

Metro Manila – Twelve years of privatisation

By Roel Landingin

Photo courtesy: Aratri Rao



While the water and wastewater woes of Metro Manila have eased since the privatisation of services twelve years ago, there are still many challenges to overcome, especially in the western part of the city's utility operations.

It was a quiet but historic moment when residents of La Paz village in Antipolo, a highly populated town sitting atop rugged hills about 25 kilometres east of Manila, the Philippines capital, were able to enjoy water from their taps some years ago.

"In the hundred year history of the MWSS (Manila Water Supply System), surface water never reached Antipolo. Now, they are getting surface water since 2007 after an investment of 2 billion pesos (US\$42.7 million)," said Virgilio Rivera, director for regulation and corporate development at Manila Water Company that runs the water system in the eastern half of the MWSS service area.

With 70% of the town's area located 200m or more above sea level, bringing water to Antipolo's 700,000 people had always been a challenge for MWSS, the state-run water utility that serves the capital region's 12 million people. Thousands of the town's resi-

dents got their water supply from wells and delivery trucks, exposing them to low-quality water and health risks.

Before it privatised water distribution, MWSS did not have enough money to expand service to the town that lies at the edge of its franchise area. Besides, it was losing more than 60% of water production, and served only 58% of the target population.

In 1997, the state utility turned over water and sewerage operations to two private companies. Manila Water, the joint venture of the Ayala Corp., the Philippines' oldest conglomerate, and United Utilities of UK, won the concession for the eastern half of the MWSS franchise area. The west zone went to Maynilad Water Services Inc, a joint venture of the Philippines' Benpres Holdings Inc. and Suez, the French engineering group.

Ten years later, safe and reliable water supply, 24 hours a day, seven days a week, finally came to Anti-

polo, underscoring the steady if slow improvement in water services since MWSS entered into a 25-year concession agreement with the private water companies.

It was not just because Manila Water had money to build the pipes as well as pumps and reservoirs to assure steady water pressure in both low-lying and elevated areas. There's now also more water to go around after the company cut water losses from the system average of 63% when it took over to just 20% in its service area by end of 2008.

Water service

Supplying water to Antipolo illustrates the tougher challenges facing the two concessionaires as the Philippines' landmark water privatisation programme enters its 12th year.

In several ways, the easy pickings in water distribution are over for Manila Water, which already serves 96%



Photos courtesy: Ria Landingjin

Rene Almendras, the new president of Manila Water Company.



of the 6.1 million people in the east zone. It provides water to a hundred percent of the population of seven cities that make up the core of its service area.

The company now wants to achieve full water service coverage in four towns by 2011, and to bring water to 11 other localities with zero or very low coverage in the next eight years. Like Antipolo, these localities lie at the edges of Manila Water's service area where population density is lower and the topography is rugged.

But the potential rewards are also attractive. Rene Almendras, Manila Water's new president, said: "You have all the road infrastructure moving east. The place has now become the working man's bedroom for Metro Manila. Whatever the volume of water that we supply, people use it all up. Some of these places are growing at twice the national average."

Manila Water's performance in the east is in line with targets. It benefited from a marked reduction in water losses beginning in 2005, recovered water that would have been lost to leaks and theft, and redistributed it to previously under-served areas.

But Maynilad, which serves only 63% of 9 million people in the west zone, has fallen behind targets. The goal of reaching 97.1% coverage, originally set for 2006 was pushed back to 2010 when the company ran into financial troubles. The government's failure to build a new water supply source south of the capital also slowed down new connections.

The company suspended conces-

sion fees to the government in 2001 and went through a court-supervised financial rehabilitation when it defaulted on commercial debts in 2003. It was taken over by the government in 2005 but sold in late 1996 to new shareholders led by Metro Pacific Investment Corporation, an affiliate of First Pacific Limited, the Hong Kong-based holding firm owned by Indonesia's wealthy Salim family, and Philippine construction firm DMCI Group.

Lack of money and a flawed non-revenue water strategy in the early years of privatisation also kept Maynilad's water losses high. It stood at 60% in December 2008, hardly unchanged from levels in 1997.

In the next few years, Maynilad must rapidly expand water service to catch up with the revised target of serving 85% of the population by 2011 while bringing down non-revenue

water to 45%, according to Rogelio Singson, president of the company. Maynilad and regulators revised the water coverage targets last year because of new assumptions in estimating the size of populations covered by water connections.

Maynilad is building a treatment plant to draw 100-300 million litres a day (MLD) from Laguna Lake, the country's biggest inland body of drinking water to supply many under-served localities to the south of the capital. MWSS failed to build the facility, which was to have come on stream in the late 1990s as a build-operate-transfer (BOT) project, because of lack of investor interest.

The company is also in the middle of a massive pipe replacement programme in central Manila, the heart of its service area that accounts for 70% of Maynilad's non-revenue water. The water recovered from leaks and theft will be distributed to the southern edges of the concession area.

Mr Singson said the new pipes in central Manila could be the tipping point in cutting non-revenue water and bringing water to previously under-served areas. "Central Manila is the lowest portion of the network. So if your low point is where you have all the old, leaking pipes, then you don't have enough water to bring to your elevated areas, which are fed by pumped water," said Mr Singson.

In spite of the mixed outcomes in the west and east zones, water service coverage is much better



Photos courtesy: Rosmon Tuazon

Rogelio Singson, president of recently revamped Maynilad Water Services.



compared to the record of the MWSS, which reached only 46% of the 11.3 million people living in towns and cities around the capital in 1997.

Installation of new water connections has picked up considerably. It surged almost five times from only 13,212 connections a year in the last eight years under the MWSS to 62,382 a year between 1997 and 2008 as both concessionaires invested heavily to lay down new pipes to previously un-served areas.

More households in the capital have access to safe drinking water. According to latest government statistics, 87.3% of households in Metro Manila got their water supply from own-use or shared piped connections to community water systems as of 2006, up from 82.1% three years before. Privatisation reversed what appeared to be a steady deterioration in access to potable water under the MWSS in the mid-1990s, when the proportion of households connected to community systems fell drastically from 81.2% in 1994 to 73.1% in 1997.

The National Water Resources Board also observed an improvement in the capital region's ground water situation in the last few years. "In 2004, we found that groundwater condition was already critical. It has been better since then," said Nathaniel Santos, the NWRB deputy executive director.

He said the condition of the capital region's aquifers benefited from better water service by the two concessionaires coupled with the NWRB moves to freeze new permits for groundwater extraction and enforcement of rules against illegal wells.

Sewerage

Compared to water distribution, the privatisation of MWSS operations has had a far more modest impact on the wastewater situation.

Regulators say only 6.6% of the population in both the east and west zones are connected to the two concessionaires' sewerage system as of 2008, quite below the 16-20% targets for 2006 set in the 1997 concession agreement. That is just a tad better than 2000, when only 3% of the capital region's population was

connected to a sewerage system, according to the National Statistics Office.

About 85% of people dispose their waste through septic tanks, most of which are poorly built and maintained. Untreated effluent is released into storm drains that flow into numerous creeks and streams. Thousands of illegal settlers have built makeshift houses on the banks of the waterways, adding to the pollution. Around 65-70% of the pollution is caused by residential sewage while the rest comes from industries as well as garbage dumped in water ways.

Manila Water says it almost quadrupled the number of sewered households in its service area from 19,000 in 1997 to 72,000 in 2008. The company built nearly 30 small sewerage treatment plants that treat effluent from communal septic tanks in government-built housing developments, doubling its sewage treatment capacity to 87 million litres a day (MLD) from only 40 MLD in 1997. It claims to be providing sewerage service to 16% of the east zone's population, almost thrice the regulators' figure. Manila Water and the regulators apparently used different multipliers to extrapolate the number of people served by sewerage connections.

In contrast, the number of sewerage connections in Maynilad's west zone fell to only 50,346 last year from 66,432 connections, which covered 14.2% of residents, in 1997, according to regulators. Mr Singson said the decline was largely a result of cleaning up of records as well as disconnections of sewered customers who failed to pay sewerage charges or refused sewerage connection. Financial troubles also kept the company from building new sewerage treatment facilities. The company sought a suspension of its sewerage targets when it underwent financial rehabilitation from 2005 to 2007.

The company inherited two sewerage treatment plans with a combined capacity of 445 MLD from MWSS, and which it rehabilitated a few years ago using a loan from the World Bank. However, Maynilad officials said only less than a third of the capacity

is used as many households refuse sewerage connection because of the hefty costs – pointing to the high risks associated with investments in sewerage systems.

Meeting the original sewerage targets set out in the 1997 concession agreement – 66% of the population in the west zone and 55% in the east zone by 2021 --is now turning out to be a near-impossible goal that could be accomplished only at a huge cost and excessively high tariffs for consumers, according to regulators.

The targets were based on a MWSS sewerage master plan, developed before privatisation, which called for building a highly centralised sewerage system and the phasing out of septic tanks and sanitation services throughout Metro Manila. However, the concessionaires' experience in the past 12 years show that consumers are unwilling to pay for a large and separate sewerage system, said Manuel Quizon, chief regulator at MWSS.

Based on a proposed sewerage plan prepared in 2005 by Sinclair Knight Merz (SKM) for MWSS in 2005, the concessionaires and the regulators have come up with an alternative plan to build combined sewerage and drainage systems instead of just a sewerage network. Under the combined system, effluent from septic tanks, which will no longer be phased out, will run into storm drains but will be intercepted and treated before flowing into the main rivers of Metro Manila, explained Timoteo Villaroman, head of the MWSS technical regulation unit.

Manila Water has built a pilot treatment plant to treat combined sewerage and drainage wastewater before it flows into Marikina River while Maynilad is going to set up a similar facility for wastewater flowing into the San Juan River. People living in communities covered by such combined systems will be considered connected to a sewerage system, making it vastly easier for the concessionaires to meet sewerage targets set in 1997.

Reflecting the changes in the sewerage strategy, the regulators and the concessionaires have agreed to

align the extra fees paid by customers with or without sewerage connection between 2008 and 2011. The sewerage fees for connected households will be cut from 50% of the water bill to 20% while the environmental or sanitation charge of those with septic tanks will be raised from 10% to 20%.

The concessionaires are also hoping the combined sewerage and drainage system will help the government comply with a recent Supreme Court decision that ordered several state agencies to "clean up and rehabilitate Manila Bay and restore its waters to make it fit for swimming, skin-diving and other forms of contact recreation."

Still, Manila Water considers the combined sewerage-drainage system an interim solution and is still keen to eventually adopt the conventional system when the concession agreement is extended from 2022 to 2037. "That is when we will be moving into a full-blown conventional sewerage system," says Mr Rivera. "The ultimate solution is still a sewer line in every house. We have to believe that this country will eventually join the ranks of the developed countries."

Outlook

Though the challenges going forward are tougher, both Manila Water and Maynilad are also better positioned financially to meet them.

MWSS recently agreed to extend the concession agreement with Manila Water by 15 more years to 2037 from 2022, the original expiry date. The company promised to boost capital and operational spending to 450 billion pesos until 2037 from 187 billion pesos originally planned between 2008 and 2022. It also decided to forego basic rate hike this year and cut future increases in next three years.

Manila Water rates rose by 29% last year, as part of a rate rebasing exercise aimed at making sure it has enough internally generated funds for capital expenditures to meet service obligations and targets. It has also raised 4 billion pesos in five-year bonds last year for its capital expenditure programme.

Maynilad, which emerged from financial rehabilitation in 2007, is not



Virgilio Rivera, director for regulation and corporate development at Manila Water Company.



Photos courtesy: Ria Landingin

only reporting better revenue and profits. It has also been able to raise 10-year notes worth US\$365 million last year, assuring funding for two-fifths of its US\$900 million capital expenditure programme for 2008 to 2012. The original Maynilad shareholders failed to borrow long-term money, starving upgrading programmes of badly needed funds. It will soon file a formal request to similarly extend its concession agreement by 15 years, said Mr Singson.

In April, the government allowed Maynilad to implement a 22.6% jump in basic rates. The government initially froze the rate increase, though it was already cleared by regulators, because of populist pressures. President Gloria Arroyo's officials allowed the rate hike to go through after Maynilad and the regulators agreed a way to mitigate the impact on consumers. The nifty regulatory manoeuvre offset the impact of the rate hike by accelerating Maynilad's customer refunds of foreign exchange gains in the next 18 months instead of four years.

The creative regulatory move that allowed Maynilad to increase rates amid populist pressures illustrates the harmonious relations between the concessionaires and regulators. "Our relationship with the concessionaire has become more open and mature," said Mr Quizon, who pointed out that disagreements now are settled through discussion. In the early years of the privatisation, concessionaires had to initiate costly arbitration proceedings and even

legal suits to settle disputes.

But hefty water rate increases perhaps constitute one of the most challenging issues facing the concessionaires, regulators and even government leaders. Basic water tariffs in 2008 are four to six times the levels in 1997, weakening support for the water privatisation programme among consumers and political leaders.

"We try our best to mitigate the impact of water rate hikes but they are unavoidable because the companies need to recover their investments," said Goldelio Rivera, who heads the MWSS financial regulation unit.

Not surprisingly, Manila Water's promise to freeze basic rate hikes after 2012 even while doubling capital expenditures under an extended concession agreement has been welcomed by the government and the MWSS. Water tariffs will adjust only to let the company keep up with inflation and foreign exchange adjustments, the company had said.

For many, the proposal looks too good to be true. Even regulators, who did not have a chance to thoroughly examine the financial and technical aspects of the extension proposal before it was approved by the MWSS directors, are somewhat skeptical. But Manila Water officials insist the idea is feasible. Water consumers can only hope they are right. **AW**

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