

Manila Water Company – Philippines

Helping to Provide the Poor with Access to Water

Development Results Brief, September 2009

Project Description

Manila Water Company Inc. (MWC) was awarded a concession in 1997 as part of the privatization of Metropolitan Waterworks and Sewerage System (MWSS) to address chronic problems in the Metro Manila water system. The privatization, in which IFC's Corporate Financial Services Department acted as adviser, divided MWSS's operations into East and West service zones. Concessions for the two zones were awarded on the basis of international competitive tenders. MWC was granted the exclusive rights to service the East Zone as an agent and contractor of MWSS to produce and treat water, distribute and market water, and collect, transport, treat and dispose wastewater under a 25-year concession agreement. IFC's first investment committed in 2003, consisting of a US\$30 million A loan, helped finance MWC's US\$217.8 million 2002-2005 capital investment program, which aimed to increase efficiencies and improve and expand services. The second IFC facility, committed in 2004, consisted of another US\$30 million A loan and a US\$15 million equity facility to support the company's 2004-07 business plan and its initial public offering (IPO). IFC committed another \$30 million loan in 2006, which was cancelled in 2008 due to MWC's strong cash generation and availability of alternative financing.

IFC Additionality

Although MWC had previously been able to secure local debt with a tenor of up to seven years, it needed substantially longer tenors in order to successfully meet its investment obligations within the constraints of its cash flows and existing water tariffs. IFC financing met MWC's needs. Further, MWC believed that securing financing from IFC would send an important positive signal to investors, which was considered crucial in subsequent financing rounds. In addition, having IFC as an anchor equity investor would help attract a wider range of investors for MWC's initial public offering. In 2005, MWC made a successful IPO as well as its 2008 bond issuance of \$85 million. Its success has also attracted private investors not only for itself, but also for the operator of the concession in the West Zone of Manila. In December 2006, the government successfully re-auctioned the West concession, in large part due to MWC's strong operational and financial performance.

Aside from investments, IFC also helped MWC become the first company in the Philippines to prepare a corporate sustainability report. The report covered MWC's various environmental and social initiatives and measures that are linked to its business objectives and was published in 2004.

Development Impact

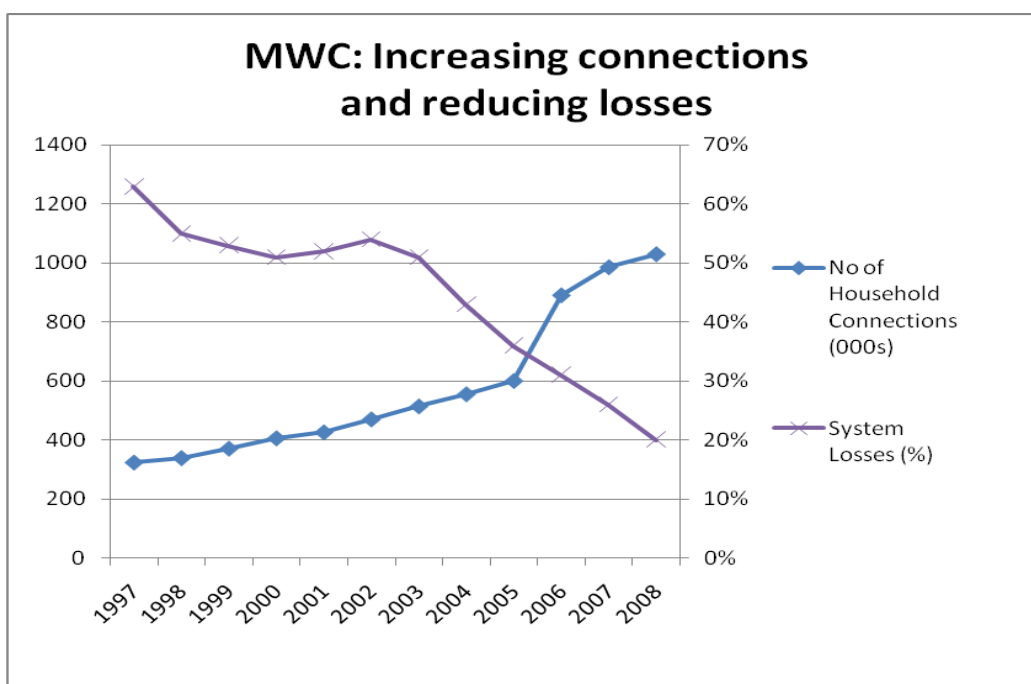
Since taking over, MWC has made steady improvements in operations, turning a loss making entity at the time of privatization into an efficient and consequently profitable private enterprise. With financial support from IFC, MWC has been able to expand service coverage, achieve significant improvements in water quality and availability, launch innovative approaches to sewage and sanitation expansion, and improve key operational efficiencies. As of 2008, a total of 2,929 km of pipeline have been laid and MWC has more than tripled its customer base to over one million households, equivalent to more than five million people served. System losses have been reduced from 63% in 1997 to 20% in 2008. As of 2008, 99% of MWC's customers within the central distribution area enjoy 24-hour water supply, compared to 26% in 1997.

MWC has also implemented a program providing services to lower income neighborhoods, known as "Tubig Para Sa Barangay" (TPSB) ("Water for Local Communities"). This program has benefited some 300,000 households since its inception in 1998. Prior to this initiative, low-income households obtained water from either contaminated sources or paid premiums to water vendors. TPSB allows poor families to share the cost and use of meters and receive a regular supply of fully treated, safe drinking water. MWC also works with the communities to ensure that the water networks are adequately maintained. TPSB beneficiaries usually have an average monthly consumption of 10 cubic meters. Connected households pay a tariff of approximately 7.00 pesos (US\$0.14) per cubic meter compared to the 100 pesos (US\$2.08) per cubic meter previously charged by water vendors. Households have also benefited from time saved from waiting in vendors' long lines, giving them opportunities to earn additional income. To further support MWC's efforts in reaching

lower income households, IFC helped facilitate a US\$2.8 million Output-Based Aid grant which was used to subsidize the cost of water connection to poor families.

In addition to the operational improvements, MWC has provided significant social benefits, especially in the areas of health and labor. The Metro Manila Drinking Water Quality Monitoring Committee reported a reduction in water borne disease cases from 107,273 in 1997 to 27,008 in 2007 and the related mortality rates dropped to less than 1% of population affected. MWC also invests in its employees, offering a training program that raises skills and productivity of the company’s workforce. In 2006, MWC won the Outstanding Employer of the Year Award from the Personnel Management Association of the Philippines.

In 2007, IFC conferred the Client Leadership Award to MWC to recognize its comprehensive approach in promoting sustainable development and corporate governance while achieving commercial success. MWC has also received various awards for its corporate governance initiatives from both local and international organizations including Corporate Governance Asia, Asiamoney and Hong Kong-based The Asset magazine.



MWC Efficiency Indicators 1997-2008

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
No of Household Connections (000s)	325	340	372	407	427	471	515	556	601	891	986	1030
Population Served (Millions)	1.82	1.9	2.08	2.28	2.4	2.63	2.89	3.11	3.92	5.09	5.52	5.6
Service Coverage Rates	26%	n.a.	n.a.	48%	54%	63%	83%	89%	95%	97%	98%	99%
System Losses (Non Revenue Water)	63%	55%	53%	51%	52%	54%	51%	43%	36%	31%	26%	20%

