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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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## 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 PUPs between Stockholm's municipally-owned water company and its counterparts in Kaunas, Lithuania and Riga, Latvia and extrapolating from the available literature, this paper looks at the differences between the dynamics of PPPs and PUPs and at 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 management, promotion and implementation of institutional change and in terms of knowledge transfer and capacity building. Institutional and organisational change associated with PPPs is systematically informed by the private operator's commercial objectives, which represents an element of rigidity and potential conflict as profit-seeking might and often does diverge from developmental objectives. The antagonistic character of PPPs and the "shock therapy" approach of related policies have encountered widespread social and political opposition on an international scale. Conversely, as a result of their not-for-profit basis and retention of public ownership and management of operations, PUPs rely on a more gradual and collaborative approach to change which can facilitate socio-political acceptability and local commitment.

The developmental potential of PUPs depends on the establishment of clear objectives, in light of the political mandate, with the collaboration being stimulated by mutual trust and understanding and public sector ethos. Unfettered by any conflict of interest inherent to public water operations, the principal-agent relationship between the PUP's political and financial sponsors and the partners can be strengthened by introducing transparency and accountability requirements in terms of reporting. Discipline in the implementation phase can be further instilled through planning and the thorough structuring of the project. PUPs are intrinsically about capacity building and training, thanks to their advanced ability to transfer knowledge treated as a public good rather than as a private, marketable asset. However, their cost-effectiveness and long-term developmental impact can be enhanced by incorporating investment and in-house restructuring programmes into partnership design. The inclusion of civil society and community representatives among the partners might favour the success of PUPs as local commitment is facilitated and capacity is developed for local governance, with highly interconnected accountability networks acting as catalysts for knowledge transfer and reinforcing the ability to take decisions and actions. 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. Indeed, the effectiveness of PUPs is to be promoted by fostering their public-ness and enhancing their distinctive characteristics rather than relying on mechanisms, such as the competitive selection of partners and mimicking of commercial contracts, which risk to prejudice the dynamics on which the success of PUPs rests.

## Keywords

Public-Private Partnerships (PPPs); Public-Public Partnerships (PUPs); Public Sector; Capacity Building; Institutional Development; Governance; Contracts; Twinning Arrangements; Millennium Development Goals (MDGs); Training; Knowledge Transfer; International Financial Institutions (IFIs); Investment Finance; Competition; Trust; Human Resources Development; Public Sector Ethos

## 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). As considerable resources have been devoted to PPPs as the favourite option of International Financial Institutions (IFIs), bilateral donors and Multinational Corporations (MNCs), 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 Development Studies).

This paper 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. It does so by drawing 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 and extrapolating findings 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 and the failure of the policy relying on PSP as a driver for sectoral reform at a global level, in order to establish the rationale for the analysis of PUPs and their promotion. The reviewed literature allows for the systematisation of competing and concurrent arguments aiming at explaining the failure of PPPs to deliver the expected benefits in urban water supply and sanitation. In turn, this provides the basis for the development of an analytical framework for the identification of the essential characteristics of PPPs. The same framework can be applied to other partnerships such as PUPs, for a comparative evaluation of the differences in the underlying dynamics and implications for sectoral reform.

A second section briefly illustrates the concept of PUP and the various types of partnership which have been developed in practice. This is followed by a detailed 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. Although the analysed partnerships consist of two twinning arrangements between public water operators, the literature on PUPs and in-house restructuring is sufficiently extended to allow for formulating considerations on strengthening of local capacity and governance through community involvement.

Furthermore, observations and recommendations relevant to the promotion and scaling up of PUPs as a vehicle for reform are put forward with particular reference to the proposed global mechanism being developed by the UN Secretary General's Advisory Board (UNSGAB). These pertain to the mobilisation of political willingness to support PUPs internationally, the analysis of actor behaviour leading to local initiatives culminating in PUPs, the contribution of adequate resources to the adopted PUPs, overcoming the limited capacity of Northern public operators by promoting South-South and domestic partnerships, and the elaboration of strategies aimed at locally retaining knowledge transferred and the developed capacity. Finally, conclusions address the differences in terms of dynamics between PPPs and PUPs, the potential developmental impact of PUPs, and areas for further policy relevant research.

## 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 (also known as “affermage”) and concession contracts, to full divestiture. Although the largest majority of urban water operations around the world remains under public management (up to 90% globally), heavy promotion of PPPs in the last 15 years has meant that there has been a relatively considerable increase in PSP, particularly so in the largest cities which are commercially more attractive (Lobina & Hall, forthcoming in *Progress in Development Studies*).

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. As summarised by Braadbaart (2001: 5), “By 1990 the developing country water industry was ready for a radically new solution to its management problems. That year marked the end of the Water Supply and Sanitation Decade, a ten-year effort to achieve universal coverage in developing countries (World Health Organization 1992). The Decade effort failed to reach this target but impressed on water industry professionals the seriousness of service delivery problems and the fact that no amount of capital investment seemed able to solve them”. Roth (1987: 230-231, 263) attributed poor performance in quantity and quality of water operations in developing countries to poor management of the public sector, and urged the introduction of PSP as a faster solution to the magnitude of the global water crisis: “Management in the public sector can often be improved, but the involvement of the private sector can bring quicker results, and the dimensions of the various problems cry for quick results”. Franceys (1997: 6) refers to the limited results of public sector reforms as part of the rationale for resorting to PPPs: “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”.

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, at an estimated 44% for the cities of more than one million inhabitants (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). This negative outcome has been compounded by a decrease in the financial contribution of multilateral and bilateral development agencies to developing countries’ infrastructure due to overoptimistic expectations on private investment financing (Hall & Lobina, 2006: 48-50). 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.

### High transaction costs

This argument refers to the transaction costs associated with the introduction of PPPs in the water sector as a determinant of costs transferred to consumers in the form of tariffs and taxpayers in the form of governmental expenditure. Such transaction costs correspond to the legal, consulting and financial costs of structuring an infrastructure project and include the identification, allocation and mitigation of the performance and political risks involved for the private operator and its shareholders, as well as the project financiers. These costs are high and can amount to 10% of the total costs of a project, as the future profitability of the project depends on successful risk management. Other transaction costs might relate to

the introduction of a regulatory agency, whose structure will have to be supported by consumers through tariffs or the government, or the competitive selection of the private operator. Even relatively high transaction costs might not provide guarantees that they will achieve their intended goal (Lobina & Hall, 2003: 22).

### **Contract failure**

This argument posits that contracts are inadequate to regulate complex relationships such as the principal-agent relationship between local authorities and private water operators, due to the impossibility of foreseeing all the variables that might affect the implementation of contractual obligations under PPPs, particularly so in developing countries. As summarised by Braadbaart (2001: 16), “The contract instrument simply cannot cope with the combined challenge of a long time horizon, high uncertainty, difficult to define service and problematic environment. What results are soft targets, squishy outputs, and endless negotiations”.

### **Dynamic interest seeking**

This approach identifies the dynamic interest-seeking behaviour of private operators as the cause of discrepancy between the theory and practice of water privatisation. 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. “The most important factor driving outcomes appears to be continual profit-seeking and risk-avoiding behaviour of international water companies, in interaction with local and national governments (pursuing mixed political and fiscal goals), political and community movements, and international donors and institutions pursuing their own goals. The results of this process are strongly affected by the unequal distribution of resources and skills between the parties and by the limited competition in this sector. It is these dynamics, we argue, which explain the actual (mis)allocation of risk, the (in)effectiveness of governance, and the content (and constant revision) of the contracts themselves, as well as the actual outcomes in terms of investment finance, extension of systems (or failure to extend), pricing policies, and transparency” (Lobina & Hall, 2003: 3-4). 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 risk or other unforeseen occurrences. It is this intrinsic aversion to risk which would make it unsuitable to address the long term needs of developing countries in relation to water services (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).

### **Socio-political legitimacy and popular resistance to PPPs**

This argument postulates that, 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. “Both critics and supporters of privatisation have noted the importance of political resistance to privatisation as a negative factor making the economic viability of private operators more risky” and thus undermining the viability of PPPs (Hall, Lobina and de la Motte, 2005; Lobina & Hall, forthcoming in Progress in Development Studies).

In light of the above, we offer the following analytical framework to identify the essential features of PPPs, although this can be applied to other types of partnerships so that competing approaches to the reform of urban water systems and their implications can be compared. The characteristics of the partnership are qualified from the perspective of the external or supporting partner, so that in the case of PPPs their description is based on the private operator’s approach to the partnership.

**Table 1. Partnership features of PPPs in transition and developing countries (from the perspective of the supporting partner)**

Feature of partnership	Description
Primary objective	Profit maximisation, in light of mandate from shareholders
Main incentive	- Short term: market penetration - Medium to long term: exploitation of captive market and contribution to mother company's growth
Relationship with local partner	Principal-agent relationship between local authorities/decision makers and the private operator
Institutional change	- Reform of institutional framework is required before the beginning of PPP (e.g. with introduction of regulatory agency, reform of pricing structure) - Organisational change of local undertaking to be carried out by private operator, in line with commercial imperatives - Institutional reforms introduced reflect established "models" of PPPs (e.g. French, UK "models") or hybrid (e.g. French "model" with regulation; see Foster, 2005) - Shock therapy approach, possibly towards local decision makers (e.g. in case of conditionality on privatisation), more often towards local workforce and community as profitability depends on pace of internal reorganisation (e.g. layoffs) and move towards full cost recovery (e.g. tariff increases) - Meaningful community involvement and public participation are severely limited by private operator's control over operations and commercial imperatives of the partnership
Risk management	Risk to be allocated to party better placed to mitigate it, usually performance risk to be allocated to private operator and political risk to local authorities, depending on type of PPP. The exception is with management contracts, whereby performance risk rests with the public operator
Capacity building and knowledge transfer	- Local managerial capacity is not built as public management is replaced by private management, loyal to private shareholders not local authorities - Local workforce retrained and reoriented to pursue commercial objectives (Hall & Lobina, forthcoming in Geoforum) - Local community trained and involved in service delivery if that proves instrumental to commercial viability of contract (Hall & Lobina, forthcoming in Geoforum) - Knowledge as a private good means that knowledge is transferred selectively to stakeholders, if that proves instrumental to own commercial objectives (Lobina & Hall, forthcoming in Progress in Development Studies)
Accountability	Accountability to own shareholders and financiers, more than local authorities. Relationship with local authorities is of antagonistic nature. Conflict resolution is based on conventional (e.g. resort to arbitration) or unconventional (e.g. suspension of concession fees payment) sanctions if expected profitability is threatened (Lobina & Hall, 2003: 13-16)

## 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). It appears to have originated as a response to the concept of 'Public–Private Partnerships' (PPPs), and its meaning also depends on the context in which it is used. Despite these uncertainties, 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 collaboration may occur between public authorities of the same type and level (usually inter-municipal consortia) or it may occur between different types or levels of public authorities, for example between provincial and local authorities. However, 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 authority or company in one country helps a public sector water authority in another country to build capacity, e.g. by consultancy, training, management services, financial redesign or joint programmes of investment etc. Such links are sometimes part of "twinning" arrangements between local authorities in different countries (Hall, 2000: 3). The number of such type of PUPs is certainly

high, although to date no definitive survey has been carried out, and it encompasses a wide variety of supporting and supported partners in various regions. 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 the Baltic region**

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 HELCOM Commission, 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. Furthermore, financial support offered by a number of international agencies and bilateral donors shows that PUPs might represent vehicles for tapping investment finance. Both PUPs have enjoyed important financial support from the EBRD, while a number of other PUPs in the region saw the World Bank as main financier.

### **The HELCOM commission as the enabling international context**

The Helsinki Commission (HELCOM) is an international body set up to improve the Baltic Sea environment and operates a Baltic Sea Joint Comprehensive Environmental Action Programme (JCP). This *"provides an environmental management framework for sustained cooperation among the Contracting Parties to the Convention, other governments within the region, international financial institutions, and nongovernmental organisations for the long-term restoration of the ecological balance of the Baltic Sea, through a series of preventive and curative actions to be undertaken in a phased manner in the region."*<sup>1</sup>

The JCP has worked partly through identifying pollution 'hotspots' in the Baltic basin, and directing financial and technical resources to solve the problems in those and other places, especially in water and wastewater systems. The result has been an international programme of capacity-building and investment throughout the basin: *"Programme activities to support strengthening of water and wastewater utilities have focused on rehabilitation, upgrading and/or expansion of infrastructure in municipalities in the countries in transition... Representative projects include: Haapsalu, Pärnu, Tallinn and Tartu in Estonia; Daugavpils, Liepaja and Riga in Latvia; Kaunas, Klaipeda, Siauliai and Vilnius in Lithuania; and Gdansk, Gdynia-Debogorze, Torun and other cities in Poland. Project preparation is being undertaken in Kaliningrad and implementation of selected activities has started in St. Petersburg in the Russian Federation. .... In addition, in the Russian Federation, a national water and wastewater programme that will address issues in 15-20 cities throughout the country is being developed. Mechanisms have also been established and funded for interventions to support medium and small municipal systems in Estonia, Latvia, Lithuania and Poland. The European Bank for Reconstruction and Development (EBRD) supported Small Municipalities Environment Project in Estonia provides an example of a project to address a number of smaller cities."*

International funding in the form of loans, soft loans, grants and other types of assistance has been important in accelerating the rate of JCP implementation in the countries in transition. The programme has found that there is great effectiveness in *"cofinancing that blends loans from IFIs and grants from the European Union and bilateral donors"* – this helps make investments more affordable for countries in transition; reduced project preparation and supervision costs; the size of the projects can be larger, allowing greater impacts and reducing the effective cost; and the use of grants *"also reduces the impact of adjustments to tariffs for services to project beneficiaries, thus decreasing potential adverse impacts on populations with low or fixed incomes"* (Hall, 2000: 8).

## **Stockholm Vatten's approach to PUPs in Kaunas, Lithuania and Riga, Latvia**

Stockholm Vatten's PUPs have been typically linked to specific investment programmes with technical assistance and capacity building taking place in order to support the concurrent institutional reform of the local water operators, change of their operational practices and investment implementation. The schemes provided for the partial recovery of Stockholm Vatten's costs and did not contemplate the possibility of making profits out of the PUPs.

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, Kaunas Water Company and Riga Water) by providing 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. Knowledge transfer has taken place from the managerial level to rank-and-file positions and has also interested local decision makers. It has been conveyed through on-the-job training and other means including workshops, personal contacts and demonstrations, visits, etc. Exchanges and knowledge transfer has continued after the end of the twinning agreement, although more sporadically. Stockholm Vatten's approach also provided for the "establishment of professional networks and cooperation forums between the water companies in the area and their foreign twinning partners" (Bjerggaard, 2006: 2).

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). This implied the development of a number of preliminary studies and documents and the delivery of training sessions aimed at key persons. 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. Finally, a "Public Information Programme aimed at customers, end-consumers, owners, and other stakeholders was established in order to improve the general image of the twinning partner and his operations. The strategy was to highlight the environmental engagement, the important investment project attracting foreign financing and the relatively low tariff for the existing services" (Bjerggaard, 2006: 2, 3-8).

"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).

## Stockholm Vatten's PUP in Kaunas, Lithuania

Cooperation between Nordic and Baltic capital cities started in 1992 and, "upon request of EBRD and with the support of Sida" a twinning arrangement between Stockholm Vatten and Kauno Vandenyys started in 1994. However, it should be noted that Stockholm Vatten had already established contact with the Baltic utilities as early as 1989. Kaunas (population of 430,000) had been identified by HELCOM as one of the five priority hot-spots in Lithuania since it was not endowed with a wastewater treatment plant and represented 90% of the collected, untreated sewage in Lithuania. The Kaunas Water and Environment Project (KWEP) relied on a total investment budget of US\$ 101 million, 80% of which was devoted to wastewater treatment and the remainder to water supply. Foreign grants accounted for 14% of total project costs, with Sida providing funding of SEK 16.4 million (US\$ 2.27 million) to support both phases of the twinning arrangement (Lariola & Danielsson, 1998: 3-4). The investment programme was financed by the EBRD, NEFCO, EU/Phare, the Finnish and Swedish governments and was co-funded by local sources from Kaunas and Lithuania (Lariola & Danielsson, 1998: 1).

KWEP was based on a feasibility study which, under the initiative of the EBRD and the Swedish technical assistance agency BITS, started in April 1993. Phase 1 of the twinning agreement aimed at preparing the investment project for financing and the changes to be introduced at institutional level. Phase 1 lasted from October 1994 to December 1995 and cost SEK 4.1 million. A priority Investment Programme, Procurement Plan, Implementation Schedule, Loan Agreements and State Guarantee Agreements were defined among other documents. In this phase, the Project Implementation Unit (PIU) was also established (Lariola & Danielsson, 1998: 8).

The Loan Agreements were made of loan covenants with the EBRD and NEFCO and, apart from specifying the terms of project execution, defined the reforms whose adoption was conditional upon the funding of the investment project. These included tariff increases, the establishment of a Financial Management Department operating under International Accounting Standards, the amount of internal funds to be reinvested in network rehabilitation each Fiscal Year, targets for the reduction of operational costs and a plan for reduction of bad debt. Conditions extended to reporting frequency and the content of the reports to be submitted. The Loan Agreements were accompanied by a Project Support Agreement with the city of Kaunas and a Guarantee Agreement with the Lithuanian government. The loan covenants shaped the content of the work programme to be carried out under the twinning arrangement and were described as representing a "de facto terms of reference for the twinning arrangement" (Lariola & Danielsson, 1998: 9-10).

The institutional changes initially foreseen included the establishment of a joint venture between the local water operator Kauno Vandenyys, NEFCO and Stockholm Vatten, but this was not possible due to local political opposition. Also, the rules governing the activity of both Sida and BITS prevented them from financing a joint venture. The institutional reform of Kauno Vandenyys was thus limited to its transformation into a wholly publicly-owned PLC (Public Limited Company) (Lariola & Danielsson, 1998: 8).

The four-year Phase II went from January 1996 to the end of 1999 and its budget totalled SEK 12.3 million. This phase saw the introduction of a new Company Board of 7 members, the adoption of a new organisational chart, a 20% reduction in staff from 1022 in December 1994 to 841 in March 1998 (Lariola & Danielsson, 1998: 21) and a Human Resources Development plan. Such changes took place in parallel to improvements in financial management, in the effectiveness of bill collection, administration and operations, as well as a comprehensive know-how transfer programme (Lariola & Danielsson, 1998: 9).

Kauno Vandenyys' Board was established following "much lobbying" by NEFCO, the EBRD and Stockholm Vatten on the merits of this solution. The Board was composed of 7 non-executive members, 3 of which representatives of the ruling political parties, 1 of the City Administration, 1 of the Kaunas Region, and 1 each for the local energy utility and the university. There were also plans to extend political representation on the Board would be extended to the leading opposition party within the city council. Considerable twinning resources (i.e. Stockholm Vatten advisers' time) were devoted to persuading the municipal decision makers to implement project requirements and introduce the new tariff structure (Lariola & Danielsson, 1998: 17).

Stockholm Vatten “delivered some 15 man years of assistance to the Kaunas twinning arrangements, including 80 man months for three resident long-term advisors and some 100 man months for 8 short-term experts” (Bjerggaard, 2006: 8).

The partners’ commitment and the unleashed knowledge transfer appear to lie at the core of the PUP’s success. “Both (Stockholm Vatten) and (Kauno Vandenyys) took the twinning agreement very seriously. ... There has been an exchange of knowledge and experience on all levels – between the Boards, between the trade unions, the management teams and of course between all kinds of specialists” (Lariola & Danielsson, 1998: 13).

The consultants commissioned to review the twinning arrangement for Sida summarised the achievements of the PUP as follows: “(Kauno Vandenyys) faced an enormous pressure to prepare and implement the biggest investment project of its history and, at the same time, transform profoundly its legal status, governance and organisation structure, management systems and practices, customer relations, financial management and information systems. It has succeeded amazingly well, largely due to (Stockholm Vatten) assistance” (Lariola & Danielsson, 1998: 16).

### **Stockholm Vatten’s PUP in Riga, Latvia**

With a population of 800,000, Riga is the largest city in Baltic countries and generates around 60% of Latvia’s total municipal wastewater load (Lariola *et al.*, 2000: *i*). Before 1991, all of Riga’s wastewater underwent no type of treatment (Lariola *et al.*, 2000: 24), while wastewater collected from Central Riga (with 200,000 inhabitants) was discharged untreated until the inception of the twinning. A recently constructed wastewater treatment plant was in need of major rehabilitation while 60% of the distribution network was reported to be in bad condition (Lariola *et al.*, 2000: *i*).

Stockholm Vatten started cooperating with Riga Water in 1992 and in 1994 the Riga Water and Environmental Programme (RWEP) was launched to improve water supply and sanitation services in Riga and the environment of the Daugava River and the Baltic Sea. Riga Water prepared a feasibility study for the investment project with assistance from Stockholm Vatten and the Swiss Federal Office of Foreign Economic Affairs (FOFEA). Riga Water “turned to” Stockholm Vatten and FOFEA for further assistance in preparing for the financing and implementation of the project and in September 1995 the three parties signed the agreement for Phase I of the twinning programme, which was financed by Sida and FOFEA (Lariola *et al.*, 2000: 2-3). Phase I of the twinning lasted for 6 months from 1995 to 1996 and Stockholm Vatten assisted Riga Water in view of accessing international finance from the EBRD and EIB and grants from bilateral sources, as well as with the preparations for the implementation of RWEP (Lariola *et al.*, 2000: 9).

Phase II took place from November 1996 to December 2000 (Lariola *et al.*, 2000: 9-10). The agreement between Riga Water and Stockholm Vatten identified the following objectives: a) the promotion of environmental sustainability and infrastructure development aimed at improving the environmental conditions of the Daugava river, the Gulf of Riga and the Baltic Sea by reducing the environmental impact of Riga’s wastewater; b) improving the quality and reliability of water supply and wastewater services in Riga; c) “enhancing the financial performance through improved management, operational efficiency, cost recovery and institutional development transforming Riga Water into an autonomous, self-financing and self-governing enterprise” (Lariola *et al.*, 2000: 3).

Like in the case of Stockholm Vatten’s twinning with Kauno Vandenyys, Phase II of the Riga twinning agreement was made up of an institutional development component and an investment implementation programme (Lariola *et al.*, 2000: 9-10). The twinning agreement identified the scope of work, the frequency and content of reporting, administrative matters, the two partners’ respective duties, the terms of reference for the PIU and a time chart for the implementation of the investment programme (Lariola *et al.*, 2000: 9-10). Like in the case of Kaunas, the Loan Agreement between the EBRD and Riga Water shaped the content and implementation of the twinning programme, requiring a number of specific actions at institutional, managerial, financial and operational level contained in a Corporate Development Plan and specifying key financial indicators in terms of tariff increases, reserve account and debt service coverage (Lariola *et al.*, 2000: 11).

46% of the projected US\$ 104.7 million investment programme was to be co-financed by the City of Riga and Riga Water, while the EBRD and EIB would together fund 39% and the remainder was to be provided by the governments of Latvia, Finland, Sweden and Switzerland. Sida agreed to finance Phase II of the twinning agreement, the purchase of equipment for the rehabilitation of the biological treatment unit and the preparation of tender documents for the wastewater treatment plant, for a total SEK 37.1 million (Lariola *et al.*, 2000: 3). Of this sum, SEK 20.3 million were devoted to the purchase of equipment for the wastewater treatment plant, while SEK 16.8 million (US\$ 2.4 million) were allocated to Phase II of the twinning and the preparation of tender documents (Lariola *et al.*, 2000: 9). The timely implementation of the investment programme, with the connection of the inhabitants of Central Riga to the wastewater treatment plant, resulted in a considerable environmental benefit for the whole region (Lariola *et al.*, 2000: 27).

As regards institutional and organisational changes, Stockholm Vatten's Water Utility Management Advisor actively participated in the process and influenced both Riga Water's top management and Riga's local authorities (Lariola *et al.*, 2000: 17). Aiming at strengthening the water operator's autonomy from municipal authorities, changes within the governance framework of Riga Water included the introduction of a Supervisory Council although its activities remained under the close scrutiny of a municipal committee (Lariola *et al.*, 2000: ii). Also, the EBRD required and obtained the establishment of a regulatory unit supervising Riga Water's tariffs and operations, acting as "an interface between the consumers and the utility" (Lariola *et al.*, 2000: 17).

As regards organisational changes, the installation and consolidation of the planning process was described by the consultants reviewing the twinning as "a major achievement" (Lariola *et al.*, 2000: 19). "The (Riga Water) management and staff are now able to manage the planning process independently, with supervisory assistance from (Stockholm Vatten) only" (Lariola *et al.*, 2000: ii). Stockholm Vatten's operational support to Riga Water's management was valuable (Lariola *et al.*, 2000: ii, 21-23) and the established PIU proved "fully competent for handling the procurement of the investment projects. ... PIU has gained much experience from (Stockholm Vatten), and is now able to act independently in most fields. Today, there is little need for support from (Stockholm Vatten)" (Lariola *et al.*, 2000: 21-23). A customer database software was installed and efforts were made at improving the reliability of metering and meter reading and the effectiveness of bill collection (Lariola *et al.*, 2000: 20-21).

Importantly from the social point of view, Riga Water and Stockholm Vatten persuaded "the municipality to establish a social support facility for the families and individuals that cannot afford to pay for water. A visit to (Stockholm Vatten) inspired (Riga Water) financial staff to implement the change (Lariola *et al.*, 2000: 20-21).

A staff reduction plan was devised to enhance efficiency, which projected a reduction in the workforce from 1537 in 1998 to 1306 in 2003. However, the plan allowed for the recruitment of new staff due to the introduced technological innovations (for a total of 25-30 workers in late 1999) and cuts were not indiscriminate. A test had been carried out to evaluate whether services previously provided by the Transport and Workshop Department could be outsourced but this was rejected as in-house provision proved more efficient than resort to the market (Lariola *et al.*, 2000: 20).

All the twinning modules included training components and the transfer of know-how took place on a wide front. "Study tours to (Stockholm Vatten), and on-the-job training provided by (Stockholm Vatten) experts, have been the most useful form of training" (Lariola *et al.*, 2000: 21). Stockholm Vatten "delivered some 9 man years of assistance to the Riga twinning arrangements, including 75 man months for three resident long-term advisors and 34 man months for 16 short-term experts" (Bjerggaard, 2006: 8).

### **Overall assessment of the two PUPs**

Reviews and evaluations of these processes have been consistently enthusiastic, whatever their critical observations on specific aspects. The SIDA review of its overall municipal twinning programme described it as "a successful experiment"; the review of the Kaunas experience in 1998 described it as "overwhelmingly positive"<sup>2</sup>; the review of the Riga twinning set out a striking summary of major technical, environmental, financial, managerial and governance achievements: "SWC [Stockholm Water Company] has assisted RW [Riga Water] in the preparation and implementation of an investment programme (RWEF) for improving the

*city's water supply and wastewater treatment. The RWEP has promoted/will promote environmentally sustainable management and improved municipal infrastructure in the Baltic region. The effluent load from Riga to Daugava River, and further to the Baltic Sea, has been essentially reduced. As a direct result of the project, the quality and reliability of water supply and wastewater services has improved in Riga. The twinning arrangement has essentially stimulated and supported the process of transforming RW into an autonomous, self-financing and self-governing enterprise. There is a better understanding and appreciation on a political level of the requirements for arriving at an administratively and financially independent water company. RW is very satisfied with the twinning arrangement and wishes to continue close cooperation with SWC beyond the current twinning agreement. RW currently complies with all the covenants of the financiers.”<sup>3</sup> (Hall & Lobina, 2003: 11-12).*

The main financier's satisfaction with the results of the two PUPs is demonstrated by the fact that, after the termination of the two twinning agreements, the EBRD agreed to issue loans to both Riga Water and Kaunas Water Company on a non-sovereign based. In November 2000, the EBRD decided to issue a EUR 39m loan to the municipally-owned Riga Water Company, which became the first Latvian utility to receive a direct corporate loan from an international financial institution. The loan was provided without any financial guarantee from the city council, in the light of Riga Water Company's ability to self-finance its operations. Instead, the loan was supported by a limited municipal undertaking, *“including the city's adherence to agreed tariff schedules and other key obligations of the municipality towards the utility”*<sup>4</sup>.

Riga Water Company would use the loan to finance the construction of sludge deposits for its wastewater treatment plant, installation of water meters to consumers and extension of water supply and sewerage networks. Also, the loan would allow Riga Water Company to re-finance outstanding sovereign-guaranteed debts, which the company used to finance upgrading of its wastewater treatment plant and rehabilitation of the sewer network under a twinning arrangement with Stockholm's municipally-owned water company Stockholm Vatten.

In July 2001, the EBRD decided to issue a EUR 14.7m loan to Kauno Vandenyys (Kaunas Water Company) to help finance an ambitious EUR 41.3m investment programme. This was the first loan to a local utility in Lithuania to be provided without any sovereign or municipal financial guarantee and the EBRD expected it would *“demonstrate to other cities and banks that it is possible to finance well-run municipal services without such guarantees”*<sup>5</sup>.

The project was designed to remove iron from the main water supply, support the rehabilitation and extension of the water pipeline system and finance secondary wastewater treatment facilities. The project, known as Phase Two as it followed another loan provided by the EBRD in 1995 to upgrade Kaunas water supply and sanitation, would be co-financed by Kauno Vandenyys and the city council applied for funding from the EU's pre-accession instrument ISPA. In October 2001, the EU Commission approved a EUR 15.96m ISPA grant to finance a water purification plant, which would allow to increase the degree of purification of the Nemunas river, the biggest river in Lithuania, from 70% to 95% as required by EU legislation. The total cost of the purification plant was estimated at EUR 28.2m, with Kauno Vandenyys obtaining a EUR 9.57m EBRD loan and the Lithuanian government contributing EUR 6.38m<sup>6</sup> (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 and the positive developmental impact of this type of PUPs.

### **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 to achieve the intended objectives in terms of public interest. In fact, the absence of commercial considerations in terms of profit-seeking has allowed for the concentration of resources on knowledge transfer aimed at capacity building and local governance, without deviations from the intended reform path.

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 acted as a vital source of motivation for the managers and staff who participated in the two PUPs for the supporting and supported partners. According to Lariola & Danielsson (1998: 13), Stockholm Vatten “takes great pride in its international assignments and in its possibility on a wider range to contribute to the improvements of the environment of the Baltic. The vision behind SWC’s (Stockholm Vatten’s) involvement in international projects is the firm belief that SWC (Stockholm Vatten) is successful in running an efficient waterworks and that its knowledge and experience can be transferred to other waterworks. This vision seems to be shared by most of the staff at SWC (Stockholm Vatten)” (Lariola & Danielsson, 1998: 13). The commitment and public sector ethos of Stockholm Vatten’s staff is even more patent when considering that workers participating as short-term advisors were “required to work hard in difficult conditions, in addition to their duties at SWC (Stockholm Vatten). Twinning often means longer working hours to cope with both SWC (Stockholm Vatten) duties and twinning responsibilities without additional compensation” (Lariola *et al.*, 2000: 30).

It is highly unlikely that a PPP, based on the private operator’s commercial considerations, could have achieved the same developmental objectives in terms of capacity building and investment implementation so effectively and at such low cost. In Tallinn, Estonia, a PUP with Helsinki Water acting as supporting partner and similarly structured to Stockholm Vatten’s twinning arrangements in Lithuania and Latvia was “considered successful in terms of service delivery, improved efficiency and financial management”. The PUP was then replaced by Tallinn’s new municipal majority with a controversial privatisation. “The privatisation rapidly became controversial due to the financial manipulations of the foreign operator, which included demands for a surcharge for water drainage, price increases, extraordinary dividend payments and the remuneration of the supervisory council (Lobina, 2001; Hall, Lobina and de la Motte, 2003). By the end of 2002, the company had cut a total of 200 jobs (about 30% of the workforce) and extracted from the company dividends and repayments an amount equal to 93% of what they had invested two years previously” (Hall *et al.*, 2005: 23-24, 32-33). The not-for-profit basis of the partnership appears to represent the central distinguishing feature between PUPs and PPPs. This points to the fundamental differences between the two approaches to water reform and suggests that PUPs should not be treated as PPPs when it comes to designing the rules governing the partnership.

### **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, Stockholm Vatten proved that dialogue can contribute to an institutional environment favourable to reform. “The investment project and the twinning arrangement was essentially imposed on a suspicious, reluctant municipality, characterised by frequent political changes (6 mayors in Kaunas since 1995), and fighting with the formidable financial problems of post-Soviet rebuilding. ... Much time was spent on persuasion of municipality politicians to follow the contractual commitments. The bottleneck in decision making was not inside KWC (Kauno Vandenyys), but on the political level of the municipality. The process of explaining the project concept to the politicians, and to make them take the required tariff and other important decisions for project implementation according to the project agreements has required substantial twinning resources”. Stockholm Vatten “influence on Kaunas politicians at critical junctures of the project was decisive” (Lariola & Danielsson, 1998: 17, 20-21). As regards Riga, “The close cooperation between

SWC (Stockholm Vatten) and RW (Riga Water) since 1992 has decisively influenced the transformation of RW into a municipal enterprise with modern governance structures (Board of Directors and Supervisory Board)” (Lariola *et al.*, 2000: 28). “The SWC’s (Stockholm Vatten’s) Water Utility Management Advisor has actively participated in this process and influenced both RW’s (Riga Water’s) top management and Riga’s municipal decision-makers in modernising the governance structure and practices” (Lariola *et al.*, 2000: 17). 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, 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 PUP in Kaunas lasted from April 1993 to the end of 1999 while that in Riga extended from 1992 to December 2000 (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). As a matter of fact, if time is commensurate to the strengthening of trust and respect between partners, then the duration of the PUP can be seen as contributing to the building of long term capacity as it was the case in Kaunas, where “the institutional and management changes observed at KWC (Kauno Vandenyys) are permanent and sustainable. The top management has initiated a major physical and mental turnaround process, and is committed to its completion” (Lariola & Danielsson, 1998: 24) and Riga (Lariola *et al.*, 2000: 28). Furthermore, the strengthening of trust between the supporting partner and local decision makers throughout time, in a context of retained local public control over operations, will in turn contribute to the consolidation of a sense of local “ownership” for the institutional and organisational reforms introduced. This can be seen in contrast to the widespread social and political rejection of PPPs in urban water supply and sanitation worldwide. The short-termism and rigidity associated with the pursuit of commercial considerations has in fact been perceived as alien to the delivery of an essential service and in conflict with the achievement of developmental objectives such as equity (Hall, Lobina and de la Motte, 2005; Hall *et al.*, 2005: 24). Incidentally, Lariola & Danielsson (1998: 5-6) recognise that twinning was the preferred choice, “intellectually appealing, and usually acceptable to all stakeholders”. A cautionary note is nonetheless required. Time alone cannot explain the success of any PUP as the suitability of the partners, and thus their selection, as well as the effectiveness of the accountability networks underlying the partnership are crucial factors.

The importance of trust and respect between partners, as well as their public sector ethos, has implications on the procedures adopted for the selection of partners. Lariola & Danielsson (1998: 31) and Lariola *et al.* (2000: iv-v) recommend the introduction of competition in order to enhance the cost-effectiveness of twinning arrangements, for example in the form of submission of competitive bids from potential supporting partners. Although a qualitative assessment of the suitability of various potential supporting partners can be expected to benefit the developmental impact of the twinning, the idea that the choice of partners should mimic the competitive selection of private operators under PPPs appears to be in contradiction with the very nature of PUPs and potentially counterproductive. In fact, crucial factors such as the partners’ trust, respect and public ethos can be measured and comparatively evaluated only with considerable difficulty and at the risk of inaccuracy. Furthermore, judging at the moment of the competitive procedure how trust and respect between partners are to evolve or deteriorate across time might be extremely problematic if not unrealistic. In other words, the application of PPP-style competition to PUPs would risk to switch the focus on the containment of already limited costs (see section on *Cost effectiveness of PUPs* below) and introduce the limitations of contract management observed under PPPs (see section on *The experience with PPPs of the last 15 years in developing countries: theory and practice* above), while degrading vital but unquantifiable aspects of the partnership such as mutual trust, respect and commitment. Such considerations warrant against the adoption of competition as an instrument for the identification of the ideal partners in PUPs. By contrast, resort to the principle of *intuitu personae* with the choice depending on a qualitative evaluation and discretionary judgment by the partners themselves, with the support of the PUP’s political sponsors and financiers appear to deserve more credit. Indeed, Lariola & Danielsson (1998: 28) acknowledge that “The twinning partners have not normally been selected by project sponsors on the basis of bidding: instead, they

have often been selected on the basis of earlier contacts and suitability considerations – which has its advantages”.

Lariola *et al.* (2000: iv, 19) also criticise reliance on qualitative objectives under Stockholm Vatten’s twinning arrangements and recommend that in the future Sida should structure a more robust contractual framework, whereby terms of references should include “pre-determined, measurable targets in technical, environmental, financial and institutional performance”. The transformation of twinning arrangements into management contracts is seen as a solution to enhance cost effectiveness. “In twinning arrangements, the partners are expected to specify the performance objectives during the twinning process. In management agreements these objectives are specified in advance, and the financial compensation of the private sector operator depends on achievement of the performance objectives. This is the way to improve the effectiveness of twinning arrangements, too” (Lariola *et al.*, 2000: 30). Even this proposition appears incongruous to the very nature of PUPs. In fact, contrary to management contracts and other types of PPP, PUPs are not based on a principal-agent relationship between local authorities and an operator motivated by commercial gain, but on a peer relationship forged around common values and objectives, which exclude profit-seeking, whose merit is to encourage local commitment to sustainable change. This implies that the success of the partnership does not merely depend on the capability and efforts of the supporting partner but also on the supported partner and decision makers’ receptiveness. In turn, this will be determined by such factors as the local organisational culture, institutional framework and socio-economic conditions. For example, the openness to western ideas was an important factor of success in both Kaunas and Riga twinning arrangements<sup>7</sup>. Also, Lariola & Danielsson (1998: 15-16, 23) and Lariola *et al.* (2000: 24-26) note that a number of unexpected occurrences, including delays in the municipal decision making exacerbated by the transitional context and the difficulty in recruiting adequately qualified staff for the PIU, affected the allocation of twinning resources and timing of objective implementation in Kaunas and Riga. In other words, the ability of partners to stick to an agreed timetable considerably depends on a number of independent variables falling outside the control of the supporting partner. Measuring its performance on the basis of the timely implementation of too narrowly defined targets might thus prove inappropriate and conflict with the cooperative spirit of PUPs. In order to remedy the “ample time” required by local partners for the digestion of new ideas and management approaches, Lariola & Danielsson (1998: 23) suggest that “The situation would be somewhat different, if the foreign experts had actual management responsibility, as is the case in a Management Contract or in various forms of privatisation (a joint venture [with Stockholm Vatten] was proposed, but rejected in Kaunas)”. As a matter of fact, it remains to be seen whether the direct involvement of the supporting partner in the management of local operations would produce more immediate results in terms of investment implementation. It is more likely that the removal of the collaborative approach and the replacement of local managers with foreign experts would reduce the absorptive capacity of the supported partner and undermine its ability to internalise knowledge for the long term.

### **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. In Kaunas, reporting on twinning activities included the submission of annual budgets and quarterly and annual reports (Lariola & Danielsson, 1998: 14). In Riga, Sida’s Grant Agreement requested the submission of quarterly progress reports, audited annual reports, quarterly twinning reports, special and completion reports (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).

In light of the not-for-profit basis of PUPs, the relatively limited costs of such partnerships and the marginal scope for reducing such costs (see below section on *Cost-effectiveness of PUPs*), the introduction of transparency appears to be an optimal substitute for competition. As noted, the supporting partner enters a peer-to-peer relationship with the local partner, extended through dialogue to local decision makers. The effectiveness of PUPs in terms of local capacity building is a result of the knowledge transferred between partners, fostered by the not-for-profit basis of the relationship (see below section on *Training and human resource development*), mutual trust and public sector ethos. Cost-effectiveness, in the form of the timely

implementation of agreed objectives within the allotted budget, is then to be ensured via monitoring from financiers, political sponsors and other stakeholders. Under PPPs, competition is supposed to unleash private sector operators' efficiency (Lobina & Hall, 2003: 5). By contrast, the absence of a profit motive under PUPs suggests that the focus in selecting the supporting partner should switch to its suitability, in terms of acquired knowledge, including prior contacts with the supported partner, rather than on cost reduction. Transparency and the ensuing accountability would thus act as a safeguard against rent-seeking from individuals or organisations, and a complementary stimulus to engage in the partnership.

Finally, transparency and accountability mechanisms of the kind introduced in Stockholm Vatten's twinning arrangements appear to strengthen trust between the involved partners and the political and financial sponsors, in turn reinforcing their commitment to providing support for public sector reform. This was exemplified by continued EBRD financial support to both Kaunas and Riga's municipal water operators even after the completion of the two twinning arrangements.

### **Training and human resources development**

By definition, capacity building is an essential component of PUPs so that an adequate training and human resources development programme should be part of any such partnership. Training is regarded as an output of twinning agreements (Lariola & Danielsson, 1998: 20). However, it is also to be seen as an input activity aimed at strengthening long term capacity instrumental to enhancing, not only the technical and operational aspects of service provision, but also investment delivery and changes in governance structure and institutional framework. 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). On the operational and technical side, training contributed to creating "preconditions for good management and competent operations" of the new Kaunas wastewater treatment plant, ensuring compliance with Helcom and EU standards (Lariola & Danielsson, 1998: 20).

Training was specifically targeted at strengthening the capacity of the Project Implementation Unit (PIU) responsible for procurement and overseeing implementation of the investment programme. Stockholm Vatten's twinning arrangements not only resulted in the successful implementation of significant investment programmes, but led to the establishment of long term, local capacity for tapping investment finance and carrying out capital investment in the future. In Kaunas, the PIU "is now competent and well staffed. Its initial inexperience caused significant delays in loan disbursement. The PIU is now capable of managing the remaining bidding and procurement processes without a resident procurement specialist from abroad. The PIU operation was set up and staff trained within the twinning framework" (Lariola & Danielsson, 1998: 20). Similarly, in Riga "PIU has gained much experience from SWC (Stockholm Vatten), and is now able to act independently in most fields. Today, there is little need for support from SWC (Stockholm Vatten)" (Lariola *et al.*, 2000: 23).

As regards institutional and organisational change, a complete training programme was associated to the Corporate Development Plan<sup>8</sup>, 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). 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. "The Board training in Kaunas and in Stockholm for five Board members was considered crucially important to give direction to the new Board" (Lariola & Danielsson, 1998: 21). Bjerggaard (2006: 10) recommends that training support in institutional and organisational development is arranged at an early stage of the project

for the benefit of the supported partner and local authorities to overcome the possible lack of familiarity with the concept of twinning.

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, in light of their not-for-profit basis, PUPs appear to be a more advanced vehicle for knowledge transfer than PPPs. As noted (see above section on *The experience with PPPs of the last 15 years in developing countries: theory and practice*), private operators regard knowledge at managerial level as a private good from which depends their ability to extract rent. Under PPPs, knowledge transfer aimed the building of local managerial capacity is thus inhibited by what the private operator perceives as a risk of losing is competitive advantage towards public managers and undermine the rationale behind PSP. Conversely, 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.

Finally, it should be noted that knowledge transfer hardly takes place exclusive in one direction, for example from the supporting to the local partner. More precisely, by operating in a different and difficult environment, staff and managers seconded from the supporting partner on a short or long term basis enjoy opportunities to "widen their horizons" and enrich their knowledge and experience as their established way of thinking is challenged (Lariola *et al.*, 2000: 30; Bjerggaard, 2006: 9)<sup>9</sup>.

### Cost effectiveness of PUPs

Olesen *et al.* (2001: 26) conclude in favour of the overall cost effectiveness of the Sida-funded twinning programme in the Baltic region from 1996 to 2001. 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.

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 19.8 million, corresponding to 2.7% of the realised US\$ 104.7 million investment programme (Lariola *et al.*, 2000: 1, 9). 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.

Lariola & Danielsson (1998: 22, Annex 3) observe that the cost of the second phase of the Kaunas twinning, after discounting the amount of the relative investment programmes and the size of the cities, was in line with that of 5 World Bank-funded twinning arrangements in the Baltic region. On the other hand, Lariola *et al.* (2000: 31) recommend that the number of long term advisors should be reduced from 3 to one, with more intensive resort to short term advisors compensating for the reduced resident team. This seems to suggest that, for a given level of quality in the delivery of the partnership's programme, there might be limited scope for cutting costs.

The budget for the second phase of the Kaunas twinning, equal to SEK 12.3 million, favourably compared to estimates for the same type of work produced by two consulting companies. "One way of checking the cost effectiveness (of the twinning) of is to see if someone else could have done the same quality service at a lower cost. We therefore asked three senior consultants from two different companies (one technical consultant and two management consultants) to make a budget estimate for the project, based on the twinning agreement. Their estimates of the costs for implementing the twinning agreement varied between 15 and 18.5 million SEK" (Lariola & Danielsson, 1998: 22).

This paper does not directly address the cost effectiveness of PUPs as compared to PPPs. However, we offer the following observations on factors potentially affecting cost effectiveness under different approaches to water reform. First, under PUPs risk management is confined to the conduction of feasibility studies as the whole set of performance and political risks are retained by the local public operator and local authorities. By contrast, risk under PPPs has to be meticulously allocated in order to safeguard the future profitability of the venture and that requires more substantial costs in terms of financial, legal, consulting and other transaction costs. It has been estimated that under private infrastructure projects transaction costs alone can reach 5% to 10% of total project cost (Lobina & Hall, 2003: 22). Second, the not-for-profit basis of PUPs allows for the maximum reinvestment of the mobilised financial resources into the local system, with no profits extracted in the form of dividends. This contrasts with the impact on pricing deriving from private shareholders' demands in terms of remuneration and on investment implementation under PPPs. Problems frequently observed include resort to tactical resources to exert upwards pressure on tariffs, including the use of management fees to extract increasing revenues from operations, together with the recurrent reduction in the value of investment programmes realised under PPPs and postponement in their implementation (Lobina & Hall, 2003: 10-12, 22-29).

### **Institutional and organisational development**

The two twinning arrangements in Kaunas and Riga indicate that PUPs can not only provide capacity building and investment but also convey institutional and organisational change. This is important, institutional strengthening being a developmental goal in itself. Furthermore, local protracted ability to retain operational capacity and maintain investment depends in turn on governance structures. 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 the case of Kaunas, "the idea of twinning as a tool to achieve the institutional strengthening objectives was chosen, because a more direct private sector participation by foreign companies was neither acceptable to the local and national politicians nor to the Nordic donors" (Lariola & Danielsson, 1998: 17). 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 unnecessary in light of the introduced accountability mechanisms towards the municipal authorities<sup>10</sup>. Largely focused on corporate governance, the reforms adopted in Kaunas and Riga appear 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). Davis (2004: 63-66) shows that in the case of two public sector-community PUPs in Ahmedabad, India and Azad and Jammu, Pakistan direct contact between public sector employees and local communities created reciprocal commitment with displays of gratitude resulting in professional pride and improved service levels. This suggests that, irrespective of the type of PUP and the developmental context, establishing genuine

bonds among partners and stakeholders based on recognition of the respective roles and shared objectives, is instrumental to the success of the partnership.

The outcome of institutional change is highly dependent on the local context (Bjerggaard, 2006: 9), so that the form of in-house restructuring associated with the analysed twinning arrangements is not to prove necessarily adequate or socially acceptable in a different environment. In certain cases, appropriate, socially and politically acceptable institutional and organisational change might require the extension of the partnership to actors representative a broader set of interests than those carried by the relevant operators, local authorities and financiers. As it is the case in Porto Alegre, Brazil (Hall *et al.*, 2002), this could take place with a more direct engagement of other stakeholders, such as local communities and civil society representatives, in the monitoring and conduction of public water operations and the surrounding governance structures. It is thus possible to envisage the development of international public sector-community partnerships, a hybrid between domestic “government-community” partnerships and cross-border development partnerships as categorised above (see section on *Public-Public Partnerships (PUPs): A typology and definitions*), whereby the relationship between the two public water operators is enlarged to the respective communities and civil society representatives. This might entail the development of parallel partnerships between civil society and community representatives related to the supporting partner and their counterparts in the supported city, aimed at building local capacity within the local community. Such cross-border public sector-community PUPs might be suitable to developing public participation mechanisms with the support of public water operators and their respective social partners, from such established cases as Porto Alegre, Brazil (Hall *et al.*, 2002: 10-11, 19), Cordoba, Spain (Observatorio de los Servicios Públicos, 2005: 20, 25, 47-48) and Grenoble, France (Lobina, forthcoming in *Utilities Policy*). In Kaunas, the twinning arrangement was extended beyond management and staff to include the respective trade unions (Lariola & Danielsson, 1998: 13). This suggests that the success of the civil societal component of any public sector-community PUP will depend to a large extent on the establishment of a relationship of mutual recognition and trust between the public operator and the community representatives, as a precondition to the transfer of context relevant and appropriate knowledge.

### **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. Sida and the EBRD, in particular, oversaw and accompanied the implementation of the partnerships since their conception facilitating the identification of the partners and closely monitoring progress throughout. Furthermore, 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).

Donor and IFI conditionality can be expected to affect the outcome of supported PUPs to a considerable extent. 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 any cross-subsidies from commercial and industrial consumers to households and average billing amounting to 5% of disposable household income<sup>11</sup>.

Donors and IFIs can also play an important role in partnership design. Lariola & Danielsson (1998: 2, 23-24) compare 5 World Bank-funded twinning agreements in the Baltic region with the Kaunas and Riga PUPs and observe that the main differences include the smaller budgets for twinning support and investment finance in World Bank-sponsored schemes, together with stronger focus on monitoring. All such features have implications on the cost effectiveness of PUPs. Although Lariola & Danielsson (1998: 23) note that the relative budgets were overall proportionate to the size of cities and investment projects, "The bigger budgets in Kaunas and Riga have allowed a continuous presence of several foreign experts, which has not been possible in the World Bank projects". It is possible to assume that trying to enhance the cost effectiveness of PUPs by reducing the budget for twinning support might prove counterproductive as this will reduce exposure to the supporting partner's knowledge and expertise. In other words, it is highly likely that for a given degree of partner suitability and a given level of partnership quality a reduction in manpower resources devoted to the partnership will not translate into improved cost effectiveness of the PUP. In turn, this implies that in order to achieve a given desired objective in terms of capacity building, investment implementation and/or support to institutional change a minimum amount of twinning resources will be required, whose identification will be crucial to the partnership success.

### The features of PUPs in transition and developing countries: a typology

In light of the above, we offer the following analytical framework to identify the essential features of the reviewed PUPs so that these can be compared to those of PPPs or other partnerships, including other types of PUPs, allowing for an evaluation of competing approaches to the reform of urban water systems and their implications. The characteristics of the reviewed PUPs are qualified from the perspective of the external or supporting partner, in this case Stockholm Vatten.

**Table 2. Partnership features of PUPs in transition and developing countries (from the perspective of the supporting partner)**

Feature of partnership	Description
Primary objective	Contribution to development, in light of mandate from political leaders of supporting partner's home country and partnership financiers
Main incentive	Public sector ethos: pride in public sector's mission and sharing of own capability
Relationship with local partner	- Peer relationship public utility-to-public utility based on trust and mutual understanding - Advisory role to local decision makers, possibly facilitated by local partner
Risk management	No performance or political risk is assumed by the foreign partner as the local partner remains fully in charge of operations. This implies that the effectiveness of risk mitigation depends on the institutional and organisational reforms introduced in parallel to the partnership
Institutional change	- Possibility of institutional and organisational change if the PUP is extended beyond mere transfer of technical know-how - If institutional and organisational change is part of PUP, this takes place in parallel with capacity building and investment programme - Institutional and organisational reforms introduced tend to depend on supporting partner's experience and financiers' policy - Gradual approach depending on supporting partner's persuasion ability and receptiveness of local partner and decision makers - Community involvement and public participation depend on partnership design, as in the case of public sector-community PUPs, and local institutional context. When this happens, commitment to the partnership and success thereof may be strengthened
Capacity building and knowledge transfer	- Resources devoted to building local managerial capacity according to need and partnership design (thus influenced by political mandate and financiers' policy) - Resources devoted to training of local workforce according to need and partnership design (thus influenced by political mandate and financiers' policy) - Possibility of extending partnership to other stakeholders (e.g. trade unions-to-trade unions relationship) according to institutional and organisational component of PUP - Absence of commercial objectives means that all resources can be devoted to capacity building and strengthening of local governance - Knowledge as a public good implies incentive for maximum knowledge transfer to local partner and associated stakeholders (Lobina & Hall, forthcoming in Progress in Development Studies)

Accountability	Accountability to political “owners” and financiers, strengthened by reporting on PUP’s activities. Accountability to local authorities is replaced by collaborative approach. Conflict resolution is based on persuasion and informal amicable means
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## The UN initiative on Water Operator Partnerships (WOPs) and practicality of PUPs

The United Nations Secretary General Advisory Board on water (UNSGAB) is launching a scheme which was originally aimed at, and is still functional to, providing a global mechanism for the promotion of PUPs in water supply and sanitation. Such mechanism could help overcome the fragmentation that often characterises PUP initiatives worldwide and facilitate scaling up of the most successful experiences (Miranda, 2006: 54-55, 59).

“During the 4th World Water Forum (Mexico, 16-23 March 2006), the UNSGAB announced its Compendium of Actions, which aims to help achieve the on water and sanitation. Amongst others, the Compendium of Actions proposes the creation and implementation of a global mechanism to promote Water Operator Partnerships (WOPs).

The rationale behind the mechanism is simple: the greatest capacity for improving public water and sanitation operators is within the operators themselves. Given that most water operators are local or municipal; given that even modest improvements in many of these operators will go a long way to meeting the MDGs; given that no current organisations have the capacity to reach the many thousands of water operators, then the best source of capacity in principle is directly from amongst the operators themselves. The mechanism will allow these operators to systematically communicate amongst each other and with any other organisations or institutions that can be of help, without having to wait for donors, IFIs or other organisations to establish contacts and develop projects.

The PUPs mechanism would be managed by a team who will provide an internetbased platform which will allow participants to establish, of their own volition and initiative, the bases for partnerships. Operators and others will register on the internet site, using set information screens which will allow them to describe their situation. This system will use database software to create matches among the registrants according to the general descriptions of the problems (demands) and expertise (offers). Then, a list of possible partner(s) will be sent to the demander, who will be able to contact the offerer(s) for details, and will then be able to select the most appropriate partner(s).

Many of the partnerships will be at a very low cost. Where there are significant costs involved, a number of options can be considered:

- a fund could be created to be accessed by PUPs partners, based on a number of criteria;
- the PUPs finance demands could be presented systematically to donors or development banks for support;
- the more wealthy PUPs partner may be able to finance out of their own solidarity funds. The partner costs are to be, always, on a notforprofit basis.

The PUPs management team should be hosted by a legitimate, credible, broadly accepted body – therefore, transparency and accountability are essential, also because one of the functions of the PUPs management team will be to facilitate access to necessary financing. The current proposal under debate in the UNSGAB is to house a small PUPs management team within UN Water, which will allow the necessary linkages and networks among other key international, regional and national actors. The PUPs should seek oversight from a wide range of stakeholders representing the broad spectrum of groups involved in the sector” (Miranda, 2006: 58-59).

In light of the above, it is possible to draw a number of recommendations addressing the practicality of the proposed UNSGAB mechanism.

## International cooperation and political mandate for PUPs

The two analysed twinning arrangements were not sporadic and isolated initiatives but were part of a regionally coordinated and structured cooperative effort enjoying international financial and institutional support. International commitments contracted around HELCOM provided the momentum for political mobilisation to achieve an internationally shared environmental and social objective (Lariola & Danielsson, 1998: 15). Such international commitments induced the Lithuanian central government to instruct the municipality of Kaunas to carry out the agreed investment programme (Lariola & Danielsson, 1998: 16), while the City of Stockholm instructed Stockholm Vatten to involve in development activities in the Baltic

region, which led to the preparation of policy and guidelines for international cooperation and regional assistance policies (Lariola & Danielsson, 1998: 10).

It remains unclear whether the general commitments adopted by heads of state and governments with the UN Millennium Declaration (United Nations, 2000) and the water-related targets contained in the MDGs (e.g. MDG 7 – Ensure environmental sustainability) will provide the political momentum needed for catalysing national and municipal resources around UNSGAB's global mechanism on a global scale. Much will depend on UNSGAB's promotional efforts and the demonstrational effect of the first PUPs spurred by the global mechanism. However, there might be advantages in launching inter-governmental initiatives at an international or regional level aimed at identifying concrete, concerted actions relying on PUPs as an instrument for the achievement of developmental goals in water supply and sanitation.

### **The initiators of PUPs and local decision making dynamics**

Decision making dynamics around the initiation of PUPs may be difficult to predict. In the relatively uniform context of the Baltic region, actors' behavioural patterns behind the initiatives leading to the adoption of PUPs in Kaunas and Riga were opposite. In Kaunas, it was the public water operator to take the lead in the launch of the twinning arrangement after contacts with Swedish consultancy K-Konsult were established in 1989 and Kauno Vandeny's representatives visited Stockholm to ascertain the type of support they could obtain. After K-Konsult elaborated a feasibility study, the EBRD asked directly Stockholm Vatten to become the twinning partner of Kauno Vandeny's (Lariola & Danielsson, 1998: 10-11). "The investment project and the twinning arrangement was essentially imposed on a suspicious, reluctant municipality, characterised by frequent political changes (6 mayors in Kaunas since 1995)" (Lariola & Danielsson, 1998: 17). "The frequent changes in Kaunas municipal governance, not observed in the same scale in other municipalities, caused ... friction" in the relationship between the municipality of Kaunas and Kauno Vandeny's (Lariola & Danielsson, 1998: 16), which proved problematic for the implementation of the twinning arrangement<sup>12</sup>. By contrast, in Riga the local decision to enter a partnership with Stockholm Vatten originated at political level while Riga Water was initially reluctant to engage<sup>13</sup>.

This suggests that there are advantages in making the UNSGAB mechanism flexible enough to allow for maximum interaction within a broader set of stakeholders from different cities, with particular reference to municipal governments whose involvement is vital to the success of PUPs. However, it cannot be excluded that initiatives could not stem from other stakeholders, such as trade unions, civil society and community representatives. Not only should the UNSGAB mechanism be promoted among stakeholders and the respective national, regional and international associations worldwide, but their free access to the mechanism should be fully granted so that they can provide enhanced stimulus to PUPs, including political pressure locally exerted from bottom-up. Stakeholders' involvement beyond operators might facilitate the inclusion of institutional and organisational development components in the programme underlying the partnership, so that this is not confined to technical capacity building or investment implementation. Furthermore, broader stakeholder involvement could facilitate public sector-community PUPs instead of strict water operator partnerships.

### **The supporting partner's capacity and administrative infrastructure in support of PUPs**

For twinning arrangements to be effective, it is important that they should be developed as well-structured, professional projects with clear objectives<sup>14</sup> 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 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. The supporting partner's human resources might include resident advisers, who should be highly qualified professionals according to Lariola & Danielsson (1998: 22), and short-term experts engaging with their counterparts in the twinning partner during exchanges. Even an internationally reputed and well organised public water operator as Stockholm Vatten faced some difficulty contributing adequate human resources to the two twinning arrangements, which were carried out simultaneously from 1995 to 1999. While the recruitment of suitable external experts seems to have been successful in Kaunas, the first of the two twinning arrangements to start (Lariola & Danielsson, 1998: 18), remedial action had to be taken in Riga.

At least initially, the Riga resident team was entirely made up of individuals recruited from outside the Stockholm Vatten organisation, which proved problematic. The first Water Utility Management Advisor was appointed in December 1995 but left in May 1996 due to “co-operation problems” with the management of Riga Water. Despite long experience in international project management in the construction sector, the first Water Utility Management Advisor had “little experience from work with administrative and organisational change and development which was the major task for this position” (Lariola *et al.*, 2000: 14). Stockholm Vatten decided to replace the first Riga Water Utility Management Advisor with the Advisor working with the Kaunas twinning programme, who had joined Stockholm Vatten in 1994. Lariola *et al.* (2000: 19, 28, 31) praise the new Riga Water Utility Management Advisor for his effectiveness in light of his knowledge of both twinning partners and experience in a transition environment. The impact of the other two resident advisors, the Project Implementation Advisor and Finance Advisor, was limited due to their lack of prior experience in the water sector, lack of previous collaboration with Stockholm Vatten and former exposure to Eastern European transition (Lariola *et al.*, 2000: 14). “This evidently was a crucial handicap, which was not compensated by their otherwise wide experience. ... (They) couldn’t effectively facilitate contacts between (Stockholm Vatten) and (Riga Water), because they didn’t know (Stockholm Vatten’s) organisation well enough” (Lariola *et al.*, 2000: 15). Lariola *et al.* (2000: 30) conclude that “Sub-contracted core resources contradict the original twinning idea”.

There seem to be advantages in encouraging supporting partners participating in the UNSGAB mechanism to carefully select in-house human resources to be contributed to PUPs in light of their specific competence and knowledge of the mother organisation. Suitability to carry out the tasks identified under partnership design might prove to be more important than prior experience with working in twinning arrangements or working in the relevant developmental context. Although the experience acquired in Kaunas by the new Water Utility Management Advisor “proved to be very useful in Riga”, the fact that Stockholm Vatten had “little exposure to technical assistance in the water utilities of central and eastern Europe” before the Kaunas and Riga projects did not prevent the success of the two PUPs (Lariola *et al.*, 2000: 19; Lariola & Danielsson, 1998: 12, 15).

Depending on the objectives aimed at, partnership design might envisage different combinations of human resources contributed by the supporting partner in terms of resident advisors and short term experts. Heavy resort to resident advisors might be affected by the limited availability of “highly qualified resources for long-term twinning assignments”. A possible solution is to retain “one experienced *in-house resident advisor* at the target utility (very much the professional profile and scope of work of the current Water Utility Management Advisor). He would concentrate on high level consultations with utility management, and on connecting the right people in the two organisations. The resource allocations between long-term and short-term advisers should consequently be reconsidered, depending of course on specific project requirements” (Lariola *et al.*, 2000: 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 staff members of the utilities, particularly of the Swedish twinning partner, should be provided *incentives* (financial and non-financial) for participation in the twinning arrangement. ... They are required to work hard in difficult conditions, in addition to their duties at (Stockholm Vatten). Twinning often means longer working hours to cope with both (Stockholm Vatten) duties and twinning responsibilities without additional compensation” (Lariola *et al.*, 2000: 30). The risk is 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.

Finally, there seem to be advantages in providing professional administrative support to the partnership, based at the supporting organisation. “Although the centre of activity in the twinning arrangement is very much in the field (Riga in this case), an *efficient Home Office* (HO) support is necessary for coordination, project administration and reporting. (Stockholm Vatten) has a small HO unit in the Operations Department. The frequent changes in the HO staff have affected continuity, and the HO support has not been very effective. This has been adversely reflected in the quality of systematic planning and reporting” (Lariola *et al.*, 2000: 30). Similar considerations were expressed in relation to the Kaunas twinning (Lariola & Danielsson, 1998: 22), as “the home office at (Stockholm Vatten) was at the beginning rather limited in its scope – mainly due to lack of resources. An important principle for (Stockholm Vatten) when organising the

twinning at its side was that the Baltic projects should be treated as other projects at (Stockholm Vatten). They should be part of the ordinary structure and well integrated into the day-to-day running of operations. ... The two twinning agreements brought a considerable strain on the organisation” (Lariola & Danielsson, 1998: 12). The effectiveness of PUPs might thus be enhanced by supporting partners developing partnerships as any of their own projects, from planning to implementation and follow up, full financial coverage for the human resources employed in terms of resident advisors, short term experts and professional administrative support.

### Enhancing the potential for knowledge transfer

The relative difficulties encountered by Stockholm Vatten in contributing human resources to the two twinning arrangements in Kaunas and Riga point to the limited capacity of Northern public water operators to satisfy the requirements of the MDGs on a global scale through PUPs. A possible solution might be represented by the simultaneous promotion of North-South partnerships, together with South-South and even domestic PUPs or PUPs entered into by partners from the same country. In that sense, Miranda (2006: 54) notes that “there is enormous advantage and potential for south-south cooperation, mostly within the same continent, perhaps between close cultures and within a common language”. Successful domestic PUPs can be observed in various continents from Latin America to Africa and Asia, and involve not only water operators but also trade unions and local communities.

In Odi, South Africa, parastatal Rand Water Company acted as a capacity-building partner to peri-urban municipalities with the support of trade union SAMWU. A similar partnership has been initiated in Harrismith, South Africa (Hall *et al.*, 2005: 12, 28; Hall, 2001: 30). In Indonesia, public water company PDAM Tirtanadi has supported other smaller utilities in Northern Sumatra through an Operational Contract (Reclaiming Public Water, 2006: 9). In the Philippines, the Local Water Utilities Administration (LWUA) has provided support to the Water Districts operating over 480 municipalities including urban and peri-urban areas. The LWUA has played an important role in enhancing the technical and financial performance of the Water Districts as technical support agency, development bank and informal regulator (Braadbaart *et al.*, 1999). In Honduras, state water operator SANAA has delivered training and technical assistance to community-based organisations and NGOs running rural water system (Hall, 2001: 30). SANAA itself had undergone in-house restructuring with the support of trade unions (Lobina & Hall, 2000: 47-48). In the province of Buenos Aires Argentina, following a failed privatisation, water workers took over operations in 2002 while consumers associations were represented both in the regulatory agency and the management of water company ABSA. In two years, water supply coverage increased from 68% to 71% while sewerage coverage grew from 43% to 45%. Also, over 100Km of pipes have been replaced, water pressure strengthened and wastewater treatment plants reactivated (Amorebieta, 2005: 149-157). In July 2006, after the termination of the privatised concession to AGBA, the publicly-owned, workers-operated and socially-controlled ABSA took over operations in other 7 municipalities of the Buenos Aires province with almost 4 million inhabitants<sup>15</sup>.

The effectiveness of PUPs can also be enhanced by leveraging on the knowledge elicited from the various PUPs, if this was to be gathered and disseminated by the organisation hosting the UNSGAB global mechanism. Hall & Lobina (forthcoming in Geoforum) observe that the most far reaching innovative approaches to extending connections to the urban and peri-urban poor are more likely to come from local communities, public authorities and political activity. However, such innovations and the associated knowledge are likely to be transmitted to other public sector bodies only as a result of geographical contiguity, as shown by the case of São Paulo’s SABESP benefiting from the experience of COBES, or through PUPs. Development cooperation agencies have also diffused this type of knowledge, for example in the case of the “condominial” sewerage systems which were initially developed in Brazil. Benefiting from its uniquely strategic position, the organisation hosting the UNSGAB global mechanism might launch a global Learning Alliance across public water operators, communities and other stakeholders aimed at gathering and disseminating knowledge derived from PUPs beyond the involved partners. Moriarty *et al.* (2005: 8) provide the following definition of Learning Alliance: “At its simplest a Learning Alliances is a series of linked platforms, existing at different institutional levels (national, district, community, etc.) and created with the aim of bringing together a range of stakeholders interested in innovation and the creation of new knowledge in an area of common interest. The stakeholders involved should have complementary capabilities which, when combined, will allow the new knowledge created in the innovation process to be brought to scale.

Some of the key capabilities required are in: implementation, regulation, policy and legislation, research and learning, and documentation and dissemination”.

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

The effectiveness of PUPs depends to a considerable extent on the long term effects in terms of long term retention of the transferred knowledge and built capacity within the supported partner and the surrounding institutional setting. Moriarty *et al.* (2005: 11) define knowledge as “the intrinsic ability of individuals or groups to carry out actions”. Franceys (1997: 6) suggests that past failure of attempts to reform public water operations and institutions might be explained in terms of failure to retain knowledge beyond the lifetime of a specific project or the involvement of a particular leader. In this sense, it is possible to identify the following approaches to ensuring the long term effects of PUPs, 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). Remuneration and incentives offered to public managers and employees holding relevant knowledge should thus reflect the opportunity costs of replacing them within the organisation, which might be high in developing countries. However, other factors are also to be taken into account. For example, an observer has noted the lower mobility of management in public water operators as compared to privatised companies, which might thus be expected to contribute to the retaining of local knowledge<sup>16</sup>.

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 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 funding<sup>17</sup>.

There seem to be advantages for the organisation administering UNSGAB’s global mechanism to encourage partners and their political and financial sponsors to address the maintenance of local capacity since project design. In doing so, an appropriate combination of context relevant solutions should be sought taking into consideration that the consolidation of appropriate knowledge appears to be an incremental process, not

necessarily exhausted with knowledge transfer through a specific programme. In other words, it is possible that none of the identified approaches to retaining local institutional and organisational capacity might represent a “silver bullet” in itself and that a combined, sustained effort might be required until knowledge is diffused enough within the target institution or organisation to exclude that any changes in key individuals might prejudice the acquired body of knowledge.

## Conclusions

We offer the following sets of conclusions, respectively on the differences between the dynamics behind PPPs and PUPs, the potential developmental impact of PUPs and implications on their promotion and scaling up, and areas for further research.

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, the way in which institutional change is related to adoption of the partnership and in terms of transferring knowledge and build local capacity. The introduction of institutional and organisational reforms is in most cases a precondition to PPPs, while the adoption of PUPs might be instrumental to public sector reform depending on the instructions imparted on the partners by the political and financial sponsors. Institutional and organisational change associated with PPPs is systematically informed by the private operator’s commercial objectives, which represents an element of rigidity and potential conflict as profit-seeking might and often does diverge from developmental objectives. The antagonistic character of PPPs and the “shock therapy” approach of related policies have led to widespread social and political opposition to PSP on an international scale. Conversely, as a result of their not-for-profit basis and retainment of public ownership and management of operations, PUPs rely on a more gradual and collaborative approach to change which can facilitate socio-political acceptability and local commitment.

The developmental potential of PUPs depends on the establishment of clear objectives for the partnership, in light of a political mandate from the respective governments, with the collaboration being stimulated by mutual trust and understanding and public sector ethos. Unfettered by any conflict of interest inherent to the conduction of public water operations, the principal-agent relationship between the political and financial sponsors of PUPs and the partners can be strengthened by introducing transparency and accountability requirements in terms of reporting. Discipline in the implementation phase can be further instilled through planning and the thorough structuring of the project. PUPs are intrinsically about capacity building, to a considerable extent through training, in light of the advanced ability to transfer knowledge treated as a public good rather than as a private, marketable asset. However, their cost-effectiveness and long-term developmental impact can be enhanced by incorporating investment and in-house restructuring programmes into partnership design. The inclusion of civil society and community representatives among the partners might favour the success of PUPs as local commitment is facilitated and capacity is developed for local governance, with highly interconnected accountability networks acting as catalysts for knowledge transfer and reinforcing the ability to take decisions and actions. 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. Indeed, the effectiveness of PUPs is to be promoted by fostering their public-ness and enhancing their distinctive characteristics rather than relying on mechanisms, such as the competitive selection of partners and mimicking of commercial contracts, which risk to prejudice the dynamics on which the success of PUPs rests. Those findings are of particular relevance to the proposed global mechanism for WOPs being launched by UNSGAB. We recommend that, in order to more effectively promote PUPs through such mechanism, the strengthening of international cooperation and the motivation of local actors behind partnerships are addressed, that partnership design provides for adequate capacity and resources devoted to the partnership, that the developmental potential of PUPs is enhanced through promotion of South-South and domestic partnerships, and that retaining local capacity is ensured through the adoption of combined, context relevant strategies based on institutional and organisational governance.

Finally, this paper highlights the need for further research in the following policy relevant areas: a) the institutional (political, social and organisational) determinants of success with public sector reform, with particular reference to the factors leading to an enabling institutional environment for effective in-house restructuring; b) the motivations behind the initiatives originating PUPs to facilitate their systematic

promotion in the future; c) the causes of past failures with PUPs and attempts at public sector reform, so that partnership design can be improved and institutional and organisational development made more effective.

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## Notes

<sup>1</sup> This and subsequent quotes are from Baltic Sea Environment Proceedings No: 72 (March 26, 1998) HELSINKI COMMISSION The Baltic Sea Joint Comprehensive Environmental Action Programme: Recommendations for Updating and Strengthening <http://www.helcom.fi/pitf/bsep72.html> - Beyond the JCP Updating

2 Sida Evaluation 98/19 Twinning Cooperation between Kaunas water Company, Lithuania and Stockholm Water Company" August 1998

3 Sida Evaluation 00/7 Twinning Cooperation between Riga Water Company and Stockholm Water Company" May 2000

4 EBRD Press Release, "EBRD renews commitment to Riga Water in Latvia", 20 November 2000.

The European Bank for Reconstruction and Development (EBRD) is lending €39 million to the Riga Water Company to improve the municipal water and waste-water system. It will be the first local service utility in Latvia to receive a direct corporate loan from an international financial institution. Under a creative structure that could be a benchmark for other municipal borrowers, the loan is backed by an undertaking municipal of support, but not a financial guarantee, by the city of Riga. In addition, it is an example of the effective approach the EBRD is taking to help improve the environment in its countries of operations.

"The transaction shows that self-financing municipal services in Latvia can be financed without recourse to sovereign guarantees," said Thomas Maier, the EBRD's Director of Municipal and Environmental Infrastructure. "The structure is innovative, as the loan is backed by limited undertakings from the city of Riga. It also allows Riga Water to make additional investments suited to its cash flow. The EBRD's unique capacity to provide a full range of financing products to public sector borrowers becomes increasingly important as progress is made by municipalities and in legal and regulatory practices in the region."

The new EBRD loan will provide funding for the construction of sludge deposits for Riga's waste-water treatment plant, installation of water meters in the city and extension of sewerage and water networks in two neighbourhoods. In addition, funds will be used for the re-financing of the existing

sovereign-guaranteed commitments of the company, which have been used for the upgrade of Riga's waste-water treatment plant and sewerage network rehabilitation. The city of Riga will provide the EBRD with an undertaking of municipal support, including the city's adherence to agreed tariff schedules and other key obligations of the municipality towards the utility.

Uldis Bambe, Managing Director of Riga Water, noted that the waste-water element of the project will have a significant environmental benefit for the Baltic Sea. "Therefore the project represents a major milestone in our efforts to comply fully with EU environmental standards," he said.

5 EBRD Press Release, "EBRD brings cleaner, safer water to Lithuania – €14.7 Bank loan supports Phase Two of the Kaunas water and waste-water project", 20 July 2001.

A €14.7 million loan from the European Bank for Reconstruction and Development to Kaunas, the second-largest city in Lithuania, will support a water and waste-water programme which should bring clean drinking water to the local people.

The EBRD loan, part of a €41.3 million package, will complement an existing water and waste-water loan signed in 1995. This Phase Two loan will finance the removal of iron from the main water supply and will support the rehabilitation and extension of the existing water pipeline system in the city. The project will also finance secondary water treatment facilities at the city's waste-water plant, bringing even cleaner water to the city and its people.

This is the first loan to a local service utility in Lithuania without a sovereign or municipal guarantee. Thomas Maier, Director of the Municipal and Environmental Infrastructure Team at the EBRD said the loan will demonstrate to other cities and banks that it is possible to finance well-run municipal services without such guarantees. Strengthening the municipal sector in these cities is not only important for improved living conditions, it will also bring the country a step closer to accession to the European Union, he added.

The project is being co-financed by the Kaunas Water Company, and the city has submitted a funding application to the EU's Instrument for Structural Policies for Pre-accession (ISPA) programme. As well as helping to clean rivers around the city, the project supports the country's environmental agenda.

The EBRD is also helping to raise donor funds to assist with institutional development for the Kaunas Water Company and the city of Kaunas. The EBRD has already committed about

€1 billion in 40 municipal and environmental infrastructure projects across the region.

6 Agence France Presse, "EU grants Lithuania 15.96 million euros for water purification project", October 25, 2001.

The European Commission has confirmed a 15.96-million-euro (14.2-million-dollar) grant to finance a water purification project in Lithuania's second-largest city Kaunas, the city's water utility said on Thursday.

Biological water purification stations to be installed by 2005 will increase the measure of purification of the Nemunas river, the biggest river in the country, from 70 percent to the EU-required level of 95 percent, Kauno Vandenyys water utility said in a statement. The money has been allocated from the EU's ISPA program for supporting transport and infrastructure modernisation projects in EU candidate countries.

The Lithuanian government will contribute 6.38 million euros to the project which is expected to cost 25 million dollars (28.2 million euros), and Kauno Vandenyys has also obtained a 9.57-million-euro loan from the European Bank for Reconstruction and Development (EBRD).

<sup>7</sup> Source: Interview with Steen Bjergaard, Director of International Projects, Stockholm Vatten AB, 21<sup>st</sup> March 2006.

<sup>8</sup> Source: Interview with Steen Bjergaard, Director of International Projects, Stockholm Vatten AB, 21<sup>st</sup> March 2006.

<sup>9</sup> Source: Interview with Steen Bjergaard, Director of International Projects, Stockholm Vatten AB, 21<sup>st</sup> March 2006.

<sup>10</sup> Source: Interview with Steen Bjergaard, Director of International Projects, Stockholm Vatten AB, 21<sup>st</sup> March 2006.

<sup>11</sup> Source: Interview with Steen Bjergaard, Director of International Projects, Stockholm Vatten AB, 21<sup>st</sup> March 2006.

<sup>12</sup> Source: Interview with Steen Bjergaard, Director of International Projects, Stockholm Vatten AB, 21<sup>st</sup> March 2006.

<sup>13</sup> Source: Interview with Steen Bjergaard, Director of International Projects, Stockholm Vatten AB, 21<sup>st</sup> March 2006.

<sup>14</sup> Source: Interview with Steen Bjergaard, Director of International Projects, Stockholm Vatten AB, 21<sup>st</sup> 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.

<sup>15</sup> 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.

<sup>16</sup> Source: Interview with Steen Bjergaard, Director of International Projects, Stockholm Vatten AB, 21<sup>st</sup> March 2006.

<sup>17</sup> Source: Interview with Steen Bjergaard, Director of International Projects, Stockholm Vatten AB, 21<sup>st</sup> March 2006.