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Manila water: Delivering water and sustainable growth

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MANILA WATER: DELIVERING WATER AND SUSTAINABLE GROWTH

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The privatisation of Metro Manila's water and sanitation services is a case for the importance of Tri-Sector collaboration

As recently as 20 years ago, water and sanitation were a major problem in Metro Manila in the Philippines. Only two-thirds of the population had access to piped water with only 26 percent having regular 24-hour access. Water leakage and pilferage accounted for over 60 percent of system loss, leading to severe water shortage that plagued 10 million residents living in a 2,100 square kilometre area.

Lawmakers responded with the 1995 Philippine National Water Crisis Act, which authorised then President Fidel Ramos to reorganise the government agency in charge of water and sewage matters, the Metropolitan Waterworks and Sewage System (MWSS). The result was the privatisation of its operational and managerial functions surrounding water service delivery. Service provision was auctioned off through two 25-year concession agreements that divided Metro Manila into East and West. On August 1, 1997, Manila Water won the East Concession.

FROM PUBLIC UTILITY INEFFICIENCY TO TRI-SECTOR COLLABORATION

In 2013, Manila Water was majority owned by the Ayala Corporation, the oldest and one of the largest business groups in the Philippines. The conglomerate established Manila Water on January 6, 1997 to contend – successfully as it turned out – for the MWSS concessions. Manila Water would develop assets to fulfill its mandate of providing near universal service delivery for piped water to all residents in the concession, but MWSS remained as the water utility and owned all infrastructure created by Manila Water.

By 2013, Manila Water had more than doubled their customer base and achieved 24-hour access to safe and affordable piped water to 99 percent of its distribution network in the East Concession. The company received in 2009 a 15-year extension on the Concession to 2037 from MWSS.

“We’ve met our mandate (of making the system accessible to 95 percent of the network),” declared **Gerard C. Ablaza, Jr.**, President and CEO of Manila Water. “As a responsibility to shareholders we need to continue creating avenues for growth so that Manila Water does not look like an ordinary utility.”

In order for Manila Water to recover their capital expenditure to meet its mandate, the company was permitted to bill the end user through the collection of water tariffs approved by the utility, i.e. MWSS. While Manila Water could work on service expansion and improving efficiency to grow its bottom line, it had no direct control over water pricing. Water was a basic right and its pricing was a sensitive and political issue, and Manila Water had to go into arbitration in 1998 over disagreements on capital costs related to a force majeure event.

“We won that dispute,” Ablaza recalled, “but the government can always interpret the economics of your contact differently – especially with a focus on the tariff. With a five-year political cycle, a new set of regulators can come in and suddenly have a different interpretation of the contract.

“However, we work closely with regulators here in Manila. We’re confident we would come up on the right side of a future dispute because in our constitution, a valid contract between the government and the private sector cannot be impaired.”

But how can Manila Water grow regardless of how tariff discussions with MWSS proceed? Ablaza and his management team believe the company would need to discover and take advantage of new business opportunities as they arose, which in turn required adherence to Manila Water’s already successful strategy of engaging in tri-sector engagement and leadership development.

Building up manpower, developing leaders

When Manila Water won the East Concession in 1997, the company inherited and retained 2,200 former government employees that were accustomed to a highly centralised, top-down organisational structure. Employees felt constrained under this pre-privatisation structure where there was nothing to empower them and nothing to maximise their potential.

An employee empowerment strategy which included a stock option plan that awarded each employee 40,000 share of Manila Water was implemented in 1998, giving each worker a stake in the company. Additionally, the company decentralised the decision-making process by dividing the East Concession into some 260 territorries, and territory managers were given a set of defined responsibilities called the Five Marbles:

1. Billed-volume (usage-based revenue generating water);
2. Customer service;
3. Non-revenue water (treated water that is produced and lost before reaching the end user);
4. Credit and collections;
5. New service connections

“They are empowered to act, and in fact they are obliged to know everything that goes in their territory as far those five [marbles] go,” Ablaza explained. “For example, once they spot a leak they don’t have to go into the head office and say, ‘Can you call the contractor to fix it?’ They can call them on their own…It is a very big departure from the government days because in the government days nothing got decided except here in the head office.”

As employees progressed through their careers, they were exposed to additional training investments through various mentoring and knowledge sharing initiatives. Promising talent identified with general management potential was placed in Manila Water’s Advanced Management Training Programme.

Additionally, retirement-driven attrition threatened to drain the company of institutional knowledge as the next generation of managers were cycled in. By 2013, Manila Water's Head of Human Resources **Ruel Maranan** and his division developed the idea of the Manila Water University to capture and institutionalise knowledge transfer. A framework would be worked out to work with each employee's Individual Development Plan (IDP) to maximise learning and effectiveness.

Beyond the Mandate – New business and sustainable growth

Developing talent and strong leadership at Manila Water was an expensive necessity, as was employee retention. Being able to compensate talent at competitive market rates meant a higher cost base, and offsetting these costs by increasing the price on billed volumes was not an option.

"The East zone is reaching a saturation point," Ablaza elaborated. "We expect some new growth to come in the next few years as a function of migration [and] in the next five years we expect about a million more people, beyond that it's just an increase in usage. We all agree that we should be moving towards greater conservation – no wasted water – so that puts pressure on price because we'll also need more revenue to increase the infrastructure that we will need to be built.

"Given that water is a very political commodity, it creates all kinds of tensions. This is why we've spent the last three years trying to move beyond the East zone."

To that end, Manila Water has worked hard on its V-I-P strategy: focusing on its core market of Vietnam, Indonesia and the Philippines. These countries share similar characteristics: densely populated urban areas; comparable per capita income; large populations of marginalised communities; old cities that presented infrastructure challenges; regulatory risk and an Asian understanding of development.

But how should Manila Water build on its long-term strategy of tri-sector engagement and leadership development? How can it continue to do well by doing good, and in the process discover growth opportunities to fuel sustained growth?