The Curse of the MWSS Water Utility Privatization in the Philippines: PRIVATE MISMANAGEMENT AND WORKERS' WOES

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BACKGROUND.[1] In 1997, the privatization of Manila's water utility (MWSS) was the largest of its kind in the world; the World Bank's private sector arm – International Finance Corporation -- was its chief architect. The utility was divided into the west and east zones, managed by Maynilad Water Services (Lopez-Suez/Ondeo) and Manila Water Co (Ayala-Mitsubishi-Bechtel), respectively. The Philippine government took extraordinary measures to ensure that the privatization does not fail, as a showcase of its privatization policy -- e.g., thru approval of 500-700% water rate hikes in 5 years, renegotiation of contract and lowering of performance targets, and other direct/indirect subsidies to the private firms. Privatization failed to deliver the promised benefits of safe, affordable and sustainable water for all. It also left the utility with heavier debt burdens than before. When MWSS was privatized in 1997, nearly half of the 7,400-strong workforce were either coaxed into early retirement, or voluntarily or 'involuntarily' separated.

In a rate rebasing exercise in 2002, regulators disallowed PhP8 B (~US$160 M) of Maynilad's expenses which were deemed as 'inefficiently and imprudently incurred'; this amount was about half of Maynilad's total investments over 5 years. Costs included very expensive procurement contracts in 'sweetheart deals' with affiliate companies and dollar-denominated fees of French consultants.

Maynilad (the larger concession serving eight million people) stopped paying its concession fees to government since early 2001, terminated its 25-year contract in 2003, and declared bankruptcy and sought refuge in rehabilitation court in late 2004. Government bailed out the firm by buying 84% of worthless shares and assuming all of Maynilad's debts and liabilities. The local partner (oligarchs Lopez family) had relinquished its 60% control but walked away debt-free, while French partners Suez reduced its shareholdings to 16%. In December 2006, a group led by a construction firm won government's 84% equity in Maynilad in the re-privatization of MWSS.

Bankrupt Maynilad is hurting not just French-based Suez' balance sheets but also its reputation as a technical operator. After all, Suez was expected to bring to bear its considerable international experience in water management to cut Manila's massive water losses. Following are more woeful tales of Lopez/Suez mismanagement of Manila's water utility, as told by Maynilad employees.

In August 1, 1997, MWSS was privatized, dividing it into two servicing sections – Maynilad Water Services Inc., and Manila Water Company. This event made a significant change in the lives of the workers. In the first six months of privatization, Maynilad workers gradually felt the changes in the management structure which was in collaboration with the French counterparts. New faces from the outside started to occupy managerial posts that required critical decision-making supported by the knowledge and expertise in the water utility business.

Massive lay-offs One management scheme used to cut down the number of employees was the immediate outsourcing of the engineering department which resulted in massive lay-offs. Another is the annual medical examination which forced to retire those who were sick at the time. With these horrible strategies, and baneful deeds of the new management with the French counterparts, remaining employees had no choice but to accept the offered positions. Workers were demoralized and felt that job security was diminishing, taking away opportunities for advancement.

[1] Background note provided by Violeta P. Corral, Public Services International Research Unit (www.psiru.org)

Diminution of local salaries, exorbitant expat fees Adding to the pain and agony of the workers, was the diminution of salaries and benefits due to the grossing up of all allowances and refusal by Maynilad to pay legally-mandated Cost of Living Allowances (or COLA). This while hired French consultants were earning each an amount equivalent to the salary of 100 rank-and-file employees!

Unwise, imprudent, negotiated procurements The curse of the MWSS privatization did not only have an adverse effect on the employees job security and welfare but also to the business of the utility. For instance, the newly-hired managers started purchasing chemical materials to stock for five years consumption without considering expiration dates. The new management also embarked on a massive meter replacement scheme only for the purpose of purchasing water meters from France which were not suited to Philippine climatic and environmental conditions, and more astonishingly, did not pass the Philippine standard of specification. Further, pipes and fittings made of brass, cast irons, and ductile irons were purchased on a negotiated bidding in favor of a French manufacturing company.

Failures of 1st Maynilad privatization In short, the Maynilad Water Services Inc. was totally a mismanaged company and this has resulted in major fiascos, including the following: (1) Sudden appearance of manganese sometime in 2003 in the source of drinking water that affected large service area of Maynilad. (2) Local area was afflicted by diarrhea due to dirty water. (3) Increased debts due to imprudent purchases of materials, equipment including contracting of capital expenditure (capex) projects. (4) Hiring of management officers unfit to handle vital positions, lacking expertise/knowledge of running water utility company leading to no direction. (5) Labor force/workers unrest .Through this marked the ULTIMATE failure of privatization giving back the Maynilad to the hands of the government in June 2004. The Lopezes claimed that they could no longer sustain managing the water utility business.

History may repeat itself in 2nd Maynilad privatization. On 11 December 2006, Maynilad Water was privatized for the second time and has now been taken over by the new owner, 83.97% owned by DMCI-MPCI (local company) and 16% for the SUEZ Company. Five months after this re-selling of Maynilad, employees still feel the same anxiety of history repeating itself. There is still the threat of mass layoffs since privatization focuses on reducing operational expenses thru cutting its labor force to get rid of the benefits under the collectively bargained by the union. Another fear is the lack of fair compensation due to possible budget misallocation. Connected to this is the manifestation of conflict of interest since DMCI is a construction company, thus, it is starting to make money out of Maynilad’s construction-related operations. Obviously, we are taking the same path that we experienced several years ago during the first privatization.

While the other company, the Manila Water Company (MWC), opertaed by the Ayalas is currently reaping huge profits from the ‘success’ of the privatization, its labor force are tormented by the anti-labor practices of the private concessionaires. Yet though MWC continues to gain profits for its shareholders through a series of water rate increases guaranteed under the contract and passed on to the customers, this does not trickle down to workforce of the company.

This is what privatization means to us workers in the water utility.

LABOR ISSUES AT THE MANILA WATER COMPANY[2] After an IPO in March 2005, the company's shareholders now consist of: locals Ayala Corp (30.5%) and BPI Capital (3.9%); UK-based United Utilities (11.8%); Japan-based Mitsubishi Corp (7.9%); IFC, the World Bank's private sector arm (7.4%); MWC employees (2.7%, down from 6% in 1997 through a stock option program); and public (35.8%). MWC reported improvements in its financial performance (e.g. 50% increases in net income), service -- 93% of customers now enjoy 24-hour water service, up from only 26% in 1997; non-revenue water down from 63% to 36% today, etc. MWC, however, cannot claim the same success viz its relations with its rank-and-file workforce. At a November 2005 forum which presented ALNI-Philippines' research findings on MWC's compliance with core labor standards and other labor laws , MWC rank-and-file union president Ed Borela announced they may file a ***union-busting*** case against the company. He cited the ***gradual erosion of union membership*** due to the management strategy of job re-titling or reclassification, and the ***massive outsourcing and contractualization*** of union jobs. New 'management' positions are being created, although the job description is that of rank-and-file; the ratio of management to rank-and-file is now 1:2, with managers managing themselves. There are no supervisory employees which the union alleged is part of management plan to thwart the formation of a supervisory union. There are about 4,000 contractual workers, as against 1,000 company employees. ***Subcontracted work is work previously done by union members***; this includes leak repairs, sewer maintenance, general services, pipe laying and water services installation. Next to be outsourced are call center personnel, deep well operators and tanker drivers. ***Contractual workers are the most exploited workers*** - they have no benefits, no overtime, no security of tenure. ***Compliance of MWC contractors with CLS is not being monitored***; the company only inspects job site safety and cleanliness, but not compliance with minimum wage and other benefits. Borela also revealed that ***some CBA provisions were not being implemented***, e.g., hazard pay as in the case of a recent chlorine leak in the water treatment plant (the leak was not reported to the environment agency). Other issues include: nonpayment of overtime work, no union participation, no health and safety committee, lack of understanding and adequate reporting mechanisms for sexual harassment cases, especially for women workers who are more vulnerable. For the first few years, Borela said the union went into a partnership with the company for survival, but they now realize that it had been a one-way partnership which benefited only the company. While MWC had been reaping billions of pesos in profits, the benefits did not trickle down to the rank-and-file and contractual workers.

[2] By Violeta P. Corral, PSIRU