

Manila Water Company

COMPANY BACKGROUND

Manila Water Company (MWCI) operates a 25-year concession for the water and wastewater system in Metro Manila's east service zone, a 1,400-square kilometer area encompassing the province of Rizal, with 23 municipalities and home to 6.1 million people. Following the 1995 Water Crisis Act, the floundering state-owned and operated Metropolitan Waterworks and Sewerage System (MWSS) was privatized in 1997 by partitioning its operations into two east-west concessions and offering them in an internationally competitive tender. The Manila Water Company was established by the consortium winning the tender with the lowest tariff bid of PHP 2.32 per cubic-liter, 73.6% below the prevailing rate.

In 1997, the Ayala Group, one of the largest holding companies in the Philippines, took a controlling 52.7% interest in the newly-formed Manila Water Company, which immediately sought to address the system's chronic problems. Becoming profitable in 1999, the company continued to expand, and in 2005 was listed on the Philippine stock exchange. Today, Ayala retains a 32% stake, followed by Mitsubishi Corporation and IFC with 8.29% and 3.87% respectively, and the public and MWCI employees with the remaining 55.84%

MANILA WATER'S INCLUSIVE BUSINESS MODEL

Manila Water's inclusive business model, Tubig Para Sa Barangay (TPSB), or Water for Poor Communities, is designed to reach low-income communities based on a clear business case: underserved, low-income households demonstrate a willingness to pay for safe, reliable water and connecting them means reaching new markets while reducing costs from inefficiencies and illegal connections.⁶ The TPSB model creates partnerships with local government units (LGUs) and community-based organizations (CBOs) to actively include communities themselves in the design and implementation of water supply systems. This establishes positive incentives for all stakeholders and helps ensure the success and sustainability of the program.

These partnerships are formalized in Memoranda of Agreement (MoA) that legally define each party's financial and operational roles. Broadly, Manila Water takes responsibility for installing infrastructure, including pipes and meters, while local and municipal governments help reduce the cost, for example by waiving permit fees, providing small subsidies, or offering construction labor.⁷ Communities may determine their own level of participation; this is typically high, especially in low-income neighborhoods, where CBOs or LGUs are responsible for collecting and remitting fees to Manila Water, monitoring and maintaining systems, and preventing pilfering. Exact obligations are negotiated for each community or municipality.

Program costs are typically shared between Manila Water, municipalities and communities, although the communities typically remit payments

postcompletion, leaving MWCI to bear the bulk of initial capital expenditures. For the 2004–2009 period, the company allocated PHP 19 billion (\$351.85 million) for TPSB capital expenditures, funded directly from operations and borrowing. The precise cost-sharing breakdown is decided per MoA, but the PHP 1.3 million Quezon City project serves as an illustrative example: MWCI bore 46.2% of the cost, while the municipal government and community shared 38.4% and 15.4%, respectively.⁸ The community component typically represents the cost of bringing water from central metering points to individual households, although both MWCI and LGUs offer financing mechanisms to reach as many homes as possible.

Communities themselves are central to the efficient and cost-savings components of Manila Water's inclusive business model. By visibly placing water meters in side-by-side arrangements in public areas, meter monitoring becomes easier and the community can regulate itself as water use and fees become more transparent. In informal settlements or very low-income areas where land ownership is a problem, bulk metering and cost-sharing programs enforce self-monitoring through collective responsibility. The community also assigns or elects individuals to administer collections, monitoring and maintenance, which directly supports local employment. These methods help build a sense of local ownership and responsibility that enhances the system's good repair, promotes on-time payment, and discourages water pilfering. This results in superior service and water quality for the community and lower costs for Manila Water.

6 Baclagon, Maria Lourdes et al. 2004. "Water for the Poor Communities (TPSB), Philippines." Pro-poor Water and Wastewater Management in Small Towns, United Nations Economic and Social Commission for Asia and the Pacific. Page 12.

7 Ibid., page 40.

8 Ibid., page 43.

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DRIVERS FOR MANILA WATER'S INCLUSIVE BUSINESS MODEL

- MWCI's concession agreement and associated operational targets
- Reducing system inefficiency costs and increasing metering and payment
- Reducing water contamination from aging or illegal water lines

When Manila Water Company began operating the concession in 1997, only 58% of the population had water service and only 26% of the service area offered 24-hour access. With a mere 1,500 connections, Manila's low-income households were especially underserved, forcing people to meet their needs for drinking and cooking water by fetching it from public faucets, buying it at inflated prices from street vendors, or tapping illegally into nearby pipes. Combined with physical losses from leaky pipelines, non-revenue water levels were as high as 63%. Meanwhile individuals buying from street vendors faced prices up to 16 times above MWCI tariffs, not to mention the health risks

of a nearly non-existent sewerage system that reached just 3% of the population.⁹

To remedy this situation, the service zone concession agreement set 23 operational targets, which formed the primary driver for Manila Water's inclusive business model. These targets included increasing water and sewer coverage, achieving 24-hour supply, meeting water quality and environmental standards, and decreasing non-revenue water. To enforce them, Manila Water was obliged to post a \$70 million performance bond that permitted the government to withdraw up to \$50 million from the bond for non-compliance.



IFC'S ROLE AND VALUE-ADD

IFC acted as lead advisor for MWSS's privatization, designing the operating agreement and overseeing the bid. This marked the first large-scale water privatization initiative in Asia. However, to meet the concession targets, Manila Water required an estimated \$2.72 billion over the concession period. The privatization also coincided with the Asian financial crisis, leading to a near doubling of Manila Water's existing foreign-denominated debt burden, which included a concession obligation to take on 10% of MWSS's outstanding loans. MWCI thus required significant long-term financing during a time that markets were constrained and shaken.

IFC provided Manila Water a \$30 million loan in 2003, a \$15 million equity investment in 2004, and an additional \$30 million loan in 2005. Advisory services supported these, helping the company rewrite its corporate governance manual and develop a sustainability strategy, marking the first time a Philippine company publicly disclosed its environmental and social performance on an annual basis. IFC's involvement also served as a stamp of approval supporting the company's 2005 IPO, which raised an additional \$97.8 million.

RESULTS OF MANILA WATER'S INCLUSIVE BUSINESS MODEL

- EBITDA increased from PHP 277 million to PHP 8,405 million between 1999 and 2011
- The TPSB program has reached 1.7 million people
- 99% of customers have 24-hour water availability
- Customers now pay 20 times below per cubic meter rates previously charged by water vendors
- Recognized as a winner of the G20 Challenge on Inclusive Business Innovation

Manila Water turned a loss-making operation into a financial, social, and environmental success story. EBITDA grew from a PHP 37 million loss in 1997 to PHP 277 million in 1999 and reached PHP 8,405 million in 2011, an average increase of 32.89% per year. Manila Water has also successfully met its concession targets. By 2011, a total 4,156 kilometers of pipeline had been laid and MWCI served over one million households, reaching over six million people, with 1.7 million individuals benefiting under the TPSB program. These customers have 24-hour access in 99% of the distribution area, at water pressures high enough to conveniently use faucets and enable indoor plumbing.

System losses and non-revenue water have fallen dramatically, coming down from 63% in 1997 to 11.2% as of year end 2011, surpassing the concession obligation. This has reduced costs for the company and customers alike, and connected households now pay 20 times below per cubic meter rates previously charged by water vendors. MWCI's efforts have achieved

100% compliance with national drinking water standards, with a direct, positive impact on people's health: the Department of Health reported a 51% reduction in diarrhea cases from 1997 to 2008. Finally, by providing local communities the opportunity to collect fees, monitor meters, and service pipelines, Manila Water's inclusive business model has generated over PHP 25 million in new jobs, benefiting 850 families over the last several years.

Manila Water was recognized as a winner of the G20 Challenge on Inclusive Business Innovation at the G20 Leaders Summit in Los Cabos, Mexico in June 2012.

⁹ McIntosh, Arthur C. and Cesar E. Yñiguez. 1997. *Second Water Utilities Data Book: Asia and Pacific Region*. Manila: Asian Development Bank. Cited in Comeault, Jane. 2007. "Manila Water Company: Improving Water and Wastewater Services for the Urban Poor." *Growing Inclusive Markets Case Study*. New York: United Nations Development Programme (UNDP). Page 8.

¹⁰ Baclagon et al. 2004, page 43.



IFC's Investment:

\$60 million in long-term debt financing and \$15 million in equity