

# Public-Private Partnerships for Urban Water: Experiences of Manila, Philippines

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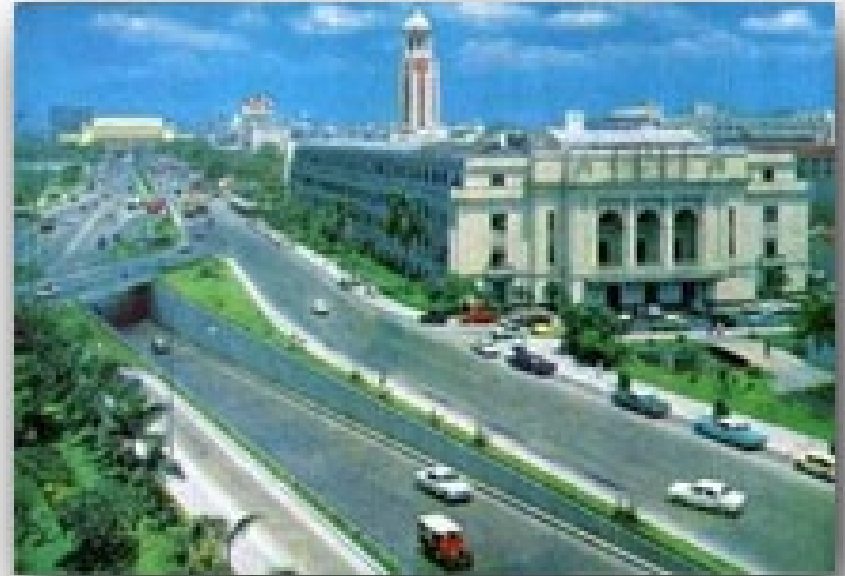
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# Philippines



# Metro Manila





## General Information

Population	Metro Manila	10 million
	Philippines	81 million (2000 estimate)
	Urban : Rural	46 million : 35 million
Population growth	Metro Manila	2.3%
	National	2.0%
Area	Metro Manila	636 square kilometers
	Philippines	300,000 square kilometers
GDP	Philippines	\$82,157 million (1997) \$1,120 per capita
	Climate	Dry (December to April)    Wet (May to November)
Water resources	Pasig River: 25 km, 2000 factories, 70,000 families 29 Esteros (small rivers): 31.8 km	

# Government System

## Philippines

1987 Constitution

President to one six year term

75 Provinces (1996)

Municipalities made of barangays (barrios)

Each barangay is headed by a chairman (5 years)

## Manila

Mayor, Vice Mayor (city wide elections)

36 member City Council from 6 districts (3 year)

899 barangays

## City services

Mayor as chief executive to appoint staff

Various departments to execute the city services

## Major offices

City Administrator, City Development & Planning

City General Services, Manila Traffic & Parking

City Accountant, City Legal Officer, City Sheriff

Manila Health Department, Public Services

Department of Engineering and Public Works

# Metropolitan Waterworks and Sewerage System (MWSS)

Formation & Status	1878, A government corporation It can retain and spend its revenue Subsidies from the Congress as increased equity
Secretary of DPWH	ex officio Chairman Board of Trustees
Coverage	6 cities & 31 municipalities of Metro Manila plus Rizal and parts of Cavite province
Service area	1800 sq. km (with total pipeline of 12000 km)
Water production	3000 million liters per day from 3 treatment plants
Water connections	825000 with water availability for 16 hours a day
Service population	7.32 million out of 11.0 million (66.5% coverage)
Water consumption	133 liters per person per day
Average water tariff	Pesos 8.78 per cubic meter with 42.87% billing
Non-Revenue water	56% as in 1996

# Challenges

- Low coverage (population enjoying water supply and sewerage)
- Lower level of service (quality, reliability, pressure)
- Higher unaccounted-for-water (losses)
- Poor management
- Lack of investment
- Inadequate tariff and allocation



# Legislation

1. Provincial Water Utilities Act (1973) Locate Water Utilities Administration  
LAWUA
2. The Water Code of the Philippines (1976) National Water Resource Board  
NWRB to regulate water resources
3. The BOT Law (1993) enables PSP in public works activities
4. The Water Crises Act (1995) in response the water supply crises  
particularly for the privatization of  
MWSS and LAWUA
5. Executive Order 374 (1996) Task Force on WRDM  
water policies & programs including  
pricing and monitoring
6. Local Government Code (LGC) Section 26 of LGC (R.A. 7160)  
Local Government Units (LGUs)  
to be consulted for project's  
ecological and environmental impact

# Regulatory Framework and Incentives for PSP

A study was taken by Tasman Asia Pacific for the World Bank and Ministry of Finance to introduce PSP.

Based on this study, National Economic Board Authority passed Board Resolution 4 (1995), encouraging:

- The introduction of commercial incentives and management in local water districts.
- Incentives for the Local Government Units to improve water supply arrangements.
- The application of economic pricing of water.
- Economic allocation principles for water resources.
- Innovation water supply projects at the local level.
- Increased PSP

## Targets under PSP

- Non-revenue water to decrease from 56% to 32% in the first 10 years.
- The one third of service area for the poorest, who are unable to afford piped water.
- Wastewater program to attain over 80% coverage within 25-year concession period.
- 24h service (WHO standards) within 10 years
- No increase in real tariff, and non-revenue water to decrease from 56% to 32% within 10 years
- Wastewater coverage 80% within 25-year concession period
- \$7.5b to be invested to improve and expand the system within 25 years
- Upstream treatment plants to be managed and financed by concessionaires

Water Supply	67%	92%	97%	98%	98%	98%
Gravity (sanitation)	7%	7%	10%	17%	23%	33%
Sewerage (sanitation)		26%	23%	21%	24%	22%
Total (sanitation)	7%	33%	33%	38%	47%	55%

## PSP Process

- Initial grant: \$1m (French)      Advisor: IFC      Time: 1996-97
- Transaction Cost: \$5.8 million (\$3.8m consultants + \$2m success fee)
- Tariff based bids against existing tariff of Pesos 8.78 per cubic meter
- 25 year concessions for 2 JVs
- East: 4.5million population with 71% coverage
- West: 6.3million population with 63%
- Filipino shares: 60% min. (employees10%, 30% main local, 20% others)
- Only one international operator can have 20% shares
- Tariff adjustment and Extra-ordinary price adjustments (EPAs) clause
- Two-envelop bidding (privatization process May 1996 to April 1997)
- Ayala/Bechtel consortium (Manila Water Company) for East: P3.65 to P7.21 (97%)
- Benpres Holdings/Lyonnaise des Eaux (Myniland Water Services Inc.)  
West: P4.96 to P5.71 (15%)

# Outcomes

- The privatization process was highly successful and speedy
- The coverage and service targets were achieved without increased pressure on the public sector funds
- Losses (unaccounted-for-water revenue) were reduced considerably
- The crises due to El Nino effect (drought) was managed well

## References:

1. Dumol, M (2000), *The Manila Water Concession: A key Government Official's Diary of the World's Largest Water Privatization*, The World Bank, Washington, DC

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1. ADB (2000), *Developing Best Practices for Promoting Private Sector Investment in Infrastructure: Water Supply, Manila*

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## Lessons

- The formula for bids was resulted in the extra costs due to 50% devaluation. Hence, re-basing (reset rate levels every five years) is a good way to renegotiate tariff
- Interconnection agreement was not resolved and is subjected to arbitration
- Appropriate bidding criteria may be based on highest fee for each concession with a predetermined tariff structure
- Bulk water rights and trading were not present in MWSS; hence, it seems correct to proceed than wait till the resolution of long-term complex issues
- Regulatory body must be in place. Efficiency of MWSS and JVs was commendable
- High level of advice and good public relations are essential to bring good JVs
- Low tariffs do not help in conservation targets; hence tax incentives should not be traded for lower tariffs

## Conclusion

1. PSP should be actively pursued at the all levels of the government, as in this case, from the president to the bureaucracy pushed the PSP, and appropriate decisions/legislations were taken within time
2. Good advisors/consultants are essential, as IFC lead team performed very well
3. Good public relations and promotion helped to bring good companies to bid
4. Successful joint venture may have the companies, which can mitigate the different types of risks well
5. The complex decisions may take very long and can hinder the implementation of PSP; therefore, PSP process should be initiated along with the settlement of the complex issues like bulk water supply rights
6. Tariffs and subsidies should be decided with a good mix to achieve financial sustainability, equity distribution, and incentives to conserve. However, in complex situations, the decisions should based on real cost of the services