

# **Revisiting Successful Public Private Partnership (PPP) Business in Asia: the Case of Water Concession in Metro Manila in the Philippines**

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## **1. Introduction**

Both public and private sectors have high expectations for PPP (Public-Private Partnership) infrastructure businesses in Asia. However, successful PPP projects are not necessarily abundant. Under such circumstances, the water concession project in Metro Manila in 1997 was the largest in the world at the time with the participation of including French water majors, local conglomerates, and later Japanese companies (Mitsubishi Corporation, then Marubeni). The PPP project is recognized internationally as a successful case of PPP for increase in coverage and quality of water services. Moreover, Manila Water Company, Inc., one of the two concessionaires, expanded its operations in overseas water business such as Vietnam.

On the other hand, more than 20 years after the concession agreements were signed, there are several issues in the project. In December 2019, the permanent court of arbitration in Singapore ordered the Philippine government to pay Manila Water Company, Inc. 7.4 billion peso (about USD 148 million) to recoup foregone revenues from rate increases that were rejected by the Philippines government. Maynilad Water won a separate arbitration in 2018. In response, President Duterte ordered the filing of criminal charges against the two water private utilities in Metro Manila and demanded new contracts to replace “onerous and disadvantageous” contracts. Another issue is water shortage in Metro Manila. The problem even introduced water supply rationing mainly in the dry season in recent years.

This paper analyzes the current situation and issues of the Manila Metropolitan Area Water Concession Project, which is one of notable PPP projects in the early years of PPP in Asia.

## **2. PPP Infrastructure Business in Asia**

This section discusses current trend and characteristics in PPP infrastructure business in Asia including recent resurgence of PPP after first peak in 1997. The section also argues sectoral characteristics of water business.

## **3. Water Concession Project in Metro Manila**

The USD 7 billion project privatized the operation of water and the sewerage system in Metro Manila. While the Metropolitan Waterworks and Sewerage System (MWSS), a national government agency, retained ownership of the water infrastructure assets, the operation, maintenance, and capacity expansion of the water system was handed over to two private corporations, namely the Manila Water Company Inc. which covers the East Zone of Metro Manila and Maynilad Water Services Inc. which covers the West Zone for a period of

25 years through a water concessionaire agreement signed in 1997. These two Manila water companies were formed by including Ayala Corporation, a local conglomerate while Maynilad Water was established by Lyonnaise des Eaux and Benpres Holdings. This section discusses overview of the project and improvements in water services introduced by the privatization.

## **4. The Metro Manila Water Concession Project after 20 years**

### **(1) Re-negotiation of new concession agreements**

This subsection argues issue of rate increase in this project, including rebasing clause of the concession agreements. This provision allows the adjustment of water rates every five years to enable the water companies to recoup their investments and realize a reasonable rate of return on their investment. However, the current Philippines President referred to the agreement as an “onerous” contract.

### **(2) Water Shortage**

This section discusses water shortage problem and its background.

## **5. Discussion**

Since PPP contract including these concession agreements between two concessionaires and MWSS are “incomplete contract” based on the contract theory, negotiations among players for contingent matters, including revision of tariff discussed above, and economic regulation are of critical importance. Regulatory function is also inevitable in the water project due to natural monopolistic situation. However, Regulatory framework of the project is not ideal, because the Regulatory Office of MWSS is not independent; the office is under the Board of MSWW and its cost is shouldered by concessionaires.

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