

AN EXERCISE IN SUCCESSFUL UTILITY REFORM IN URBAN WATER SECTOR IN MANILA

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Description

In the mid-1990s, Metro Manila's water sector was beholden to a vicious cycle. Decades of underinvestment led to poor water/wastewater services and low coverage. Due to this poor service, the government was unable to increase its water tariffs due to customers' unwillingness to pay, further aggravated by poor collections from them. This situation translated into very low cash flows for the government, thus leading again to the issue of underinvestment, where the cycle restarted.

The facts and figures from these times illustrate how dismal the situation was:

- Only 26% of the 3.1 million customers of Metropolitan Waterworks and Sewerage System (MWSS) at the time had 24/7 water availability.
- System losses clocked in at almost two-thirds of water produced, amounting close to 1,000 million liters per day. This is equivalent to saying that for every one cubic meter sold to the public, two cubic meters were lost to either physical leaks or pilferage.
- A measly 3% of customers were covered by sanitation services.
- Efficiency-wise, MWSS employed 9.8 employees per 1,000 connections, which was 2 to 7 times more than other major Asian capitals.¹

The vicious cycle, within which MWSS found itself, made it incapable of maintaining financially viable operations. To fill in the revenue gap, it was forced to accumulate debt worth close to US\$1 billion backed by government guarantees over the years. On top of this, it was often extended fiscal subsidies under the "guise of increased equity" infusions from the National Government.² This was the reason why there was little incentive to improve performance, which permitted the complacency to subsist in an ever-worsening state of water and wastewater in the National Capital Region. At the end of the day, MWSS could always rely on the National Government to bail it out. The problem, of course, is that the bailout would come at the expense of taxpayers countrywide, while the benefits of these subsidies would accrue only to those living in Metro Manila. As such, the problem of poor water and wastewater services in Metro Manila was compounded by a social equity issue as well. The perfect storm was brewing over the ocean and making its way towards the landmass with its inhabitants sound asleep. It was this storm that would ignite the sea of change to follow.

From 1991 to 1994, the country had fallen victim to successive El Niño events. For Metro Manila, this translated into the rationing of water supplies during the "dry seasons" (March to June) for its 9 million residents at the time. The metro's main source of raw water – Angat Dam – could not cope with the demand during these months as the amount of impounded water stored was reduced to unsustainably low levels. Not only was MWSS a financial burden to the state; it was also failing miserably in fulfilling its mandate to bring water to the taps of Metro Manila's residents and institutions. The Executive branch took notice.

Action taken

As chance would have it, a reform-minded President in the person of Fidel V. Ramos took control of the government in 1992. Remembered most for his resolution of the power crisis of the early 1990s and the deregulation and liberalization of the telecommunications sector, he was also a key agent behind the involvement of the private sector in MWSS' operations in the latter half of the decade.

¹ Ibid.

² Ibid.

Surrounded by the right people (reformists) with the right ideas (liberalization and privatization) at the right time (the water crisis of the early 1990s), Ramos embarked on a reform agenda for Metro Manila's water sector as part of his larger national vision of the Philippines reaching "Newly-Industrialized Country" status by 2000. The reason for the focus on the National Capital Region was obvious: its activities contributed an average of 30% to the national economy from 1990 to 1995.³

Mustering the political support, Ramos was able to urge Congress to pass the National Water Crisis Act of 1995, which, among other things, sought the involvement of the private sector to provide the financial resources and operational know-how in order to reverse the years of underinvestment and poor efficiencies in Metro Manila's water and wastewater systems. After MWSS' public bidding activity, Manila Water was selected as the winning party of a 25-year concession for the Metro Manila East Zone. The East Zone is composed of 23 cities/municipalities⁴ with an estimated population of 6 million⁵.

Upon taking the reins in the East Zone, Manila Water was immediately faced with daunting challenges: run-down facilities, a dilapidated workplace, labor unrest, and poor operating efficiencies. However, with the assurance of a concession model that provided the necessary environment for private investments to flourish, Manila Water started pouring large amounts of capital to refurbish, replace and expand the physical assets of East Zone's water distribution system. Yet, as necessary as capital spending was and still is, it was not sufficient to ensure that Manila Water would achieve the concession's objectives.

A corporate transformation – a change in how the operator managed its resources to achieve the most optimal outcomes – was required. Willful and directed organizational change was the key and had to penetrate every nook and cranny of the organization. To effectively accomplish this, management needed to transform its workforce from "reactive and complacent" to "proactive and responsible". To this end, the company pursued a strategy to develop its key assets – its employees – through a three-pronged program of decentralization, incentivizing and training and development.

Decentralization entailed the empowerment of every employee regardless of rank or position. Each was expected to take charge in his or her area of assigned work. In return for assuming these responsibilities, the employee was either rewarded or penalized for their accomplishments under a system of performance-based incentives, which measured performance in terms of actual outputs/outcomes against those targeted at the beginning of each calendar year. To complement this system that put a premium on individual accountability and rewarded the good performers, an elaborate training and development program was rolled out to further develop the leadership and technical skills required for the company to continue expanding over the long-term.

These management initiatives transformed the absorbed MWSS employees – which comprised more than 90% of Manila Water's workforce in 1997 and still comprises around 70% in 2012 – from being perceived formerly as "liabilities" into true assets. It was upon their shoulders that Manila Water owes its years of success.

Results and lessons learnt

With its financial muscle prudently and efficiently deployed, coupled with a managerial approach primarily hinged on its ability to bring out the best from its employees, Manila Water has been able

³ Computed using time-series data retrieved NEDA's Economic Indicators Online on 13 February 2012.

⁴ The East Zone covers the cities of Makati, Pasig, Mandaluyong, Marikina, San Juan, Taguig, most parts of Quezon City, some parts of Manila, the municipality of Pateros and some cities and municipalities in Rizal Province.

⁵ Population figures based on 2012 estimates.

to conquer feats which were deemed insurmountable by skeptics (now turned converts) of the 1997 auctions of the MWSS concessions. Most notable of these feats include:

- Over PhP 60 billion investment since takeover
- Service of MWSS debt obligation amounting to about PhP 6 billion by end 2012
- Reduction of non-revenue water from 63% in 1997 to 12% in December 2012
- Delivery of 1,181 mld of potable water to the East Zone as of December 2012 compared with only 440 mld in 1997
- 99% 24/7 potable water supply coverage for 6 million customers in 2012 versus 26% for 3.1 million customers in 1997
- Of the approximately 3 million additional customers in the East Zone, more than half (about 1.7 million) came from poor households who used to rely on poor quality vended water which cost as much as 20 times more than the rates charged by Manila Water
- 24 hours/day water availability in 2012 against 16 hours/day in 1997
- Improved operating efficiency, as evidenced by the reduction of employees per household connection from 9.8 in 1997 to only 1.02 in 2012
- Consistent 100% “Very Good” rating from Manila Water’s customers in the Public Assessment of Water Services since 2008
- The lowest water rates among the country’s top metropolises – a mere PhP 8/m³ – for low income families
- Highly competitive tariff rates for average East Zone residential consumers at only PhP 20/m³
- Ever-improving corporate financials: from a net income of negative PhP 38 million in 1997 to PhP 5 billion by end-2012
- Global recognition of performance, as evidenced by the numerous awards and citations from various local and international institutions

The next big challenge for Manila Water lies on the environmental sustainability front, particularly, wastewater. Now that water supply coverage is reaching completion, the shift is towards expanding the wastewater system in Metro Manila to deal with the ever-worsening state of water pollution due to the lack of infrastructure to treat domestic, commercial and industrial wastewater to more acceptable levels. The capital and operating expenditure behind wastewater operations are proving to cost much more than water supply operations, forcing Manila Water to find innovative solutions to the growing problem, while keeping tariffs at affordable levels for the residents of the East Zone.

Another major threat is the public’s and government’s taking-for-granted the quality of water service and coverage delivered by Manila Water. After reaping the benefits from Manila Water’s early achievements on the water supply front, certain quarters of society have taken a populist stance and begun looking for reasons to mangle the Concession Agreements in search for ways to reduce tariffs. A change in the “rules of the game” mid-stream would certainly cause difficulty for Manila Water to continue delivering its world-class services and hamper its ability to deliver on its future commitments, especially on the flipside of water supply, that is, wastewater.

Despite these trials, 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. Building on its past successes, Manila Water will ride the momentum it has created for itself to bring in the next wave of “new roads (and pipelines)” for its East Zone customers.