

# POSSIBILITIES FOR PUBLIC WATER IN MANILA

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## INTRODUCTION

The case for water privatisation's failure in Metro Manila is well documented and almost indisputable. Seven years after the utility was privatised in 1997, coverage, pricing, service obligations, non-revenue water, water quality and other targets stipulated in the Concession Agreement remain unmet. The two private concessionaires, Maynilad Water Services, Inc. (Maynilad, operator of the west zone) and Manila Water Company Inc. (Manila Water, operator of the east zone) committed to 100% coverage of their respective concession areas within the first 10 years of operation; a capital inflow of \$7,5 billion to upgrade and extend the pipe network over 25 years; and the reduction of non-revenue water (NRW) from 56% to 32%, among other targets. They also entered into a contract that provided for no unnecessary price increases other than the yearly adjustment for inflation.<sup>1</sup>

Maynilad, especially, has been grossly remiss. It has delivered and billed only 50% of the programmed volume of water (which accounts for its 58% shortfall in revenue), while its operating expenditures surpassed bid levels by 11%. Its capital expenditure over the first five years was an incredible 75% lower than the promised PhP14,1 billion. It also managed to increase NRW levels to 69% - 14% higher than pre-privatisa-

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<sup>1</sup> Lo, Frances. 2004. Making the Public Work: Alternatives to Manila Water Privatisation. Presentation at the Asia-Europe Meeting, Hanoi.

tion levels. It has affected a 500% price increase since 2001, while Manila Water has imposed a 700% price increase.<sup>2</sup> A cholera outbreak in October 2003 that killed seven people and sickened over 600 is a compelling demonstration of poor water quality and sanitation levels.

Coverage data remains disputed. Both companies place unconnected individuals at an estimated one million. Some experts place the number of Manila residents without direct access to piped water at five million.<sup>3</sup>

There is no disagreement at this point among the different water groups that the west zone (or at least the west zone) should be de-privatised. This consensus directly opposes the Philippine government's position of bailing out Maynilad by engineering a bogus "takeover". The final terms of this bailout scheme are not yet public, but previously floated scenarios include: a government buyback of Maynilad's shares at double the market value; partial recovery of unpaid concession loans; retention of the existing corporate structure (minus key Maynilad executives and reduced Ondo participation); and, perhaps most importantly, maintaining the status quo for the "privatised" character of the utility under the same concession agreement and regulatory arrangements.<sup>4</sup> The goal of the

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<sup>2</sup> Diokno-Pascual, Ma. Teresa. 2004 Lessons from Suez-Maynilad Water Venture (presentation at the Belgian Parliament inquiry on water privatization). Brussels: 11.11.11.

<sup>3</sup> Private concessionaires report one connection per 9,2 people when population figures for Manila show that an average household consists of 4,6 people. In a study of water supply in Asian cities, Arthur Macintosh argues that the best measurement of "coverage" is 24-hour access, which is not documented in Manila concessionaires' reports. Numerous households in Metro Manila only have several hours of water supply delivered on alternating days during a typical week. McIntosh also questions standpipes, shared connections, vended water and neighbourhood re-sale of water as accurate measurements of "coverage". See MacIntosh, Arthur. 2003. Asian Water Supplies: Reaching the Urban Poor. Asian Development Bank and International Water Association.

<sup>4</sup> Diokno-Pascual, Ma. Teresa (2004) No to the Bailout (Bantay Tubig statement on the bailout of Maynilad). Manila: Bantay Tubig.

national government is to restore Maynilad's financial health in order to attract new private bidders. It has no intention of altering the underlying framework of water privatisation, or recasting its approach to water provision as a basic service, with access to water being a fundamental human right.

## **CHALLENGES TO A FEASIBLE PUBLIC ALTERNATIVE**

While the rationale for the re-nationalisation of water utilities seems well established, debates still surround the mechanics of such an option. The history (and indeed, the present state) of the Philippine public sector does not bode well for its efficiency or reliability in service delivery. Philippine water activists have to contend with an inefficient and corrupt public sector seemingly impervious to reform - the very basis for the absence of any strong opposition to privatisation in 1997. The specifics and feasibility of water sector reforms need to be convincingly articulated in order to advance a politically acceptable re-nationalisation program.

This takes us to the stubborn knot in the struggle for water in developing countries. On one hand, the provision of water is located within a larger ideological struggle, which compels us to reject the injustice and inhumanity of the profit-driven model. On the other hand, it requires us to face up to the practical, immediate needs of the communities we work with - the poor need water now. To them, the public versus private debate is distant and irrelevant; the public-private debate is probably of greater concern to those who already have connections and suffer from the dismal performance of the private concessionaires. Those who remain waterless welcome any entity that will provide water - an attitude that creates enormous difficulties for anti-privatisation advocates. The issue of access, then, is a critical and immediate one that informs water struggles in

countries like the Philippines.

Within such a context, the search for alternatives has thrown up options that may not be similar to those advanced by other movements caught up in the same struggle. We put forward a range of possibilities that we are prepared to advance given the enormous challenges that face us in Manila.

### **ELEMENTS OF A PUBLIC ALTERNATIVE**

Any public entity that seeks to replace private concessionaires must meet several requirements<sup>5</sup>:

#### 1) *Operational viability*

**Financial resources to fund a clear-cut capital expenditure programme that especially targets poorest areas for expansion and most vulnerable sections of the pipe network for rehabilitation.**

**Institutional capacity to implement service obligation targets.** It must be demonstrated that a public agency / corporation can provide skilled, service-oriented and accountable personnel. A system of incentives for good performance and clear punitive measures for unmet performance targets must be institutionalised.

#### 2) *Conducive policy environment and legal framework*

**A broad national policy to provide universal water coverage aligned with the Millennium Development Goals and**

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<sup>5</sup> Bantay Tubig has held several discussions on the issue of alternatives and the Institute for Popular Democracy has conducted research on the same issue. The elements outlined here are drawn from those researches and discussions over the course of three years (2001-2004).

**general poverty reduction targets.** Individual water agencies, government departments and local government units need to be motivated by a clear, co-ordinated push towards water provision, especially for the poor. President Arroyo has announced a 10-point programme that includes universal access (for the entire country) in five years, but it does not spell out priorities and preferences (for community-managed systems, for example, instead of private provision).

**Legislation for the rules and regulations that will govern a public water utility, including performance standards and penalties for the non-fulfillment of such.** There is likewise a need for legislation creating a new, independent regulatory system (discussed separately below).

#### 3) *Legitimacy and accountability*

**Social preparation, continuing education and dialogue to develop consensus and commitment towards responsibilities, rights and obligations concerning water.** Private corporations have either deliberately ignored these needs or have undertaken self-serving promotional or “social marketing” projects prior to their entry. Community participation is not integral to private operations unless it impacts directly on profit levels. Community participation in water resource management, prevention of leakages and illegal connections and even collective maintenance of a water system can be encouraged through field personnel who can interact with, dispense and collect information from residents concerning water issues. Higher tariffs may be needed in the future to invest in improvements for the many unserved and badly served areas. The public needs to be convinced that a path towards reform has been defined and is likely to be sustained. People must become confident that the money that they will infuse into a public compa-

ny (via taxes and via cross-subsidisation) will not be stolen by corrupt officials and equally corrupt public works contractors.

**Transparency in the technical and financial processes of the utility.** The complexity of processes such as rate-rebasing exercises, have prevented broader public discussion on pricing and the mechanics of regulation. Communities, however, have shown sufficient understanding of aspects of water administration such as metering and reticulation standards, as evidenced by village associations' campaigns to end bulk-water selling. Bantay Tubig worked with the United Homeowners' Association for Water to stop the bulk-water selling practice of Manila Water in their villages. Bulk-water selling involves the use of a collective "mother" meter installed at the gate of a village. The entire community is billed in commercial instead of household rates. Public access to the utility's books, capital expenditures maps, price indexes, audits, regulatory procedures, etc. should be ensured. This transparency will enable greater and more meaningful participation of communities, organisations, local government officials, and other stakeholders in policy and decision-making. This needs to be supplemented by new systems of representation and other institutional mechanisms that can discipline decision-makers, for instance board members at the Metropolitan Waterworks and Sewerage System (MWSS) who will alert the public when things are going wrong. An office for consumer's rights that can help prosecute erring officials is another option.

**A clear responsibility and accountability chain.** Both the pre-privatised and privatised water utilities were managed by bureaucrats and personnel who were largely unknown and inaccessible to the public. Only bill collectors and engineers dealt directly with users. There is a central Consumer Affairs Office, but queries and complaints will not be addressed at local branches of the utilities.

An alternative structure should indicate the responsible personnel for specific areas of water administration such as coverage issues, service issues, repairs, metering and billing, etc. Ideally, there should be locally assigned personnel to respond to communities' queries and concerns.

#### 4) *Financial sustainability*

Several studies have already explored the conditions attached to loans extended by development banks and multilateral agencies.<sup>6</sup> Since transnational companies have likewise renounced their willingness to invest in water utilities, financing remains a problematic issue for public alternatives. The following have been suggested as sources of alternative financing: co-financing between national and local governments; the corporatisation of water authorities, securitisation (floating municipal/city bonds for water system projects), etc.

**Cross subsidies and tariff adjustments.** A form of socialised billing has been implemented by private concessionaires, where the first ten cubic metres of water is charged at the lowest rate, with prices increasing progressively after certain volume levels are breached. However, the high connection costs (4,000-6,000 pesos or around \$100) have prevented the poorest households from obtaining piped water. High connection fees are thus the biggest barriers to universal access. Yet, ironically, in terms of water prices, many urban poor households use up to 20% of their monthly incomes to pay for vend- ed water sold at rates up to 500% higher than piped water. A typical Manila household consuming 30 cubic metres per month pays around \$4/month, while an urban poor household

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<sup>6</sup> Hall, David. 2004. Water Finance: A Discussion Note. Paper presented at the World Social Forum in Mumbai.

without a connection spends \$20/month to buy six cubic metres of water during the same period.<sup>7</sup> The poor household also has to bear the additional costs of collecting and transporting the purchased water, boiling and storage, health and sanitation risks. Manila Water has required communities to pay for service pipes leading to their houses, which is an often impossible obstacle for households that are some distance from the main pipes. In the slum areas the households also have to pay for “after-meter” pipes, which can be very expensive because Manila Water (unlike Maynilad) sets up the water meters at the entrance of the informal settlements, rather than near the dwellings.

Without the infusion of loans or capital outlays from the national government, it is becoming clear that universal access through zero connection charges, expansion and rehabilitation costs will have to be borne by subscribers. These will have to be financed through tariff increases for certain income groups – an issue that generates significant resistance given the record of the two concessionaires. Tariffs that will be charged to everyone can finance individual water connections and extension lines to whole communities. In effect, instead of the direct beneficiaries paying for part of the infrastructure costs upfront, it should be possible for a larger set of consumers to pay for these connections over longer period.

McIntosh outlines some principles that can be used to guide these tariff increases: 1) that those who have connections and especially those who have a 24-hour supply, should pay more so that those who are without access can get connections; 2) tariff structures should be adapted to the income profile of the city, which should be studied thoroughly before any

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<sup>7</sup> McIntosh, A. (2004) Asian Water Supplies: Reaching the Urban Poor. Asian Development Bank.

increases are proposed; and 3) there should be a ceiling on water affordability, ideally at five percent of a household's income.<sup>8</sup>

Bantay Tubig subscribes to these principles but only within a reformed public set-up; we cannot advocate further price increases under the current system or under the equally unviable pre-privatisation public set-up. That would be unjustifiable and impolitic given the previous price hikes that did not translate into service upgrades and coverage expansion.

##### 5) *Independent, functional regulatory system*

The need for regulation cannot be over-emphasised, even within a public setting. Regulation is necessary to ensure the consistent delivery of service obligations, to determine “efficient” pricing, to conserve water, to extract professionalism from managerial staff, and to ensure the financial viability of the utility (especially when public subsidies are involved). Regulators of public water utilities should have equity as an additional and explicit objective that might conflict with the regulatory function of devising “efficient” pricing patterns.

If the overall goal of water provision is to complement poverty reduction goals, such a conflict would be moot. Subsidies for water connections and even usage have been demonstrated to have significant impact on poverty reduction. Regulators of a public utility can be guided by such a principle and enforce a universal service obligation on connection, while balancing usage-related and other fixed charges.<sup>9</sup>

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<sup>8</sup> Ibid.

<sup>9</sup> Chrisari, O, Estache, A and Price, C. 2001. Access by the Poor in Latin America's Reform Subsidies and Service Obligations. World Institute for Development Economics Research.

## RANGE OF OPTIONS

The above elements of a public alternative can find expression in a range of options, whose merits and limitations are described briefly below:

### *Pure public*

Under this scenario, the entire utility is re-nationalised, the privatisation policy rescinded. Apart from being improbable (the Arroyo government does not show any indication of exploring this option, nor is there significant public clamour for it), this option requires the following: 1) The removal of Manila Water as east zone concessionaire. This is problematic given its marginally better performance record, compared to Maynilad and the pre-privatisation public utility. 2) Massive and swift reforms in the MWSS. A return to pre-privatisation management is simply unacceptable to Metro Manila residents and will only serve to discredit the advocacy for re-nationalisation. Unless a coherent and operational reform plan is devised, this scenario remains unimaginable at this juncture. 3) National/city resources for a takeover. The current government is mired in a fiscal crisis that may degenerate into an economic meltdown if not resolved within the next two or three years. There are no public funds to finance the utility.

### *Public operator versus private concessionaire*

A genuine takeover of the west zone can be engineered by a decisive national government which does not stand to lose anything it has not already conceded to Maynilad. Reforms will still have to be undertaken, but an infusion of fresh administrators and a new management structure can serve as a transitional

mechanism while a more comprehensive reform program is implemented. Manila Water remains in the east zone where it can provide a benchmarking function in terms of price and service levels. This prevents the publicly managed west zone from ossifying into another corrupt and inefficient government corporation. Manila Water's continued operations in the East Zone, however, are also far from ideal. Indeed, it has dramatically failed on its efficiency targets and urgently needs to catch up, without further tariff increases beyond inflation levels. It may be the case that the company's own financial limitations and commercial-mode of operations prevent it from implementing President Arroyo's agenda for universal piped service coverage in its franchise area. This would for instance require the abolition of all connection costs that are charged upfront to new (mostly poor) customers.

In cities like Washington, the threat of privatisation served to revitalise the moribund water utility. The case of the city's Water and Sewer Authority (WASA) demonstrated that the public sector can indeed perform efficiently given certain conditions: 1) financial autonomy; 2) the power to set fee structures according to certain processes insulated from political interference; 3) the power to raise funds (such as bonds); 4) the power to negotiate labour agreements (given the need for streamlining); and 5) quantified measures of "efficiency" that can readily be compared to those of the private sector, such as cost reduction rates, service levels, etc.<sup>10</sup>

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<sup>10</sup> Gutierrez, Eric, 2002. Washington D.C.'s Continuous Internal Improvement Alternative—An Initial Inquiry on PSP in Water and Sanitation in the US. London. WaterAid.

### *Smaller concessions, local governments' involvement in water utilities*

The proposal to split Metro Manila into smaller concession areas solves management problems endemic to a water utility that caters to 12 million people. The areas can be managed or supervised by local government units (or a cluster of local government units) which have 1) direct links with communities within their service areas, and 2) have the strongest political motivation to deliver water services to their constituencies. Local governments can also legislate to raise or allocate revenues for the water utility.

Comparisons can be made across local governments, some of which may choose to nominate private concessionaires at their own risk. The end-result is still the availability of benchmarking opportunities across communities.

### *Co-operatives*

Co-operatives in Binangonan, Rizal have been operating for 30 years on the outskirts of Metro Manila which remain unserved by concessionaires. These co-operatives have raised investment within their communities, jointly manage their water system and actually earn revenue, which they re-invest in the utility.

Yet, according to the Concession Agreement, concessionaires have the right to take over such co-operatives when they do expand to those areas, without having to compensate communities for their investments. This policy needs to be reversed. Communities must be encouraged to replicate the co-operative experiment, which has proven to be viable and participatory.

## **CONCLUSION**

The above proposals can be studied further, refined or combined to make public water a viable alternative even in as problematic a setting as Manila. The Manila water fiasco need not end as one of those insoluble southern crises that no one quite knows what to do about. The struggle against privatisation in Manila continues as we - local and international water activists - persuade our various publics, pressure national governments and IFIs, and work with communities to establish that our vision of public water is better because it works.

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