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Lobina, Emanuele and Hall, David (2014) *Corporatization in the European Water sector: Lessons for the global South*. In: McDonald, David A., (ed.) *Rethinking Corporatization and Public Services in the Global South*. Zed Books Ltd., London, UK, pp. 185-206. ISBN 9781783600182

## **Chapter 8**

### **Corporatization in the European Water Sector: Lessons for the Global South**

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In Europe, like in the rest of the world, the last 25 years have witnessed an increase in privatization and private sector participation in the water sector. Despite these pressures, the great majority of service operators remain publicly owned in Europe, as they do elsewhere (Lobina and Hall 2008).

Where they could not succeed in replacing public operators with private companies, neoliberal forces have instead insisted that public operators should behave as if they were private companies, often in the form of corporatized entities (Lobina and Hall 2009, Magdahl 2012). Yet, the diffusion and consequences of corporatization in the European water sector remain under-researched.

This chapter reviews the experience of corporatization in Europe as it relates to corresponding experiences in Africa, Asia and Latin America. Its aim is to discuss European similarities and differences with the case studies from the global South presented in this book. We reflect on the pros and cons of corporatization in general, and focus in particular on the extent to which the corporatization of services has enhanced or undermined the 'public' nature of essential services such as water supply and sanitation in the European Union (EU). In addition, we offer recommendations on what might be done to improve institutional and ideological modelling of stand-alone public enterprises in the EU, drawing on Public Services International Research Unit (PSIRU) research on the European experience with corporatization over the past 25 years.

Of the current 28 member countries of the EU, we focus on a limited number of countries representative of different geopolitical regions: Southern Europe (Italy, Spain); Central Europe (France, Germany); Eastern Europe (Hungary, Latvia, Lithuania, Poland); Northern Europe (the Netherlands, UK); and Nordic Europe (Finland, Sweden). The chapter is structured as follows. The first section sketches an analytical framework to differentiate between different forms of corporatization, followed by a brief history of corporatization in the EU and how this has changed institutionally and ideologically. We then turn to illustrate, respectively, the perceived and actual advantages and disadvantages of corporatization in the EU, and how these have changed through time and in different contexts. A subsequent section discusses the circumstances under which corporatization might be an appropriate mechanism for public ownership and management of essential services in the EU, while the final section offers lessons drawn from the EU experience for corporatization in the global South, and vice versa.

## ANALYTICAL FRAMEWORK

Corporatization is typically defined as the transformation of government units into semi-autonomous and autonomous corporations, mostly with independent legal status and enjoying managerial freedom (Grossi et al 2010). This is a broad definition, however, which fails to capture the diversity of organizational arrangements that can be found among wholly publicly owned undertakings. It overlooks the fact that the public sector cannot be regarded as an institutional monolith (Hall 2007), making it important to identify different operational and societal outcomes associated with the choice of organizational forms within the definition of corporatization.

As noted in the Introduction of this book, the primary objective of corporatization is the achievement of operational efficiency by means of creating some distance between government owners and public managers. This distance aims to ease the interference of politicians in managerial decisions and allow for managerial freedoms that are different from those found in traditional public administration. The organizational arrangements of public operators in France (Lobina and Hall 2007), Germany (Lanz 2004, Wackerbauer 2009a) and Italy (Forum Italiano dei Movimenti per l'Acqua 2012, Lobina 2005b) illustrate the varying degrees of autonomy from governmental owners.

Some semi-autonomous public enterprises enjoy financial but not managerial autonomy and have no independent legal status, such as the French *régies à autonomie financière*, the German *Eigenbetrieb*, and the Italian *azienda municipalizzata* models. Other semi-autonomous public enterprises enjoy managerial and financial autonomy together with independent legal status, and are subject to public law. Examples are the French *régies à personnalité morale et autonomie financière*, the German *Anstalt des öffentlichen Rechts*, and Italy's *azienda speciale*.

In addition to enjoying financial, managerial and juridical independence, autonomous corporations are governed by private law as is the case of wholly publicly owned joint stock companies, called *Eigengesellschaft* in Germany and *S.p.A. pubblica* in Italy. All these organizational forms fall under the definition of corporatization, but are not all the same. It is therefore important to differentiate between these modes and to evaluate their merits and demerits.

Our analytical framework is developed by combining two attributes of corporatization: 1) the arm's length distance between public owners (government) and public agents (the managers of the corporatized undertaking); and 2) the responsiveness of institutional arrangements to a public interest agenda. 'Weak' corporatization corresponds to a relatively short distance between public owners and public agents, as is the case with semi-autonomous units governed by public law. 'Strong' corporatization corresponds to a greater distance between public owners and public agents, as is the case with autonomous corporations governed by private law.

The responsiveness of these types of corporatization to a public interest agenda can determine whether they are 'successful' or not. Both strong and weak corporatizations can be assessed in these terms, using the normative criteria outlined in the introduction to this book: equity; participation in decision making; efficiency; quality of service; accountability; transparency; quality of the workplace; sustainability; solidarity; public ethos; and transferability. Corporatization can therefore be evaluated according to its ability to promote these principles. The following sections review empirical evidence using these factors.

## A BRIEF HISTORY OF CORPORATIZATION IN THE EU

Corporatization is not a new idea and its origins can be traced back to ancient history. Between the end of the nineteenth and the early twentieth century, contemporary corporatization was a key part of the expansion of public ownership in the water sector and other public service sectors in nearly all European countries. This process – linked to the growth of municipal socialism (or “gas and water socialism”) which saw the public sector as a mechanism to enhance economic development and public health, and improve social conditions for the urban poor – occurred as municipalities took over failing private operators or created new municipal water utilities. The extension of water systems in European cities and the achievement of universalization almost entirely took place under municipal operations, and thanks to public finance. This was the case also in France and the UK, where the majority of water services are today managed by the public sector (Hall and Lobina 2006).

The historical role of semi-autonomous municipal undertakings, and therefore of weak corporatization, in the development of European water services is illustrated by a few examples. In Italy, Rome's *azienda municipalizzata* ACEA extended service coverage to illegal settlements in peri-urban areas, where 12 per cent of the city's population lived, between the mid-1970s and the mid-1980s. The semi-autonomous agency was also a multi-utility and, since the water service was operating at a loss, the development of water and sanitation benefited from cross-subsidies from the more profitable electricity operations (Lobina and Iacovitti 2005). Bologna's water and gas operations were managed by an *azienda municipalizzata* from 1948 to 1984 (Lobina and Martino 2005) and semi-autonomous inter-municipal, multi-utility agencies have historically expanded water and sanitation services in the Emilia-Romagna region of Italy. Conversely, in Berlin, Germany, a municipally owned Public Limited Company was established in 1924 to operate the water service (Lanz and Eitner 2005).

However, there have been many cases of direct municipal management by administrative departments in large and relatively small European cities. In Italy, Milan's water supply remained under direct municipal management from its establishment in 1887 until its strong corporatization in 2003 (Lobina and Paccagnan 2005). In the Netherlands, Amsterdam's water service was managed by an administrative department of the municipality from 1896 until 2005 when weak corporatization was introduced (Roeber 2008). In Arezzo, Italy, water supply was directly managed by the municipality from 1930 to 1999, when a concession was awarded to a public-private joint venture (Lobina 2005). In

Grenoble, France, water supply was also directly managed by the municipality from the late nineteenth century until a privatized contract was awarded in 1989 (Lobina and Hall 2007).

In general, the pressure for municipalities to corporatize their water and sanitation services has intensified in the late twentieth century across European countries, often as a result of national legislation or other interventions by central government aimed at enhancing operational efficiency and fiscal discipline. The main factor behind the expansion of corporatization in the European water sector has been the fiscal considerations of central and local governments that favoured the self-financing of local water services without the use of subsidies. This has provided a clear impetus in favour of corporatization and commercialization in Italy (Lobina 2005b), the Netherlands (Blokland and Schwartz 1999), Finland (Windischhofer 2007), and Northern Ireland in the UK (Hall and Lobina 2008).

Since 1975, the Dutch central and provincial governments have promoted a process of merger and corporatization of more than 100 municipal water operators. These gradually disappeared until 2008 when only nine large municipally owned Public Limited Companies and Amsterdam's semi-autonomous municipal agency remained (Blokland and Schwartz 1999, Roeber 2008). In Germany, from 1997 to 2005 the composition of publicly owned water operators changed in favour of increased arm's length relationships as well, including at the inter-municipal level (Wackerbauer 2009a). Weak corporatization remains diffuse, while strong corporatization prevails among inter-municipal operators in the country. In a database of 616 public water suppliers (out of roughly 6,500 water operators nationally), 241 had autonomous *Eigengesellschaft* or Public Limited Company status, including 95 inter-municipal entities (Ruester and Zschille 2010).

Since 1926, French law-makers have attempted to induce the transformation of municipal administrative departments (*régies directes*) and promote weak corporatization. Their repeated attempts failed as direct municipal management continued to prevail over other forms of municipal service provision. They succeeded instead in subjecting the *régies directes* to a similar pricing and fiscal regime to that of the *régies à personnalité morale* and *régies à autonomie financière*. From 1992, all forms of *régies*, whether administrative departments or corporatized agencies, had a budget ring-fenced from that of the municipality. This is an obligation for any *régie directe* to cease subsidizing service provision from taxation and move toward full cost recovery (Pezon 2000).

Italy's national legislation has increasingly promoted corporatization in the water sector, first with the introduction of the *azienda speciale* as a new legal status in 1990; then as part of the Berlusconi government privatization agenda. Legislation introduced and repeatedly amended since 2001 – often in the form of budget laws aimed at reducing Italy's budget deficit and national debt – limited public provision to Public Limited Companies (Lobina 2005b). These provisions were abolished by the June 2011 referendum against water privatization, however (Dugard and Drage 2012), so that entrusting water

operations to an *azienda speciale* for public service delivery remains legal (Forum Italiano dei Movimenti per l'Acqua 2012).

Finally, some municipalities have adopted corporatization in response to specific contingencies. For example, Stockholm's municipal water operator was transformed into a municipally owned Public Limited Company in 1989 to prevent the municipal government from being sued by users for overcharging (Stenroos and Katko 2005).

## ADVANTAGES OF CORPORATIZATION IN THE EU

The mainstream argument for corporatization in the water sector is that retaining public ownership while shifting control rights from politicians to public managers reduces political interference and enhances efficiency (Klien 2013). Empirical evidence suggests that both weak and strong corporatization can result in successful operations responsive to a public interest agenda. The following cases illustrate how different forms of corporatization may perform well in relation to pursuing different aspects of the public interest in different geopolitical contexts.

Swedish municipal water operators in the 1990s appeared to be more efficient than French and English water companies, boasting low operating costs, appreciable service quality and contained profit levels. In fact, while Swedish law imposed cost-recovery through tariffs it also provided for all profits to be reinvested in the system. Stockholm's incorporated municipal operator, Stockholm Vatten AB, was outstanding with its low tariffs and high self-financing ratios, which reached 53 per cent in 1998 and allowed investing in sustained leakage reduction and enhanced wastewater treatment (Gustafsson 2001, Lobina and Hall 2000). Until 2006, Stockholm Vatten AB gained an international reputation for its holistic approach to Integrated Water Resources Management (Gustafsson, 2008).

In addition to promoting sustainable water development at home, Stockholm Vatten AB engaged in international public-public partnerships (PuPs) motivated by political solidarity. It assisted the municipal water operators of Kaunas, Lithuania, and Riga, Latvia, in the process of corporatization, something that prevented them from being privatized. It also contributed to developing the two municipal operators' capacity, thereby enabling them to successfully access international finance to build wastewater treatment plants; they retained such capacity after the end of the partnerships. These were not partnerships confined to utility-to-utility twinning; they also included capacity building partnerships between Swedish trade unions and their Baltic sister unions (Lobina and Hall 2006).

Dutch corporatized water supply operators appear to be efficient as indicated by low leakage levels. In part, this seems due to the control distance between public owners and a professionalized public management, cost recovery through tariffs, and the ability to raise investment finance in the form of long-term loans (Lobina and Hall 2000). Other factors include a voluntary benchmarking scheme, or "sunshine regulation," resulting in efficiency

improvements estimated at 23 per cent as well as improvements in quality, service and investment levels (De Witte and Dijkgraaf 2007).

The German water sector is characterized by continuously decreasing leakage levels averaging 6.8 per cent in 2004, high service quality (with nearly 92 per cent of Germans being either very satisfied or satisfied, according to surveys), and high investment and employment levels. Cost recovery translates into high tariffs but also allows for efficiency and effectiveness (Lobina and Hall 2000, Wackerbauer 2009a, 2009b). Germany's success in promoting sustainable water development is mainly due to public enterprises, which represent more than 80 per cent of all German water service providers. Ruester and Zschille's (2010) comparison of 765 German water suppliers finds that public operators charge lower prices than private and public-private companies. As more than 45 per cent of the public water suppliers in their sample are semi-autonomous agencies governed by public law, weak corporatization makes an important contribution to the performance of the public undertakings they analyze.

In France, weak corporatization has been used to remunicipalize water services after controversial private operating contracts and this has resulted in improved cost-effectiveness, transparency and public participation, and greater attention to social and environmental considerations. In Grenoble, since 2001 the *régie à personnalité morale et autonomie financière* REG (Régie des Eaux de Grenoble) has increased investments in maintenance and renewal threefold as compared to the previous private operator while keeping tariffs at a lower and more stable level. Employment levels increased thanks to the new public operator as a result of the in-house provision of previously outsourced services, the implementation of French law on the 35-hour working week, and much-needed works to replace lead pipes in public buildings such as hospitals and schools. An advanced form of participation in decision making was adopted, with a third of members of the Board of Directors being civil society representatives and the remaining two-thirds being city councillors (Lobina and Hall 2007).

In Paris, remunicipalisation took place in January 2010 after the expiry of two private operating contracts covering one half of the city each. In the first year of operations, the *régie à personnalité morale et autonomie financière* Eau de Paris realized efficiency savings of €35 million, which allowed for an 8 per cent reduction in tariffs. It has also engaged in a partnership with farmers aimed at promoting environmentally sound practices that can preserve groundwater quality, and adopted a number of solidarity initiatives: it increased its contribution to the city's housing solidarity fund (from €175,000 to €500,000), paid a water solidarity allocation to 44,000 poor households, commissioned a report on progressive tariffs, launched a water-saving campaign, and refrained from cutting off water supply in squats. Its solidarity extends to its participation in a PUP between Morocco and Mauritania's national water operators ONEP and SNDE, and the funding of social connections in Phnom Penh, Cambodia. As regards participation in decision making, 11 members of the Board of Directors of Eau de Paris are city councillors, two members are workers' representatives and five are civil society representatives (Pigeon 2012).

In Cordoba, Spain, the municipally owned Public Limited Company EMACSA introduced public participation in decision making as early as 1979. As of 2004, the Board of Directors was composed of six city councillors, two trade union representatives, and a representative of neighbourhood associations. Furthermore, during the severe drought of the early 1990s EMACSA conducted an educational campaign that resulted in a 20 per cent decrease in water consumption. The campaign was so effective that citizens did not increase consumption after the end of the drought (Observatorio de los Servicios Públicos 2005a).

In Italy's southern region of Apulia, the regional public operator Acquedotto Pugliese has reorganized its operations, restored its finances and improved the quality of service. Established in the early twentieth century as an autonomous agency governed by public law, Acquedotto Pugliese was transformed into a Public Limited Company in 1999 to prepare its privatization (Massarutto and Linares 2006). However, Acquedotto Pugliese has not been privatized and remains fully owned by Apulia's regional government (Zoppo 2010a). In February 2007, left-wing governor Nichi Vendola created the position of CEO to show that public enterprises can be efficient. The newly appointed CEO's mandate was to improve the performance of Acquedotto Pugliese by reducing unaccounted for water, boosting investments, and isolating the company from possible political interference (ANSA 2007). In 2010, the CEO was awarded the prize of best manager of the year by an Italian professional journal for having restored the finances of Acquedotto Pugliese, simplified its organization, retrained its workers, brought the previously outsourced wastewater management operations back in-house, and turned sludge treatment into a profitable activity due to the acquisition of a specialized company (Zoppo 2010a).

In 2011, Acquedotto Pugliese posted a record net profit of €40 million and invested €220 million, which equated to a tenfold increase in investment levels in five years (Zoppo 2012). From 2006 to 2009, leakage was reduced from 42 to 35 per cent (Gualtieri 2010, Monteforte 2010). Since 2009, all profits have been reinvested into the system, making Acquedotto Pugliese a unique case among Italy's strongly corporatized water operators. Also unique was the fact that Acquedotto Pugliese applied social tariffs funded by the regional government benefiting more than 340,000 poor and vulnerable households (ANSA 2010, Zoppo 2012). In 2010, Governor Vendola pushed regional legislation to reduce the separation between Acquedotto Pugliese and government and transform it into an autonomous agency governed by public law, but Italy's Constitutional Court blocked the initiative (Zoppo 2010, 2012). In 2013, Acquedotto Pugliese became part of Aqua Publica Europea, the European association of progressive public water operators, which also has Eau de Paris and Régie des Eaux de Grenoble among its members (Acquedotto Pugliese 2013).

In Debrecen, Hungary, and Łódź, Poland, strong corporatization was part of business plans jointly developed by public managers and local trade unions in order to prevent privatization as put forward by water multinationals. In both cases, corporatized operations proved more cost-effective than the proposed



privatizations, and more efficient than other Hungarian and Polish water operators (de la Motte 2005, Lobina and Hall 2000). Debrecen's incorporated municipal company increased its efficiency, effectiveness and profitability, while saving jobs. It financed its growing investments through cost recovery and increased the quality of water provision and wastewater treatment, without excessively raising tariffs. In addition, between 66 and 75 per cent of the company's profits were reinvested in water supply and sanitation operations, while the remainder was used by the Debrecen municipal government to subsidize other municipal services (Boda et al 2006).

## PROBLEMS WITH CORPORATIZATION IN THE EU

One of the downsides of corporatization is that it widens the distance between public owners and public managers, often providing incentives for the latter to mimic private sector executives. The difference between weak and strong corporatization does not only consist in the relative intensity of the arm's length relationship between local governments and public operators, but also in the incentives derived from the legal framework governing the organization and operation of the public enterprise. Under weak corporatization, undertakings are usually governed by public law, with the exception of employment matters which, for France's *régies à personnalité morale et autonomie financière* and Italy's *azienda speciale*, are governed by private law (Forum Italiano dei Movimenti per l'Acqua 2012, Pezon 2000). Under strong corporatization, undertakings are subject to private law for all aspects of corporate governance and the conduct of operations. This affects the behaviour of public managers and public owners alike, as the legal instrument of the Public Limited Company is designed to safeguard and promote proprietary rights.

Empirical evidence suggests that strong corporatization can undermine aspects of the public interest agenda, as defined for the purposes of this book. The following examples illustrate how the commodification encouraged by neoliberal ideology and facilitated by private law can prove controversial for public companies that prioritize productive efficiency over social considerations, or for those that are efficient at home but engage in predatory behaviour in other cities at home or abroad. Public shareholders pursuing their property rights and prioritizing their fiscal objectives over other development goals might in fact have the same objective as all private shareholders: to maximize their remuneration through the receipt of dividends or other payment. When dividends are extracted from a local service the short-term fiscal considerations of local governments assume a perverse form of hidden taxation. In this case (often regressive) tariffs are used as a substitute for (usually progressive) taxation and, to add insult to injury, the sustainability of the public service is undermined.

Since the 2006 electoral change in Stockholm's city council, Stockholm Vatten AB has drastically moved away from its previous attention to Integrated Water Resources Management. The new strategy focuses on the company's "core business," defined by the strictly technical boundaries of water supply and wastewater service provision, and consists of downsizing the scope of operations and ancillary activities. For example, the company is now limited to

“demand-driven maintenance,” that is, repairing facilities and pipelines when breakdowns occur without engaging in long-term preventive maintenance. The company has also divested non-core activities such as construction, laboratory management, and research and development. It has abandoned educational activities and international collaborations, and made extensive job cuts. The company has been harshly criticized for reneging on its previous holistic approach to promoting sustainable water development, not only by opposition politicians and trade unions, but also by local and international academics as well as Swedish water professionals (Gustafsson 2008).

Following the momentous victory obtained by the Italian Forum of Water Movements and the FP-CGIL trade union in the June 2011 referendum to prevent water privatization, social movements have conducted diffused and localized campaigns for a partial de-corporatization of Public Limited Companies. As a result, local authorities have decided to change the legal status of in-house operators from that of *S.p.A. pubblica* to *azienda speciale* in Naples, Turin, Palermo, Vicenza and Pescara (Forum Italiano dei Movimenti per l’Acqua 2013). The passage from strong to weak corporatization is seen by the movement as another form of remunicipalisation, similar to the passage from private to public ownership. In fact, they identify the following two problems with Public Limited Companies, which can also be observed under private sector participation: a) the orientation of *S.p.A. pubblica* toward profiteering as a result of the incentives derived from private law; b) the lack of transparency, accountability and public participation (Forum Italiano dei Movimenti per l’Acqua 2012).

A case in point is that of Acquedotto Pugliese which, as noted earlier, has been celebrated in professional journals and in the press for its enhanced efficiency and bolstered finances, but also harshly criticized by social movements for being too ‘strong’ a form of corporatization. The criticisms include: a) extreme zeal in disconnecting users for non-payment of water bills (ANSA 2011, Forum Italiano dei Movimenti per l’Acqua n.d. a); b) excessive cuts in the workforce (Forum Italiano dei Movimenti per l’Acqua 2012); c) the extraction of profits from water tariffs (Forum Italiano dei Movimenti per l’Acqua n.d. b); and d) the use of commercial law to avoid disclosing relevant information to the public (ANSA 2011, Forum Italiano dei Movimenti per l’Acqua n.d. a).

Even Public Limited Companies that efficiently and effectively operate services at home, and engage in solidarity partnerships with other public services utilities, can behave as private companies, seeking market opportunities in other cities and countries. This is unlikely to be the decision of public management alone, however, as political endorsement of fundamental strategic choices is required even for relatively independent public companies. As an illustration of this, after local elections in 2000, Debrecen’s corporatized operator has been instructed to achieve greater efficiency savings by outsourcing ancillary services such as metering and construction, and to bid for operating contracts in Hungary and Romania (Boda et al 2006).

Another example of contract bidding is that of Madrid’s Canal de Isabel II, an efficient operator that has become a publicly owned multinational holding water

concessions in Colombia, the Dominican Republic, Venezuela and Ecuador, and diversifying activities in the hydro-power and telecommunications sectors (Ortega and Sanz 2007). In Spain, Canal de Isabel II won a concession for the city of Alcalá de Henares after bidding in a consortium with two private companies (Observatorio de los Servicios Públicos 2005b). In 2005, a report by the Community of Madrid's audit body found that Canal de Isabel II's exposure to international operations and businesses outside its core activity represented an undue risk for water users in Madrid. Also, the public auditors lamented the absence of participatory decision making and recommended the introduction of participatory mechanisms similar to those adopted by Cordoba's EMACSA (Cámara de Cuentas Comunidad de Madrid 2005).

Corporatized companies that bid for and win concessions outside their original territory are likely to engage in the same practices for which private multinationals are criticized. In 2007, and thus prior to the recent decision to de-corporatize, Turin's municipally owned Public Limited Company SMAT won a water concession for the 81 communes in the province of Palermo, in the southern Italian region of Sicily. In 2010, SMAT's Sicilian subsidiary resorted to arbitration seeking compensation for damages from the conceding authorities and demanding tariff increases to restore the profitability of its operations (SMAT n.d.). Demanding multi-million compensation through arbitration has often been used by multinationals as part of their interest-seeking strategy in developed, transition and developing countries alike (Lobina 2005a, 2013).

Similarly, the Dutch corporatized utility Vitens has turned into a public multinational adopting the practices of private water multinationals. In 2006 AVRL, a joint venture of Vitens and the South African corporatized public company Rand Water, won a five-year management contract for the provision of urban water services in Ghana. In 2011, Ghana's government decided not to renew the contract that had proved highly controversial (Adam 2011). In fact, despite a cumulative tariff rise of 105 per cent, the management contract produced improvements in very few of the targeted performance areas. When assessed against the majority of contractual targets, performance either deteriorated or did not change significantly (Dagdeviren and Robertson 2013). Examples of private multinationals failing to meet contractual targets despite hefty tariff increases are rife (Lobina 2005a, Lobina and Hall 2000).

## CAN CORPORATIZATION STRENGTHEN PUBLIC SERVICES?

The empirical evidence shows that both weak and strong corporatizations are capable of leading to 'successful' public water operations. This applies to all the geopolitical areas covered in this chapter: Central, Eastern, Southern, Nordic, and Northern Europe. Examples of good performance in terms of efficiency and quality of service under weak or strong corporatization can be observed at the national level (Germany, Sweden and the Netherlands), at the city level (Stockholm Vatten AB until 2006, Régie des Eaux de Grenoble, Eau de Paris, Cordoba's EMACSA, Debrecen, and Łódź), and regional level (Acquedotto Pugliese).

Some cases stand out in relation to the promotion of environmental sustainability: Stockholm Vatten AB (until 2006); Amsterdam; Eau de Paris; Cordoba's EMACSA; Kaunas and Riga. Notable contributions to equity have been made by Rome's ACEA in the 1970s and 1980s, Bologna's *azienda municipalizzata* from 1948 to 1984; and more recently by Eau de Paris. Debrecen has engaged in solidarity with other municipal services in the same city, while Stockholm Vatten AB and Eau de Paris have engaged in solidarity partnerships with public utilities and workers in other parts of the world.

The most advanced forms of public participation in decision making have been adopted by Cordoba's EMACSA, Régie des Eaux de Grenoble, and Eau de Paris. In turn, participatory decision making can be expected to contribute to the accountability and transparency of the service. The quality of the workplace also improved under Cordoba's EMACSA, Régie des Eaux de Grenoble, Eau de Paris, and in Debrecen. Corporatization has been used to prevent privatization in Debrecen, Kaunas, Łódź and Riga. It has also served to implement remunicipalisation in the case of Régie des Eaux de Grenoble and Eau de Paris, thus pointing to a potentially strong public ethos and political sustainability.

While all forms of corporatization are in principle capable of contributing to a public interest agenda, we found that strong corporatization is more likely to prioritize productive efficiency and other commercial objectives over social considerations. Since 2006, Stockholm Vatten AB has prioritized the downsizing of public service provision for financial considerations over and above quality of service and sustainability. Madrid's Canal de Isabel II and Italian Public Limited Companies score poorly in relation to public participation in decision making, and thus in accountability and transparency. So much so that Italian social movements have mobilized nationally to call for de-corporatization. Apulia's Acquedotto Pugliese suspended all investments when it was denied the tariff increases it demanded, and introduced social tariffs only when the regional government decided to fund them (ANSA 2009, 2010, 2012). A number of incorporated public companies have sought business opportunities outside their home territory (Madrid's Canal de Isabel II, Debrecen's corporatized operator), some of which have engaged in the same conduct associated with private multinationals (Turin's SMAT, Vitens). Both practices appear to negate a strong public ethos.

The controversial aspects of strong corporatization suggest that weak corporatization enjoys a higher degree of transferability, as the model can be reproduced with fewer risks. The arm's length relationship between public owners and public managers characteristic of weak corporatization still allows for efficiency and quality of service even if management's discretionary powers are contained compared to strong corporatization. Under weak corporatization, managerial discretion is contained due to the procedural controls envisaged by public law and the greater scope for participatory decision making. In turn, public participation affords social support to operational practices inspired by a public interest agenda (Lobina and Hall 2007, Lobina 2013).

## LESSONS FOR THE GLOBAL SOUTH

The fact that weak corporatization is more conducive to a public interest agenda makes it suitable for the global South, where development is more precarious, and the social and environmental costs of departing from a public interest agenda are particularly high. The case study chapters in this book, and in other literature, corroborate these findings. The merits of autonomous agencies predominantly governed by public law in the South are illustrated by Spronk et al (this volume) in relation to Uruguay, and by Dargantes et al (this volume) in relation to the Philippines. These cases share similarities with some arrangements in Europe; for instance, the reputedly effective, efficient and democratic DMAE autonomous department in Porto Alegre, Brazil has the same legal status as Régie des Eaux de Grenoble (Hall et al 2002, Lobina and Hall 2007). The heightened tension between private sector management style and social objectives under strong corporatization finds a clear example in Burkina Faso's ONEA (Baron, this volume), as it does in many European public water utilities. Furthermore, full cost recovery policies associated with strong corporatization in Zambia have undermined affordability and exacerbated water poverty (Dagdeviren 2008).

Yet, a few considerations can help define the causal relationship between corporatization and successful performance. Because it cannot be expected that the choice of an organizational model will on its own solve development problems, it is important to consider what other factors should accompany appropriate forms of corporatization to promote a public interest agenda in the global South.

First, the distance between public owners and public managers, and whether public operations are governed under public or private law, are not the only determinants of performance. Political decision making remains key to the definition of the operational strategies of corporatized service providers. This is what the experience with weak corporatization in Grenoble and Paris suggests. Even Acquedotto Pugliese's improved efficiency was made possible by the political support for in-house restructuring by Apulia's regional governor. Also, the introduction of social tariffs was the result of the governor's political initiative, in turn motivated by social movement demands. Paradoxically, the most controversial decisions affecting Public Limited Companies such as the downsizing of public operations in Stockholm and the pursuit of private contracts by Debrecen's incorporated operator were also taken by local authorities.

When it comes to making strategic choices, public managers are never fully independent from politicians, not even under strong corporatization. Therefore, corporatization is better seen as a facilitating factor of policy making and particular attention should be attached to the policies that central and local governments intend to implement, in addition to the instrument used to implement them. Once a public interest agenda is firmly established in public policy, this can be delivered under weak corporatization as well as strong

corporatization. Conversely, the adoption of an organizational model will not in itself be sufficient to reverse retrograde policies.

Second, the fact that no organizational arrangement is perfect (Williamson 1999) has important implications. Spronk et al (this volume) and Dargantes et al (this volume) point to the tensions between public interest objectives and practices inspired by new public management under weak corporatization. Baron (this volume), Dagdeviren (2008) and a number of EU cases reviewed in this chapter show that such tensions are even more acute under strong corporatization.

To what extent can operational practices that do not correspond to those of traditional public administration be compatible with a public interest agenda? The answer to this fundamental question is in the normative coherence of water policy. More precisely, normative coherence requires that financial and operational efficiency be instrumental to the achievement of broader effectiveness if a public interest agenda is to be implemented. In fact, the ultimate objective of water service provision is the satisfaction of the developmental needs of the beneficiary communities, not the needs of the operational process (Lobina 2013). We therefore suggest that publicness and public ethos correspond to the ethos of output maximization. That is, prioritizing the achievement of the development objectives democratically identified by the community served by a public operator. Output maximization and profit maximization are incompatible, as illustrated by the policy of an Italian semi-privatized company that ensured that shareholders would obtain 95 per cent of its profits in the form of dividends (Lobina and Matino 2005). How is it possible to achieve long-term sustainable development objectives if virtually all resources produced by a company end up in private pockets instead of being reinvested for the benefit of the community?

Finally, if we accept that output maximization is an essential element of a public interest agenda and that weak corporatization is an appropriate vehicle for its implementation, the question as to how policy can translate such aims into reality remains. The cases reviewed in this chapter point to the motivation and values of politicians as factors leading to successful or improved performance in Paris, Cordoba and Apulia. More importantly, they point to the role of political struggle and social mobilization as a precondition to successful or improved performance in Grenoble, Apulia, Debrecen and Łódź. Also, civic campaigns have forced political decisions to move from strong to weak corporatization in at least five Italian cities.

Castro (2009) observes that virtually universal service coverage in the global North has been historically achieved thanks to the formation of a broad alliance of social forces encompassing policy and decision makers, technocrats and social movements. He argues that the emergence of a similar alliance inspired by universalistic principles is necessary to make progress toward sustainable water development in the global South. This point is supported by the analysis of the expansion of Brazil and Argentina's water and sanitation services in the second half of the nineteenth century (Castro and Heller 2007), and is reinforced by social movements themselves. In a document setting out its

strategy for the national campaign in favour of remunicipalisation and de-corporatization, the Italian Forum of Water Movements acknowledges that the achievement of their goals will not depend only on the merits of their proposals but also on their political and social struggle for water as a common good (Forum Italiano dei Movimenti per l'Acqua 2012). Like democracy, quality public services are unlikely to be achieved as a concession from the top. Like democracy, quality public services will be a social conquest and will be preserved by the collective use of public instruments for public aims.

## **Acknowledgements**

We wish to acknowledge the financial support from the European Commission for the WaterTime project (EVK4-2002-0095, <http://www.watertime.net>). This article is based partly on the work and results of that project. We are grateful to David McDonald for his editorial guidance, and the financial support of the Municipal Services Project. We also wish to thank José Esteban Castro, Christa Hecht, Klaus Lanz, Antonio Massarutto, and Corrado Oddi for helpful comments and suggestions. All remaining errors are ours.

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