



# Public-Private Partnership Stories

## Philippines: Manila Water



The privatization of the Metropolitan Waterworks and Sewerage System (MWSS) and subsequent investments have dramatically improved water and sewerage services for more than 11 million people living in metropolitan Manila. The majority of households now have reliable and affordable 24-hour access to clean water. Private partners are investing \$7 billion to expand and improve the water and sewerage systems, resulting in better service, lower rates, and significantly fewer leaks and illegal connections.

At IFC's recommendation, the MWSS service area—covering all of metropolitan Manila—was divided into two geographically separate zones: the east zone, which includes much of the Makati business district and expanding suburbs in the east, and the west zone, which includes old Manila and the southern province of Cavite. Two consortia, the Manila Water Company and Maynilad Water Services, won the 25 year concessions for the east and west zones, respectively. The privatization required the transfer of operational and investment responsibilities to the private operators, and an independent regulatory unit was established within MWSS to monitor and enforce the concession agreements. The concessions were awarded in January 1997.

*This series provides an overview of public-private partnership stories in various infrastructure sectors, where IFC was the lead advisor.*

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*Manila Water Company launched a “Water for the Poor” program which allows residents in the poorest neighborhoods to pay just \$1.50 a month for clean water. This is a fraction of what they paid before.*

## BACKGROUND

Metropolitan Manila had one of the oldest and least efficient water systems among major Asian cities. Metropolitan Waterworks and Sewerage System (MWSS), the government agency responsible for delivering water and sewerage services to residents, was heavily indebted, overstaffed, and inefficient. In 1995, three-quarters of the homes in the eastern half of Manila lacked 24-hour service and only 8 percent had sewerage connection. Almost two-thirds of the water produced was being lost to leaks, poor metering, and illegal connections.

Metro Manila's population was rapidly expanding, with many people moving in from rural areas and settling in areas with inadequate or nonexistent water and sanitation services. The poor were forced to buy water from private street vendors and kiosks, often paying up to seven times more per liter than MWSS customers. Various studies indicated that metro Manila would soon be facing serious water shortages if nothing was done to correct the operational and infrastructure problems.

In 1995, the Government passed the Water Crisis Act, which set the framework for fundamental changes in the sector. The centerpiece of the Government's strategy was the decision to privatize MWSS to improve the quality and coverage of water and sanitation services, increase operating efficiencies, and eliminate the financial burden of capital expenditures.

## IFC'S ROLE

In late 1995, the Government of Philippines hired IFC as lead transaction advisor for the privatization of MWSS. Following IFC's detailed review of the technical, financial, economic, and political considerations, the government decided to divide the MWSS system into two geographically separate concession zones. The east zone was home to 40 percent of the metro population, while the west zone housed 60 percent. Dividing the concession area would facilitate the tasks of the regulatory agency that was to be established and allow comparisons between the two.

IFC helped the Government design, manage, and implement a competitive and transparent bidding process for two parallel 25-year concessions. For bidding and competitive purposes, it was ruled that the same bidder could not win both concessions. IFC also helped the government establish a Regulatory Office within MWSS to monitor and enforce the terms and conditions of the concession.

## TRANSACTION STRUCTURE

Each concession would be a vertically integrated utility responsible for both water and sewerage services within the respective area. The structure was expected to: (i) promote competition in the bidding process, (ii) balance the negotiation power between the concessionaires and the newly established regulator, and (iii) provide an independent performance benchmark for the concession period.

The new operators would be subject to full commercial and investment risks, and their profits would depend on their ability to keep costs below revenues. At the same time, they would be responsible for expanding the network to meet aggressive performance targets, including: elevating water pressure to 16 pounds per square inch, offering uninterrupted 24-hour service within five years, immediately complying with Philippine national drinking water safety and water effluent standards, and providing

universal water coverage within 10 years and 83 percent sewerage and sanitation coverage within 25 years.

## BIDDING

Four prequalified consortia, each consisting of at least one prominent Filipino company and one international water operator, submitted bids for each of the two concession zones. The two winning consortia were Maynilad Water Services (Benpres Corporation, Philippines and Lyonnaise des Eaux, France) for the west zone and Manila Water (Ayala Corporation, Philippines, and International Water, UK-USA) for the east zone. The concessions were awarded based on the lowest average water tariff bids.

## POST-TENDER RESULTS

- The winning bidders are investing \$7 billion to expand and improve metropolitan Manila's water and sewerage system, resulting in better service, lower rates, and significantly fewer leaks and illegal connections.
- Rates initially dropped 74 percent in the east zone and 43 percent in the west.
- In the east zone, households with 24-hour access to water increased from 26 percent in 1997 to 99 percent in 2006, and system losses have been cut in half. Sewerage connections doubled over the same period.
- IFC invested \$75 million in the Manila Water Company for major upgrades to the water and sewerage system. The expansion has resulted in a doubling of the company's overall customer base, which includes 1.6 million poor people.
- Manila Water Company launched a "Water for the Poor" program which allows residents in the poorest neighborhoods to pay just \$1.50 a month for clean water. This is a fraction of what they paid before.
- The Global Partnership on Output-Based Aid provided a \$2.8 million grant to expand the Water for the Poor program to the most marginalized communities.

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