the former government as the Privatisation Commission.

Background

In 1986 the National Water Supply and Sewerage Act was passed to create a central organisation to manage the water and sewerage sector in Papua New Guinea under the name of Water Board (WTB). The Water Board was charged with coordinating and planning the design, construction, management of and charging for water supply and sewerage services throughout the country. The Water Board also checks the quality of water to meet the standards set by the WHO.

Currently, the Water Board manages water in 11 provinces and plans to upgrade water supply for all towns. There are exceptions where a town's water is managed by town authorities.

About 30 per cent of consumers of city water in Port Moresby are the urban poor who have settled mainly on the periphery of the city. Together with these groups are the local villagers living on the outskirts of the city that also access the city's water. A third group of consumers are the 'land-owners' who own 'Sirinumu', the water site where the main dam is constructed, some miles out of Port Moresby city. Landowners do not have direct access to their water. The issues surrounding landowners will be highlighted in the case study.

The Process of Reforming Water Utilities

Since the 80s, Port Moresby has encountered serious water problems with its water supply but no major improvements have been undertaken. Mounting complaints came from the public with respect to the quality and supply of water. The population increase was a major contributing factor putting pressure on the city's water supply. NCDC looked at various options for improving its water and sewerage. Several options were considered: to transfer the responsibility to the Water Board; go for a soft loan; or go into a joint venture or partnership with a private contractor. In the end, the city opted for the Build-Operate-Transfer (BOT) model and engaged JC-KRTA, a Malaysian company.

This BOT required that a private company put in the initial capital, build the system, operate and get the return on their investment. In this case, after a period of 22 years, it was planned that the Malaysian company would have made its money and returned the entire water operations to NCDC.

The BOT concept has been widely accepted in many parts of the world. Generally in a BOT scheme in the water industry, the contractor, after building the structure takes over both the production and the distribution of the water supply. The government usually does not pay anything to the contractor, who recoups his investment by managing the distribution and billing customers.

The contractor guarantees the quality of the water pressure, the reliability and supply, and in return realistic and acceptable tariffs are negotiated.

The Contract Had Many Flaws

One of the senior officers in NCDC who was directly involved in the initial negotiation with JC-KRTA consortium made the following observations:

1. The contract did not have specific details such as what the contract involved - a design of the reconstruction of NCDC water, when the contract would begin and end etc.
2. The contract did not indicate how much money JC-KRTA was to bring in. There was no approval from the Central Bank as evidence of money coming in.
3. The contract saw a lot of liability for NCD. These liabilities included NCDC to be responsible for the small distribution pipes. This meant piping water to the growing squatter settlements around the periphery of NCD while JC-KRTA concentrated more on the main water piping system. The other liability was to take on board compensation demands by landowners. Legal advisors warned the Water Board that to do it would be suicide.
4. Provisions to renegotiate were not reflected in the contract should things go wrong.
5. There was no environmental impact study.

The State Was Adamant to Privatise NCD Water

The state however overturned the position taken by NCDC and the QC regarding the water contract. The government argued that contracts were the way to deal with it and that these services should be privatised. Parliament supported by Bill Skate, the Prime Minister, approved the transfer of water and sewerage functions from NCDC to a newly formed state-owned company called *NCD Water and Sewage Pty Ltd*.

This state-owned company, together with the Malaysian company, would jointly trade under the name “Eda Ranu” or “Our Water”. Eda Ranu then took over all the functions of water and sewerage. Following this decision, contracts of certain NCDC staff were terminated: they had appeared to threaten the interest of the state in this water deal.

What terms, conditions or agreement the two companies operate under together is something NCDC does not have any information on. One thing that is for certain is that the new state-owned company will be obliged by law to make substantial cash payments to JC-KRTA for the next 22 years.

Recently, Eda Ranu asked if NCDC could provide water to the squatter settlements. NCDC refused, arguing that all responsibilities with respect to supplying water are now Eda Ranu’s. What concerns NCDC, as the office responsible for the city dwellers said, is that it feels disempowered to serve the needs of its population given the high water rates.

Politics of the Reform

The Report by the Ombudsman Commission (OC)

The Ombudsman Commission (OC) was tasked to conduct an investigation into alleged corruption in the privatisation of NCD water and sewerage. The OC investigation revealed in a damning report high-level corruption involving top politicians prior to the contract being awarded to JC-KRTA consortium.

The Ombudsman revealed that the discussions for the Port Moresby Water Supply project began in March 1994. The discussions took place with a company known as FC & Associates Pty Ltd. The Chairman of that company was Mr. F. Cheah. Mr. Cheah is one of the principals of JC-KRTA, which was eventually awarded the contract.

Mr. Cheah sent a letter to the then NCDC Regional member, giving him greater detail of the proposal he was envisaging. It said that their consortium had “appropriate experience in the privatisation, private operation and private financing of water”, that the consortium could provide in a year, “a quick and low cost solution to increase the immediate water supply”, and that “concurrently major capital works will be carried out to solve the long term needs and within a period of two and a half years from the start, the demand can be met”.

In 1994, the Deputy City Engineer for NCDC, Mr. B.M. Karunaratne, made a number of comments about the manner in which FC & Associates was being perceived:

- a. FC & Associates had no experience of handling a project of this magnitude.
- b. BOT is based on a complicated risk-sharing structure and NCDC has no experience of handling this type of contracts.
- c. The charter of NCDC is contrary to the objectives of BOT-type contracts.
- d. A commercial water-tariff structure, as is inevitable in BOT-type contracts, will not be affordable to the majority of city residents who are either in the middle class or low-income group.
- e. NCDC should realise that the contractor will want to cover its costs. Costs are subject to adjustment factors like consumer price index increases, fuel price increases, exchange rate variations, water treatment chemical price increases and any other price and rate increases. The other risks to which the commission would be exposed are legal incompatibility, loss of asset ownership, criticism, frustration and loss of faith of the residents and loss of revenue. The commission must carefully evaluate the costs associated with these risks and the strategy to mitigate or eliminate them.
- f. Finally, he suggested that the Commission drop the FC & Associate proposal. The project should be advertised worldwide to find a better deal.

The key political players had set their minds to engage JC-KRTA and nothing would deter them from it. It appears that in all these deliberations, NCD failed miserably to take adequate steps to subject the JC-KRTA proposal to objective scrutiny, prior to making the decision on 18 August 1994 to award the water project to that company.

During the negotiations there was evidence of transactions of large amounts of money between individuals in the government camp and JC-KRTA. The Ombudsman report also revealed that JC-KRTA is a family company and has links to the Golden Bowls Restaurant in Port Moresby.

Although it was claimed that directors and associate consultants had considerable experience, JC-KRTA had no experience in the design, financing, construction or management of water supply projects or any type of BOT projects. In fact JC-KRTA was incorporated as a shelf company in 1986. It remained dormant until the BOT was lodged, via FC & Associates Pty, Ltd in July 1994.

The Water Board's Protest against the Privatisation of Water in NCD

The Water Board openly protested to the state and the media, arguing how the government that had created the Water Board was indirectly telling them that they were incapable of managing the country's water. The Water Board warned that what the government was doing was illegal.

However, much to the dismay of the Water Board, NCDC, the city water consumers and even the people of Papua New Guinea, the government went ahead. The move to privatise water would undoubtedly cost the nation billions of Kina under the BOT arrangement.

Will the JC-KRTA Proposal Solve the Water Problem?

The so-called "BOT" proposal by JC-KRTA falls well short of the features of a BOT model. First and foremost, it only takes care of the supply side and not the distribution system. Therefore JC-KRTA is not responsible for leaks, illegal connections, lack of pressure, constant water shortages in any part of Port Moresby. Moreover, any such defects will not affect the income of the company since under the agreement the government is required to buy water in bulk immediately at the outlet of the treatment plant. *Even if all the water leaks to the ground before reaching a single consumer, the revenue of the Malaysian company is not reduced.*

Only a concession system including *both production and distribution* would be adequate to resolve the current water supply problems in Port Moresby.

The present NCDC administration realised the disastrous implications of this agreement. The former Prime Minister, Bill Skate, also stated that the agreement was "unenforceable".

On 31 May 1996, an announcement was made that the government had decided to transfer the NCDC's water supply and sewerage function to a newly created 100 per cent state-owned company, effectively duplicating the functions of the existing Water Board. The continued involvement of JC-KRTA in this transfer is not justifiable. What are the credentials of JC-KRTA and the newly created state-owned company to solve the water problem in Port Moresby? Whilst one would expect the Water Board to be the authority, the decision to create a new company to work in partnership with a foreign company implied that suspicious deals were being done for the purpose of profit making.

Issues with the BOT

Issues Highlighted by the Water Board

A number of issues were highlighted by the Water Board:

1. The Malaysian BOT proposal proposes to increase the tariffs in Port Moresby, initially by nearly 100 per cent according to a commercial formula which is heavily weighted in JC-KRTA's favour: what they would have put in to build, operate and transfer would be minimal compared to the profit they would be making. For instance, there was no evidence of hard cash being brought into the country. Instead, JC-KRTA was to obtain credit from a Malaysian bank located in Port Moresby. Secondly, JC-KRTA did not have to build because NCDC and the Water Board had already built the major infrastructure. Thirdly, 22 years of operation is a dubious figure because the company could make its profit by the end of 10 years. Even after 22 years, JC-KRTA could say they had not yet made a profit and seek additional years to continue operating.
2. The government's actions contravene several points of the Loan Agreement between the Water Board, the state and ADB which provided the K25 million to upgrade Madang & Rabaul/Kokopo's water systems and it is likely that the Water Board will have to default on that agreement and cease work on those projects.
3. This of course means that the Water Board will not provide Kerema, Lorengau, Namatanai, Vanimo, Mendi and Wabag with modern water supply and sewerage systems in the foreseeable future.
4. Commercial development is already stifled in those Papua New Guinea towns not served by the Water Board due to the lack of water supply facilities.

5. Unfortunately due to the government's decision not to allow the Water Board to integrate into the national water supply & sewerage system, not only will the water tariffs skyrocket in Port Moresby, but will also need to be considerably increased in all the Water Board-serviced provincial centres.
6. An even greater regret is that it is likely that the Water Board will have to withdraw from those unviable provincial centres which the World Bank had heavily subsidised to date, such as Kundiawa, Popondetta, Kerema & Daru.

The Water Board finds it difficult to understand why the government was so determined to give the Port Moresby water and sewerage system to an unproven foreign company that will export the profits to Malaysia.

Is the BOT Agreement with JC-KRTA Enforceable?

The NCDC had rejected the implementation of the agreement signed by the former Lord Mayor David Unagi and JC-KRTA and repudiated its legality because the agreement was not signed in accordance with the NCDC Act and the Public Finance (Management) Act.

This requires the minister of finance to approve the agreement prior to it being signed. It is very puzzling as to why the minister for finance appears to have endorsed the agreement 8 months after it was signed. This possibly makes the agreement unenforceable.

It is completely unfathomable why the minister of finance would wish to saddle the nation with an arrangement that will pay up to K1, 000 million (K1, 000,000,000.00) over 22 years to a contractor who makes an investment of only K159 million. Why should the people be penalised to enrich a foreign company?

Social and Economic Impact of the Reform

Economic Impact

The users of water in the city are divided into three main types: residential, non-residential and squatter settlements. The residential type covers houses categorised as high covenant houses, medium covenant and low covenant. This category includes: flats, hostels and staff quarters. The non-residential types cover business establishments, government statutory departments, private and state institutions (schools, colleges, hospitals, police, and defence) and other commercial organisations (hotels, factories etc).

Water users are charged under two main categories, domestic and non-domestic. Domestic and non-domestic users interviewed all expressed disappointment at how Eda Ranu was billing them. Private commercial companies and institutions said that Eda Ranu is charging them huge bills for their water. Many suspected that they are subsidising free water used by the squat settlers.

The tariff structure is based on two broad classifications:

- Domestic – only refers to owner-occupied properties that are solely for residential purposes.
- Non-Domestic – refers to all other properties that are not domestic as defined above, irrespective of occupancy and use.

User-Pay System

The company's strategic corporate mission states that Eda Ranu will provide an efficient and effective approach to running the city's water supply and sewerage systems on a user-pay basis, and at the same time, protect the basic right of each resident to good, clean, reliable and affordable water.

However, research into water consumption among rate-payers in NCD by Muke and Gonno (2002: 36) showed that nearly 75 per cent of the rate-payers were not happy with the current user-pay system, of which 60.1 per cent of the households indicated that they thought they should only pay half of the water bills and the other half NCD. Another 14.8 per cent suggested that the national government should pay the bills. A further 3 per cent wanted the bills to be paid by NCDC.

Water supplied to the urban settlements is free. NCDC has over the years helped the settlements with almost all basic services free of charge. Therefore the notion of user-pay for water does not apply across the board. Eda Ranu does acknowledge that non-domestic users excluding government and statutory authorities have actually been subsidising villagers and peri-urban areas for the last few years. Some of the commercial organisations interviewed complained of the high water bills they are paying since Eda Ranu came into being.

The University of Papua New Guinea (UPNG) is a victim of this policy: domestic users living on the grounds of the institution are forced to pay commercial rates. Prior to the days of Eda Ranu, there was a special arrangement between Papua New Guinea and NCDC, which resulted in UNPG paying only 50 per cent of the total water and sewerage costs per month for properties where UPNG conducts its normal business. The management of Eda Ranu reclassified UPNG under Category 1.6, Statutory Bodies/Government, which commands a higher tariff.

Since its implementation, many employees who reside in University properties pay for their own water and sewerage bills, but all University properties attract non-domestic rates, irrespective of whether a property is residential or not. A glance at the tariff structure will reveal that Category 1.6: Statutory Bodies/Government of Schedule 2 attracts the highest minimum monthly fee of

K50 for 25 Kilolitres of water. This minimum monthly fee has to be paid irrespective of actual water usage.

The proposal made to Eda Ranu by UPNG is as follows:

1. University residential properties, which are currently occupied by its staff, should be classified as domestic. Similarly appropriate rates should be charged for the sewerage.
2. If the decision is in the University's favour, it should be retrospective to when Eda Ranu reclassified UPNG to non-domestic and reimbursements made.

4.2 Social Impact

Customers' Complaints

Randomly selected domestic users' complaints about their water bills and connections illustrate some of the problems and concerns of consumers ². The following highlights some of these consumers' comments:

- "My water was cut because I refused to pay when I realised I was overcharged for water I did not use".
- "The previous tenants' bill was added to my bill. Does Eda Ranu keep track of the movement of people or have a system in place to trace tenants or get the tenants to pay their outstanding bill before moving out of the premises? When I asked Eda Ranu this question, they told me there is little they can do so that means they have to force me into paying for someone else's water".
- "I did not move into the house until after a month but interestingly, for that period, I was sent a bill. How they read their meters is something I would like to know"
- "My water got cut without prior warning. I have a strong feeling the meter is never read but some guess figure is used to bill me because last month I have hardly lived in the house since my job requires me to travel" etc.
- "I have so many leaks in my house where water is seeping out. I asked the Housing Commission whose house I am renting to fix the leaks but it has been months and no one has been there to do something about my complaints. Now I am landed with a huge water bill to pay and I simply cannot afford to because I do not earn that kind of money to pay. I am not alone there are a lot of people who have so many complaints about the fees that Eda Ranu is charging".
- "I am forced to pay for water but what about the squatter settlements where they are provided free water. These people I know use water carelessly and at any time. I cannot have the luxury of using my water in the same manner because I will have to pay a very high price. This is unfair and I have a strong feeling that Eda Ranu is making me pay for water that these people in the squatter settlements are using for free".

² These were randomly chosen from among complaints lodged with the Eda Ranu office.

- “I pay for water, this is ridiculous because this country has an abundance of natural water. Can there be another form of accessing water perhaps underground so it eases the burden for many of us. Water is essential but I and many others cannot afford the fees charged by Eda Ranu. Perhaps NCDC should take it back and make it their function so they can entertain flexibility in the supply of water such as allowing for underground water or the installations of water tanks for some people or institutions who would like to search for alternative ways of accessing cheaper water”.

Additionally, the quality of water is a concern to many consumers since Eda Ranu has recently been warning the public through the media to boil the water before drinking it.

Overall Rating of the Quality of Improvement of Water and Sewerage Service

In the report by Muke and Gonno (2002:16), it was reported that 80 per cent (1,087) of the residents have noted some improvement to the supply of water, 47.4 per cent (634) of which indicated that they were generally satisfied with the overall efforts, but felt that more was needed to be done in other areas. Another 34 per cent (453) were pleased and indicated that there was marked improvement since Eda Ranu was established. From these statistics it is obvious that Eda Ranu has made some improvements in the delivery of water but more work still needs to be done to attain a certain level of efficiency in its service.

NCDC Unions & Land-owners

The NCDC workers union, fearing that the privatisation of water would mean job losses for many of the workers and also may jeopardise plans put in place by NCDC for the employees (such as the home ownership scheme), demanded that a Commission of Inquiry be conducted into the privatisation of NCD water. The unions queried how the cabinet had approved a company, which is allegedly not registered with the Investment Promotions Authority, to carry out the water project.

In Papua New Guinea, 80 per cent of the land is traditionally owned. Traditional landowners are the villagers. Any resource development on their land by the state has to have their consent so that they become major partners in the development of their resources. In many instances, because most landowners are illiterate, they hardly participate directly in the negotiation process until the state and the developer have signed a deal.

To date, the Koiari landowners have been denied their right as owners of the water resources. In fact landowners who live around and along the main supply river do not have direct access to clean water nor electricity. They travel to the closest river to fetch their water, which may be contaminated.

There was no provision made to date to meet the aspirations of the traditional landowners in any of the contracts entered into. The Koiari landowners openly protested, expressing what they saw was an unjust practice by the state. There have been many occasions where the landowners have

threatened to shut down the main water supply. The landowner problem is ongoing and it is something Eda Ranu and the state will have to deal with effectively in the future.

5. World Bank/IMF Structural Adjustment Policy (SAP) – Influence on National Development Policies

One of the 42 conditions of the Structural Adjustment Programme (SAP) of the World Bank enforced in 1985 was to restructure the provincial government system. All decision-making powers at the top provincial level became highly centralised. In this structure, governors and their close associates wielded much power. This is the case for NCD; elected leaders with their vested interests took charge of the city water and eventually pushed for NCD water to be privatised. At the same time, the main thrust of the World Bank/IMF structural adjustment programme was for the state to privatise its basic services. One cannot help but think that the privatisation of NCD water was the first test case for the state's privatisation programme in line with SAP.

The Independent Public Business Cooperation (IPBC)

The former government led by Prime Minister Sir Mekere Morauta embraced the wholesale idea of privatisation. The Privatisation Commission was set up to take care of all government privatisation programmes. Sir Mekere Morauta, an economist by profession, was keen to privatise and to sell out all government statutory departments to foreigners. All this was happening at the advice of the World Bank, working with the government to fast-track many of the sales before the next election.

The country was witnessing the intense presence of World Bank/IMF and how they were meddling with the politics of the state. The World Bank dictated much of the development agendas of the state. During that time, citizens saw that the government had lost its independence and was reduced to the status of a beggar. The whole scenario posed a serious threat to the sovereignty of the nation and for the first time, there was a sense of fear and people were deeply concerned as to where Papua New Guinea was heading.

Papua New Guinea held elections in 2002. The outcome was the formation of a new government. The Somare-Marat government, critical of the privatisation programme while in opposition, was faced with the challenge of what to do with privatisation. It has halted all privatisation programmes until it is ready to decide what to do with privatisation. The government is gradually but surely planning to adopt some form of a privatisation programme. It will be interesting to see how the state hopes to achieve a sound privatisation programme.

To begin the process, the state changed the name of the Privatisation Commission (PC) to the Independent Public Business Cooperation (IPBC). The 'White Paper' on privatisation highlights Public and Private Partnership. All state entities listed will eventually be privatised adopting a model of public/private partnership. The state's policy reforms on privatisation:

- Aim to move the privatisation programme to a more efficient platform
- Recognise the importance of introducing private sector partnership into the state enterprise sector

- Recognise the poor financial state of many of Papua New Guinea's entities
- Recognise the need for rehabilitation and recovery
- Include the following core assets: Telikom, Papua New Guinea Power, Papua New Guinea Harbours Limited, Post Papua New Guinea, Papua New Guinea Dams, The Water Board, Eda Ranu and Air Nuigini.

Additionally, the policy states rehabilitation will improve as stated the corporate governance of all the entities and as will regulatory structures in conjunction with treasury and ICCC. It also says the Government will sell or dispose of non-core assets.

ICCC was set up by the present government to act as a regulator of all privatised entities and protect the interest of the consumers. Whether ICCC will have teeth to bite remains to be seen.

Government's Regulatory Body

Independent Consumer & Competition Commission (ICCC)

The ICCC was established by an Act of Parliament in 2002. What were Price Controller and Consumer Affairs have been merged into this new organisation. ICCC's core functions include the promotion of competition and fair-trading, regulating the prices for certain goods and services, and protecting consumers' interests.

Water rates are set by Eda Ranu and ICCC does further investigation of its own; based on its own evidence, it decides whether to accept or reject the water rates. So far, water rates set by Eda Ranu have been accepted. Rates are supposed to be reviewed regularly as part of the privatisation process.

Once a tariff structure is set, ICCC goes public to review the process so the public gives their input. The rates are published in the local papers. The assumption is that readers will read about rate changes and then contact ICCC to air their remarks and concerns. The problem with this approach is that not many people read the papers because they cannot afford them and at the same time, readers are too busy or see little value in responding. Failing to get any comments would mean that ICCC proceed to accept the changed rates.

6. Recommendations

1. The present government needs to reassess the case of Eda Ranu and consider terminating the present contract and handing all functions to The Water Board, the properly established state body.
2. Water is a basic essential and the state should ensure that clean water is easily available to all Papua New Guinea citizens. Consumers will naturally react when they realise they are unfairly being charged. The state should subsidise water for certain groups of people within a certain income range, including residents of urban squatter settlements. Although water is currently piped free to the squatter settlements in NCD, this will soon cease and meters will be installed.

3. While the focus of water in Papua New Guinea is about the supply of water to towns, 80 per cent of the country's population lives in villages, mainly as subsistence farmers on their own land. Most of these villages have water in abundance underground or in open rivers, creeks and streams. Measures need to be taken to make the water accessible to every household.
4. The state will one day privatise water for the entire country because the Water Board is included as an entity to be privatised in the 'White Paper' on privatisation. The challenge is to decide how best this whole exercise will be handled because if people cannot afford the rates, this will create further conflicts. One concern is that when all entities are privatised, these entities will have the support of the police or the army to threaten and force people to pay if they refuse and the people could resort to violence against the state or the private owner.
5. The shift in mindset from free use of water to having to adopt a user-pay policy is resented by indigenous Melanesian people. They would embrace finding alternative means of accessing water at no major cost. For instance, water tanks could be installed in all homes and the use of underground water would go a long way to help alleviate the stress on poor families in the towns who cannot afford Eda Ranu's water rates.
6. If the State and the World Health Organization (WHO) are serious about alleviating poverty, there needs to be a concerted effort by all parties to attend to improving the livelihoods of the people. Accompanying the need to provide clean water, a nationwide education should be conducted in every village and hamlet about clean water, healthy diet; healthy homes, personal health based on using their own local products. This holistic health education will go a long way in the fight to improving people's general health and well-being. Papua New Guineans are not poor, but they lack the know-how and the technical skills to make use of what they have.
7. Papua New Guineans own 80 per cent of the land. What this means is that according to the people, they own all the resources – trees, rocks, minerals, rivers, creeks, plants, etc. To influence any meaningful participation by the civil society in development, the state should make every attempt to seriously include landowners in all their negotiations as a major stakeholder in development.
8. Reforms that allow private companies to contribute are not a bad thing. However, if it is against a background of corruption, profit-making for individuals and corporations is at the expense of ordinary people. The current political environment as illustrated with water privatisation in NCDC is not conducive to reforms that support private investors.
9. We cannot start talking about alleviating poverty or other socio-economic problems without political reforms. People in Melanesia are experiencing a clash of ideologies, notably between the Melanesian interpretation of politics and versus the foreign concepts. Within this environment of confusion there is political indecisiveness and instability at the national level. This creates a situation where corruption, misappropriation etc thrives.

Coupled with this, the process of privatisation may have the legal backup, but morally speaking, it is wrong. How then do we expect to address fundamental problems of water, health and general livelihood effectively?

10. The structural adjustment programme and privatisation policies of the WTO, G8 and World Bank/IMF, in advancing their neo-liberal agendas, perpetuate an unjust global economic system. Rather than alleviate poverty in the Pacific and in other developing countries, these policies are likely to exacerbate it. The issues that matter to poverty alleviation include fair trade and just distribution of wealth.
11. Privatisation of water should not be considered the only option for Papua New Guinea because the country has an abundance of water and this water should be given free or made accessible at low cost to the public. Continuing to deny these basic services is not only illegal but violates every human rights law, thus undermining the spirit of democracy.

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