Adversaries versus Partners: Urban Water Supply in the Philippines

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ABSTRACT

In the Philippines, skepticism about private sector participation in urban water provision became increasingly pronounced as missed service targets and regulatory battles plagued governmental relations with the two companies (Manila Water and Maynilad) granted concessions for water provision in the capital, Manila. A comparative study of these two public-private partnerships (PPPs) reveals the challenges of reconciling bureaucratic and organizational dynamics with public suspicion of the private sector. This study draws on interviews and observations with corporate and government officials, academics, journalists, non-governmental organizations and civil society members in the Philippines, almost a decade after the initial privatization.

This paper furthers our understanding of the outcomes in Manila—and PPPs more generally—by addressing the tension between credible commitment in contractual arrangements and flexibility for responding to economic and environmental shocks. It argues that adversarial interactions between the private corporations and regulators hindered the collaborative negotiations needed to respond to the currency crisis. Fear of public backlash against price increases and contract adjustments prevented the government and companies from engaging in meaningful joint problem solving.

The differential outcomes of the companies illustrate the relevance of specific contractual arrangements and leadership in determining the impact of unforeseen shocks. However, the problems experienced by both companies indicates the need—if the private sector is to equitably and efficiently provide public goods—to redesign PPPs to increase transparency and to develop true partnerships.

KEYWORDS: public-private partnerships; private sector participation; urban water; Philippines; contractual arrangements

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Introduction

The rush for public-private partnerships (PPPs) for urban water provision in the 1990s slowed to a trickle by the mid-2000s, as highly publicized examples of contract failures and lawsuits hit the media. In the Philippines, enthusiasm for private sector involvement¹ turned into skepticism as missed service targets, rate hikes and regulatory battles plagued relations with the two companies granted concessions in 1997 for water provision in the capital, Manila. The case of water provision in Manila is at times described as one of mixed success: Maynilad's legal battles with the government culminated in the termination of its contract, while Manila Water was able to resolve its conflicts and continue operations. By comparing these two public-private partnerships, we gain insight into the challenges of reconciling public suspicion of government capture by the private sector with the need for flexibility in renegotiations to respond to unforeseen shocks.

The Asian financial crisis, hitting just months after the contracts for private water provision were signed, and compounded by El Niño-related drought, created significant obstacles for Maynilad in the west and Manila Water in the east. Although Manila Water (unlike Maynilad) weathered the storm of the financial crisis and regulatory conflict, the company still experienced a rocky path to its present stability—and receives mixed assessments of its success in meeting service targets. The experiences in Manila provide insight into challenges facing PPPs in the water sector, and demonstrate some of the factors that can mitigate or exacerbate these problems.

The PPPs in Manila were designed as contractual relationships in which the government delegated the tasks of water services and delivery to the private companies. In this paper, I contend that the legal framework created between the government and the concessionaires was designed to address concerns about information asymmetries and guard against public backlash about private sector involvement in water provision, by providing monitoring and enforcement mechanisms, creating a regulatory office, and clarifying requirements through a contract. However, I further argue that this legal framework established adversarial interactions between the private corporations and regulators, with the perverse result of preventing the collaborative negotiations needed to adjust contractual responsibilities effectively and equitably as external conditions changed.²

The differential outcomes of the companies illustrate the relevance of

¹ Although there was not ubiquitous support for the PPPs even at the outset, there was enthusiasm in the government and parts of the international community for private sector participation in urban infrastructure and services.

² It also undermined the government's aim of strengthening its image as a respected centre of authority, failing to achieve what Shatkin identifies as one of the aims of urban planning, where he argues "urban planning in Metro Manila has at various junctures reflected the efforts of political actors at the national level to legitimize their rule..." See Gavin Shatkin, "Colonial Capital, Modernist Capital, Global Capital: The Changing Political Symbolism of Urban Space in Metro Manila, the Philippines," *Pacific Affairs* 78, no. 4 (2005/2006): 579.

starting conditions and leadership in determining the impact of unforeseen shocks (with Manila Water bearing a significantly lower debt load and exhibiting more effective management than Maynilad); nonetheless, the problems experienced by both companies indicates the need—if the private sector is to successfully participate in public goods provision—to redesign public-private partnerships to increase transparency, foster community participation in decision making, and develop true collaboration.

These arguments are based on information gathered through interviews with key informants from government, international organizations, the corporate sector, non-governmental organizations and other sectors of civil society, along with an analysis of primary and secondary literature on the Manila PPPs. To make the case that adversarial relationships hindered contract renegotiations, and to explain the differential successes of the two companies, this paper proceeds in five sections. The first outlines the public-private partnerships in Manila. The second discusses contractual dynamics and public distrust of private sector involvement in water provision. Section 3 contends that while better initial contract conditions and stronger leadership might mitigate challenges posed by external shocks, they do not resolve problematic operational and regulatory environments. The fourth section assesses the contract renegotiations in Manila, and the final section draws out their broader implications for urban planning and water provision.

Case Studies – Public-Private Partnerships in Manila

For this study, a number of semi-structured interviews and conversations were conducted from May to August, 2006 (almost ten years after the initial privatization agreements were signed) to gain insight into the events that unfolded throughout the contracts. Interviewees were from sectors including government (for example the National Water Resources Board, the Department of Natural Resources, the Metropolitan Waterworks and Sewerage System), private companies (Manila Water and Maynilad), international organizations (for example the Asian Development Bank, the United States Agency for International Development), non-governmental organizations (for example Streams of Knowledge, Focus on the Global South, the Institute for Popular Democracy), and a multi-stakeholder group (the Water Dialogues). To maintain their confidentiality, comments and quotations from interviews are incorporated into the analysis, but are not attributed.³

³ All interviews cited in this paper, unless otherwise indicated, were conducted in person by the author, in Manila. Interviewees were initially contacted by email or phone, to set up these meetings. Some interviews were tape-recorded, but for most, the author took notes by hand during discussions. For each citation, the sector of the person interviewed is indicated. The author's advisor knew some of the participants in government and the private sector at the time of the privatization arrangements, and so initial contacts were made through this link. Further contacts were found through the snowball method, or identified through government, company and NGO websites. Given the sensitivity of some of the information, and to protect confidentiality, interviewees have not been identified.

Turning to the two PPPs, some descriptive history provides the basis for this analysis.⁴ Examining the contracts over time allows us to delineate where initial commitments and path-dependent processes played a role in restricting the range of options perceived by decision makers as available.⁵ This is particularly important for an analysis focused on the processes and early stages of the concession agreements.

In the 1990s, facing a dilemma between inadequate water services and burgeoning government utility debt in Manila, the government of the Philippines embarked on an ambitious water system reform that involved entering into service provision contracts with private companies.⁶ In 1997, the government water supply agency, the Metropolitan Waterworks and Sewerage System (MWSS), signed two 25-year concession agreements for water provision in Metro Manila, and parts of the Rizal and Cavite provinces. Following the advice of International Finance Corporation (IFC) consultants, the city was divided into two zones—the east and west—and each zone was awarded to a private contractor, after a competitive bidding process.⁷ The contracts were awarded to consortia that consisted of Filipino and international companies. The contract for the west zone went to a company called Maynilad, made up of the French Suez-Ondeo and the Filipino Benpres Holdings. The east zone contract was won by Manila Water, which was initially made up of the American Bechtel, British United Utilities and Filipino Ayala Corporation, although Bechtel has since sold its shares and is no longer involved in the company.

Maynilad had some early successes, especially in service expansion and pipe repairs, but this success was not lasting. Maynilad was unable to achieve financial stability, which compromised its capacity to invest in new infrastructure and provide reliable water services; its contract was terminated after lengthy negotiations and litigation.⁸ The government took control of water provision briefly in 2005, but has since “re-privatized” the system, after

⁴ As Tim Büthe argues, narratives should be taken seriously within political analyses, since recognizing the temporality of processes can provide insight into events and outcomes. See Büthe, “Taking Temporality Seriously: Modeling History and the Use of Narratives as Evidence,” *American Political Science Review* 96, no. 3 (2002): 481–493.

⁵ On path dependence, see Paul Pierson, “Increasing Returns, Path Dependence, and the Study of Politics,” *The American Political Science Review* 94, no. 2 (2000): 253.

⁶ This was part of the “fundamental restructuring of [major East and Southeast Asian cities’] built environment[s] in the form of mega-projects to reconstitute the urban core...” discussed by Mike Douglass, “Local City, Capital City or World City? Civil Society, the (Post-) Developmental State and the Globalization of Urban Space in Pacific Asia,” *Pacific Affairs* 78, no. 4 (2005/2006): 545.

⁷ The city was divided into two zones to counter the potential opportunistic behaviour associated with monopoly arrangements of a single water provider. This approach induced indirect and artificial competition between the two providers, by creating side-by-side comparisons by which the companies could be judged.

⁸ See David Ehrhardt for a timeline, “Case Study: The MWSS Regulatory Regime,” Castalia Advisory Group, Presentation to the World Bank, 5 July 2005.

a new bidding process in 2006 won by a consortium led by the Filipino D.M. Consunji Inc. (DMCI), involving the Metro Pacific Investments Corporation.⁹

Conversely, while Manila Water struggled at the outset,¹⁰ it was able to overcome its difficulties and become financially stable and robust. The company has achieved financial stability, is now listed on the Philippines Stock Exchange, and provides consistent and relatively affordable water service. It meets most of its service targets, and has implemented some projects to expand water access in poor neighbourhoods.

The situation in Manila has been extensively studied,¹¹ particularly by civil society organizations, thus there are substantial resources upon which to draw when analyzing this experience. However, even some recent analyses have focused on single-factor explanations such as the issue of for-profit involvement¹² or the absence of a strong regulatory body¹³; this study claims a more complex set of explanatory factors for the observed outcomes.¹⁴ It builds on existing work and furthers our understanding of the outcomes in Manila¹⁵—and PPPs more generally—by addressing the tension between credible commitment in contractual arrangements and flexibility for responding to economic and environmental shocks.¹⁶ This paper therefore

⁹ Asian Development Bank, ADB Assistance to Water Supply Services in Metro Manila. Evaluation Study, Reference Number: SST: PHI 2008-31. Special Evaluation Study, September 2008.

¹⁰ It missed service targets in the early years of the contract, according to Wu Xun and Nepomuceno A. Malaluan, "A Tale of Two Concessionaires: A Natural Experiment of Water Privatisation in Metro Manila," *Urban Studies* 45, no. 1 (2008): 207-229.

¹¹ See, for example, Jenina Joy Chavez and Nepomuceno A. Malaluan, "Of Rehabilitation, Bail Out and the Defense of Public Interest: A Short Update on the Failed Water Privatization in the Philippines," Polaris Institute, 2005; Mark Dumol, *The Manila Water Concession: A Key Government Official's Diary of the World's Largest Water Privatization* (Washington, DC: The World Bank Directions in Development Series, 2000); Jude Esguerra, "New Rules, New Roles: Does PSP Benefit the Poor? The Corporate Muddle of Manila's Water Concessions, WaterAid and Tearfund," 2003; Raul Fabella, "Shifting the Boundary of the State: The Privatization and Regulation of Water Service in Metropolitan Manila," Working Paper 123, Centre on Regulation and Competition, 2006; Mandal Kumar, "Institutional and Regulatory Economics of Public Private Partnerships in Infrastructure: Evidences from Stochastic Cost Frontier Analysis and Three Case Studies of Urban Water Utilities" (PhD dissertation, George Washington University, 2009); Carla A. Montemayor, "Possibilities for Public Water in Manila," in *Reclaiming Public Water: Achievements, Struggles and Visions from Around the World*, eds. Belén Balanyá, Brid Brennan, Olivier Hoedeman, Philipp Terhorst and Satoko Kishimoto (Transnational Institute and Corporate Europe Observatory, 2005); Shane Rosenthal, "The Manila Water Concessions and Their Impact on the Poor," working paper, Hixon Center for Urban Ecology, Yale School of Forestry and Environmental Studies, 2001; Xun and Malaluan, "A Tale of Two Concessionaires," 2008.

¹² For example, Montemayor, "Possibilities for Public Water in Manila," 2005.

¹³ For example, Mushtaq Ahmed Memon, Hidefumi Imura and Hiroaki Shirakawa, "Reforms for Managing Urban Environmental Infrastructure and Services in Asia," *The Journal of Environment and Development* 15, no. 2 (2006): 151-152.

¹⁴ In agreement with, among others, Kumar, Institutional and Regulatory Economics, 2009, especially 197-229; and Roel Landingin, "Loaves, Fishes and Dirty Dishes: Manila's Privatized Water Can't Handle the Pressure," *The Water Barons: The Center for Public Integrity*, 2003, <http://projects.publicintegrity.org/water/report.aspx?aid=51> (last accessed 18 February 2011).

¹⁵ Note, though, that this analysis focuses on the initial concessionaires and does not follow the outcomes after Maynilad's contract termination.

¹⁶ Economic shocks include events like a currency crisis, while environmental shocks refer to occurrences like droughts and floods.

extends our understanding of these partnerships and of considerations for water reform design.¹⁷

Private sector participation (PSP) has been seen as one potential solution to improving water access in the developing world, but remains highly contentious.¹⁸ In many sectors, PSP was strongly promoted by international organizations as part of a trend to fix what was seen as general government inefficiency.¹⁹ The involvement was generally in the form of public-private partnerships (a term that refers to a variety of forms of government contracts with private companies for different levels of service and operations), often concession contracts or build-operate-transfer arrangements,²⁰ rather than complete divestiture of water systems by the government. These leave some of the ownership and rights in the hands of the public sector, while capitalizing on the financial resources, technical expertise and greater political immunity (through their separation from electoral politics) of the private sector.

Acheson argues that many studies of publicly and privately run water systems attribute success or failure purely to organizational form.²¹ Given the complexity of political systems, corporate institutions and societal structures, this has been recognized as a perfunctory analytical approach,²² and some scholars have instead identified public and private involvement

¹⁷ Furthering this understanding is important, as we continue to see debates over the role of the private sector in water provision, as, for example, described by Wijanto Hadipuro, "Indonesia's water supply regulatory framework: Between commercialisation and public service?" *Water Alternatives* 3, no. 3 (2010): 475-491.

¹⁸ For instance, Robert R. Hearne, "Evolving Water Management Institutions in Mexico," *Water Resources Research* 40, W12S04 (2004), <http://www.agu.org/journals/ABS/2004/2003WR002745.shtml> (last accessed 18 February 2011) reports that "[i]n Mexico City, the continued participation of the private sector in service contracts has been met with popular and political resistance that has prohibited further private sector participation [PSP]." Additionally, Antonio Massarutto, Vania Paccagnan and Elisabetta Linares raise questions about efficiency gains from PSP in "Private management and public finance in the Italian water industry: A marriage of convenience?" *Water Resources Research* 44, W12425 (2008), <http://www.agu.org/journals/ABS/2008/2007WR006443.shtml> (last accessed 18 February 2011).

¹⁹ See Asian Development Bank, "Water For All: The Water Policy of the Asian Development Bank—Our Framework, Policies and Strategies," 2003, <http://www.adb.org/documents/policies/water/water-policy.pdf> (last accessed 20 May 2010); Ken Conca, "The United States and International Water Policy," *The Journal of Environment and Development* 17, no. 3 (2008): 215-237; Michael Goldman, "How 'Water for All!' Policy Became Hegemonic: The Power of the World Bank and its Transnational Policy Networks," *Geoforum* 38 (2007): 786-800; Jarmo J. Hukka and Tapio S. Katko, "Water Privatisation Revisited: Panacea or Pancake?" Delft, the Netherlands: IRC International Water and Sanitation Centre, 2003; and World Bank, "Approaches to Private Participation in Water Services: A Toolkit," Washington, DC: International Bank for Reconstruction and Development/World Bank, 2006.

²⁰ Bradford S. Gentry, "Public-Private Partnerships to Improve Urban Environments," review draft, Yale/UNDP Collaborative Program on the Urban Environment, 2004. (Later published in the proceedings of the Yale-IGES International Workshop on Urbanization and Environmental Change, New Haven, April 2004).

²¹ James M. Acheson, "Institutional Failure in Resource Management," *The Annual Review of Anthropology* 35 (2006): 117-134.

²² Gary H. Wolff and Meena Palaniappan, "Public or Private Water Management? Cutting the Gordian Knot," *Journal of Water Resources Planning and Management* (Jan/Feb 2004): 1-3.

along a continuum.²³ Following literature that acknowledges institutional and organizational complexity,²⁴ this paper puts aside debates over the dichotomy of public versus private ownership of urban water services; as one interviewee commented, “in a way Maynilad seemed a lot like a failed socialist public enterprise, not a capitalist one,” in spite of the market mechanisms involved.²⁵ This paper therefore aims instead to identify more effective strategies for management, regulation and operations to anticipate and adequately cope with political, economic and environmental shocks. Consequently, the focal areas in this analysis are the processes and contexts for water provision and negotiations in concession arrangements for urban water provision.²⁶

Contractual Relationships

In cases where actors (principals) are unable or unwilling to perform certain duties, they can delegate responsibility to others (agents). Arrangements in which the government delegates to private companies the responsibility for operating and managing water services can increase efficiency, by allocating operational responsibilities to those with expertise and incentives to reduce costs, improve performance and deliver on targets. They also, though, are vulnerable to agency problems of “adverse selection” and “moral hazard” as a result of hidden information and hidden action, respectively, with the

²³ Described by P.B. Anand, “Semantics of Success or Pragmatics of Progress?: An Assessment of India’s Progress With Drinking Water Supply,” *The Journal of Environment and Development* 16, no.1 (2007): 37-38; Karen J. Bakker, *An Uncooperative Commodity: Privatizing Water in England and Wales* (Oxford: Oxford University Press, 2003); Jessica Budds and Gordon McGranahan, “Are the Debates on Water Privatization Missing the Point? Experiences from Africa, Asia and Latin America,” *Environment & Urbanization* 15, no. 2 (2003): 87-114.

²⁴ Including, for example, Karen Bakker, “Neoliberalizing Nature? Market Environmentalism in Water Supply in England and Wales,” *Annals of the Association of American Geographers* 95, no. 3 (2005): 542-565; Dirk Frans and John Soussan, “Water and Poverty Initiative Case Study Papers: What We Can Learn and What We Must Do,” ADB: Water For All Series, 2003; Peter Lund-Thomsen, “Assessing the Impact of Public-Private Partnerships in the Global South: The Case of the Kasur Tanneries Pollution Control Project,” *Journal of Business Ethics* 90 (2009): 57-78; and Marie-Helene Zerah, “Early Outcomes of Public-Private Partnerships on Providing Water Supply to the Urban Poor: Lessons for India,” International Conference on Sustainable Development of Water Resources: Socio Economic, Institutional and Environmental Aspects, Institute of Resource Management and Economic Development, 27-30 November 2000, New Delhi, India.

²⁵ NGO, interview, May 1, 2006, Manila, Philippines. For a more thorough treatment of the challenges of marketization processes, particularly in an Asian context, see Edward Gu and Jianjun Zhang, “Health Care Regime Change in Urban China: Unmanaged Marketization and Reluctant Privatization,” *Pacific Affairs* 79, no. 1 (2006): 49-71.

²⁶ For summaries of types of PPP arrangements, see Darrin Grimsey and Mervyn K. Lewis, eds., *The Economics of Public Private Partnerships* (Cheltenham, UK: Edward Elgar, 2005), 10-14; and Chris Skelcher, “Public-Private Partnerships and Hybridity,” in *Oxford Handbook of Public Management*, eds. Ewan Ferlie, Laurence E. Lynn, Jr. and Christopher Pollitt (Oxford: Oxford University Press, 2005), 347-370.

outcomes of omission (shirking) and commission (sabotage) if effective monitoring strategies are not developed.²⁷

Mechanisms for containing agency loss include the *ex ante* strategies of contract design and screening processes and *ex post* strategies of monitoring and reporting requirements.²⁸ Contracts, consequently, can act as credible commitment and enforcement mechanisms, which prevent agents from taking advantage of information asymmetries. To guard against agency problems (shirking and sabotage) and prevent the companies from unduly profiting without delivering on their promises, the government of the Philippines established contractual relationships for water services in Manila. In efforts to establish a competitive and fair process for awarding monopoly contracts for each urban zone, the government focused on contracts that involved measurable service targets and a separate regulatory office.²⁹

In a bidding process described by some observers as rushed and incomplete, where private sector participation was “fast-tracked” using the 1995 National Water Crisis Act,³⁰ one interviewee said that parties had assumed that any unclear expectations could be resolved once the contracts had been established.³¹ However, an assumption of post-hoc contract adjustments relies on collaborative processes of continued negotiation among parties that trust each other. Such open discussions are difficult when relationships are mediated through courts and strict procedures, with the government acting in fear of public backlash against price hikes.

The creation of a highly legalistic relationship, based on a contractual paradigm centred on issues of hierarchical information control and conflicts of interest, came at the expense of building true partnerships.³² The arrangement became one of contractors and contractees rather than the development of a collaborative team. The focus on maintaining credibility and assuaging public concerns about for-profit involvement in water services through the creation of a binding and inflexible contract prevented the development of a relationship founded on dialogue and negotiation, and thus created adversaries rather than partners. This adversarial relationship prevented the clarification of responsibilities and requirements once the contracts entered into effect, and also hindered the resolution of new problems that arose from the financial crisis; rather than engaging in a

²⁷ For discussions of principal-agent dynamics, see Terry Moe, “The New Economics of Organization,” *American Journal of Political Science* 28 (1984): 739-777; and Kaare Strom, “Delegation and Accountability in Parliamentary Democracies,” *European Journal of Political Research* 37, no. 3 (2000): 261-289.

²⁸ Strom, *Delegation and Accountability*, 2000.

²⁹ See Mark Dumol, *The Manila Water Concession*, 2000, for a description of the contracts and bidding process.

³⁰ David Hall, Violeta Corral, Emanuele Lobina and Robin de la Motte, “Water Privatisation and Restructuring in Asia-Pacific,” Public Services International Research Unit (PSIRU), 2004, 19.

³¹ Private company, interview, 8 June 2006, Manila, Philippines.

³² As described by Moe, *The New Economics of Organization*, 1984.

dialogue to resolve disputes, the companies ended up enmeshed in regulatory battles with the government.

Debt Loads and Management: Buffering the Shocks

This section forwards the claim that better initial contract conditions and stronger leadership can overcome some of the challenges posed by external shocks and antagonistic relationships, and thus three key features—contract design, internal company management and responses to exogenous financial shocks—help explain the differential outcomes of Manila Water and Maynilad. It outlines the intersection of the two micro-level organizational features (contract structure and the management of transition processes) with an exogenous economic variable (the currency crisis) to provide the basis for explaining the divergence between the two seemingly similar PPPs.³³

Although located in the same city, the companies had different service zones with socio-economically distinct neighbourhoods and different levels of existing infrastructure. They also started out their contractual commitments with different debt loads and infrastructure investment obligations. While both were negatively influenced by the currency crisis and faced the same adversarial regulatory environment, Manila Water, which had a lower debt load (and consequently was less devastated by the collapse of the peso) and stronger corporate management, was able to overcome the challenges; starting from an economically more compromised position, and without strong management skills, Maynilad was unable to recover from the shocks.

I. Contract Structure

Although the frameworks of the contracts were similar, differences in details had a substantial impact on the outcomes in the two zones. At the outset, the east and west zones differed in the extent of existing infrastructure and the dispersion of neighbourhoods they served. The consultants on the project, including experts from the IFC, argued that the east zone would require more infrastructure investment, and therefore high capital expenditure at the start, whereas the west zone, with more existing infrastructure, would have lower initial investment requirements. Since the government utility's debt was going to be transferred to the private companies, it was decided that the debt should be split unevenly between the two, to even out the investment imbalance. The initial division of debt between the concessionaires was such that Maynilad shouldered 85 percent of the debt. This created an economic difference between the companies in terms of risks incurred and how to leverage funding and loans.

³³ Also see Kate Neville, "Management Strategies and Institutional Barriers: An Analysis of Public-Private Partnerships in Water Management in Metro Manila, Philippines," *Tropical Resources Bulletin* 26 (2007): 31-35, and Xun and Malaluan, "A Tale of Two Concessionaires," 2008.

Multiple explanations have been put forth to explain the incentives that shaped contract formation. Low tariffs were considered necessary; this was explained by some observers as stemming from the “culture of free water in the Philippines,”³⁴ where there is an expectation that the government should provide water,³⁵ and the need to protect the poor, since “even those who can pay are making trade-offs,” such as sacrificing spending on health or education.³⁶ Others countered that the government’s motive for encouraging low tariffs was to gain political favour, with one claiming that “[Filipinos] don’t have too much of a resistance to paying,”³⁷ and another clarifying that “people are willing to pay, [but] the politicians are refusing to charge.”³⁸

The idea of corporations profiting from water provision also met with mixed reactions, with one explaining: “in [my organization] there is a good divide on that note—for some of us, it doesn’t matter if the company makes a lot of profit as long as that profit results from its efficiency,” but then qualifying the statement and hedging, “that profit should be limited ... there should be subsidies [for the poor].”³⁹ Contract formation was influenced by this struggle between the financial demands of an indebted and overburdened system against concerns about the commodification of water. The resulting arrangement was intended to be a compromise of sorts, recognizing both the need for commercial viability of the utility and the need for affordable water for citizens.

Specific financial mechanism arrangements—namely the removal of the Currency Exchange Rate Adjustment (CERA), and its replacement by the Extraordinary Price Adjustment (EPA)—delayed the time period over which the companies could recover losses in the case of economic shocks, and was favoured by the government as a way to lower their risk in the deal. While the EPA was not ideal for the companies, as it decreased their ability to cope with economic uncertainty, it was seen as a necessary compromise for the deal to go through. The companies were aware of the risks, but were willing to accept them, given their optimism about the partnerships. In part, it was this overenthusiastic optimism that allowed the contracts to go through, despite obvious flaws.⁴⁰ There was a feeling amongst the negotiators, described by Dumol,⁴¹ that anything left unclear in the making of the contracts could be dealt with later. One interviewee hinted that the companies and government assumed rate rebasements could compensate for low initial

³⁴ Researcher, interview, 12 May 2006, Manila, Philippines.

³⁵ Private company, interview, 20 July 2006, Manila, Philippines.

³⁶ NGO, interview, 5 June 2006, Manila, Philippines.

³⁷ NGO, interview, 16 May 2006, Manila, Philippines.

³⁸ International organization, interview, 17 May 2006, Manila, Philippines.

³⁹ NGO, interview, 16 May 2006, Manila, Philippines.

⁴⁰ On this issue, Raul Fabella, in *Shifting the Boundary of the State*, 2006, 24, comments: “The excess of exuberance was ripe culture for such mistakes.”

⁴¹ Mark Dumol, *The Manila Water Concession*, 2000.

bids, saying: "I can't believe that anyone could say that that was not a calculated thing."⁴² However, the capacity to adjust the contracts in light of those gaps was not included, and thus in spite of the perceived potential need for future adjustments, the political nature of the contracts locked the parties into a track that was difficult to alter.

II. Internal Management

Project outcomes often depend highly on the presence of effective champions: individuals willing to take risks for the sake of project success.⁴³ Although many analyses of public-private partnerships focus on contractual arrangements, risk allocation and investment environments,⁴⁴ the interpersonal relationships between leaders and workers can also influence an organization's ability to fulfill its mandate. As explained by Klijn et al., "most PPPs ... are fairly complex and therefore require substantial managerial efforts in order to succeed."⁴⁵ The extent to which hierarchy constrains the actions of local or lower-level managers and employees in organizations has an impact on responsiveness to variable environments. That is, both the structure of organizations and the individuals within the organizations play key roles in how institutional arrangements are implemented.

Autonomy in decision making can lead to greater incentives for individual responsibility and innovation; moreover, the resulting sense of ownership and personal accountability can improve the functioning of an organization. Delegation of authority, for example, provides more opportunities for the development of context-appropriate solutions to problems than is possible with rigid hierarchy.⁴⁶ These management dynamics became particularly important in the transition from public to private control of operations in Manila. While institutional-level factors drove the divergence in outcomes of the companies, there was a role for individual action and gaps in leadership that, handled differently, could have altered the unfolding of events of either

⁴² NGO, interview, 16 May 2006, Manila, Philippines.

⁴³ Tapio S. Katko, "The Need for Champions in Water Supply," *Waterlines* 12, no. 3 (1994): 19-22. This was echoed by one interviewee who commented that it is not only the sets of rules agreed upon, but also "whether there are champions of the project, [and] whether there is strong leadership." International organization, interview, 17 May 2006, Manila, Philippines.

⁴⁴ See, for example, the summary of studies of critical success factors for PPPs in Young Hoon Kwak, Yingyi Chih and C. William Ibbs, "Towards a Comprehensive Understanding of Public Private Partnerships for Infrastructure Development," *California Management Review* 51, no. 2 (2009): 58.

⁴⁵ Erik-Hans Klijn, Jurian Edelenbos, Michiel Kort and Mark van Twist, "Facing management choices: an analysis of managerial choices in 18 complex environmental public-private partnership projects," *International Review of Administrative Sciences* 74 (2008): 254, 255.

⁴⁶ On management dynamics, see, for instance, Philippe Aghion and Jean Tirole, "Formal and Real Authority in Organizations," *The Journal of Political Economy* 105, no. 1 (1997): 1-29; and Roberta Lynn Satow, "Value-Rational Authority and Professional Organizations: Weber's Missing Type," *Administrative Science Quarterly* 20, no. 4 (1975): 530. As a caveat, though, note that Claus W. Langfred, "Too Much of a Good Thing? Negative Effects of High Trust and Individual Autonomy in Self-Managing Teams," *The Academy of Management Journal* 47, no. 3 (2004): 385-399, finds that low monitoring with high individual autonomy can lead to low team performance.

company; these help to explain some of the failures to adapt to the changing external conditions, particularly in the case of Maynilad.

Maynilad experienced a high management turnover rate, under the guidance of four different presidents in the course of less than ten years. While changes in a company's president do not necessarily undermine a company—noting, for instance, that Manila Water had two presidents over the same time period—in this case, it was a signal of the management troubles faced by Maynilad. For Manila Water, there was “clear continuity in leadership and management” with many people in high-level positions remaining in the company, while for Maynilad, the turnover apparently also extended to many of the company's executives and each new president had a different agenda and approach.⁴⁷ A telling statement was made about Maynilad by one interviewee, who said: “Maynilad is a headless chicken ... [t]hey don't know who is really on top of things.”⁴⁸ Consequently, Maynilad encountered, according to one person interviewed, increasing internal tension between former government employees and the new private company staff over time.⁴⁹ In addition, managerial weaknesses also influenced the decisions made about consultants and advisors: one interviewee claimed that Maynilad relied on poor financial advisors, which exacerbated the financial difficulties.⁵⁰

The initial focus of Maynilad was on meeting compliance with technical requirements, which resulted in little attention being paid to the transition from a government to a corporate management approach. In contrast, Manila Water initially focused on internal reorganization and restructuring, developing a “culture of respect” for financial consideration, and creating a horizontal structure for the company that included autonomy for local managers and their teams.⁵¹ In interviews, it was explained that Manila Water held regular team meetings to share experiences and address problems; moreover, the decentralized management authority was described as empowering employees and increasing their interest in the company's success.⁵² Manila Water had initial tension as they implemented organizational change, but the changes resulted in a more stable, resilient company.

As mentioned, the initial trajectories of the companies were very different from the final outcomes, in that Maynilad realized early successes and Manila Water struggled at the outset, but had opposite end results. This switch illustrates the value of looking at these agreements over time, as the ultimate survival of a company does not necessarily indicate that the targets were met throughout the life of the contract. The role of individuals—such as managers, and the incentive structures in which they operate—within the

⁴⁷ Private company, interview, 8 June 2006, Manila, Philippines.

⁴⁸ NGO, interview, 16 May 2006, Manila, Philippines.

⁴⁹ Private company, interview, 27 June 2006, Manila, Philippines.

⁵⁰ Consultant, interview, 17 May 2006, Manila, Philippines.

⁵¹ Private company, interview, 8 June 2006, Manila, Philippines.

⁵² Private company, interview, 2 June 2006, Manila, Philippines.

corporate and governmental organizations brings to the forefront both institutional factors and individual decisions as contributors to policy outcomes, and provides insight into government-corporate interactions within the PPPs.

III. External Shocks

Organizational structures, including contract design, internal management practices and leadership consistency, have a decisive influence on the ability of a utility to withstand and adapt to external variability. In the absence of external shocks, a flawed structure might operate passably, and have acceptable outcomes (for example, provide adequate access to water for citizens); however, this is not the case in the presence of exogenous stresses. Kingdon indicates a role for such “focusing events,”⁵³ or crisis episodes, in creating space to change political and social arrangements. Critical juncture points, where shocks test the existing systems, may lead to change by exposing problems with the status quo.

In isolation, the debt allocation, contract structure and management problems might not have crippled Maynilad. However, these factors were combined with a severe external shock. Only months after the concession contracts went into effect, the Asian financial crisis hit. The Philippine peso dropped from a ratio of PHP26:1USD in 1997 to PHP50:1USD by 2000, which essentially doubled the dollar-denominated debt load of the company.⁵⁴ This compromised Maynilad’s ability to secure loans, and altered its anticipated financial plan, particularly given the replacement of the CERA by the EPA.

The extent of this external shock had a significantly different impact on the two companies, in part because of the uneven allocation of debt. Although Manila Water had to operate under compromised economic conditions, the impact was much less severe. While we cannot develop a complete counterfactual for the relative effects of debt load and contract structure on each company, we can infer from the financial situation that Maynilad’s troubles reflected its increased debt burden and inability to secure capital for infrastructure investment. In analyzing the companies’ responses to the crisis, it appears that Manila Water had much greater flexibility in its coping strategies than did Maynilad. Different management practices would not have eliminated the impact of the currency fluctuations on debt loads, but might have changed the decision-making processes and expenditures in the early stages of the contract. Speculatively, it is possible that with charismatic leadership and internal efficiency Maynilad could have had more success in negotiating temporary emergency measures, and might then have been able

⁵³ John W. Kingdon, *Agendas, Alternatives, and Public Policies* (New York: Addison-Wesley Educational Publishers, 1995), 197.

⁵⁴ Esguerra, *New Rules, New Roles*, 2003.

to survive the external shock. As the currency stabilized, a company with strong management may have been able to reorganize according to the new financial conditions, and find ways to adapt its operations.

Manila Water was successful in spite of conflict-laden responses to economic and environmental shocks (the financial crisis and drought), in part owing to management skills and its relatively low debt load (at least compared with Maynilad). While it is unlikely that better management alone on Maynilad's side would have been sufficient to save the contract, the following section argues that its failures, and Manila Water's rocky trajectory to viability, could have been smoothed through more collaborative interactions; these could have fostered the public trust and channels for dialogue needed to facilitate greater flexibility in contract requirements. Such partnership might have removed the need for tense arbitration and reduced the negative impacts on customers.

Flexibility in Contract Renegotiations

Xun and Malaluan describe the Manila case as a "natural experiment" where the conditions for the two companies are similar enough to compare internal management practices and to explain variation in outcomes largely as the product of differing corporate governance strategies.⁵⁵ Their analysis provides valuable insight into the cases, explaining the differing outcomes and revealing some of the ways in which managerial strategies and effective leadership can overcome difficult operating environments. However, additional factors might offer insight into how regulatory battles could have been prevented. Designing partnerships for greater transparency, and adopting collaborative approaches for identifying management weaknesses in the early stages of a partnership, could be part of innovative solutions that might prevent such weaknesses from causing insurmountable problems.

The negative effects of currency fluctuations have been seen in utility privatization agreements,⁵⁶ with particularly high risks in developing countries.⁵⁷ There are institutional approaches that can mitigate these risks: for example, in a paper examining the relative success of Singapore in weathering the Asian financial crisis, Jin describes business sector strategies that can be used during times of economic stress, including flexible wage structures that allow for temporary wage cuts by compensating with

⁵⁵ Xun and Malaluan, *A Tale of Two Concessionaires*, 2008.

⁵⁶ Kate Bayliss, "Privatization and Poverty: The Distributional Impact of Utility Privatization," *Annals of Public and Cooperative Economics* 73, no. 4 (2002): 603-625; Leopoldo Rodríguez-Boetsch, "Public Service Privatisation and Crisis in Argentina," *Development in Practice* 15, nos. 3-4 (2005): 302-315.

⁵⁷ Jennifer Davis, "Private-Sector Participation in the Water and Sanitation Sector," *Annual Review of Environmental Resources* 30 (2005): 145-183.

supplements during economically stable times.⁵⁸ Failure as a result of the currency crisis was not inevitable, but would have required mechanisms that allowed for changes to pre-set agreements.

Patashnik discusses the trade-offs between credibility and flexibility,⁵⁹ in which building credible policy commitments leads to the risk of inflexible arrangements in the face of changing external conditions. While binding contractual agreements can provide some certainty to parties engaging in a risky partnership, they can lead to problems when unforeseen crises arise, since they tend to limit the range of available responses. In Manila, the contracts did include some provisions for rate increases and renegotiation, but these proved inadequate to address the extreme economic shifts of the currency crisis, particularly when combined with drought and mistaken estimates for infrastructure investments.

There are a number of country-related and foreign exchange risks involved in private sector investment in water services in Asia, including regulatory, political, foreign exchange, tariff formula, force majeure, and termination and compensation risks.⁶⁰ Given these risks, the operating environment in many urban areas is not predictable; as one interviewee queried, “how can a mayor know that there will be a financial crisis [and] whether they’re getting a great management team or a disaster?”⁶¹ Flexibility in addressing unanticipated, potentially non-linear, non-incremental changes in the economic, physical and social conditions is therefore an imperative; flexibility, in this context, refers to the ability to adjust and revise service targets, implementation strategies, water prices and management activities.

The initial contract bidding process was designed with the aim of allaying public fears about private sector involvement, through making the process transparent, predictable and clearly defined.⁶² However, policies are dynamic and do not always lead to the intended ends;⁶³ accordingly, their outcomes can diverge from their intended goals. Contracts represent both legal and social obligations, and governments cannot easily back out of them, for fear of political reprisal. The contract structure became a symbol of political credibility, particularly given skepticism about private sector involvement in

⁵⁸ Ngiam Kee Jin, “Coping with the Asian Financial Crisis: The Singapore Experience,” *Visiting Researchers Series—Institute of Southeast Asian Studies* 8 (2000): 1-38.

⁵⁹ Eric M. Patashnik, “Unfolding Promises: Trust Funds and the Politics of Precommitment,” *Political Science Quarterly* 112, no. 3 (1997): 431-452.

⁶⁰ Listed by a participant at a conference held by the Asian Development Bank in Manila, 31 May 2006. These risks are echoed in Seungho Lee’s analysis of the Chinese water market, “Development of Public Private Partnership (PPP) Projects in the Chinese Water Sector,” *Water Resource Management* 24 (2010): 1925-1945.

⁶¹ Researcher, interview, 17 May 2006, Manila, Philippines.

⁶² Mark Dumol, *The Manila Water Concession*, 2000.

⁶³ Arnold J. Heidenheimer, Hugh Heclo and Carolyn Teich Adams, *Comparative Public Policy: The Politics of Social Choice in America, Europe, and Japan, Third Edition* (New York: St. Martin’s Press, 1990), 11.

water and fears about tariff increases. Changing the terms of the initial agreement—even in a case where it could salvage a failing contract—was seen as breaking that political promise, particularly since the companies were seen as contracted parties rather than as water provision partners. Reneging on the terms of the concession agreements was perceived as challenging the government's ability to make credible commitments; this was particularly concerning for a Filipino government that was emerging from a rocky history of democracy and attempting to overwrite a legacy of corruption and mistrust.

Pierson outlines the characteristics of processes with increasing returns, where switching paths consequently becomes more challenging as the process progresses.⁶⁴ This seems to be a contributing factor to the stickiness of the contracts in the Philippines, since contracts that are difficult to establish at the outset, and that become further entrenched over time, are more challenging to change at later stages. The difficulties in changing rules and expectations established early in contract negotiations, combined with the lack of direct public involvement in the partnerships and negotiations, meant that there was little opportunity for the affected stakeholders to be involved in developing solutions to address the financial and environmental challenges. In an analysis of the concept of path dependence, Greener describes how “structural and cultural ‘conditionings’” can “create ‘emergent properties’ and ‘situational logics’” that influence the incentives for actors to maintain and protect existing arrangements or systems, and can “‘lock out’ competing political ideas.”⁶⁵ In the water provision PPPs in Manila, the structural arrangements of the contracts reinforced the cultural (or ideational) value accorded to private sector participation by many of the parties involved (for example, government, companies and international organizations), and thus proponents of the contracts had a vested interest in upholding them. Even when faced with external shocks, the government and regulators were reluctant to change the terms of the contracts, based on these entrenched interests; moreover, the context of past struggles to gain public confidence intensified the government's fear that such renegotiations would undermine the credibility of its commitments in a political environment with already-shaky trust.

⁶⁴ Pierson, *Increasing Returns*, 2000, 253. This analysis of the Philippines draws on an understanding of the term derived from Scott E. Page, “Path Dependence,” *Quarterly Journal of Political Science* 1 (2006): 88, in which self-reinforcement (where “making a choice or taking an action puts in place a set of forces or complementary institutions that encourage that choice to be sustained”) is one of the possible causes of path dependence, and can be used to help understand the trajectories of government policy making.

⁶⁵ Ian Greener, “The Potential of Path Dependence in Political Studies,” *Politics* 25, no. 1 (2005): 65, 68. Greener's article aims to clarify and develop a more “coherent framework” (62) for the concept of path dependence.

While flexibility may have been needed to address the unforeseen pressures imposed by the currency crisis, increasing the opportunities to renegotiate outside of arbitration chambers and courtrooms can equally lead to problems. In interviews, both those conducted for this study and those reported by Kumar,⁶⁶ observers and parties on both sides reported that the other parties had acted opportunistically in negotiations, and civil society observers expressed doubts about the neutrality and independence of regulatory authorities.⁶⁷ One comment on the “need to eliminate familiarity between regulators and concessionaires,” made by a government representative, illustrates this doubt, particularly as the person went on to link this to the “Filipino culture of ‘pakikisama,’” described as a characteristic of cooperation and camaraderie that makes it difficult to say no to someone you have befriended.⁶⁸ Others raised concerns about regulators’ capabilities, with one commenting, “even if [the regulatory board was] independent, the individuals are a problem” and added, given the board’s inexperience, it “needed institutional hand-holding.”⁶⁹

While these individuals’ comments are not a decisive account of the impartiality or skill of the regulatory office, they highlight the public skepticism of flexibility in contracts that are not perceived to be transparent. Moreover, although there were attempts in the contracts to develop indicators of success, particularly through comparisons of the two monopolies, one interviewee stressed that these have not been effective in Manila. With the “extreme” divergence between the companies, benchmarking has little meaning, since “Manila Water looks great compared to a disaster.”⁷⁰ Increasing the ability of companies and the government to conduct rate rebasements, service target alterations and other contract adjustments will not be an effective tool for increasing PPP success unless it is accompanied by greater public engagement and improved evaluation strategies.

The dilemma of renegotiation was apparent in the actions of the regulators, who, according to several of the interviewees, agreed to compromises with the companies that they subsequently backed out of. The struggle between preventing tariff increases and allowing the companies to recover costs led to fluctuations in the decisions made by the regulatory office. The companies were therefore stuck with mechanisms to recover losses that were incommensurate with the timing of cost recovery that they needed. The political lock-in of the contracts was reinforced by the political and social contexts in which they were operating, and complicated by the troubled

⁶⁶ Kumar, *Institutional and Regulatory Economics of Public Private Partnerships in Infrastructure*, 2009.

⁶⁷ Researcher, interview, 17 May 2006; NGO, interview, 1 May 2006; Journalist, interview, 6 June 2006, all in Manila, Philippines.

⁶⁸ Government, interview, 8 June 2006, Manila, Philippines.

⁶⁹ International organization, interview, 17 May 2006, Manila, Philippines.

⁷⁰ Government, interview, 8 June 2006, Manila, Philippines.

relationships between Maynilad and the regulators. The antagonism in these relationships was evident as regulators and government officials acted with the central goal of protecting their organizations,⁷¹ aiming to maintain power and legitimacy, and constrained by contractual and institutional structures. Consequently, they did not act as collaborative partners seeking out mutual gains and minimizing shared losses.

The value of community leadership and direct engagement in problem solving in the water sector has been addressed in the literature.⁷² Younger, for example, discusses concerns about the capture of community representative bodies by urban elites in Bolivia, but stresses that there are trends of improved direct engagement and popular participation in governance in the country.⁷³ He emphasizes the need for involvement beyond simply providing information to the public,⁷⁴ and points to lessons that can be learned from communitarian structures of social relations in the global South. In Manila, one interviewee underscored that “community buy-in is critical... [when you] give community what they want in terms of service, they’re excellent allies.”

This solution comes with a caveat: involvement in decision making might not always lead to more inclusive and equitable outcomes. In a network analysis comparison of water sectors in Ethiopia and Egypt, Luzi, Hamouda, Sigrist and Tauchnitz found that NGO involvement and decentralization increased the potential for “pluralistic policy making,” but “does not seem to translate into significantly more integrated water policy processes and more effective water policies.”⁷⁵ Concerns about NGO representation were echoed in the Philippines, with one person commenting on the lack of representation in the privatization process, noting: “NGOs also don’t work in this role because they are interest groups, not necessarily customers ... [they] often have other interests beyond just water that would skew the process.”⁷⁶

Another proposed solution—to extend decision-making power more directly to consumers—was also met with concern, with one explaining: “there is political risk involved if you give veto power to consumers, [since] it adds to the uncertainty faced by the private company and its creditors.”⁷⁷

⁷¹ See Miriam Golden, “The Politics of Job Loss,” *American Journal of Political Science* 36, no. 2 (1992): 411, for a similar analysis of officials, in her study of job loss in the automotive industry.

⁷² See, for example, David Hall and Emanuele Lobina, “Profitability and the Poor: Corporate Strategies, Innovation and Sustainability,” *Geoforum* 38 (2007): 772-785, although note that they remain skeptical of the value of multinational corporate involvement in the sector.

⁷³ Paul L. Younger, “Pro-poor Water Technologies Working Both Ways: Lessons from a Two-way, South–North Interchange,” *Geoforum* 38 (2007): 836.

⁷⁴ Younger, *Pro-poor Water Technologies Working Both Ways*, 837.

⁷⁵ Samuel Luzi, Mohamed Abdelmoghny Hamouda, Franziska Sigrist and Evelyne Tauchnitz, “Water Policy Networks in Egypt and Ethiopia,” *The Journal of Environment Development* 17, no. 3 (2008): 264-265.

⁷⁶ Government, interview, 8 June 2006, Manila, Philippines.

⁷⁷ NGO, interview, 16 May 2006, Manila, Philippines.

Nonetheless (even with these potential challenges), overcoming public suspicion of water sector operators, increasing the opportunities for dialogue, increasing procedural transparency, and consequently increasing possibilities for contract adjustment, are promising options for improving water provision arrangements, particularly in the context of concession agreements.

The policy window for PPPs seems to have opened, with a global shift to private sector involvement in public utilities. The combination of international pressure for (and optimism about) private participation in water, in addition to the realized success in the Filipino energy sector with privatization,⁷⁸ set up political expectations about the range of options available for improving water services. This included creating partnerships between governments and the private sector, with only arms-length public participation. The involvement of the private sector did not doom the contracts to failure, but the specific arrangements created a situation where transparency was low, and thus commitment to the letter of the agreements trumped commitment to the spirit of the partnerships.

With an adversarial dynamic established at the outset, renegotiation was difficult, if not impossible, given the government's fears of appearing to capitulate to corporate pressure. More collaborative approaches, with broad stakeholder participation, might have allowed the flexibility needed to respond to the economic and geographic challenges of water provision in the city.

Conclusions

According to one analyst, "[t]he years 2000 to 2003 saw the retreat of TNC investment in water due to national economic crises, social protest, and the difficulties of extracting profit delivering water to indigent consumers."⁷⁹ While it is unusual for two distinct cases with divergent outcomes to occur within the same city, as occurred in Manila, the comment underscores that patterns of enthusiasm for public-private partnerships followed by rocky implementation, tense renegotiations and contract termination (in the case of Maynilad) have been repeated in many locations around the world.

In particular, repeating trends include: investment and operational struggles following currency crises (for example, Argentina⁸⁰ and Jakarta⁸¹); lack of public consultation and civil society resistance to private sector

⁷⁸ Mark Dumol, *The Manila Water Concession*, 2000.

⁷⁹ Peter T. Robbins, "Transnational Corporations and the Discourse of Water Privatization," *Journal of International Development* 15 (2003): 1073.

⁸⁰ Robbins, *Transnational Corporations*, 2003, 1078-1079.

⁸¹ Achmad Lanti, "A Regulatory Approach to the Jakarta Water Supply Concession Contracts," *International Journal of Water Resources Development* 22, no. 2 (2006): 255-276.

involvement (for example, Argentina⁸² and India⁸³); pricing and ownership debates (for example, Bolivia⁸⁴); and contract renegotiations and private sector withdrawals (for example, Argentina,⁸⁵ China,⁸⁶ Chile and Peru⁸⁷). Consequently, the experiences in Manila illustrate some of the dimensions of contract and partnership development that have been observed elsewhere.

While this analysis has focused on water provision, the experiences in Manila provide more general insight into the development of public-private partnerships for public goods and urban infrastructure, particularly the ways in which the initial context, contractual arrangements and organizational dynamics affect partnership outcomes. Most centrally, these cases reveal how political pressures can influence the structure of governing arrangements and relationships among stakeholders, and how these directly affect the ways in which organizations can respond to crisis. Legal constraints and tense interactions in Manila prevented effective engagement among state and non-state actors in responding to external shocks.

In light of existing infrastructure conditions that only became known once Maynilad and Manila Water had taken over operations, and in the aftermath of the currency collapse in the Philippines, flexibility and greater opportunities for contract alterations might have been beneficial for the companies and for their ability to provide water services. However, in the absence of a transparent, inclusive partnership, there were fears that increasing the flexibility in the contract would only increase the opportunities for (and public concerns about) corruption, graft and private gain.

While goodwill and friendly discussions might not have been enough to overcome an economic crisis and ideological divides, the lack of willingness to negotiate in good faith in conjunction with a bargaining process focused on profit maximization and blame-avoidance failed to produce outcomes

⁸² Alexander J. Loftus and David A. McDonald, "Of liquid dreams: a political ecology of water privatization in Buenos Aires," *Environment and Urbanization* 13 (2001): 183.

⁸³ Govind Gopakumar, "Transforming water supply regimes in India: Do public-private partnerships have a role to play?" *Water Alternatives* 3, no. 3 (2010): 492-511. In his analysis, Gopakumar documents the resistance to private sector involvement in water and sanitation in Chennai, its abandonment in Bengaluru, and its weakening in Kochi, based on entrenched political power, anti-privatization campaigns, and civil society resistance, respectively.

⁸⁴ Susan Spronk, "Roots of Resistance to Urban Water Privatization in Bolivia: The 'New Working Class,' the Crisis of Neoliberalism, and Public Services," *International Labor and Working-Class History* 71 (2007): 8-28.

⁸⁵ Ana Hardoy and Ricardo Schusterman, "New models for the privatization of water and sanitation for the urban poor," *Environment & Urbanization* 12, no. 2 (2000): 63-75.

⁸⁶ Private sector withdrawals have been seen for various reasons, with one example in China attributed to the removal of guaranteed rates of return by the government, leading to the withdrawal of Thames Water from Shanghai in 2004; see Lee, Development of Public Private Partnership (PPP) Projects, 2010, 1934. However, Lee also notes that private company involvement by a number of MNCs, including Suez and Veolia, continues in some Chinese cities.

⁸⁷ Roger Noll, Mary M. Shirley and Simon Cowan, "Reforming Urban Water Systems in Developing Countries," in *Economic Policy Reform: The Second Stage*, ed. Anne O. Krueger (University of Chicago Press, 2002), 243-291.

that benefitted the public. This reveals the imperative of reconciling flexibility (to address new and unforeseen challenges) with transparency and accountability. Had multiple stakeholders and community members been integrated more fully into the water provision arrangements, the renegotiation of concession contracts may not have been seen as the government capitulating to private pressures in back-room deals. Moreover, with greater community engagement from across socio-economic groups, issues beyond prices and company survival—including, notably, pro-poor policies and water provision—might have been addressed.⁸⁸

Some analysts have suggested that the struggles with PPPs in Manila could have been mitigated by clearer initial contracts or greater independence of the regulatory authorities. In opposition, this analysis suggests that dynamic and uncertain futures for urban infrastructure and service provision are best addressed not through more rigid and explicit contracts and monitoring, but through the development of more collaborative, inclusive and robust partnerships that allow for negotiable contracts. In the Philippines, acting as adversaries rather than partners in contract renegotiations created a focus on zero-sum gains rather than on the mutual compromises required by both public and private players in the wake of the currency crisis. Focusing on fostering the conditions for mutual gains and open dialogue, rather than blame allocation and adversarial negotiations, might lead to more equitable, cost-effective and consequently successful private-sector participation in public goods provision.

Although the enthusiasm for large private sector contracts for water provision in developing countries has been dampened, interest is still high in water sector reform and thus these lessons may be of value in evaluating strategies for improving water and sanitation services. Reflecting on these experiences can therefore help urban water provision move beyond the politicized debates over public and private sectors, and towards strategies to foster collaboration among all stakeholders.

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⁸⁸ For a discussion of the failures of the private sector to supply water to the poor, see, for instance, Karen Bakker, "Trickle Down? Private Sector Participation and the Pro-poor Water Supply Debate in Jakarta, Indonesia," *Geoforum* 38 (2007): 855-868.