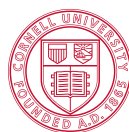


Public-Public Partnerships

An Alternative Model to
Leverage the Capacity of
Municipal Water Utilities



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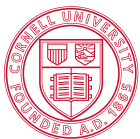
1616 P St. NW, Suite 300

Washington, DC 20036

T: (202) 683-2500

info@fwwatch.org

www.foodandwaterwatch.org



Cornell University
ILR School
Global Labor Institute

ILR School • Global Labor Institute

Cornell University

16 East 34th Street, 4th Floor

New York, NY 10016

T: (212) 340-2840

www.ilr.cornell.edu/globallaborinstitute

Introduction

Clean drinking water and wastewater treatment are basic services that societies and governments provide. Water is a necessity for life, and safe water and sanitation are crucial for public health. In July 2010, the United Nations declared access to clean water and sanitation to be a human right.¹ But recognizing the human right to water does not explain how to deliver this right to households. Even with this commitment to enhance water delivery and safety, an estimated 884 million people worldwide lack access to safe water, and 2.6 billion lack access to improved sanitation.²

Meeting this need requires significant investments in infrastructure and expertise. In the last 20 years, major multinational efforts have relied on private sector strategies in both developed and developing countries to provide water. These approaches have included encouraging public-private partnerships (PPPs) between public water utilities and private water companies.³

Proponents of privatization promised increased investment and efficiency, but privatization has failed to meet these expectations.⁴ Instead, it often has led to deteriorating infrastructure, service disruptions and higher prices for poorer service.⁵ A different model, called public-public partnerships (PUPs), can be a more effective method for providing services. In contrast to privatization, which puts public needs into the hands of profit-seeking corporations, PUPs bring together public officials, workers and communities to provide better service for all users more efficiently.⁶

PUPs allow two or more public water utilities or non-governmental organizations to join forces and leverage their shared capacities. PUPs allow multiple public utilities to pool resources, buying power and technical expertise. The benefits of scale and shared resources can deliver higher public efficiencies and lower costs. These public partnerships, whether domestic or international, improve and promote public delivery of water through sharing best practices.

The partnerships can take many forms and may include networks of public water operators in different areas or non-governmental organizations. As a public collaboration, no PUP partner can generate a profit through the partnership. In short, PUPs provide the collaborative advantages of private partnerships without the profit-extracting focus of private operators, and they promote the public interest mission of equitably delivering water services.

Although PUPs can be used for many public functions, including roads and electricity, they have particular applicability to water. Access to safe drinking water varies widely across the globe. The United Nations Millennium Declaration aimed to “halve the proportion of people who are unable to reach or to afford safe drinking water.”⁷ To meet that ambitious goal, more than a billion people will need to gain access to safe water and sanitation by 2015.⁸ This tremendous undertaking will require both international cooperation and attention to local needs. Public-public partnerships are uniquely suited to this task.

The reason that PUPs work so well is that they retain local, public control of existing water systems. Public utilities are responsible for most water and wastewater services worldwide.⁹ In 2010, only about 12 percent of the world’s population had water or sewer service that was privatized in some way.¹⁰ The nature of water service as a public good and natural monopoly favors the public administration of water systems.



The For-Profit Assault on Public Water

In the last 20 years, private multinational companies and market-oriented policy advocates have questioned the public nature of water. These proponents contend that market forces are the best way to allocate water's limited availability as a finite and vulnerable resource.

In 1992, for example, the Dublin Statement of the International Conference on Water and the Environment explicitly endorsed the commodification of water by including as one of its guiding principles that, "[w]ater has an economic value in all its competing uses and should be recognized as an economic good."¹¹ In 2009, the Organisation for Economic Co-operation and Development (OECD), the association of wealthy nations, released a report that promoted the use of market-based water pricing reforms to combat water scarcity, encourage water conservation and efficiently allocate water resources.¹² These efforts have aimed to force water into a market model that fails to accommodate water's unique, life sustaining qualities.

Although publicly owned water systems are predominant today, privately owned water systems were not uncommon a century ago, and mixed public-private water systems remain common in some countries. In the United States, private ownership of city water systems was prevalent until the late 19th century.¹³ In France, a combination of public ownership of water systems with private management of the systems' operation has existed since the mid-19th century.¹⁴

The so-called "French Model," which uses public-private partnerships (PPPs), became the preferred model for international development advocates and the international finance institutions that largely fund infrastructure projects in the developing world.¹⁵

Since 1989, the World Bank has promoted the privatization, or partial privatization, of water utilities. By 2002, the Bank had facilitated private sector participation investment of \$21.8 billion in 86 water supply utilities in the developing world.¹⁶ The Executive Vice President and CEO of the World

Bank's International Finance Corporation (IFC) told participants at the 2008 World Water Week Conference, "We believe that providing clean water and sanitation services is a real business opportunity."¹⁷

The global push to make profit from water provision has been economically and socially damaging. Private water operations tend to have higher prices and often skimp on needed infrastructure maintenance and repairs.¹⁸ When private water companies wrest control of public utilities, water prices tend to increase. Food & Water Watch examined the 10 largest U.S. water systems sold to private companies in the last two decades and found that after privatization, water prices typically increased at three times the rate of inflation. After about a decade of private control, household water bills had nearly tripled on average.¹⁹

The elite consensus around the so-called French Model has been shaken in recent years. Even Paris's water system, which was considered a flagship PPP, reverted to public operation at the beginning of 2010.²⁰ By reclaiming public control over its water, Paris saved €35 million (\$47 million) in the first year, allowing it to reduce water prices by 8 percent.²¹ Paris is not alone. From the Americas to Africa, privatized water systems are returning to public hands.

Public-public partnerships are filling the vacuum left by failed privatization efforts and PPPs. PUPs can leverage the expertise and resources of the public partners in a way that the PPPs were unable to deliver. Moreover, PUPs do not have the profit-maximizing incentive to raise water rates and ignore decaying infrastructure.²² Even researchers for the World Bank admitted that PPPs failed to lower water prices or increase investments in water infrastructure.²³ PUPs provide a positive, credible alternative model to water privatization that works for local communities.

How PUPs Work

Although PUPs were virtually unknown before the early 2000s, they have come to the fore in water provision. A literature review uncovered only two references to PUPs in 2000.²⁴ Nonethe-

less, transnational PUPs grew out of an older concept called “twinning.” In the years after World War II, many cities twinned with “sister cities” to build and encourage business and cultural links.²⁵ While international development support for water service shifted in form from twinning arrangements to public-private partnerships during the 1990s, the twinning concept provided the groundwork for future cooperative arrangements.²⁶

A public-public partnership is simply a collaboration between two or more public entities to provide or improve public services. Unlike PPPs, neither partner in a PUP expects to earn a profit from the collaboration. The goal is to improve efficiency, efficacy and equity.

Public-public partnerships employ three basic strategies to leverage the capacity of cooperating public utilities to increase efficiency, reduce operating and capital costs and lower the prices for consumers. First, two or more smaller utilities can band together in purchasing or service partnerships to capture the benefits of bulk purchasing and scale economies for operating and maintenance costs.²⁷ Second, nearby small utility systems can also partner to invest in infrastructure that can be shared between the systems. For example, rather than building two smaller water tanks, the nearby

utilities can share a single larger water tank that can lower the total investment costs for both utilities.²⁸ Third, public utilities can partner with more efficient public utilities or team up with non-governmental organizations or their own employees to cut costs and creatively address inefficiencies.²⁹ These partnerships allow the combined expertise of technicians, engineers and front-line employees to help maximize efficiencies and reduce costs.³⁰

PUPs have delivered a range of benefits to the partnering systems. Two of the leading proponents of PUPs, Public Services International and the Transnational Institute, list the strengths and achievements of PUPs as:

- “training and developing human resources
- technical support on a wide range of issues
- improving efficiency and building institutional capacity
- financing water services
- improving participation.”³¹

PUPs can work on a variety of scales. Some analysts describe PUPs by their scale, whether within nations, across national boundaries or between industrialized-country utilities and developing-world utilities.³²

The Platform for Public-Community Partnerships of the Americas

The Platform for Public-Community Partnerships of the Americas formed in 2009 to promote public-public partnerships — referred to as “public-community partnerships” or “public-communitarian partnerships” to reflect its emphasis on community involvement.³⁷ It seeks to strengthen public water services through collaboration among public utilities, cooperatives, labor unions, NGOs and other community organizations and members.³⁸

The Platform emerged out of an initiative of members of the Red VIDA (Inter-American Network for the Defense and Right to Water) to provide an alternative to the failed privatization schemes that had plagued the region over the preceding two decades.³⁹ The organization, nascent and growing, has supported initiatives in Peru, Uruguay, Bolivia and Colombia.⁴⁰ Among its projects included a PUP between the public water utilities in Arequipa, Peru, and Greater Buenos Aires, Argentina,⁴¹ and a PUP between a labor union and a community aqueduct in Colombia.⁴²

Uruguay — where voters passed a constitutional amendment in 2004 recognizing the human right to water and prohibiting private control of water services⁴³ — has been a key supporter of the Platform,⁴⁴ and an active participant. In 2010, for example, the state-owned national utility of Uruguay entered into a cooperation agreement with the public water and sanitation utility in Cusco, Peru, with the support of the public utility unions.⁴⁵

Intra-state PUPs, whether between two municipal water providers, a municipal agency and a national one, or between an agency and a union or non-governmental organization, provide flexibility and can build institutional capacity. For example, in Puerto Cortés, Honduras, service problems with the central government water utility Servicio Autónomo Nacional de Acueductos y Alcantarillados (SANAA) led to water rationing, and the poor service quality was exacerbated in 1993 when a tropical storm destroyed some infrastructure.³³ In response, the city formed a new metropolitan-level utility called Cortés Municipal Water Department (DAMCO) to oversee and improve the water system. Several years later, the city partnered with five civil society groups reflecting diverse community interests to form a new utility called Aguas de Puerto Cortés (APC) to operate the system.³⁴

The partnership has been staggeringly effective. In 1994, SANAA delivered water to 79 percent of residents but averaged only 14 hours of water service per day. By 1999, DAMCO covered 90 percent of the residents with 24-hour service. By 2007, APC had increased coverage to 98 percent with continued 24-hour service.³⁵ The civil society cooperatives have been credited with enhancing transparency and increasing trust in the utility.³⁶

Inter-state PUPs, whether North-North or South-South, can provide training and share best practices between two organizations with similar operating constraints. Developmental PUPs typically partner water providers in the Global South with water providers, unions or non-governmental organizations in industrialized countries. These partnerships strengthen developing-country water utilities as industrialized partners invest resources and expertise without extracting profits.⁴⁶

For example, in 2008, the U.S. Agency for International Development (USAID) initiated a PUP between the Wastewater Management Authority of Thailand, the city of Krabi, Thailand, and the King County (Washington State) Wastewater Treatment Division in the United States.⁴⁷ In 2009, experts from King County trained 45 managers and staff on best practices for wastewater treatment, which was

expected to improve water quality and public health not just in Krabi, but throughout Thailand.⁴⁸

Public-Public Partnerships Outperform Public-Private Partnerships

PUPs are a better option than PPPs, according to the results of recent studies. In 2010, the European Parliament compared public-public partnerships with public-private partnerships and found that PPPs tended to increase water prices, were often costly for municipalities and were particularly poor at providing service to low-income households.⁴⁹ In contrast, the efficiencies generated by public-public partnerships can be reinvested into the water system instead of being diverted into profits for shareholders.⁵⁰ Private operators may focus on short-term savings, whereas PUPs capitalize on broadly shared goals between two public entities to have a more lasting impact on the operation of utilities.⁵¹ The study found that the comprehensive PUPs approach involves the entire community — the municipality, ratepayers, community groups and the utility — which maximizes the accountability and equity of water services.⁵²

PUPs demonstrate a clear advantage over PPPs in practice. For example, in South Africa, a PPP in Nelspruit and a PUP in Harrismith both improved delivery of water service.⁵³ However, the PUP was more collaborative, involved less costly and more seamless negotiations and improved the long-term capacity of the utility.⁵⁴ While the PPP required four years of negotiation to implement,⁵⁵ the PUP was launched in only 18 months.⁵⁶ Moreover, because the PUP focused on capacity building, Harrismith was better equipped to run the system after the partnership. The PUP also seemed more successful at “engaging with the community, responding to complaints and concerns from customers and educating households.”⁵⁷

Similar results were found in a 2010 United Kingdom study of 46 partnerships, including both PUPs and PPPs, for municipal services (water services were not included in the study). The study found that PUPs were more effective, efficient and equitable than PPPs.⁵⁸ PUPs were more effective at

coordinating the skills, expertise and resources to achieve the broad mission of providing services to all households.⁵⁹ Not only were PUPs more effective, the study found that PPPs may actually lead to lower service quality.⁶⁰ Perhaps surprisingly, PUPs significantly increased efficiency in service delivery, while partnerships with for-profit firms did not.⁶¹ Although PPP proponents contend that privatization can save money for local governments,⁶² the study found that PUPs saved money while PPPs failed to reduce costs.⁶³ Less surprisingly, PUPs delivered services more equitably to everyone, including people and communities that are often excluded, underrepresented or disadvantaged.⁶⁴ In contrast, PPPs prioritized the bottom line over equitable delivery of services.⁶⁵

PUPs Successfully Deliver Advantages for U.S. Municipal Water Systems

The positive empirical performance of PUPs in the United States is consistent with the studies demonstrating the superior performance of PUPs in other parts of the world. In the United States, PUPs are far more common than PPPs for water and sewer service delivery. A large survey of U.S. cities and counties found that there were four times as many intergovernmental partnerships as PPPs for water and sewage treatment,⁶⁶ and since the early 2000s, the prevalence of PUPs has grown while for-profit private contracting has waned.⁶⁷

In small municipal water systems, PUPs successfully pool purchasing and services to generate major cost savings. In larger cities, water utilities have successfully partnered with public employees to re-engineer utility operations and produce cost savings for the water system. PUPs have amply demonstrated the benefits of a model that can be replicated and expanded to more localities to improve quality water service and save money.

The United States has a fractured system of water delivery and water sanitation. There are approximately 154,000 public water systems, including roughly 53,000 community water systems, in the country.⁶⁸ Eighty-two percent of these systems are very small, serving fewer than 500 people.⁶⁹

Compared to PPPs, PUPs appear to be more equitable for rural disadvantaged communities.⁷⁰ They enable small publicly owned systems to exploit economies of scale to reduce costs.⁷¹

Through purchasing cooperatives or agreements, utilities and other public entities can save time and money by bulk purchasing chemicals, equipment, fuel and other supplies and services.⁷² A few examples show how effective this can be for reducing costs:

- In Maryland, smaller communities around Baltimore pooled their purchases with Baltimore City to save \$1.5 million in 2010.⁷³ The Baltimore Regional Cooperative Purchasing Committee sought to provide a regional approach for purchasing water treatment chemicals, among other things.⁷⁴
- Garland, Texas, found that the use of cooperative purchasing agreements not only reduced costs but also accelerated procurement speed by four to six weeks.⁷⁵ For example, the city uses regional cost sharing and cooperative purchasing to more effectively and efficiently meet federal and state stormwater regulations.⁷⁶

Public water utilities can also realize savings when they work together on infrastructure projects and service delivery. Nearby systems can partner through joint capital projects or shared service agreements and reduce the costs. For example:

- Garden City, Michigan, expected to save more than \$30,000 upgrading water meters by contracting with the City of Westland instead of a private company.⁷⁷
- Canton Township, Michigan, also partnered with Westland. In a shared service agreement, Westland provided its neighbor with a qualified water system operator, which was necessary to comply with water quality regulations.⁷⁸ “In these difficult economic times, it is very important to share services whenever and wherever we can,” Phil LaJoy, supervisor of Canton Township, told the local newspaper, calling the agreement a “win-win situation for both of our communities.”⁷⁹

- The Town of Cape Vincent, New York, teamed up with the village of Cape Vincent to purchase a single water tank to serve both municipalities. This produced \$1 million in savings and reduced the average cost per household by about \$200 a year.⁸⁰
- The towns of Fairhaven, Marion, Rochester and Mattapoisett, Massachusetts, saved \$4.9 million (23 percent) by building a shared water treatment facility.⁸¹

Additionally, public-public partnerships between public water utilities and the public employee unions that operate the systems have worked well in the United States. These joint utility-worker partnerships engage worker expertise to increase system efficiency and reduce costs. For example:

- In Nashville, Tennessee, two private water companies sought to privatize the water system in 1998.⁸² Instead, the city partnered with the water workers' union to re-engineer water services to lower costs and pass much of the savings on to customers in the form of lower rates. By 2002, the utility-employee partnership saved a total of \$8.5 million and lowered rates.⁸³
- In 1998, the Miami-Dade County Water and Sewer Department (WASD) in Florida partnered with local unions to stave off privatization attempts.⁸⁴ Through the Partnership Optimizing WASD's Efficiency and Reengineering

(POWER) program, the department empowered its employees to develop and implement a number of innovative and cost-cutting initiatives, saving a total of \$35.5 million through 2010.⁸⁵ During fiscal year 2010 alone, workers implemented 16 additional efficiency projects that were projected to save an estimated \$1.6 million.⁸⁶ The savings did not appear to come at the expense of service quality. Since 2006, at least one of WASD's wastewater treatment plants has won the National Association of Clean Water Agencies' Gold Peak Performance Award in recognition of WASD's outstanding compliance record with wastewater treatment standards.⁸⁷

These three types of partnerships — pooled purchasing, joint infrastructure projects and utility-employee collaboration — have demonstrated the effectiveness and flexibility of PUPs arrangements in the United States. These systems have used creative public-public partnerships to protect public utilities, increase efficiency, save money for rate-payers and strengthen water systems.

PUPs as Foreign Aid Development Tool

Cross-border public-public partnerships have strengthened water systems in the developing world, improved public health and served as a foundation for more sustainable economic development. PUPs between water systems in industrialized countries and developing countries (North-South) or between utilities in developing countries (South-South) facilitate water system expansion and improve water quality in the developing world by sharing best practices and leveraging efficiency gains by coordinating technical expertise.⁸⁸ The industrialized country public utilities can provide the management and technical expertise that the World Bank and other international financial institutions seek when they encourage private company partnerships (often as a condition of providing development loans).⁸⁹ North-South PUPs can fill this role at lower cost and with better attention to the public mission of water systems than PPPs.⁹⁰

International PUPs have a track record of success in the developing world. In Africa alone, there have



been at least half a dozen cross-border utility partnerships — as well as several intra-state PUPs — since 1987.⁹¹ As noted previously, the Harrismith, South Africa, PUP successfully improved efficiency and expanded access to improved sanitation.⁹² In the long run, both administrative and managerial capacity-building benefited Harrismith.⁹³

The European Commission recognized the advantage of such cross-border partnerships by designating €40 million (\$54 million) in 2010 for the establishment of non-profit water and sanitation sector PUPs in African, Caribbean and Pacific Island (ACP) countries.⁹⁴ This grant program was designed to foster capacity development specifically to help achieve the Millennium Development Goals to improve access to water and sanitation services in the developing world.⁹⁵ Importantly, the EU guidelines specifically bar profit-making endeavors, thus precluding typical public-private partnerships from receiving grant funding.⁹⁶

These groundbreaking grants are a unique funding opportunity for water PUPs. Investment in capacity development improves the performance of public utilities.⁹⁷ This is especially important during economic downturns when governments face highly constrained budgetary environments and the potential for private investment creates an almost irresistible pressure to privatize public utilities. Many non-governmental organizations have supported the project, and some are urging the expansion of this model to nations outside the ACP countries.⁹⁸

The United Nations has taken a similar approach that can foster the creation of cross-border PUPs. In 2006, the Advisory Board on Water and Sanitation, established by Secretary-General Kofi Annan, launched a Water Operators Partnerships initiative to promote partnerships between water operators, regardless of whether they are public or private.⁹⁹ The UN action plan explicitly stated, “[W]e do not exclude private sector operators, NGOs or those who can contribute to the performance of public water undertakings on a not-for-profit basis.”¹⁰⁰ Although private water companies can enter these partnerships to gain a foothold for future for-profit

privatizations of public water operations in the developing world,¹⁰¹ the UN program is also a vehicle for public-public partnerships.

Conclusion

Municipalities and their waterworks face fiscal hardship. A persistent economic slump and protracted decline in the housing market has imperiled the finances of municipal governments across the United States. Private water service providers see this as an opening to take over public water operations.¹⁰² In May 2010, Don Correll, then-CEO of American Water, the largest publicly traded U.S. water utility company,¹⁰³ bragged to investors that the fiscal crisis coupled with the need for expensive water system improvements created golden opportunities for privatization. “So the idea of monetizing some assets,” he said, “something that was almost heresy some time ago, is something that we’re seeing far more receptivity to today and we are busy with that as well.”¹⁰⁴

But privatizing municipal water systems will not alleviate municipal fiscal problems over the medium and long-term. Privatization can cost more, as private companies often skimp on infrastructure maintenance, raise rates and reduce the quality of service. Crumbling infrastructure and service interruptions from broken water mains have encouraged many cities to abandon contracts with private water operators.¹⁰⁵ Other communities have exited public-private partnerships to save money. A survey of 18 U.S. localities that ended water partnerships with private operators since 2007 found that public operation was an average of 21 percent less expensive than private operation.¹⁰⁶

In contrast, PUPs have been more efficient, more responsive and cheaper.

We are now faced with a choice. We can continue to rely on the failed PPP model that gives control of our valuable water services to private interests, or we can use the proven PUPs model that works for everyone while keeping the water in public hands. The federal government should be implementing policies that facilitate PUPs in the United States.

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Food & Water Watch

1616 P St. NW, Suite 300

Washington, DC 20036

T: (202) 683-2500

info@fwwatch.org

www.foodandwaterwatch.org



Cornell University

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Global Labor Institute

ILR School • Global Labor Institute

Cornell University

16 East 34th Street, 4th Floor

New York, NY 10016

T: (212) 340-2840

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