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Public–Public Partnerships as a catalyst for capacity building and institutional development: Lessons from Stockholm Vatten’s experience in the Baltic region

by

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Submitted: 12 October 2006

Paper presented at IRC and UNESCO-IHE Symposium on
Sustainable Water Supply and Sanitation: Strengthening Capacity for Local Governance
Delft, the Netherlands, 26-28 September 2006

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ABSTRACT	3
KEYWORDS	3
INTRODUCTION	3
METHODOLOGY	3
THE EXPERIENCE WITH PPPS OF THE LAST 15 YEARS IN DEVELOPING COUNTRIES: THEORY AND PRACTICE	4
PUBLIC-PUBLIC PARTNERSHIPS (PUPS): A TYPOLOGY AND DEFINITIONS	5
STOCKHOLM VATTEN'S EXPERIENCE WITH PUPS IN KAUNAS, LITHUANIA AND RIGA, LATVIA	5
DISCUSSION OF FINDINGS: PUPS AS PARTNERSHIPS FOR CAPACITY BUILDING AND INSTITUTIONAL DEVELOPMENT	6
POLITICS, PUBLIC SECTOR ETHOS AND NOT-FOR-PROFIT RELATIONSHIP AT THE HEART OF SUCCESS	6
THE ROLE OF TRUST AND ITS IMPLICATIONS	7
TRANSPARENCY AND ACCOUNTABILITY	7
COST EFFECTIVENESS OF PUPS	7
ENHANCING CAPACITY FOR CAPACITY AND INSTITUTIONAL DEVELOPMENT	7
TRAINING AND HUMAN RESOURCES DEVELOPMENT	8
INSTITUTIONAL AND ORGANISATIONAL DEVELOPMENT	8
THE ROLE OF BILATERAL DONORS AND INTERNATIONAL FINANCIAL INSTITUTIONS (IFIs)	9
ADDRESSING INSTITUTIONAL AND SCALING UP REQUIREMENTS.....	10
RETAINING KNOWLEDGE AND CAPACITY WITHIN THE SUPPORTED PARTNER AND SURROUNDING INSTITUTIONAL SETTING	10
CONCLUSIONS	11
REFERENCES	11
NOTES.....	13

Abstract

One mechanism for addressing the problems of a lack of institutional capacity is that of public-public partnerships (PUPs), whereby established public sector operators are used to assist the development of local managerial, financial, and accountability capacity. Drawing on empirical evidence on two projects in the Baltic region, this paper looks at the factors underlying the developmental potential of PUPs. The dynamics of PUPs are radically different from those of PPPs, in terms of the underlying objectives and motivations, the basis of the partnership and the configuration of accountability networks, risk perception and management, and in terms of transferring knowledge and building local capacity. The success of PUPs relies on their not-for-profit basis and retention of public operations, with the collaboration being stimulated by mutual trust and understanding and public sector ethos. The absence of profit-seeking and treatment of knowledge as a public good allow for the concentration of available resources on knowledge transfer aimed at capacity building and local governance, without deviations from the intended reform path. Furthermore, systematic reporting may ensure transparency and the partners' accountability towards political and financial sponsors. Such factors explain the high cost effectiveness of PUPs in terms of capacity and institutional strengthening, as well as investment implementation. The promotion of South-South and domestic PUPs, together with a multi-pronged strategy to maintain the transferred knowledge and built capacity, should be considered to address scaling up requirements and induce context relevant institutional and organisational change. Bilateral donors and International Financial Institutions (IFIs) should consider supporting PUPs as a viable conduct for inducing sustainable water sector reform provided their focus is on promoting context relevant "good governance" principles rather than changes in the ownership of public operations which have proved counterproductive in the past.

Keywords

Capacity Building; Governance; Institutional Development; Knowledge Transfer; Public-Private Partnerships (PPPs); Public-Public Partnerships (PUPs).

Introduction

In the last 15 to 20 years, the international debate on the reform of the urban water supply and sanitation sector has primarily revolved around the privatisation of operations through Public-Private Partnerships (PPPs) or Private Sector Participation (PSP). Alternative approaches to the reform of water services have been long overlooked. The reform of public water operators through in-house restructuring and partnerships preserving public ownership and control and the public-ness informing operations feature predominantly among such alternatives. Empirical evidence increasingly point to the developmental potential of this new generation of partnerships, often identified as Public-Public Partnerships (PUPs) (Hall *et al.*, 2005; Hall & Lobina, 2003; Hall, 2000; Miranda, 2006; Reclaiming Public Water, 2006; Hall *et al.*, 2002; Davis, 2004; Lobina & Hall, forthcoming in *Progress in Development Studies*).

This papers looks at the experience with a limited number of PUPs, aiming at drawing lessons on the factors conducive to the success of such partnerships in enhancing governance structures and build local capacity, as well as the practicalities associated with their implementation.

Methodology

The paper draws on empirical evidence on two PUPs established between Stockholm's municipally-owned water company Stockholm Vatten and its counterparts in Kaunas, Lithuania and Riga, Latvia. Findings are also extrapolated from the available literature on PPPs, PUPs and public sector reform. Findings obtained from the in-depth analysis of the experience with a specific type of PUP in a given geographical context are related to the empirical observations contained in literature in order to elicit adjustments and strengthen their generality.

A first section provides an overview of the problems associated with the introduction of PPPs in transition and developing countries, in order to establish the rationale for the consideration of PUPs and their promotion. A second section briefly illustrates the concepts of PUP and the various types of partnership which have been developed in practice. This is followed by an account of Stockholm Vatten's experience with PUPs in the two Baltic countries, set on the background of the international initiative which spurred reform and capacity building efforts in the region.

The emerging findings are discussed in relation to fundamental aspects of the observed partnerships: objectives and motivation; relationship between partners and accountability networks; risk management, transaction costs and cost-effectiveness; knowledge transfer, capacity building and training; institutional and organisational change and the role of donors and IFIs. Practical recommendations for strengthening local capacity and institutions through PUPs are also formulated.

The experience with PPPs of the last 15 years in developing countries: theory and practice

For the purpose of this essay, we constrain our analysis of PPPs to those partnerships envisaging the transfer of managerial control over water supply and sanitation operations to a private operator, usually a MNC. Such arrangements range from management contracts, to lease (or "affermage") and concession contracts, to full divestiture.

The international water community came to see PPPs as the solution to the problems of the water sector in light of dissatisfaction with the performance of public utilities, particularly in transition and developing countries (Braadbaart, 2001: 5). There is a broad literature on the purported benefits of PPPs in the water sector, which can be summarised as the following three arguments: a) private sector's greater efficiency and flexible, proactive management leading to enhanced service levels and improved operational capacity; b) private sector's financial capacity, leading to increased access to investment finance; c) fiscal benefits for local governments as their budgets are relieved from the burden of investment finance (Hall & Lobina, forthcoming in Geoforum; Hall & Lobina, 2006: 9-10). As a matter of fact, the reality of PPPs has in many cases fallen short from such high expectations in the last 15 years. The percentage of private operating contracts undergoing problems ranging from termination to widespread opposition to private operators' pricing and operational policies is alarmingly high (Lobina & Hall, forthcoming in Progress in Development Studies). Furthermore, the number of new household connections to the pipeline network realised with private finance in regions such as Sub-Saharan Africa and Asia (excluding China) has been dismal (Hall & Lobina, 2006: 37-39). Faced with disappointing results, the World Bank and other organisations which have been promoting PPPs in infrastructure and water have recently acknowledged the limitations of the private sector (Lobina, 2005: 82; Miranda, 2006).

A number of competing and concurring arguments might contribute to explain the failure of PPPs to deliver the expected benefits in urban water supply and sanitation: a) the high transaction costs associated with the identification, allocation and mitigation of the financial, performance, regulatory and political risks involved for the private operator and the various stakeholders (Lobina & Hall, 2003: 22); b) contract failure, due to the impossibility of foreseeing all the variables that might affect the implementation of contractual obligations under PPPs, particularly so in developing countries (Braadbaart, 2001: 16); c) dynamic interest-seeking means that MNCs would rely on their superior resources in terms of information, but also technical expertise and legal resources and political clout in respect of host governments and other stakeholders to pursue their commercial considerations. This inconsistency would be observable on pricing levels, the delivery of expected investment programmes and general implementation of contracts, including the delivery of services to the poor (Lobina & Hall, 2003: 9-33; Hall & Lobina, forthcoming in Geoforum). A corollary of this argument is that the international private sector is characterised by a limited risk taking capacity which explains MNCs' withdrawal from developing countries in the face of currency or other external risks (Hall & Lobina, 2004: 271-272). Another corollary, and one more relevant to capacity building and local governance, is that water MNCs would tend to retain their knowledge at managerial level in that its transfer to local actors would undermine the very *raison d'être* of PSP. They would instead transfer more limited technical and operational knowledge to local staff, local community members and other stakeholders should that prove instrumental to the enhancement of the PPP's profitability (Lobina & Hall, forthcoming in Progress in Development Studies; Hall & Lobina, forthcoming in Geoforum). This would contribute to explain why meaningful and effective public participation or community involvement in decision making on and

monitoring of PSP appears to be extremely uncommon (Lobina & Hall, 2003: 20-21); d) contrary to the public sector, the private sector and particularly so the international private sector do not enjoy the socio-political legitimacy which is a precondition for the acceptance of reforms by local communities across developing countries, leading to widespread popular resistance to PPPs (Hall, Lobina and de la Motte, 2005; Lobina & Hall, forthcoming in *Progress in Development Studies*).

Public-Public Partnerships (PUPs): A typology and definitions

A review of existing literature shows that there is no single consistent use of the concept of 'Public-Public Partnerships' (PUPs). However, PUPs can conveniently be classified according to the different types of partners involved; and the objectives of the PUPs. The narrowest definition of the concept of 'Public-Public Partnerships' (PUPs) is the one most commonly used in North America and Europe, which refers to any collaboration between two or more public authorities in the same country. This narrow use of the concept of PUPs has been broadened to include partnerships between public authorities (government) and any part or member of the general public. For example, a recent definition of PUPs in South Africa includes "government-community partnerships, government-NGO partnerships, as well as government-government partnerships" (Kitchen, 2003), in other words, partnerships with NGOs, community organisations and trade unions. In addition, there are partnerships with an international dimension: 'development partnerships', which partner a public authority from a high-income country with a public authority in a low-income country, and cross-border partnerships between authorities from different countries, including international associations of public authorities (Hall *et al.*, 2005: 5).

For the purpose of this paper, we look at a specific category of PUPs consisting of not-for-profit arrangements whereby a public sector water operator in one country helps a public sector undertaking in another country to build capacity, through training and technical assistance. Such links are sometimes part of "twinning" arrangements between local authorities in different countries (Hall, 2000: 3). Despite some mixed past experiences with twinning arrangements in the water sector (Miranda, 2006: 57; Lariola & Danielsson, 1998: 5), the experiences reviewed in different regional contexts varying from Central and Eastern Europe (CEE) to Africa and Asia, suggest that the developmental potential of PUPs is high (Hall, 2000; Hall & Lobina, 2003) but that remains largely untapped.

Stockholm Vatten's experience with PUPs in Kaunas, Lithuania and Riga, Latvia

The experience of Stockholm's municipally-owned water supply and sanitation company Stockholm Vatten as a supporting partner in the Baltic area is of particular interest in light of the institutional and operational issues addressed throughout the 1990s' in collaboration with the local partners in Kaunas, Lithuania and Riga, Latvia, the substantial investment programmes realised and the long term positive impact generated in terms of capacity building. The identification of Baltic Sea pollution as a problem shared by Nordic and Baltic countries prompted an international initiative, the Helsinki Convention, aimed at finding solutions through cooperation. Internationally coordinated efforts attracted the human and financial resources required to address underinvestment in and poor quality of water supply and sanitation services in countries undergoing transition from communist regimes (Hall *et al.*, 2005: 32; Hall, 2000: 8). Furthermore, financial support offered by a number of international agencies and bilateral donors shows that PUPs might represent vehicles for tapping investment finance.

Stockholm Vatten's PUPs in Kaunas and Riga provided for the partial recovery of Stockholm Vatten's costs and did not contemplate the possibility of making profit. The costs of Stockholm Vatten's human resources devoted to the twinning were covered by the Swedish International Development Cooperation Agency (Sida), while the investment programme carried out by the local water operators with the assistance of Stockholm Vatten received funding from the EBRD, EIB and other multilateral and bilateral agencies and was co-financed by the host governments and supported partners. The International Financial Institutions (IFIs) supporting the PUPs also defined the objectives of the twinings, which generally included the achievement of environmental goals through enhancing the quality of water services and the operators' restructuring. More precisely, Stockholm Vatten's support was aimed at enhancing "financial performance through improved management, operational efficiency, full cost recovery and institutional development, transforming the local twinning partner into an autonomous, self-financing and self-governing company without municipal or governmental subsidies in the future" (Bjerggaard, 2006: 3).

In both Kaunas and Riga, Stockholm Vatten provided technical assistance to the local partners (respectively, Kauno Vandenyys and Riga Water) by contributing a limited number of resident advisers, who were responsible for know-how transfer in a number of technical and operational areas and for providing support to the in-house restructuring of the two undertakings. The main resident adviser was also responsible for coordinating visits by short-term experts to meet with their professional counterparts in the host organisation and arranging short term visits of personnel from the host organisation to Stockholm Vatten's headquarters.

The twinning arrangements were divided into two phases, with the first one lasting no more than one year devoted to preparation for the various components: institutional reform, operational change, investment projects (as regards access to investment finance). Project Implementation Units (PIUs) which were to take responsibility for procurement and project management, were established and trained in this phase (Bjerggaard, 2006: 3, 11).

The second phase focussed on implementation of the established programme during a period of four to five years. It included the development of a comprehensive Corporate Development Programme, from the identification of corporate strategy to long term planning, and provision of support to organisational changes and human resource development, as well as financial, operational and environmental performance, with the introduction of Nordic and European standards. Investment implementation took place in parallel to institutional and organisational changes (Bjerggaard, 2006: 2, 3-8). Lariola & Danielsson (1998) and Lariola *et al.* (2000) provide extensive details on the technical assistance components, the institutional and organisational changes and the investment programmes implemented in the two Baltic cities.

“The water companies in Kaunas and Riga stand today as successful role models for twinning arrangements between public water entities, where goals were met timely and within budget. The companies are now implementing their second major investment projects without twinning assistance and the financiers are very satisfied with the enhanced and sustainable capacity of these companies” (Bjerggaard, 2006: 2, 8; Lariola & Danielsson, 1998: 16; Hall & Lobina, 2003: 11-12). The investment programmes delivered in Kaunas and Riga amounted to, respectively, US\$ 101 million and US\$ 104.7 million (Lariola & Danielsson, 1998: 1; Lariola *et al.*, 2000: 3). Long term capacity to access investment finance was transferred (Lariola *et al.*, 2000: 21-23) and, subsequently, the EBRD agreed to issue loans to both Riga Water and Kauno Vandenyys on a non-sovereign basis (Lobina, 2001: 15-16).

Discussion of findings: PUPs as partnerships for capacity building and institutional development

The analysis of Stockholm Vatten's experience with twinning arrangements in the Baltic region allows for drawing broader lessons on the factors conducive to the success of this type of PUPs, as well as on their impact in terms of local capacity building and governance.

Politics, public sector ethos and not-for-profit relationship at the heart of success

The reviewed PUPs proved successful in building local capacity at various levels, from municipal decision makers to the local partner's management and staff, as well as facilitating institutional and organisational change. Firm reliance on public sector resources on both sides of the partnership, with its not-for-profit basis functioning as a catalyst for effective interaction, have allowed for achieving the intended objectives in terms of public interest.

The process was initiated at the political level, first with an international initiative aimed at coordinating multilateral and bilateral cooperation, then with the political mandate instructing Stockholm Vatten to act as a supporting partner to its two Baltic counterparts (Lariola & Danielsson, 1998: 10, 15). Furthermore, it was the concerted municipal, national and international political initiatives that attracted international finance and bilateral grants so that the impact of the required investment projects could be more socially sustainable for the beneficiary communities (Hall *et al.*, 2005: 33). Finally, public sector ethos and pride acted as a vital source of motivation for the managers and staff who participated in the two PUPs for the supporting and supported partners (Lariola & Danielsson, 1998: 13; Lariola *et al.*, 2000: 30).

The role of trust and its implications

“Mutual trust, respect and understanding of our (the partners’) different working environments are basic features of the collaboration” according to a key protagonist of Stockholm Vatten’s PUPs in Kaunas and Riga (Bjerggaard, 2006: 2). Lariola & Danielsson (1998: 21, 30) identify the utility-to-utility relationship as an essential feature, “increasing the credibility and impact” of the advice offered to both the supported partner and local authorities, especially in light of the supporting partner’s reputation for competence. In Kaunas and Riga, Stockholm Vatten proved that dialogue can contribute to an institutional environment favourable to reform, as it exerted decisive influence at critical junctures of the projects on the local management and municipal decision makers (Lariola & Danielsson, 1998: 17, 20-21; Lariola *et al.*, 2000: 17, 28). The centrality of trust to the dynamics of the partnership contributes to shedding light on the factors behind the success of PUPs.

Time represents an important element in cementing trust between the partners and stakeholders such as local authorities (Lariola & Danielsson, 1998: 24; Lariola *et al.*, 2000: 28), thus explaining the apparently long duration of the partnerships. Furthermore, Lariola & Danielsson (1998: 23) note that “New ideas and management approaches require ample time for digestion”. When considering the whole period through which the collaboration stretched, including the preparatory phase of the twinning arrangements and any pause between the implementation of the various modules, Stockholm Vatten’s PUPs extended through 6 to 8 years (Lariola & Danielsson, 1998: 8-9; Lariola *et al.*, 2000: 9-10). Indeed, a comprehensive review of PUPs in the water and health sectors found out that “One trend that emerged was that the most effective PuPs had the longest lead-in times” (Hall *et al.*, 2005: 24). This seems to contradict the assumption that the perceived long time of partnership development should be seen as a limitation of public sector reform in water supply and sanitation (Roth, 1987).

Transparency and accountability

Effectiveness in the use of twinning resources can be enhanced by resort to systematic reporting so that the supporting partner can be held accountable for its activities in front of the home country’s political sponsors, especially if taxpayers’ money is being committed, and the financiers supporting the partnership (Lariola & Danielsson, 1998: 14; Lariola *et al.*, 2000: 13). In Riga, implementation of investments and the overall development of the local public utility were monitored by a Project Steering Committee representing the financiers (Lariola *et al.*, 2000: 17, 26). Finally, the two twinning arrangements were broadly assessed by external consultants appointed by Sida leading to the submission of two Evaluation Reports (Lariola & Danielsson, 1998: 1; Lariola *et al.*, 2000: 2).

Cost effectiveness of PUPs

The observed PUPs in Kaunas and Riga appear to have been cost-effective in many respects, for example when considering the impact obtained in relation to the cost of the twinning arrangements or when comparing their cost with alternative ways of delivering the same programme (Lariola & Danielsson, 1998: 22). The total cost of the two phases of the Kaunas twinning did not exceed SEK 16.4 million (US\$ 2.27 million), equal to approximately 2.2% of the delivered investment programme of US\$ 101 million (Lariola & Danielsson, 1998: 3-4). The budget for phases I and II of the Riga twinning amounted to SEK 15.6 million (US\$ 1.9 million), corresponding to 1.8% of the realised US\$ 104.7 million investment programme¹. Although such estimates do not consider the costs of the preliminary periods, they also overlook the considerable long term impact in terms of capacity building and institutional and organisational change (Lariola *et al.*, 2000: 28), let alone the investment programmes carried out after the completion of the two twinning arrangements which these made possible.

Enhancing capacity for capacity and institutional development

For twinning arrangements to be effective, it is important that they should be developed as well-structured, professional projects with clear objectives² and adequate resources. Failing which, the risk is that the partnership might translate into a loose “friendship city” type of cooperation (Lariola *et al.*, 2000: 30).

The supporting partner's in-house capacity, in terms of human resources to be devoted to the partnership and administrative organisation backing the initiative, is a crucial element for the success of PUPs, whereby "Sub-contracted core resources contradict the original twinning idea" (Lariola *et al.*, 2000: 30-31). The full costing and funding of all human resources contributed by the partners appears to be an important element of a professionally structured PUP. The risk is in fact that, due to excessive workload in the absence of any remuneration or incentive, the sustained commitment of the supporting partner's employees might be affected (Lariola *et al.*, 2000: 30). Finally, there seem to be advantages in providing professional administrative support to the partnership, based at the supporting organisation, in the form of an efficient Home Office responsible for coordination, project administration and reporting (Lariola *et al.*, 2000: 30; Lariola & Danielsson, 1998: 12, 22).

Training and human resources development

Training provided by Stockholm Vatten in Kaunas and Riga was aimed at the local operators' management and staff, as well as local decision makers, according to needs. It took place through workshops, on-the-job training and study tours to Stockholm Vatten and was provided by Stockholm Vatten's long term and short term experts (Lariola *et al.*, 2000: 21, 28; Lariola & Danielsson, 1998: 21). Training activities followed an agreed general training programme, and permanent workgroups were established for ad-hoc training (Bjerggaard, 2006: 8-9). In Riga, "A Personnel Training Programme for management and employees was started in 1998 ... The Programme covers at present two level with a third level planned to begin in year 2000. Over 250 staff members have already passed through the first level. During the first half of 1999 113 staff were participating in level 2 training" (Lariola *et al.*, 2000: 20).

Training proved considerably beneficial in all areas (Bjerggaard, 2006: 9; Lariola *et al.*, 2000: 26, 28). Training of the Project Implementation Unit (PIU), responsible for procurement and overseeing implementation of the investment programme, not only resulted in the successful implementation of significant investment programmes, but led to the establishment of long term capacity for tapping investment finance and carrying out capital investment without external assistance (Lariola & Danielsson, 1998: 20; Lariola *et al.*, 2000: 23).

As regards institutional and organisational change, a complete training programme was associated to the Corporate Development Plan³, a comprehensive plan encompassing strategy and action to be adopted in all corporate areas "to transform the twinning partners into autonomous, self-financing and self-governing enterprises" (Bjerggaard, 2006: 4). "Crucially important" training was also provided to prepare representatives of local authorities to engage in their new responsibility as non-executive members of the Board of Kauno Vandeny's (Lariola & Danielsson, 1998: 21).

In terms of training effectiveness, twinning arrangements can rely on the public utility-to-public utility relationship with the supporting partner offering first-hand experience which consultants or other experts might hardly have (Lariola & Danielsson, 1998: 21). The effectiveness of training and capacity building is dependent upon the incentives to knowledge transfer between the partners. In this sense, public water operators and particularly so the supporting partner under not-for-profit PUPs, view their knowledge as a public good characterised by non-appropriability, non-excludability, non-exhaustibility and non-tradability (Lobina & Hall, forthcoming in Progress in Development Studies). This can explain the positive and long term impact produced by Stockholm Vatten's training activities in Kaunas and Riga, as "The full potential of (Stockholm Vatten's) knowledge and experience of modern water and wastewater management and operations are put at the disposal of the twinning partners" (Bjerggaard, 2006: 2).

Institutional and organisational development

According to Franceys (1997: 6), "Capacity building in the urban utilities has been attempted with institutional development programmes which have proved their worth during the lifetime of a project (or a particular leader) but have generally not achieved the break-through into self-sustaining growth". Failure of capacity building efforts along the lines described by Franceys (1997: 6) can be prevented if, in parallel to capacity building, the formal and informal accountability networks surrounding the provision of public water operations are made effective. Lobina & Hall (forthcoming in Progress in Development Studies) identify the

transformation of inefficient public water undertakings as a passage from feeble “geodesic” accountability networks to effective, highly integrated accountability networks, whereby networks are shaped by changes in knowledge transfer among stakeholders. The study of the dynamics of institutional reform leading to enhanced sustainability and the identification of what type of PUPs can support the introduction of such reform become thus relevant.

The two cases observed suggest that institutional and organisational change associated with PUPs is a result of interaction among the stakeholders supporting and participating in the partnership. The supporting partner can be expected to play a considerable role since its experience will define to a large extent the institutional and organisational “model” to be adopted locally. However, financiers’ demands can alter such “models” in light of their policy and objectives. In Kaunas and Riga, the local partner’s corporate governance was restructured in line with that of Stockholm Vatten, a municipally-owned company, which underwent corporatisation and ring-fencing of finances in 1989 (Stenroos & Katko, 2005: 10-11; Gustafsson, 2001: 5). However, also the EBRD informed institutional reform via loan covenants, one of which required the establishment of a Regulatory Unit in Riga (Lariola *et al.*, 2000: 17), despite Stockholm Vatten’s view that this was unnecessary⁴.

Largely focused on corporate governance, the reforms adopted in Kaunas and Riga appear to have been inspired by “New Public Management” (NPM) theory. However, the strong relationships between the supporting partner and local operators and decision makers, built around mutual trust, respect and common values, seem to confirm the assumption that the effectiveness of NPM-style reforms is enhanced by concomitantly taking into account local hierarchical and social values (Davis, 2004: 54-55, 62-63, 66-67).

The role of bilateral donors and International Financial Institutions (IFIs)

Bilateral donors and International Financial Institutions (IFIs) played a central role in supporting the analysed twinning arrangements beyond the mere provision of grants and investment finance. The content of the twinning arrangements was informed by Sida’s Terms of Reference and EBRD’s “extensive, detailed loan covenants (which) largely directed institutional and management development” (Lariola & Danielsson, 1998: 15). PUPs thus seem to derive potential benefits from the support of bilateral donors and multilateral agencies genuinely committed to the strengthening of public water operations and the development of local capacity. Conversely, donors and IFIs willing to promote the sustainable reform of water supply and sanitation operations might consider supporting PUPs as a viable instrument to induce institutional and organisational change. For example, the April 2004 Operational Guidance for World Bank staff state that “The Bank will work with well-performing publicly owned and -operated utilities as well as those that put in place a credible program to improve performance over time” (World Bank, 2004: 14).

The experience with EBRD loan covenants in Kaunas and Riga appears to confirm that, as it was the case in Porto Alegre with the loan issued by the Inter-American Development Bank (IADB) in 1961 (Lobina & Hall, forthcoming in *Progress in Development Studies*), loan conditionality can represent an element of positive path dependence guiding local decision making towards sustainability objectives. More precisely, conditionality avoiding the imposition of changes in ownership and operational control such as the introduction of privatisation and PPPs which carry a high risk of resulting inappropriate to the local context, and focusing on the adoption of good governance principles might produce a positive developmental impact. In-house restructuring based on efficiency-aiming measures, such as the separation of the operator’s accounts from those of the municipality, the ring-fencing of its finances and the introduction of transparency and accountability mechanisms in corporate governance, can lay the ground for incremental change and further reforms. This proved to be the case in Porto Alegre, whereby sound management spurred by conditionality attached to the 1961 IADB loan was coupled with enhanced democratisation at the beginning of the 1990s. Nonetheless, the merit of any conditionality has to be judged in light of its suitability to the local socio-political and economic context. The social impact of IFI conditionality on pricing policy in Kaunas and Riga remains to be assessed, with particular reference to the effects of the adoption of linear rather than stepped block tariffs, the abolition of cross-subsidies from commercial and industrial consumers to households and increased average billing amounting to almost 5% of disposable household income⁵.

Addressing institutional and scaling up requirements

The outcome of institutional change is highly dependent on the local context (Bjerggaard, 2006: 9). In this sense, the promotion of South-South and domestic PUPs, or PUPs entered into by partners from the same country, appears particularly promising (Miranda, 2006: 54; Hall *et al.*, 2005: 12, 28; Hall, 2001: 30; Reclaiming Public Water, 2006: 9; Braadbaart *et al.*, 1999; Lobina & Hall, 2000: 47-48; Amorebieta, 2005: 149-157)⁶.

The promotion of South-South and domestic PUPs would also be functional to addressing scaling up requirements. The relative difficulties encountered by internationally reputed operator Stockholm Vatten in contributing human resources to the two twinning arrangements in Kaunas and Riga (Lariola *et al.*, 2000: 14-15, 30-31; Lariola & Danielsson, 1998: 12) point in fact to the limited capacity of Northern public water operators to satisfy MDG requirements through PUPs.

Retaining knowledge and capacity within the supported partner and surrounding institutional setting

It is possible to identify the following approaches to retaining transferred knowledge and building capacity within the supported partner and the surrounding institutional setting, depending on whether knowledge is transferred within the institutional setting and thus the stakeholders participating in local decision making or within the target organisation, and whether knowledge is prevalently treated as a public or private good.

A first approach is to use PUPs to promote context relevant and sustainable institutional change, as it might have been the case in Kaunas and Riga, possibly including the involvement of the local community and civil society. Hall *et al.* (2005: 24) observe that the most effective PUPs among those reviewed are those where the local community was engaged as a partner. This can be explained in light of enhanced knowledge distribution through the highly interconnected accountability networks typical of advanced participatory mechanisms (Lobina & Hall, forthcoming in *Progress in Development Studies*). Intense knowledge circulation among the involved stakeholders would facilitate the mutual sharing and reinforcing of principles informing decisions and action, thus fostering the entrenchment of locally acceptable and relevant knowledge.

A second approach pertains to the consolidation of knowledge and capacity at an organisational rather than institutional level and, contrary to the first approach, is based on the concept of knowledge as a private good. More precisely, once transferred to the management and staff of the supported partner, knowledge would become a proprietary good characterised by appropriability and tradability in function of the scarcity of qualified human resources available through the local job market and the difficulty to replicate the transfer of knowledge from the supporting to the supported partner. A classical approach to retaining public sector management and staff following in-house restructuring and capacity enhancement is to offer competitive remuneration packages and incentives (Baietti *et al.*, 2006; Mugisha and Berg, 2006: 19). This is what happened in both Kaunas and Riga where management and PIU staff benefited from salary increases and an improved working environment⁷.

An alternative or possibly complementary approach to retaining capacity within the supported partner, is based on the concept of knowledge as a public good and on the assumption that knowledge is transferred for the benefit of the supported organisation rather than individual members of management and staff. In order to foster the non-appropriability characteristic of knowledge as a public good (Lobina & Hall, forthcoming in *Progress in Development Studies*), multi-level Personnel Training Programmes as developed in Riga (see above section on *Training and human resources development*) could be internalised beyond completion of a given PUP, for example by resorting to training of trainers, so that knowledge distribution can be perpetuated within the beneficiary organisation. Furthermore, partnerships can be retained beyond the official completion of a given PUP through lower scale follow up programmes. Stockholm Vatten's experience suggests that the extension of collaboration with supported partners might depend on the mutual satisfaction of partners over results achieved through the initial PUP (Lariola *et al.*, 2000: 28). However, the willingness towards and feasibility of continued cooperation also, and crucially, depends on the availability of sustainable levels of funding⁸.

Conclusions

The dynamics of PUPs are radically different from those of PPPs. The success of PUPs relies on their not-for-profit basis and retention of public operations, with the collaboration being stimulated by mutual trust and public sector ethos. The absence of commercial considerations in terms of profit-seeking allows for the concentration of available resources on knowledge transfer aimed at capacity building and local governance, without deviations from the intended reform path. Furthermore, systematic reporting may ensure transparency and the partners' accountability towards political and financial sponsors. Such factors explain the high cost effectiveness of PUPs in terms of capacity and institutional strengthening, as well as investment implementation. In particular, the transfer of knowledge treated as a public rather than private good and the gradual, collaborative approach informing the partnership appear to act as catalysts for local capacity and sustainable reform. The promotion of South-South and domestic PUPs, together with a multi-pronged strategy to maintain the transferred knowledge and built capacity, should be considered to address scaling up requirements and induce context relevant institutional and organisational change. Bilateral donors and IFIs should consider supporting PUPs as a viable conduct for inducing sustainable water sector reform provided their focus is on promoting context relevant "good governance" principles rather than changes in the ownership of public operations which have proved counterproductive in the past.

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Notes

¹ Source: Email communication with Steen Bjerggaard, Director of International Projects, Stockholm Vatten AB, 10th October 2006.

² Source: Interview with Steen Bjerggaard, Director of International Projects, Stockholm Vatten AB, 21st March 2006. Hall *et al.* (2005: 26) observe that “It is advisable for partners entering a PuP to have a clear statement of their own objectives and show an understanding of other partners’ objectives. PuPs are most effective when all partners have an understanding of each other’s goals and are willing to work together to reach their shared goals”. In that sense, the identification of the respective partners’ objectives seem to contribute to strengthening mutual trust.

³ Source: Interview with Steen Bjerggaard, Director of International Projects, Stockholm Vatten AB, 21st March 2006.

⁴ Source: Interview with Steen Bjerggaard, Director of International Projects, Stockholm Vatten AB, 21st March 2006.

⁵ Source: Interview with Steen Bjerggaard, Director of International Projects, Stockholm Vatten AB, 21st March 2006.

⁶ Source: “Cambia el proveedor de agua en siete distritos del conurbano bonaerense; Cambia el proveedor de agua en siete distritos del conurbano”, *La Nación* (Argentina), 24th July 2006.

⁷ Source: Email communication with Steen Bjerggaard, Director of International Projects, Stockholm Vatten AB, 23rd August 2006.

⁸ Source: Interview with Steen Bjerggaard, Director of International Projects, Stockholm Vatten AB, 21st March 2006.