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Case Study: The Human Toll of Water Privatization in Manila

Under pressure of a heavy international debt load, the Filipino government turned over the management of Manila's water supply to two private corporations in 1997. With over 3 million residents of metro Manila lacking access to water, the system was unquestionably in need of improvement.[1] The deal was touted as the largest-ever water privatization to date,[2] and a trial balloon for the concession structure.

To deliver the city's water, two new corporations were created, as joint ventures of local Filipino elites[3] and water transnationals. Maynilad and Manila Water took over the western and eastern parts of the city, respectively. The World Bank's private-sector arm, the International Finance Corporation (IFC) designed the privatization plan and worked closely with the government throughout the bidding and implementation of the contracts. The IFC also invested directly in Manila Water, loaning $110 million to the new company and acquiring a $15 million equity – ownership – share in the new venture.[4]

Since then, water prices have soared, with increases between 450% - 850% for residents of each zone.[5] Quality has suffered, with severe public health consequences, and the much-needed infrastructure investment which was used to justify the privatization has failed to materialize. Instead, the privateers have cracked down on unbilled water and taken a heavy hand with their workforce and regulators to ensure a steady stream of profits without making the required investments to expand water access in the city. Manila's story exemplifies the problems which emerge when corporations control water. It also illustrates the privateers' reliance on World Bank support.

Incredibly, the World Bank continues to tout this as a flagship "success" story to justify further promotion of water privatization. Manila Water, the IFC's new poster child, was given a 15-year contract extension in January, 2010 with no competitive bidding, extending the current arrangement through 2037.[6]

The consequences of the Manila privatization for people's access to water are mixed at best; little of the infrastructure investment and expanded access that were promised by the bidders has materialized. This is not an accident – the very design of this enormous undertaking was flawed at the outset and deeply biased in favor of the privateers.

A Flawed Design: Self-Dealing and Corruption Throughout

By the time Ferdinand and Imelda Marcos fled the country in 1986 and Corazon Aquino took over the Presidency, the government already owed the World Bank $177 million which had been extended for water projects, but was mostly lost in the corruption of the regime between 1964 and 1986. As the Freedom from Debt Coalition summarized the problem, “accounts of pervasive corruption practices within the water system put to doubt whether these project funds were fully and strictly applied to necessary infrastructure projects.”[7] Instead of helping meet the needs of thirsty Filipinos, the World Bank’s lending had simply mired the system in debt with little to show for it.

The World Bank’s IFC designed the privatization[8] with profoundly anti-democratic features. Under the IFC plan, 90% of the existing debt load was allocated to Maynilad, with Manila Water taking just 10% of the obligation. This was particularly significant because the debt was denominated in dollars: within a couple of months of the contracts being finalized, the Asian financial crisis erupted, with a resulting devaluation of the Peso. As the value of the Philippine Peso dropped by half relative to the U.S. Dollar, the effect was a doubling of the value of the debt just as the country could least afford it.[9] The consequences of the devaluation were particularly crippling for Maynilad, given its disproportionate share of the debt.

The Maynilad contract in the west zone was run by a partnership of the powerful Lopez family and Ondeo Water, a Suez subsidiary. Privatizing an essential resource is bound to cause financial obstacles. When the corporation encountered liquidity problems in 2004, the government spent over 8 billion pesos to bail them out, in order to “preserve the integrity of the country’s water privatization program.”[10] Arguably, this could have been foreseen, regardless of the financial crisis; some devaluation was already expected.

Incredibly, Ondeo has acknowledged publicly that the unequal division of the debt between the two corporations was necessary to create the illusion of viability. In their response to a critical history published by Jude Esguerra, a Manila-based economist and spokesperson for the Bantay-Tubig (Water Watch) coalition, Ondeo wrote: “It is quite likely that the government did this as it saw the risk it ran of non-recovery if it shared the debt burden more equitably between the two contracts.”[11] The bailed-out corporation was taken over by DMCI Holdings and Metro Pacific Investments in 2006, with promises to restructure the underperforming utility. The eastern concession – Manila Water – has been more successful at earning a profit, if not in terms of expanding service delivery.

Perhaps the most worrisome feature of the privatization design was that it defined the water corporations as “contractors,” not public utilities in their own right. This means that the only obligations that can be enforced are contractual, and those only by the so-called “parties” to the contract. It also exempts Manila Water and Maynilad from being regulated as public utilities - for instance, exempting them from the legal maximum of 12% return on assets allowable for public utilities, as contrasted with Manila Water’s 1999 return, which exceeded 40%.[12] They have also succeeded in passing their corporate income taxes on to consumers, which are prohibited for public utilities.[13]

After “ring-fencing” most of the debt onto Maynilad’s books, the IFC made multiple investments in the more profitable east zone. Manila Water is a purpose-built corporation formed as a venture of (elite Filipino) Ayala Corporation and United Utilities (now a Suez subsidiary) along with Bechtel, Mitsubishi and several smaller investor-partners. The IFC loaned Manila Water $50 million in 2002,[14] $30 million in 2004[15] and $30 million in 2006[16], as well as purchasing a $15 million equity stake in 2004, in anticipation of the company’s stock market flotation in 2005. The IFC’s financial stake in Manila Water should raise questions about the conflicts of interest inherent when a development bank doubles as part-owner of a water corporation.

As is often the case when water is turned over to corporate control, the initial contract lasted less than two years before the companies demanded an Extraordinary Price Adjustment, which completely changed the agreed terms, and to many, undermined the legitimacy of the original bids. The biggest change was to shift foreign exchange losses directly and immediately to consumers. The original agreement included a mechanism for the companies to recoup these types of extraordinary costs on a periodic basis, in order to smooth the impact on water users. But now the Corporations would be immediately compensated for these losses, which was a raw economic deal for the city and eliminated important incentives for the corporations to use local suppliers and creditors. Ondeo has acknowledged that they expected the agreement to change all along: “The basic assumption of the contract in the way the IFC designed it (which bidders were not allowed to question) on the issue of forex loss recovery was very optimistic and not realistic. This, coupled with the division of the debt service into a 90/10 percent split between Maynilad and Manila Water, was a sure recipe for disaster.”[17] There is likely some truth in this claim - that an uneven debt split was necessary to sell the proposal, even in theory. But the IFC’s intentions must be questioned, given its subsequent investments in Manila Water which rewarded the Bank richly for its role in creating an artificial profit out of the city’s water crisis.

As written, the agreement looked like a compromise, granting the corporations a reasonable but not excessive profit in exchange for commitments to lower water rates, $7.5 billion investments in new infrastructure, and other key performance measures.[18] But in reality, sufficient evidence exists to document that the winning bids were “dive bids,” submitted to win the contract with the expectation of renegotiating once the commitment was in place. Economist Jude Esguerra has demonstrated, for instance, that had Manila Water’s bid included the price increases the company demanded less than a year into the privatization, it would have lost the bid to Philwater.[19] Thus, the premature rate-rebasing was seen by many to undermine the validity of the original bidding.

Compounding the flaws in the design of the IFC’s plan, a regulator was established with a sharply constrained mandate and dependence on the corporations for its budget and authorization for rate changes.[20] This type of “regulatory capture” was a problem throughout the privatization, from the premature price adjustment to the very definition of the corporations as “agents and contractors” rather than accountable public utilities.

Human Toll: The Failure of Water Access in Manila Today

Despite the Bank’s ongoing efforts to cast Manila as a “success story” in marketing water privatization around the world,[21] the picture on the ground tells the opposite story. Activists confronting similar projects in other cities are growing increasingly aware of the cautionary tale that Manila represents. For instance, in its coverage of the protests against privatized water in Indonesia, the Jakarta Post recently pointed to the Philippines as the country that “has suffered the most from water privatization among Asian countries.”[22]

The corporate takeover of Manila's water had severe impacts on prices, with water rates up more than 665% relative to the rates submitted by the two companies to win the contracts.[23] Hundreds of communities remain waterless with the high price of water pipe connections beyond reach for many. Quality has also suffered with severe health consequences; in one October 2003 case, 600 residents were sickened, and eight died when Maynilad's E. Coli level exceeded seven times the national limit.[24] The Freedom from Debt Coalition summarized the outcome after twelve years of corporate control: "Water rates have continued to skyrocket while service coverage has expanded at a dismal and discriminatory pace."[25] Today, only 55% of Metro Manila has access to household connections, with many families sharing a single connection with neighbors. A household water connection is still out of reach for the city's poor, priced above two weeks' pay at the official minimum wage,[26] in effect several months of income for the poorest 20%.[27]

Climate-related drought in the summer of 2010 pushed the exhausted infrastructure beyond capacity, causing severe water shortages for Manila residents. School and office closures and insufficient hygiene disrupted the quality of life throughout the city. A broad cross-section of civil society, from rice farmers and community groups to church and elected officials have protested current conditions. With policymakers calling for an inquiry and residents still wondering when they can count on their water, Manila can hardly be called the "success" the World Bank portrays it to be.

Manila Water has been more successful than its east zone counterpart on the metric that matters most to their financial backers: so-called "non-revenue water." Simply put, this represents the percentage of water that is pumped into the system but not billed for, being lost to leakage, inadequate metering, and unpaid or unauthorized connections. Maynilad's NRW rate stands at a very high 53%, while Manila Water has reduced its NRW rate from 63% in 1997 to a current low of 13%, lower than many wealthier cities.[28]

Reducing non-revenue water should not be confused with improving access. In many of the large cities a significant portion of the low-income population receives its water through unpaid connections. Measuring increases in amounts of water billed as opposed to measuring the water available for human consumption is an ideological framing that allows such perversions as the efforts by Bechtel in Bolivia to collect tariffs on traditional water sources including household wells and rainwater collection, leading to the famous Cochabamba water wars of 2000. In Manila, Maynilad has estimated that leakage accounts for only about half of unbilled or non-revenue water.[29]

The other key measure monitored by the World Bank is the downsizing of the utility labor force. In the first four years after privatization, Manila Water downsized from 2,165 employees to 1,530.[30] As this happened in conjunction with the introduction of over 100,000 new household connections, the number of staff per 1,000 connections (a common industry measurement of efficiency) went from 6.3 in 1997 to 3.6 in 2001, almost doubling the productivity or rate of exploitation of the workforce.

Due to low rainfall in the summer of 2010, water levels were depleted in the Angat Dam watershed, leading to shortages and rationing for the western half of the city. As a result, both corporations saw their water allocation reduced by about one third in response to the drought.[31] While both are run by private corporations, the discrepancy in performance points to the importance of strong oversight and enforcement with respect to infrastructure investment and service for low-income residents. One Manila resident and the country's former Director-General for Intellectual Property, Atty. Adrian S. Cristobal Jr. made this case in the Philippines Business Mirror: "...what many governments failed to understand is that privatization did not reduce the role of government… As a regulator of vital facilities and services like water and energy, the government's primary responsibility to the health and welfare of its citizens is to ensure the steady supply, quality and timeliness in the delivery of these basic goods."[32] Whether water utilities are completely served by the public sector, or whether aspects of the system are outsourced to private contractors, the need for vigilant public oversight remains the same.

With regulatory capture built into the IFC's privatization plan, the cozy relationship between the water corporations and the local regulators has contributed an additional layer of difficulty in Manila. In just one example of the revolving door between the regulators and the regulated, the current Public Works Secretary Rogelio Singson came to that role directly from his previous position as President and CEO of Maynilad.[33]

While environmental conditions brought the crisis to a head, many local commentators point out that the privatization laid the groundwork for the current crisis. Activist Arnold Padilla blogged in July 2010: "Among the many promises made by the private water concessionaires and hyped by the then Ramos administration to justify the privatization of the MWSS was upgrading the decrepit water system infrastructure. Such upgrade intends to substantially reduce non-revenue water… and help achieve universal and 24/7 water supply for an increasing number of households. In their original concession agreement with MWSS, the private water firms promised to provide universal access by 2001."[34] Clearly, the challenges posed by privatization were evident before the summer. For instance, in April, 2010, local advocacy coalition Water for the People Network mobilized protests to call attention to the preferential water access enjoyed by wealthier consumers, tourists and commercial establishments at the expense of working class household consumers.[35]

During the summer shortages, the Philippine press was flooded with personal accounts of the human toll, from school closures[36] to a lack of socializing due to embarrassment over the inability to bathe.[37] In one informal settlement, residents "took matters into their own hands" and broke a Maynilad pipe in their desperation for fresh water in the July heat: "At about 3 a.m., the neighbors queued at the freely flowing water source, lugging huge plastic containers and pails to collect water. But some couldn't endure the wait any longer and bathed on the street. 'It's been three days since I took a bath,' a woman said, smiling as she was interviewed by a GMA Network crew."[38]

Cause for Hope - Current Mobilizing and Alternative Visions

A broad range of activists and civil society, from water justice groups to the fisherfolk alliance Pamalakaya have called for an end to the failed policies of privatization. Pamalakaya Vice Chair Salvador France stated: "It pays to check the label and the label that is privatization of water services is nothing but a long-running poison and perpetual nightmare to consumers and the Filipino public."[39] Similarly, Representative Rafael

Mariano has called for an audit and an end to corporate control of Manila's water: "Aside from an effect of the recent drought, the current water shortage is part of the long-term effects of the government's water privatization policy… Privatization has been exposed to mean exorbitant water rates and poor services for consumers, massive retrenchment of water district workers, economic and physical displacement of peasants, fisher folks, indigenous people, and other severely marginalized sectors."[40]

From labor unions to policymakers to Church officials and farmers, the public's dissatisfaction is remarkable in its clarity. This is particularly noteworthy as we recall that the World Bank is still actively promoting Manila as a "success" story, used to market similar projects abroad. Indeed, even as Manila struggled under water shortages last summer, the IFC's new standard-bearer, Manila Water, was bidding to privatize water systems abroad, specifically in Bangalore, India and in Vietnam. IFC's insistence on calling this a success flies in the face of the lived experience of water users in the city. Freedom from Debt Coalition offered a frank assessment: "An overview of the outcomes from the past ten years lead to the conclusion that the results of the said scheme has in fact run counter to common good and, in turn, defeats the people's right to water."[41]

Several community organizations have been active in the call for equitable and democratic water policies for years, most notably the Freedom from Debt Coalition and the water justice network Bantay Tubig. FDC has consistently critiqued the rate increases, bailouts and exemptions granted to the water corporations and called for public control of water policies and resources. Bantay Tubig has been active on a community level, working with local water cooperatives to represent the needs of the most marginalised communities, for instance by negotiating waivers of land tenure conditions for informal settlers.[42] More systematic solutions have been proposed as well: FDC has proposed that if rates are increased to bail out the companies, these could be treated as a loan, or even as equity to transfer a share of ownership back to the public.[43]

The Manila story is important for two key reasons:

(1) It demonstrates how the World Bank's definition of a successful water project has been defined more by profitability than by actual access to water - and challenges their use of this case as a supporting example for promoting further water privatization, and

(2) It is archetypical, illustrating most of the key problems with water privatization: while the water system legitimately needed infrastructure investment, this was an inappropriate justification for the privatization, as the structure of the deal ensured that the private companies didn't need to actually risk any of their own capital, instead incurring further debts for taxpayers and water users, making a bad situation worse.

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[3] Esguerra 2003, 10.

[4] These investments were made in three transactions from 2002-2006, see later footnotes for links to World Bank summaries of each investment.

[5] Many different calculations have been used to quantify the tariff increases, although all agree the raise has been over 300%. The 450% - 850% statistic is sourced from the official Resolution taken by the Philippine legislature in July, 2010 to demand a full investigation of the concession contracts, *House Resolution No. 109, "A resolution directing the House Committees on Oversight and Government Enterprises and Privatization to initiate a comprehensive review and investigation into the Metropolitan Waterworks and Sewerage System (MWSS) contracts of water concessionaires Maynilad Water Services Inc. and Manila Waters Inc. and make immediate recommendations to address the current water shortage*," introduced by Rep. Rafael Mariano.

[6] http://www.abs-cbnnews.com/business/10/22/09/manila-waters-contract-extension-approved, as cited in David Hall, Emanuele Lobina and Violeta Corral, *Replacing Failed Water Contracts*. Public Services International Research Unit, January 2010. 5. Available online at: http://www.psiru.org/publicationsindex.asp.

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[8] Esguerra, 2003. 13.

[9] Neville, Kate. "Management Strategies and Institutional Barriers: An Analysis of Public-Private Partnerships in Water Management in Metro Manila, Philippines," in *Tropical Resources: The Bulletin of the Yale Tropical Resources Institute*. Volume 26, Spring 2007. 31-35. 32. http://environment.yale.edu/tri/publications/tropical-resources-volume-26/

[10] http://www.voxbikol.com/bikolnews/4791/more-privatization-aquino-uses-same-old-policies-predecessors

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[12] Freedom from Debt Coalition report: Recalibrating the Meter: A ten-year overview of the MWSS Privatization Deal. 2008. 40.

[13] Freedom from Debt Coalition report: Recalibrating the Meter: A ten-year overview of the MWSS Privatization Deal. 2008. 7.

[14] http://www.ifc.org/ifcext/spiwebsite1.nsf/2bc34f011b50ff6e85256a550073ff1c/710a2eb406002edc852576ba000e23e4?opendocument

[15] http://www.ifc.org/ifcext/spiwebsite1.nsf/2bc34f011b50ff6e85256a550073ff1c/8c26a1534a226766852576ba000e25ef?opendocument

[16] http://www.ifc.org/ifcext/spiwebsite1.nsf/2bc34f011b50ff6e85256a550073ff1c/050652ac3b2056c3852576c10080cd0b?opendocument

[17] Esguerra, 2003. 32. Ondeo response via correspondence from Jack Moss, Senior Water Adviser for Ondeo.

[18] Freedom from Debt Coalition report: Recalibrating the Meter: A ten-year overview of the MWSS Privatization Deal. 2008. 19.

[19] Esguerra, 2003. 23.

[20] Freedom from Debt Coalition report: Recalibrating the Meter: A ten-year overview of the MWSS Privatization Deal. 2008. 7.

[21] Reference Shayda's notes from Usha Rao-Monari comment at World Bank spring meetings, April 2011

[22] Jakarta Post, May 7, 2011: http://www.thejakartapost.com/news/2011/05/07/find-solutions-other-privatization-activists.html

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[25] Freedom from Debt Coalition report: Recalibrating the Meter: A ten-year overview of the MWSS Privatization Deal. 2008. Foreword.

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[36] http://services.inquirer.net/print/print.php?article_id=282378

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