# The water case: increased rates for poorer services

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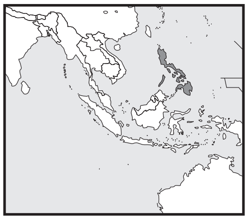

In August 1997, the government-run facility that provided safe drinking water to 11 million Metro Manila residents, the Metropolitan Waterworks and Sewerage Services (MWSS), was privatised. The MWSS story belies the claim that privatisation automatically provides additional funds to government or improves the efficiency and effectiveness of the management of companies. What it bolsters, however, is the concern that cost-recovery and profit-making are the primary goals of privatisation–even at huge economic and social costs to consumers and citizens.

## The three waves of privatisation

In 1984, under pressure from mounting debt, the Marcos administration accepted a World Bank condition to formulate a policy that defined and explicitly limited the participation of government-owned or controlled corporations (GOCCs) in the economy. The policy also called for the disposal of non-revenue-generating GOCCs and the generation of funds from their sale to finance key development programmes, such as agrarian reform. During her first year in office (1986), President Corazon Aquino announced that she would continue implementing her predecessor's privatisation policies.[1]

Privatisation has taken place in three waves,[2] characterised by the Department of Finance (DOF) as the following: «reprivatisation» (first wave), aimed at raising revenues; «infrastructure privatisation» (second wave), aimed at mobilising the private sector to build infrastructure; and privatisation of the «social sectors» (third wave), in which the government sees its role as that of «enabler».[3]

The first wave began right after the 1986 EDSA Revolution that toppled the Marcos regime, and involved the disposal of GOCCs, most of which were linked to the cronies and relatives of deposed President Marcos. The second wave began in 1990, first encompassing the power sector and, later, other sectors such as infrastructure (roads, airports, sea ports), utility (water), and even information technology. The third and current wave, which started in the mid-1990s, is expected to cover social services such as housing, health, postal services and pension funds.

## Accessibility problems in quality public education

Primary and, to some degree, secondary education remain largely under government control. However, in the areas of pre-school, technical/vocational and higher education, the private sector plays a big role. In 1997, the private sector accounted for 51.4% of total pre-school enrolment, 82% of technical/vocational enrolment, and 79% of college enrolment. In 1997, it contributed 42.7% of total education spending.[4]

The problems faced by the public education sector are not simply about access but also about quality. Although net enrolment is relatively high by regional standards, completion rate for primary education has not gone beyond its 1990 level of 67.6%. Poor quality is cited by various government-commissioned studies as a major factor in low primary school completion rates. More teachers, textbooks, and classrooms are critical for upgrading the quality of basic education and improving completion rates. By providing more resources for primary and secondary education, implementing budgetary reforms would go a long way toward creating higher social returns.

## Quality health care: inaccessible and unaffordable for most

Access to public health care is a different story. Whereas education generally receives 18% to 22% of the national budget—surpassed only by debt servicing and local government allocations—health allocations have through the years consistently hovered at 3%. Worse, only 1% of the poor is covered by the government's health insurance system. Moreover, the National Health Insurance Programme is biased toward hospital care, usually available in urban, middle class communities, but often inaccessible to residents of rural areas. Public health specialist Jonathan Flavier states that quality health care, inaccessible and unaffordable for most, has long been «privatised».

Government policy in the last five years has been to encourage public hospitals, especially the specialised ones (e.g., heart, lung, and kidney centres), to become financially self-reliant by undertaking, among others, cost-recovery measures. This type of privatisation scheme, referred to as the «corporatisation» of public health care, is often justified on the grounds of social equity, since many patients of specialised hospitals come from the middle and upper classes and, therefore, can afford to pay.

It cannot be denied that these hospitals, through their indigent programmes, also cater to many of the poor. Thus, it is important that revenues from «corporatisation» efforts directly benefit health programmes for the poor. Current efforts at cross-subsidies have drawn a lot of public criticism because of design and implementation problems. But this does not mean that these should be scrapped, just improved upon. However, for the long term the State must prioritise basic health by increasing its budget—something not high on the Arroyo administration's list. The 2003 health budget is projected to decrease by 4% while defence spending is expected to increase by 7%.

## Privatising public utilities: the case of water

In August 1997, the government-run facility that provided safe drinking water to 11 million Metro Manila residents, the Metropolitan Waterworks and Sewerage Services (MWSS), was privatised. This move—touted the biggest ever in the world of a water service utility—was hailed by its chief architect, the World Bank.[5] However, the results of the MWSS privatisation have revealed many pitfalls.

1 Leonor Briones. «Impacts of Privatization on Distributional Equity: The Case of the Philippines». Paper presented at the *Interregional Expert Group Meeting on the Impacts of Privatization on Distributional Equity*, UNDP, 20-24 September 1993 in New Delhi, India.

2 Lauro Ortile. «Privatisation in the Philippines». *Challenges and Opportunities in Energy: Proceedings of the 2nd Workshop on Economic Cooperation in Central Asia*. 1998 Manila: Asian Development Bank. <www.adb.org/Documents/Conference/ CAREC/Energy/chap15.pdf>

3 Filomeno Sta Ana. «Reforming the Pension System: Is Privatization a la Chile the Best Route?» Unpublished paper, 1997.

4 Rene Raya. «Financing Education in the Philippines». Action for Economic Reforms. Unpublished paper, December 2001.

5 Violeta Q. Perez-Corral. *MWSS: Anatomy of a Privatization Deal*. Quezon City: Freedom from Debt Coalition, 1998.

The privatisation of the MWSS was a «build-operate-transfer» arrangement. Under this scheme, ownership remains with the government but the facilities, properties, receivables, supplies, inventories, including all records and transactions, are turned over to the private sector. After 25 years, everything that was leased to and built by the concessionaires would revert to the government. A government regulatory office (RO) is responsible for setting the water rates and ensuring compliance of contracts by the concessionaires.

The winning bidders came from two Filipino oligarch families, the Ayalas and the Lopezes. They secured their bids by joining forces with two major global water companies—International Water (USA), and Lyonnaise des Eaux (France) respectively. The Ayala-led consortium, Manila Water Company, Inc. was awarded the East Zone concession; while the Lopez-led consortium, Maynilad Water Services, Inc., took over the West Zone concession.

The privatisation of the MWSS was intended to resolve the ongoing water crisis. Both concessionaires were expected to improve water supply (then, covering only 67%); expand sewerage services (then, with 8% coverage); and, reduce the 58% water losses (also called non-revenue water or NRW) due to pilferage and leaks. They also promised to lower water rates.

Less than a year after the awarding of their contracts, both concessionaires applied for rate increases at the RO. Fiercely opposed by citizens' groups, it was not granted. By early 2001, however, the two companies were pushing for contract revisions that would allow them to adjust water rates even without the approval of the RO. According to the two concessionaires, they were incurring losses as a result of exchange rate devaluation resulting from the Asian financial crisis, and required the flexibility to automatically adjust prices as needed.[6]

Despite huge protests by citizens' movements, President Arroyo, through the MWSS Board, approved an amendment of the concession agreement in October 2001, which gave Maynilad and Manila Water the power to automatically increase water rates without RO approval.

## «Increased rates for poorer services»

In 2002, four years after privatisation, West Zone residents pay an average basic charge of PHP 15.46 (USD 0.30) per cubic meter of water, an amount higher than the pre-privatisation rate of PHP 8.78 (USD 0.17). East Zone residents, meanwhile, pay a lower rate of PHP 6.75 (USD 0.13) per cubic meter. However, additional costs such as the 10% VAT and the 10% environmental charge mean that the actual water rate of Maynilad is PHP 20 (USD 0.39) per cubic meter while that of Manila Water is about PHP10 (USD 0.20) per cubic meter—rates that are higher than before privatization.[7] Petitions from the two companies for another round of water price increases in January 2003 were recently granted. In particular, Manila Water was granted a rate increase of PHP 14.22 (USD 0.28) per cubic meter starting 1 January 2003 to be followed by yearly adjustments until 2005. On the other hand, Maynilad applied for a new rate of PHP 30 (USD 0.59) but was granted only PHP 26 (USD 0.51). The petitions are based on the rate-rebasing scheme that has been made mandatory under the amended contracts.[8]

A study by the Freedom from Debt Coalition (FDC) reveals that efficiency has not improved under the privatised regime. From 1997-2001, the proportion of NRW was actually 7% higher for Maynilad. NRW also rose from 45.2% to 48.3% in the case of Manila Water in spite the fact that they targeted NRW to go down by 16%.[9] Moreover, a fifth of the residents in the East and West Zones are still not connected to the water system.[10] Worse, under the amended contract, the concessionaires have been allowed to lower or postpone their performance targets. Little wonder then that many citizens' groups have criticised the government for «*dagdag presyo, bawas serbisyo*» (increased rates for poorer services).

Furthermore, not all MWSS financial obligations were absorbed by Maynilad, as required by the contract. The MWSS, for instance, had to borrow money to pay for the maturing loans of Maynilad, which had also requested a moratorium on payment of all concession fees since 2001 due to its ongoing financial difficulties.

The generous leeway given to Maynilad by government apparently was still not enough. In December 2002, Maynilad filed a notice of termination to the MWSS claiming that it was not able to live up to its responsibility of addressing lenders' concerns, a provision stipulated in one of the amendments written into the contract. As such, Maynilad was not able to clinch a USD 350 million loan from the Asian Development Bank and a number of private commercial banks, because of nagging doubts about Maynilad's viability.

As far as the MWSS—as well as citizen groups like FDC—are concerned, Maynilad enjoyed too many concessions and had only to look at its own backyard to explain its economic woes; inefficiencies in disbursement of funds, misprioritised spending (e.g. higher-than-average salaries of executives). But one cannot overlook the bigger picture to get a better sense of Maynilad's economic straits: its parent company, Benpres, long since in the red, faces USD 600 million in maturing loans. The word is out that banks are not willing to extend any more credit. As such, FDC asserts that this has severely affected Maynilad's capacity to invest in improving services. Government has stepped in and is calling for a compromise: one option is to give Maynilad a five year moratorium of payment of concession fees, which would mean PHP 14 billion (USD 262 million) of revenue losses for government. A legal battle has now ensued and the issue lies before an arbitration panel. Groups like FDC are gearing up for mass actions demanding that government stop coddling the Lopez oligarchs, and to take over the Maynilad operations of the West zone.

If privatisation is to work for both private investors and the public interest, a number of measures must be put in place. For one, a strong regulatory framework that effectively checks unethical corporate behaviour should exist. This includes the creation of a law prohibiting the concentration of more than one public utility in the hands of a single family or interest and the strengthening of anti-trust measures to curb monopolistic and unfair corporate practices, e.g., price fixing, tie-in arrangements, and the like.[11] Equally important, the regulatory body must have the financial capability to independently monitor the performance of contract obligations—unlike in the case of the MWSS which, due to lack of resources, was dependent on the data given to it by the very entities it was supposed to regulate. Finally, the participation of citizens' groups and social movements in regulation, and not just the business sector, must be ensured.

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6 Malou Tabios, Rhoda Viajar and Jollete Fajardo. 2001. «Breaking New Ground: the Water Privatization Campaign». *PAID!*. Vol. 11, Nos. 1-2, November 2001. Quezon City: Freedom from Debt Coalition.

7 Interview with FDC water specialist Jolette Fajardo, 31 October 2002.

8 Rate-rebasing allows the concessionaires to re-validate assumptions made at the time they tendered their bids with a view to making the necessary adjustments.

9 Interview with Jollete Fajardo.

10 Jocelyn Cuaresma and Rommel Rabanal. «Is there water after privatization? The case of the MWSS.» Unpublished paper, October 2002.

11 Perez-Corral, *op. cit.*