**Water privatization and its alternatives**

[**Eduardo C. Tadem**](https://opinion.inquirer.net/byline/eduardo-c-tadem) **and** [**Teresa S. Encarnacion Tadem**](https://opinion.inquirer.net/byline/teresa-s-encarnacion-tadem)

Starting in the 1980s, privatization became the preferred policy of governments for economic development and the delivery of public services. This was in response to the global economic crisis characterized by recessions in most of the developed countries, stock market crashes, bubble economies, debt crises in several developing countries, and the oil crisis of the 1970s.

Following World Bank and International Monetary Fund conditionalities and prescriptions for structural adjustment loan packages to stem the impact of the crisis on developing countries, privatization policies were introduced. These were intended to reduce the extent of government involvement in business, infrastructure development and public services. They were also to promote competition, efficiency, and productivity. Additionally, the new policies were supposed to stimulate private entrepreneurship and contribute to economic growth. In general privatization went hand in hand with deregulation and economic liberalization – the three mantras of a neo-liberal development strategy.

**Issues against privatization**

Prominent economist General Jomo Kwame Sundaram, however, contends that the promise of privatization remains unfulfilled. He notes that “since a significant portion of state-run activities are public monopolies, privatization will (only) hand over such monopoly powers to private interests likely to use them to maximize profits.” And since “private interests are only interested in profitable or potentially profitable activities and enterprises, ... the government will be saddled with unprofitable and less profitable activities.”

Sundaram further argued that patronage and corruption frequently accompany “privatization in many developing and transition economies” as this “has primarily enriched a few with strong political connections who ‘captured’ lucrative opportunities associated with privatization, while the public interest has been increasingly sacrificed to such powerful private business interests.”

Other adverse consequences of privatization tallied by Sundaram include: inequalities in the delivery of services, “one for those who can afford more costly, private – including privatized – services, and the other for those who cannot, and hence have to continue to rely on subsidized public services, e.g. medical services and education;” the focus on short-term profits vs. long term investments; increased living costs as well as poorer services and utilities – especially in remote and rural areas – due to ‘economic costing’ of services, e.g. telecommunications, water supply and electricity;” and “reduced jobs, overtime work and real wages for employees of privatized concerns.”

Related to the privatization trend is the issue of public-private-partnerships (PPP). As outlined by Professor David Hall who has extensively studied and published on PPPs, the overall global record of PPPs have been marked by “fiscal dishonesty, renegotiations, increased tendering and transaction costs, have created huge incentives for corruption, imposes a debt burden on public finances, and crowds out public spending for essential social services.”

Prof. Hall adds that the evidence of PPP projects is that they turn out to be more expensive in terms of costs of capital, construction, operations, and transaction and are fraught with uncertainties and risks, e.g., longer procurement, uncompleted projects, imposition of contingent liabilities, sovereign guaranty clauses in contracts, and poor service. Even more important, Hall refers to the “reduced public sector capacity and democratic control and accountability” that reliance on PPPs entails.

**Philippine problems with water privatization**

In August 1997, the Philippine government privatized the operations of its publicly-owned water provider for the Metro Manila region, the Metropolitan Waterworks and Sewerage System (MWSS). This was considered by international financial institutions (IFIs as one of the world’s most successful privatization of a water utility. The Philippine case was also the first large-scale water supply privatization in Asia. Under a concession agreement, two private sector companies, Manila Water and Maynilad Corporation (together with their foreign partners), were granted 25 years to rehabilitate and operate the water system, reduce physical losses, check illegal usage and expand coverage.

The policy aimed at the privatization of water services is set against the context of limitations of the urban and water supply and sanitation sector which can be traced to: (1) inadequate coverage; (2) unreliable services; (3 inefficient management of water utilities; (4) unsustainable service provisioning, especially in small towns; and, (5) low institutional and technical capacity in LGU-managed utilities to run the water utilities as viable enterprises.

Twenty (20) years later, however, the goals of water privatization continue to fall short of what it has promised, to the detriment of the consumers, particularly the urban poor. The problems under the Philippine experience in water privatization include:

**The rising price of water and excessive profit taking.** By October 2003, basic water rates for Manila Water and Maynilad were five and eight-fold times higher than their 1997 winning bids. In the succeeding years, the increases in water rates were around 500 percent for Maynilad and 700 percent for Manila Water. There were also the “hidden increases” in the water bills charged by the two firms which were approved by the MWSS. The few instances when MWSS sought to stop a tariff adjustment by the water companies have been met with the filing of cases by the water companies against the regulatory agency.

Excessive profit taking has been an issue raised particularly with Manila Water. A Commission on Audit report in December 2003, “found Manila Water’s actual rate of return of 40.92 percent exceeding the allowable rate of return of 12 percent stipulated in the MWSS Charter.

**Absence of consultation and public participation.** The increase in the water rates and its “hidden costs” was also not fully disclosed to consumers during public consultations whereby any increase in basic charges will also result in an increase in environmental and sewerage charges.” If ever there were consultations, these were only focused on rate rebasing. This is an injustice to consumers who have the right to know where their money is going and why.

**The increase in non-revenue water (NRW).** This refers to water losses due to leaks and pilferages. Despite the projection of a more efficient system through privatization, the reality, however, is that Maynilad and Manila Water were not able to reduce so-called NRW to targets set in 1997. By 2018, Manila Water was able to decrease the NRW but this is still around 11 percent while Maynilad’s was worse at 30 percent. These companies, however, were able to partially reduce NRW only after 20 years of privatization even though the commitment was to accomplish this within the first 10 years of their respective concession agreements.

**The persistence of corruption and irregular practices.** The Philippine experience debunks the view that privatization is the panacea to corrupt practices supposedly endemic in the bureaucracy. The Maynilad management itself admits that “a greater volume of their NRW is lost to theft as corrupt employees take bribes to install illegal connections that include not only small households but even big corporations as well.”

Highly irregular practices also take place within the MWSS RO. Maynilad was able to convince the RO’s Chief Regulator to push for an amendment to the contract that would allow the firm “to increase tariff rates through an automatic currency exchange rate adjustment (auto-CERA) mechanism.” Auto-CERA, however, has no basis in the concession agreement.

There were also anomalous private sector practices which were deemed as plunderable. A 2002 audit by the MWSS RO disallowed some PhP8 billion (US$160 million) of Maynilad’s expenditures as regulators deemed these as “inefficiently and imprudently incurred.” These expenditures included “very expensive procurement contracts,” very high advertising costs, huge compensation packages and the purchase of brand-new luxury cars for its executives.

In 2012, a consumers’ group, “Water for all Refund Movement,” filed a complaint with the Quezon City Prosecutor’s Office for syndicated estafa against both Manila Water and Maynilad. The complaint stated that the two water service companies collected from consumers the future costs of two mega projects, the PhP45.4 billion Laiban Dam and the PhP5.4 billion Angat Dam Irrigation Replacement Project and continued collecting even after the projects have been discontinued (the Angat Dam) or officially cancelled and abandoned (the Laiban Dam).

**Underspending by the private sector.** Far from the promised generous allocations for improving water services, private water providers have been underspending which could account for “a significant portion of the lost water.”

In 2002, however, upon discovery that 5.5 kilometers of the aqueduct had deteriorated to the point “that new leaks spring out every day,” MWSS ordered Maynilad to repair the damage. The repairs were not carried out. Maynilad had promised “to spend P6.8 billion for infrastructure upgrades from 1997 to 2001, but “spent only less than 50 percent of the said amount.”

**Limited and poor water services and sanitation coverage.** Claims by the water firms of improved coverage are mainly based on exaggerated figures which redefine what constitutes a ‘water connection’ and their calculation of how many persons make up an average family household. Moreover, in a 2000 MWSS survey of residents of 100 communities in Metro Manila, 55 percent thought there had been no change in the water service while 12 percent claimed the service was worse; only 33 percent noticed an improvement.

Urban poor communities in Metro Manila are the ones most adversely affected by poor and limited water service coverage as the water companies do not connect them directly to the water supply, installing instead a “mother meter” outside an urban poor settlement.

A major issue with Metro Manila’s water privatization is the failure of both Manila Water and Maynilad to build major waste water treatment plants as provided for in their contracts with the government. All the companies did was to provide trucks “to siphon off septic tanks of houses in Metro Manila” the unprocessed waste water products of which were simply dumped into Manila Bay thus contributing to the pollution and degradation of the bay’s waters.

**Absence of an efficient regulatory process.** Public apprehensions about privatization are often addressed by the establishment of a strong public regulatory process. There are, however, inherent weaknesses in the MWSS regulation of the private water firms. The MWSS Regulatory Office (RO) is merely an appendage of the MWSS Board and was created by the Concession Agreement; its decisions are only recommendatory, with the public MWSS Board having the final say.

In the haste to privatize water services in 1997, the creation of a stronger and more independent regulatory office was dispensed with. The RO could not even compel the private concessionaires to pay obligatory concession fees, as when Maynilad suspended its monthly payments to MWSS starting March 2001. Furthermore, in total disregard of the inappropriateness of the situation, the offices of Manila Water and Maynilad are located in the main MWSS office compound in Quezon City. Lastly, the funds for the MWSS regulatory office also come from the fees charged by the two water companies.

Despite some high-profile cases of attempts by MWSS to regulate the two private water concessionaires, the perception persists that MWSS, in the final analysis, seems to be favoring the water firms over the consumers. This is viewed as the regulatory capture of MWSS by both these two companies.

**Alternatives to privatization**

Given the above, it is time to rethink the privatization policy and give back to the public sector the ownership and control of public services, particularly the provision of water services. This is premised on public management and democratic control that is transparent, accountable and participatory. The key drivers are vibrant citizens’ movements that have to work hand-in-hand with water service workers and local governments to reclaim ownership of essential public services.

The Philippine case mirrors the experiences of other countries. This has led to initiatives by citizens’ movements and local governments to retake ownership and control of water services under the principle that access to water is a human right rather than a market transaction driven by the corporate profit motive.

In fact, public delivery of water services remains a viable and sustainable form of public service. Kishimoto, Petitjean and Steinfort (2017) reported successful deprivatization processes in 45 countries. Dargantes, Batistel and Manahan (2012) surveyed public sector water service delivery in Southeast Asia, South Asia, East Asia, and Central Asia covering 646 listed water utilities servicing 10 million people. Balanya, Brennan, Koedeman, et al (2005) documented robust cases of people-centered participatory public models of water services in Latin America, Europe, Asia, Africa, and the U.S. The following alternatives to water privatization thus arise:

**Deprivatization and/or remunicipalization.** A popular alternative is de-privatization and/or remunicipalization, i.e., returning public services to government. This involves public ownership, public management and democratic control that is transparent and accountable. There have been 835 successful remunicipalization cases (and counting) in 45 countries of which 267 were in the water sector in 37 countries that benefit over 100 million people.

**Public/non-profit partnerships (PuNPP).** In PuNPPs “one or more public sector agency works with one or more civil society or community-based organization to deliver water services.” The joint management between local communities and the water utility is “based on equity, resource management, reduction of water consumption, reliability, and reduction in operating and maintenance costs.”

**Public-Public partnerships (PuP).** This involves collaboration among public sector agencies in collectively developing performance benchmarks, implementing tertiary level treatment of wastewater and reducing demand for piped water, use of excess water, and access to other water sources such as natural springs.

**Single non-profit agencies (SiNPs).** Some NGOs, acting as SiNPs, “develop non-commercialized water systems” by establishing water harvesting structures and check dams using an integrated water resources management approach, water system improvement, and securing dependable water supply from third-party bulk providers.

**Conclusion**

Water services is a public trust to be safeguarded by responsible government bodies in close cooperation with citizens’ movements and communities and guided by the values of participation, empowerment, equity, accountability, quality, safety, efficiency, transparency, and solidarity.

Water is a fundamental right that should be accessible to all, especially those who can least afford it. This has not been the case in many countries as seen in the failures and inadequacies of water privatization - the dominance of the corporate profit motive, the sacrifice of long-term sustainability in favor of short-term rewards, and the abdication by governments of their regulatory functions.

*Eduardo C. Tadem, Ph.D. is Convenor, Program on Alternative Development, University of the Philippines Center for Integrative and Development Studies (UP CIDS). Teresa S. Encarnacion Tadem, Ph.D. is Professor of Political Science, UP Diliman and Executive Director, UP CIDS. This article is excerpted from a research monograph entitled “Reclaiming Public Services: Giving back ownership and control of water services to the public sector” under a research project of UP CIDS, the Department of Interior and Local Government-National Capital Region (DILG-NCR), and the Office of the Quezon City Mayor on “The Administrative Region of the Republic of the Philippines: A Study on the Implications of Federalism in the National Capital Region and Considerations for Forming the Federal Administrative Region.” The project is funded by DILG-NCR.*

**References**

Balanya, Belen, Brid Brennan, Olivier Koedeman, Satoko Kishimoto, and Philipp Terhorst (eds). 2005. **Reclaiming Public Water: Achievements, struggles, and visions from around the world.** Transnational Institute and Corporate Europe Observatory:Amsterdam.

Corral, Luis. 2003. “IFIs and Privatization in the Philippine Power and Water Sectors”. Asian Labor Network on International Financial Institutions (IFIs) (ALNI), unpublished, September.

Dargantes, Buenaventura, Cheryl Batistel, and Mary Ann Manahan, “Springs of hope: Alternatives to commercialization of water resources and services in Asia,” 2012. In David A. McDonald and Greg Ruiters (eds). **Alternatives to Privatization: Public options for essential services in the Global South.** Cape Town: HSRC Press.

Dargantes, Buenaventura B., Mary Ann B. Manahan, and Cheryl C. Batistel. 2011. **Treading Troubled Waters**. Quezon City: Focus on the Global South.

Hall, David. 2015. “Why public-private partnerships don’t work”. Greenwich, UK: Public Services International Research Unit. 56pp.

Hudson, Adam. 2017. “Why water privatization is a bad idea for people and the planet.” Alternet. April 18. <https://www.alternet.org/2017/04/why-water-privatization-bad-idea-people-and-planet/>

IBON Facts and Figures. 2003b. “Take Over Maynilad, Reverse Privatization.” Special Release, Vol. 26, No. 7, 15 April, 13-16.

Kishimoto, Satoko, Olivier Petitjean and Lavinia Steinfort. 2017. “Reclaiming Public Services: How cities and citizens are turning back privatization.” Amsterdam and Paris: Transnational Institute (TNI), Multinationals Observatory, Austrian Federal Chamber of Labour (AK), European Federation of Public Service Unions (EPSU), Ingeniería Sin Fronteras Cataluña (ISF), Public Services International (PSI), Public Services International Research Unit (PSIRU), We Own It, Norwegian Union for Municipal and General Employees (Fagforbundet), Municipal Services Project (MSP) and Canadian Union of Public Employees (CUPE). June. [www.tni.org/reclaiming-public-services](http://www.tni.org/reclaiming-public-services).

Logan, Marty. 2003. “Multinationals ride the wave of water privatization.” One World US. Feb 4. <https://www.globalpolicy.org/component/content/article/221/46885.html>

Malaluan, Nepomuceno. 2003. Interview. Senior Researcher, Action for Economic Reform (AER), Faculty Center, University of the Philippines, Diliman, June 24.

Mallari Jr., Delfin T. 2018. “’Hidden Hikes’ in Water Bills Additional Burden on Public”. *Philippine Daily Inquirer.* November 16, A13.

Merueñas ,Mark, 2015. “SC asked to stop govt from paying Maynilad, Manila Water.” **GMA News.** Aug 11. <https://www.philstar.com/business/2014/07/24/1349506/sc-asked-void-mwss-concession-deal-manila-water-maynilad>

Obanil, Rovik. 2018 (July 31). Interview. Coordinator, Public Services Program, Freedom from Debt Coalition (FDC). University of the Philippines (UP) Center for Integrative and Development Studies, UP Diliman, Q.C.

Perez-Corral, Violeta. 2001. “Monitoring the MWSS Privatization: Water Rates”, PAID! Official Publication of the Freedom from Debt Coalition, November, Volume 11, Numbers 1-2, pp. 31-35.

Philippine Center for Investigative Journalism (PCIJ). 2006. “SC asked to declare Maynilad, Manila Water as public utilities, not mere MWSS agents.” PCIJ Blog. June 29. http://pcij.org/blog/2006/06/29/sc-asked-to-declare-maynilad-manila-water-as-public-utilities-not-mere-agents-of-mwss

Public Services International. 2002. “Water privatization, corruption, and exploitation.” <http://www.indiaresource.org/issues/water/2003/waterprivatizationpsi.html>. Accessed 12 January 2019.

Sundaram, Jomo Kwame. 2017. “Dispute settlement becomes speculative financial asset.” Inter Press Service. April 19. <http://www.ipsnews.net/2017/04/dispute-settlement-becomes-speculative-financial-asset/>

Sundaram, Jomo Kwame. 2018. “Revisiting privatization’s claims.” Inter Press News Agency. September 4. <http://www.ipsnews.net/2018/09/revisiting-privatizations-claims/>

Tadem, Teresa S. Encarnacion. 2004. “Engaging the State and International Financial Institutions: The NGO Campaign Against Water Privatization in the Philippines”. *Asian Studies.* Volume 40, Number 2, pp. 39-63.

Tapia, Jose A. 2014. “From the oil crisis to the great recession: five crises of the world economy. Paper presented at the 2014 ASSA-AEA Meeting in Philadelphia.

Vidal, John. 2017. “Water privatization: a worldwide failure?” **The Guardian**, 31 May. [https://www.theguardian.com/global-development/2015/jan/30/water-privatization-worldwide-failure-lagos-world-bank](https://www.theguardian.com/global-development/2015/jan/30/water-privatisation-worldwide-failure-lagos-world-bank). (Accessed 12 January 2019).