



Private Sector Participation: Privatisation of Water in Manila, Philippines

Water Sector in Manila:

The Concessions in Manila have been in operation since 1997. The reform process started in the early 90's, which introduced the BOT law in Manila. Thereafter, the power crisis in Manila was curbed and this accomplishment was largely credited to private investment in the sector. The National Water Sector reform study undertaken in 1994, studied the situation of the water sector and proposed improvements for better results.

Metropolitan Waterworks and Sewerage System (MWSS):

MWSS was then the monopoly water supply and sewerage utility in Manila, formed in 1878, with an objective to provide adequate, potable water supply and adequate and dependable sanitary wastewater disposal services at affordable rates. But overall, MWSS has very low coverage in the service areas with lack of funds to invest in water development projects. The management lacked skills to manage ground water services and the water tariff and allocation policies were not in order.

Private Sector Participation (PSP):

The Water Crises Act (1995) provided for the privatisation of the MWSS and Local Water Utilities Administration (LWUA). A study undertaken by Tasman Asia Pacific in 1994, as part of a project for the World Bank and Ministry of Finance, revealed PSP to redress the laxities in the water supply sector. Thus, in a span of eight months, the basis of offer (which was water tariffs) and information for prospective bidders was finalised and technical assistance was granted by the French government, with International Finance Corporation (IFC) as the lead adviser. The focus was on Concessions and sale of assets. The privatisation program costed US\$ 5.8

million. The study recommended complete privatisation of water supply services and set out the following targets, briefly:

- a) Universal water services in the MWSS service area within 10 years of commencement of the projects, without increasing real water tariffs.
- b) Non-revenue water problem to be tackled.
- c) Needs of those poor and not capable of affording piped water, was to be addressed
- d) Uninterrupted water supply service.
- e) 80 percent of area coverage to be attained within 25years concession period

Privatisation of MWSS:

After privatisation, MWSS was the principal regulator having monitoring and enforcement functions, establishing a regulatory office separate from its activities; having five members (including a Chief Regulator) reporting to the MWSS Board and an arbitration panel for redressal of issues between the regulator and concessionaries.

Phases of privatisation:

- a) Pre marketing
- b) Registration
- c) Due diligence
- d) Strategy report
- e) Information memorandum
- f) Documentation
- g) Pre-qualification
- h) Tendering
- i) Pre-negotiation
- j) Bidding
- k) Evaluation
- l) Award of contracts

Procedure:

The agreement was a detailed one specifying the assets and liabilities, tariff adjustment mechanisms,

clarification on existing projects, scope for 'Extra-Ordinary Price Adjustments' (EPA) in force majeure situations and 90% allocation of costs to the western concession, as lower tariffs were expected from the area.

Four consortia were pre-qualified and had to submit bids in nine months, with a technical and financial proposal. The bidders were issued bid documents and guidelines by the MWSS, accompanied by a performance bond for the East-West zones. Bids had to be submitted for both concession zones simultaneously but the winning bidder could be awarded only one concession based on average tariff charged by bidder.

Two private concessionaries, namely, Maynilad Water Services, Inc (MWSI) and Manila Water Company (MWC) were awarded the bids and took over facilities from August 1, 1997. Their functioning was based on two important documents, namely, Joint Venture (JV) agreement for common facilities and the Interconnection Agreement to cover metering points for the pipelines crossing each section.

Outcomes:

The privatisation process was seen to be overall successful apart from the few shortcomings due to the drought (El Nino effect) and devaluation of Peso. However, the speedy procedure was appreciated but the concessionaries witnessed cost overruns. The devaluation of Peso affected the formula that was determined as the cost was spread over 25 years, leading to the West having to absorb 90% of the concession fee. However, in response it was said that the formula was to balance the bids and was not built on the presumption of massive devaluation rather on gradual rate adjustment. There were also unresolved issues between the concessionaries, with respect to the Interconnection agreement.

Lessons learned:

- a) Pre-determination of tariff rates and bid concession fees:** In order to curb the wasteful use of water, high tariff structure was advised i.e. alongside the conditions of contract including extra ordinary tariff adjustments concessionaries charging highest fee should win.

- b) A system of tradable bulk water entitlements:** Prioritising allocation of water across bulk use is recommended rather than waiting for long term resolution.

- c) Strengthening of the regulatory body:** Independent regulatory agency needs to put in place to achieve efficiency and realise greater benefits of water privatisation.

- d) Expert legal advice in contract formulations and good public relations:** In order to have fair contract with private players, an expert legal adviser is required and for active public participation in order to reap maximum benefits strong public relation campaign is mandatory.

Till now, Manila privatisation has worked efficiently to improve water supply, but Manila still needs to wait for economic, technical, institutional and management benefits being brought by private sector.

Recent Updates (up to 2012):

First amendment to the Concession contracts brought in 2001, allowing tariffs to respond to faster exchange rate fluctuations.

Between 2003-2008, Maynilad did not adhere to the amendment and refused to pay concession fee. It was given 84% equity sharing and a longer stretch of time for repayment of fees due. In 2009, Manila's concession extended to 2037.

Up to 2011, much progress is witnessed in achieving the targets set out, such as, increase of customer share, continuous water supply, reduction of non-revenue water, increase in the population served and innovative methods to reach the poor people who did not access to piped water.

Further Readings:

ADB (2000): *Developing Best Practices for Promoting Private Sector Investment in Infrastructure: Water Supply*, Asian Development Bank, pp. 134-151.

Available at

<http://www.adb.org/sites/default/files/pub/2000/water-supply.pdf>, last accessed on 16.11.2013.

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