Water for the MegaCities: the Case of Manila[1]

New Dams, Higher Prices and Water Markets

In some regions, such as Manila, water is getting scarce. The Philippine capital depends almost completely on water from the Angat Dam, operated by the National Power Corporation (NPC). Due to low precipitation in 1997/98 the reservoir's water table sank spasmodically. To maintain the supply of Metro Manila, farmers in a 30,000 ha irrigation scheme were cut off the water supply. It is hardly surprising, that they were deeply annoyed about the lack of notification and loss of their crops without receiving any kind of compensation. Last year then the situation was turned around: In spring the water in Manila was turned off in order to save the crops.

Yet the reason for the supply troubles and subsequent conflicts between urban and rural areas, drinking water, irrigation and power generation is not only a natural but rather an economic and structural problem: demand in the rapidly growing metropolis is more and more increasing, but raw water supply as well as demand management lag behind.

Privatisation

In fact, the privatisation of urban water supply in the spring of 1997 was supposed to play a comprehensive role in improving the drinking water supply of the inhabitants of Manila. The two private concessionaires Maynilad and Manila Water - both with foreign water enterprises as investors – not only promised low water prices, but also an expanded connection of low-income households to the water supply system. By reducing the extremely high water losses due to leaking pipes, they hoped to be able to satisfy the simultaneously increasing demand, without having to build new and costly dams, barrages and interbasin transfer systems.

Six years after the private concessionaires took over operations from MWSS, the municipal water utility, water supply continues to be a major concern: A study commissioned by the Asian Development Bank, ADB, came to the conclusion that even five years after privatisation still five of the twelve million inhabitants remain insufficiently supplied. (McIntosh/ADB, 15). J.F.Talbot, director of the French water multinational SAUR explained quite frankly, that it was a simple fact that you can't make money with the poor.

One leaking aqueduct is putting half of the capital's water supply at risk. But the concessionaires didn't invest a lot of money in the only modestly lucrative network repair. Instead of recovering their costs by selling greater quantities of water due to smaller losses, they constantly demanded higher rates. Prices have increased by up to 500 per cent since privatisation. At the same time they have pressured the government or rather the state-owned water company MWSS to invest additional money in the improvement of raw water supply, i.e. to deliver more water for distribution – and of course for free.

Supply expansion

In an „Office Memorandum" from April 4th, 2000 the World Bank calls "addressing the neglected area of bulk water supply" as one of the most important challenges for Manila, because its insufficient availability and ad hoc reallocation between the metropolitan area and agriculture by Angat Dam operator NPC "is an important source of risk for the concessionaire". To increase the "water security" (World Bank) for private companies, more and more money flows into new major projects, which are supposed to improve the provision of the capital with water:

- As early as the early 1990s the 200 million US-$ Umiray Angat-Transbasin Project was commenced funded by the ADB. Via a tunnel, delivering water from the River Umiray into the Angat Reservoir, the supply of Metro Manila was to improve by 800 mld[2]. However,

[1] Briefing Paper No. 3 to the Background Paper "Water for Food – Water for Profit. The World Bank's policy in the agricultural water sector"

2 Million litres per day

deforestation and landslides in the catchment basin of River Umiray caused tree trunks and debris to hopelessly block the tunnel two years ago.

- Within the contract's scope the state-owned water company MWSS had agreed to provide the two private concessionaires Maynilad and Manila Water with an additional 300 to 400 mld from Laguna de Bay (on the shores of which Manila is located), starting in 2000. But the project didn't make any progress so far, due to the strong opposition of fishing communities and environment groups, among other things. „Had it been completed on time, the additional water supply could have eased the shortage as well as made our company financially viable," Maynilad complains.
- To provide a long-term solution for the supply problems the Laiban Dam on the Kaliwa River (in Tinay in the province of Rizal) shall be completed until 2013. Preliminary steps for this project (which is to provide an additional 1,900 mld of bulk water, and according to prognoses could cover the demand until 2016) were already undertaken in 1979, but work was suspended in 1989. Costs are estimated at about 1.2 billion US-$. Among other things the construction requires the resettlement of 3,000 families. As a result protests against this project are intensifying, like for instance on International Day of Action against Dams 2005. The ADB has been asked to adjourn its loan for the feasibility study.
- Furthermore hopes are set on the Agos River-Project, which is to safeguard the supply of Metro Manila with an additional 3,000 mld of water from 2016 onwards.

While the improvement of drinking water supply remains to be seen for numerous inhabitants of Manila, international financial institutions and the Philippine government now gamble in particular with new hydraulic infrastructure – despite dubious results and negative effects on environment and the population affected.

Allocation Mechanisms

In the Office Memorandum of April 2000 the World Bank describes the supply crisis of 1997/87 as an "excellent opportunity" to fine tune the discussion on the Philippine water allocation system. The "obvious way of handling this would be to define rights more explicitly, and to make these transferable" (14). Power suppliers, agriculture, the public water company MWSS and the private concessionaire all had shown an interest in developing transparent and more equitable and reliable allocation mechanisms, the Bank claims. (Office Memorandum 2000, 3).

Likewise the ADB pleads for free market regulation mechanisms instead of the so far used administrative-political allocation by public institution like the energy provider NPC and the irrigation agency NIA:

"Current conflicts among water users are governed mostly by ad hoc political decisions. If, however, they were governed by the free market value of water, and if customary and legal water rights were freely traded, then such conflicts could result in win-win-situations freely chosen by all parties" (McIntosh/ADB, 14)

Quite a lot of "if's" in the ADB's explanation on how such free market allocation mechanisms would work... One prerequisite is the formulation of chartered water rights, which so far remains unknown in Manila. So far the National Water Resources Board (NWRB) assigns water rights. Water rights for the Angat irrigation scheme are currently with the National Irrigation Administration (NIA), whereas the farmers themselves have no individual charted water rights.

The ADB regards "a paradigm shift in urban water supply tariffs" (14) as a second prerequisite for a working water trade. At US-$ 0,05/m3, tariffs in Manila remain allegedly way below the "actual cost of water" (in spite of considerable price increases since the privatisation), which according to the ADB is six to eight times as high in most of the other Asian cities. (McIntosh 20). Only an adequate tariff increase would turn the trade with water rights into an economically attractive option:

„The impetus for trading water rights must come from domestic urban water users. When they pay tariffs of around $0,40/m3, instead of roughly $0,05/m3, there will be something with a

realistic value to trade. But as long as domestic tariffs remain low, there will be little incentive to transfer water right."

Pricing would have to cover the whole financial expense for providing raw water – so far delivered by public companies for free - along with a management fee for operation, no matter if operated by authorities or private providers. Plus an extra charge for environmental protection. By now the NWRB tries to get through as a first step, that consumers not only pay fees for the provision, but also for water as such. The development agency for Lake Laguna already sells water to the private housing society Ayala Lands at a multiple of the tariff private households currently pay.

Agriculture as a Water Source

Naturally such water rates would be much too expensive for agriculture, and small farmers in particular. The World Bank is aware of that too:

"Charging farmers the opportunity cost of raw water (the value urban consumers attach to marginal consumption) is not politically feasible. Politics and equity conflict with the logic of opportunity cost pricing." (CWRAS, 64)

Tradable water rights would be a way out of this dilemma: farmers would have the chance to sell their water rights to the municipalities voluntarily and after balancing gains and losses, should they get more for them there, than by irrigating rice or other products.

"If a price of $0,03/m3 is paid to farmers, they have the potential to triple their current income, as long as they also plant new crops (like potatoes) that do not need irrigated water." (McIntosh/ADB, 15).

That way, one could kill two birds with one stone, promise has it. While farmers could expect wealth, the supply of urban consumers would improve. Water would flow to consumers prepared to pay the higher prices (and with the necessary spending power), namely (in economic lingo) where it is of highest value.

The World Bank also regards water trade as an essential contribution to solve Manila's supply problems. In its Country Water Resources Assistance Strateg, CWRAS, for the Philippines the Bank recommends to focus on long-term projects/subjects. Apart from Integrated Water Resource Management (IWRM) on catchment level the Bank brings up demand management, for instance by establishing prices for raw water, water rights and water transfer.

„In the short term this might mean that a Water Bank (in which there are temporary sales from farmers to the city in dry years) could operate with full agreement of the farmers. In the longer term there need to be increased, secure supplies of water to Manila. It would appear that permanent transfers of Angat water out of irrigation to urban uses would be a least-cost alternative for additional water. A transferable water rights regime would make this process transparent and voluntary."

The effects such a trade with water rights might have on agriculture, food security, income and employment possibilities – for instance for farm labourers – are not previously conceivable. At least during the dry season irrigation would be extensively disrupted. ADB and the World Bank vaguely mention new income opportunities for the then "waterless" farmers and out of work labourers by selling water rights and alternative off-farm jobs out of agriculture.

Public Private Partnerships for Water Trade

The World Bank supports a pilot project that is to investigate "whether a rights-based allocation process might be both politically feasible and desirable in the basin" of Manila.

Involved in the talks, that largely take place behind closed door are also the private concessionaires Maynilad and Manila Water, who have a special interest in a secured supply and, according to the World Bank "have become a potent source of pressure to modernize the system of allocation and management of water rights."

"The concessionaires have helped raise awareness of the need for fair and transparent rules for addressing competing uses between urban and agricultural users and are helping develop a robust solution to the allocation issue. The "hidden" issues of allocation rules, water rights, and fairness were thus brought to the surface by private sector participation in Manila. The World Bank has been active as a "knowledge partner" on the water rights issues and is helping define transparent mechanisms for water reallocation under a transferable water rights framework with equitable compensation for the involved stakeholders."
Source: World Bank 2004: Water Resources Sector Strategy. Washington D.C.

Water as a Private Economic Good

The "two key elements" to solve issues in the water sector, like insufficient water security, conflicts and bad management, are according to the ADB acknowledgment of water as an economic good and the trade with water rights (15).

Using this strategy, leading like a red thread through new strategy papers, sector reform projects and water sector projects of World Bank and ADB, international financial institutions advance the expansion of a privatised water sector with the "generation of business opportunities for the private sector in water source development." (ADB News release 144/03, 15.October 2003).

Apart from economic management tools like water pricing and tradable rights of use, that means the expansion of Public-Private Partnerships, PPP, like BOT projects especially in the area of water resource development with new dams and treatment plants, often funded with public funds and loans from World Bank and ADB.

"Take-or-pay"-contracts like in the energy sector (i.e. agreements between buyer and seller in which the buyer will still pay some amount even if the product or service is not needed), cost recovering and chartered, tradable water rights act here as "backup" tools to mitigate the economic risks of the private investors, or even as prerequisites for profits. Yet other adjustment processes to close the gap between supply and demand like reducing leakages in aquifers and pipes or a more economic use of water, which would slow down the rise in consumption, recede into the background.

This signifies in plain words: the strategy is to close the growing gap between supply and demand, between water consumption and provision by expanding the supply with the participation of private companies, while the consumers would have to bear the costs. The result would be that prices for urban consumers would rise extremely. Thus the low-income population would remain excluded from access to an affordable water supply – i.e., there'd be more water for profit, but not for the poor.

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