



**CASE STUDY**

# Philippines: An exercise in successful utility reform in urban water sector in Manila



## Summary

Decades of underinvestment led to poor water and wastewater services and low coverage in Manila. Due to this poor service, the government was unable to increase its water tariffs due to customer's unwillingness to pay. This situation translated into very low cash flows for the government, thus leading again to the issue of underinvestment, which soon turned to a vicious cycle.

## Background

In the mid-1990s, Metro Manila's water sector was trapped in a vicious cycle characterized by decades of underinvestment that led to poor water services and low coverage. The circumstances were so critical that according to figures from the time only 26% of the 3.1 million customers of Metropolitan Waterworks and Sewerage System (MWSS) had water availability around the clock and merely 3% were covered by sanitation services. Additional to the intermittent supply, system losses accounted in almost 66% due to leakages and water theft. As a result of this poor service, the government was unable to increase water tariffs which translated into very low cash flows leading to underinvestment, where the cycle restarted. As MWSS was incapable of maintaining financially viable operations it was forced to accumulate debt worth close to 1 billion USD backed by government guarantees, which came at the expense of taxpayers countrywide. With the Philippines increased industrialization and population growth MWSS was confronted with a major challenge: to provide clean drinking water and sanitation services to the growing population of Metro Manila.

From 1991 to 1994, the country was affected by successive El Niño events. This led to the rationing of water supplies during the dry seasons, due to low volumes of stored water in the Agnat Dam, for its 9 million residents at the time.

In 1997 when Manila Water took over the water and sewerage system operations in Metro Manila from the then state-owned Metropolitan Waterworks and Sewerage System (MWSS) there were huge operational challenges and foreign debt. The company had in addition to deal with an aging water distribution system, addressing human resources concerns, managing public perceptions, and servicing almost 2 million customers.

## **Actions taken**

The President at the time, embarked on a reform agenda for Metro Manila's water sector as part of his vision of making the Philippines a "Newly-Industrialized Country" by 2000. With the necessary political support the National Water Crisis Act of 1995 passed, which pursued the involvement of the private sector to provide financial resources and operational know-how to the water sector, aided by the public-private partnerships program (PPP) to reform the water services.

Concession agreements could be signed which still provided the government the capability to retain ownership of the MWSS and select a private partner through a competitive bidding process. The concessions ensure that results are achieved according to what was agreed upon.

Decentralization entailed the empowerment of every employee regardless of rank or position. Thus, an elaborate training and development program was rolled out to develop the leadership and technical skills required for the company to continue expanding. A Cadetship Training Program for Manila Water was introduced and started in 1999 and became its medium to attract fresh talents and inject new life to the workforce. This management development program is an intensive six-month training where fresh graduates and young professionals with potential are immersed in the business. The cadets are trained to develop the highest level of technical, business and management skills with the goal of cultivating Manila Water's future leaders and managers.

## **Outcomes**

The performance-based concession made sure that Manila Water was able to make changes that address the challenges and problems. This success can be attributed to three drivers: regulatory pressure, business viability, and leadership focus.

To maintain a sustainable structure and efficient water and wastewater services for Metro Manila, Manila Water is aware of the need to ensure a balance between the interests of the consumers and the operators.

Manila Water remains optimistic that with continued diligence and cooperation from its stakeholders and partners, it will sustain the gains it has made so far.

The concession model needs further changes and improvements to make a difference. It has to have stronger institutional reforms that can utilize know-how and capital to help secure better and more efficient water supply service to the rest of the country.

## **Lessons Learned**

Manila water recognizes the need to constantly re-think, improve, and if necessary, revise the strategy in order to keep up with the challenges and issues that Manila Water continues to face moving forward.

Although there has been a lot of improvements, there still remains a challenge in continuing to comply with the water service obligations due in part to urbanization and constant increase in population.

Manila Water recognizes that as it outlines its future plans, it is crucial that the organization develops new strategies to mitigate the impacts of the challenges and issues that it will have to face.

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