

# Public-Private Partnership Stories

## Philippines: Clark Water



The Clark Special Economic Zone (CSEZ) is one of the fastest growing industrial centers in the Philippines. CSEZ currently serves over 900 local and foreign firms providing employment to over 80,000 people. CSEZ is managed by the government-owned Clark Development Corporation (CDC). CDC sought to strengthen the regulations around water and wastewater services in CSEZ. CDC asked for IFC support in negotiating with the incumbent water and wastewater service provider, Clark Water Corporation (CWC), to ensure that services within the ecozone are sufficiently and efficiently delivered over the remaining 10-year concession period. Through these negotiations, the parties agreed to amend the regulatory regime and apply principles of regulation that are in-keeping with industry best practice, and in so doing help mobilize critical investments needed to support the growth and competitiveness of the ecozone.

Negotiations concluded with the signing of the amendments to the concession agreement on August 15, 2014. This resulted in a 1Php/m3 reduction in current water tariffs, committed infusion of \$23 million in capital investments over the next four years, \$115 million over the remaining life of the concession, and a 15-year extension to the concession.

*This series provides an overview of public-private partnership stories in various infrastructure sectors where IFC was the lead advisor.*

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## BACKGROUND

Concerned about groundwater depletion from the growing water demand in CSEZ and surrounding municipalities, CDC engaged IFC in 2010 to develop a PPP transaction for treated bulk water supply tapping surface water sources. IFC's technical analysis concluded that there was sufficient and cost-effective groundwater sources to meet the needs of CSEZ over the next 10-15 years.

At about the same time, CDC started negotiations with CWC, in line with the existing concession agreement that allowed for a tariff rebasing on the 10<sup>th</sup> year of the concession. Both CDC and CWC, however, found the agreement provisions unclear and even at times contradictory, and agreed to adopt a new regulatory framework that aligned with industry best practice of transparency in tariff-setting, clarity and predictability of procedures and requirements, and in adopting a robust set of principles that would facilitate efficient investments for the required services.

With the closure of its original mandate, CDC requested IFC's advice in its negotiations with CWC, in the amendment of the concession agreement, and in the first application of the new tariff rebasing regulation.

## IFC'S ROLE

IFC supported CDC in defining the framework for the negotiations and in setting the parameters and principles for the new regulatory regime. A key challenge was in balancing the requirements of CDC to keep the ecozone competitive and ensure environmentally sustainable water resource use, and those of the concessionaire to earn a reasonable return on its investments.

The negotiations were highly technical, requiring in-depth understanding of how different approaches to regulation, including the parameters and inputs into the rebasing formula, would work for or against the objectives of the two parties and finding the right approach to enable the parties to reach their goals. IFC helped CDC through the process and provided the needed due diligence to guide CDC's decisions.

Under the new regulatory regime, CDC will be able to promote greater accountability for service delivery and investments, ensure reasonable tariffs for its consumers and sustain quality water and sewerage services to help underpin CSEZ's long-term competitiveness.

## RESULTS

Negotiations were concluded with the signing of the amendments to the concession agreement on August 15, 2014. In support of CDC's remit to actively promote the expansion and competitiveness of the ecozone, the parties agreed to a 1Php/m<sup>3</sup> reduction in water tariffs, a commitment by CWC to

invest \$23 million in capital investments over the next four years and \$115 million over the remaining life of the concession.

CWC received a 15-year extension to their concession. Under the new regulatory framework, tariff rebasing will be done every four years.

## EXPECTED POST-TENDER RESULTS

- 1Php/m<sup>3</sup> reduction in water tariffs.
- \$23 million in capital investments over the next four years and \$115 million over the remaining life of the concession.