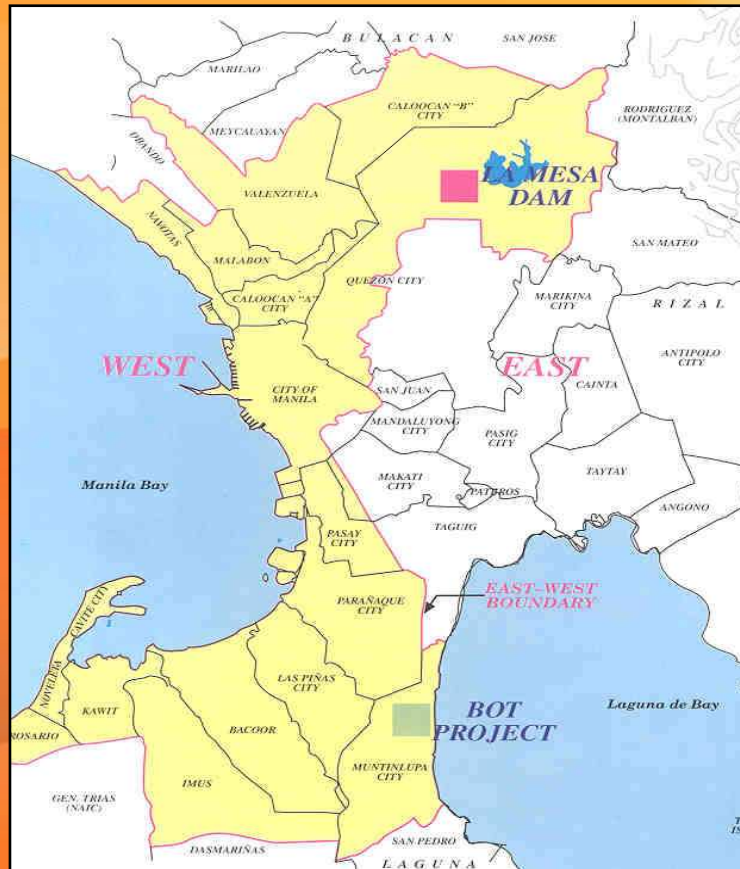


# Public-Private Partnerships The Manila Experience

**November 16, 2009  
New Delhi, India**

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# Manila Concession Key Figures



On Commencement date in August 1997:

- 11 million inhabitants
- 850,000 water supply connections
- 90,000 sewerage connections
- 65% NRW; 16-hour availability
- 8,000 employees; 9/1000 connections
- Debt service is US\$100m p.a.
- Coverage:
  - Water - 67%
  - Sewerage - 8%

# Objectives for PPP Option (1995)

- **Need for improved standards of service**
- **Increase coverage**
- **Increase water supply system efficiency (i.e. reduce NRW; staff/connection ratio)**
- **Remove debt burden from government**

# What Was Done

- **Government team formed, headed by Public Works Secretary**
- **New MWSS head appointed to drive process within MWSS**
- **Congress passed Water Crisis Act of 1995**
- **Study tours in England, France and Argentina to determine best model; concession model agreed upon**
- **Tariffs increased from Php 4 to Php 8 per cubic meter**
- **Massive public information campaign**
- **Transaction cost USD 6 million (USD1m grant from France, USD4m for consultants and USD2m success fee); IFC acted as transaction advisor**
- **Draft transaction documents including concession agreement and tender documents**
- **International tender**
- **21 months from drafting to tender**

# Bid Basics

- **MWSS divided into two zones: East and West**
- **Bidders to bid for both areas**
- **No bidder can win both areas**
- **Concessions for 25 years with specific targets on coverage for water and sanitation, 24-hour supply, water quality**
- **Local private operators must partner with international operator which must own at least 20%**
- **Award based on lowest tariff submitted**
- **Establishment of Regulatory Office under the Concession Agreement**
- **Winning bidders to reimburse Government USD 6 million transaction cost**
- **MWSS debt burden to be paid by concessionaire (approx. USD 900m)**

# Measures to Mitigate Risks under CA

- **Grounds for tariff adjustments well defined including rate rebasing every 5 years, annual CPI and extraordinary price adjustments**
- **Modification of performance targets**
- **Government guarantees for MWSS non-performance**
- **Early termination provisions**
- **International Arbitration in case of conflicts**
- **Performance bond to guarantee concessionaire obligations**
- **Penalties**

# Bid Results

	East	West
Pre-bid tariff (Pesos)	8.78	8.78
Bid tariff (Pesos)	2.32	4.97

Aboitiz / CGE	62.9%	56.9%
Ayala / United*	26.4%	28.6%
Benpres / Lyonnaise*	69.8%	56.6%
Metro / Anglian	64.5%	66.9%

# Concessions Today

- **Ayala-led consortium, Manila Water, very successful, publicly traded and surpassed all targets**
- **Lopez-led consortium, Maynilad Water, met with serious difficulties and has been re-tendered in 2006**
- **Maynilad under new ownership and massive investments on-going with encouraging results**

# Issues Leading to Failure of West Concession (Maynilad Water)

- Asian crisis with peso falling 100% against US dollar upon takeover of private operators
- USD 800 million Government debt shouldered by West Concessionaire
- No provision in original Concession Agreement for currency rate adjustment
- Fear of action by Regulator and Government in general

# The Re-Bidding of West Concession Milestones

- August 1997** – start of concession; Asian financial crisis began a month earlier
- March 2001** – Maynilad suspends concession fee on grounds of “force majeure”
- December 2002** – Maynilad issued a notice of termination of concession
- Feb to Nov 2003** – Arbitration process before Appeals Panel which ended with decision that neither Maynilad nor MWSS was entitled to termination
- Jan 2004** – Deliberations on Maynilad’s Debt and Capital Restructuring began
- April 2005** – Maynilad’s Debt and Capital Restructuring Agreement (DCRA) was signed and took effect in July 2005, including transfer of 84% of Maynilad shares to MWSS on condition of a rebidding
- May 2006** – Financial Advisor hired by MWSS to assist in the tender
- December 2006** – Award for MWSS’s 84% share in Maynilad
- January 2007** – Maynilad’s new owners (DMCI-MPIC) took over

# The Re-Bidding of West Concession

## Maynilad's Debts Payable at the Time of Restructuring

Creditor	Amount	Nature
MWSS	P7,884,500,000.00	concession fees from 2004–2007; estimated peso equivalent of MWSS' foreign currency–denominated loans as of privatization
	\$30,100,000.00	interest for a \$100-million loan MWSS took out from a bridge bank to cover the concession fees that Maynilad failed to pay
	\$31,000,000.00	financial assistance to Maynilad for capital expenditures and operational expenses, to be derived from future concession fee payments
Suez Group	\$122,651,568.00	Suez payments of its guarantees under the Credit Agricole Indosuez, bridge loan, and performance bond facilities and advances to Maynilad
SBLC banks	\$72,000,000.00	balance owed to the stand by Standby Letter of Credit banks following a draw on the performance bond and the payment by Suez of \$48,000,000.00
Bridge banks	\$46,096,578.06	balance under the bridge loan facility
Peso lenders	P1,421,804,988.06	balance under the peso loan facilities

# The Re-Bidding of West Concession

**August 2005 – First Announcement with 11 groups procuring bid documents**

**Second Phase – only 5 groups submitted pre-qualification requirements**

**Actual Tender – only 3 firms submitted technical and financial bids**

**\*\*Rubia Holdings – Noonday was disqualified for failure to submit appropriate SBLC for USD 2.5 million**

**December 2006 – financial bids were opened:**

**Manila Water – USD 450+ million**

**DMCI-Metro Pacific – USD 500+ million**

**ADB**

*WATER for ALL*

# Factors Contributing to Success of Rebidding Process

- **Commitment of Government to PPP policy**
- **Cooperation of sponsors, creditors and employees**
- **Hiring of Financial and Technical Advisors**
- **Transparent process with rules followed**
- **Bid amount covers investment into the company for rehabilitation and expansion**
- **High financial requirements weeded out non-serious bidders**