

'Is corporatization friend or foe of quality public service provision? This book offers a thorough critique, providing a theoretical framework and a set of criteria for evaluating this new reform in public service delivery. *Rethinking Corporatization and Public Services in the Global South* is a must-read for policy-makers, practitioners and scholars of public service reform.'

Mildred E. Warner, Cornell University

'This book offers fresh thinking on corporatization and public enterprises and addresses important research questions in a multidisciplinary way. The analysis is grounded in new evidence and field research, making it essential reading for anyone interested in the benefits and risks of contemporary trends of governance reforms in the provision of essential public services.'

Massimo Florio, University of Milan

After three decades of privatization and anti-state rhetoric, government ownership and public management are back in vogue. This book explores this rapidly growing trend towards 'corporatization' – public enterprises owned and operated by the state, with varying degrees of autonomy. If sometimes driven by neoliberal agendas, there exist examples of corporatization that could herald a brighter future for equity-oriented public services.

Drawing on original case studies from Asia, Africa and Latin America, this book critically examines the histories, structures, ideologies and social impacts of corporatization in the water and electricity sectors, interrogating the extent to which it can move beyond commercial goals to deliver progressive public services. The first collection of its kind, *Rethinking Corporatization and Public Services in the Global South* offers rich empirical insight and theoretical depth into what has become one of the most important public policy shifts for essential services in the global South.



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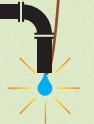
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Edited by David A. McDonald

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ABBREVIATIONS AND ACRONYMS

ACEA	Azienda Comunale Elettricità e Acque (Electricity and Water Municipal Enterprise, Rome, Italy)
AFD	Agence Française de Développement
AGWWAS	Alliance of Government Workers in the Water Sector
ANTEL	Administración Nacional de Telecomunicaciones (National Administration of Telecommunications, Uruguay)
ARESEP	Autoridad Reguladora de los Servicios Públicos (Public Services Regulatory Authority, Costa Rica)
ASDEICE	Asociación Sindical de Empleados Industriales de las Comunicaciones y la Energía (Industrial Telecommunications and Energy Workers' Union, Costa Rica)
ASEAN	Association of Southeast Asian Nations
AVRL	Aqua Vittens Rand Limited
CIRIEC	International Center of Research and Information on the Public, Social and Cooperative Economy
CNDAV	Comisión Nacional en Defensa del Agua y la Vida (National Commission in Defence of Water and Life, Uruguay)
CNFL	Compañía Nacional de Fuerza y Luz (National Power and Light Company, Costa Rica)
CODESA	Corporación Costarricense de Desarrollo (Costa Rican Development Corporation)
CPC	Carthage Power Company (Tunisia)
Danida	Danish International Development Agency
DMAE	Departamento Municipal de Água e Esgoto (Municipal Department of Water and Sewerage, Brazil)
EMACSA	Empresa Municipal de Aguas de Córdoba (Municipal Corporation of Water Supply to the City of Cordoba, Spain)
FFOSE	Federación de Funcionarios de Obras Sanitarias del Estado (Federation of State Sanitary Workers, Uruguay)
GIZ	Gesellschaft für Internationale Zusammenarbeit (German Development Agency)
GLC	government-linked company (Malaysia)
GOCC	government-owned and -controlled corporation (Philippines)

ICE	Instituto Costarricense de Electricidad (Costa Rican Electricity Institute)
IPP	independent power producer
LMWD	Leyte Metro Water District (Philippines)
MSP	Municipal Services Project
MYR	Malaysian ringgit
NEB	National Electricity Board (Malaysia)
NEP	New Economic Policy (Malaysia)
NPM	new public management
ONEA	Office National de l'Eau et de l'Assainissement (National Office of Water and Sanitation, Burkina Faso)
ONAS	Office National de l'Assainissement (National Office of Sanitation, Tunisia)
OPP	Outline Perspective Plan (Malaysia)
OSE	Obras Sanitarias del Estado (Sanitation Works of the State, Uruguay)
PHP	Philippine peso
PLN	Partido de Liberación Nacional (National Liberation Party, Costa Rica)
PN-AEPA	Programme national d'accès à l'eau potable et à l'assainissement (National Drinking Water and Sanitation Programme, Burkina Faso)
PPIAF	Public-Private Infrastructure Advisory Facility
PSIRU	Public Services International Research Unit
SMAT	Società Metropolitana Acque Torino (Turin Metropolitan Water Society)
SONABEL	Société Nationale d'Électricité (National Electricity Company, Burkina Faso)
SONEDE	Société Nationale d'Exploitation et de Distribution des Eaux (National Water Exploitation and Distribution Company, Tunisia)
STEG	Société Tunisienne de l'Électricité et du Gaz (Tunisian Electricity and Gas Society)
TNB	Tenaga Nasional Berhad (Malaysian electricity company)
TND	Tunisian dinar
UTE	Administración Nacional de Usinas y Trasmisiones Eléctricas (National Administration of Electrical Transmission, Uruguay)
WSP	Water and Sanitation Programme
XOF	CFA franc

1 | PUBLIC AMBIGUITY AND THE MULTIPLE MEANINGS OF CORPORATIZATION

David A. McDonald

After three decades of privatization and anti-state rhetoric, government ownership and public management are back in vogue. Governments around the world are taking back control of services previously sold or contracted out to the private sector, with the overall number of public enterprises around the world having ‘actually increased’ since the 1990s (Clò et al. 2013: 1). Even the Anglo-American heartland of privatization has seen more insourcing than outsourcing over the past decade, as public sector managers become increasingly frustrated with the ‘inadequate’ quality and scant cost savings of privatization, particularly in essential service sectors such as water and electricity (Warner and Hefetz 2012: 318; see also Cardwell 2013; Warner 2010).

Corporatization has proved to be one of the most popular forms of this renewed interest in government ownership. Sometimes described as agencies or parastatals, corporatized entities are fully owned and operated by the state but have a degree of autonomy from government. They typically have a separate legal status from other public service providers and a corporate structure similar to publicly traded private sector companies, such as a board of directors. Water and electricity utilities are common examples, although the practice extends to a much wider range of goods and services, including airports, childcare, universities, forests, hospitals, transport and manufacturing (Aivazian et al. 2005; Bilodeau et al. 2007; Fink 2008; Meyer 2002; Moynihan 2006; Nelson and Nikolakis 2012; Oum et al. 2006; Preker and Harding 2003; Sumsion 2006; Zatti 2012).

The primary objective of corporatization is to create arm’s-length enterprises with independent managers responsible solely for the operation of their own immediate organization, and where all costs and revenues are accounted for as though it were a stand-alone

company. This ring-fencing – or *agencification* as it is often called – is intended to create greater financial transparency, reduce political interference, and strengthen managerial accountability within relatively autonomous service entities. It can also serve to enhance the borrowing status and credit ratings of agencies, less encumbered by complex intra-governmental finances.

More controversially, corporatization has been used to create market-friendly public sector cultures and ideologies. Since the late 1970s, corporatized public utilities have been run increasingly on market-oriented operating principles such as financialized performance indicators, cost-reflexive pricing and competitive outsourcing. This is part of a larger neoliberal trend towards new public management, often with the express intent of outright privatization once the profit potential of a corporatized entity has been realized (Hood 1991; McDonald and Ruiters 2012a; Moynihan 2006; Osborne and Gaebler 1992; Shirley 1999). As one observer notes with regard to the corporatization of state-owned enterprises (SOEs) in China, ‘such reforms represent a policy alternative for countries seeking to restructure SOEs without massive privatization’, with the added advantage of preparing for ‘eventual privatization’ (Aivazian et al. 2005: 791). The Organisation for Economic Co-operation and Development’s definition reinforces this commercialization trajectory, arguing that stand-alone SOEs should not ‘contradict or discourage countries from undertaking any privatisation policies or programmes’ (OECD 2005: 9). In other words, corporatization may be ‘public’ in name, but not necessarily in character, raising questions about the substance and nature of state ownership of essential services, and how it differs from the marketization objectives of more direct forms of private sector participation.

Not all corporatizations have been carried out with this commercial imperative in mind, however. The analogous administrative structure of corporatized entities belies more diverse material and philosophical undercurrents, from proto-privatization to distributive welfarism to contemporary models of socialism, some of which have been remarkably progressive. In this regard corporatization is little more than an empty institutional vessel into which very different ideological fluids can be poured.

One of the objectives of this book is to better understand the ideological diversities of corporatization, and what might make for

a more progressive and equity-oriented form of public service delivery. Our focus is on water and electricity services in countries in the South, but the lessons have broader geographic and sectoral relevance and will hopefully contribute to a wider discussion of this important international trend. The book is also an attempt to deepen the empirical record on corporatization in Africa, Asia and Latin America. Comparatively little critical literature on the topic exists in these regions, and what has been undertaken tends to be inconsistent in its conceptual and methodological underpinnings, making it difficult to compare findings across place and sector.

The timing of the research is also significant given that corporatized entities are expanding throughout the South, at all levels of government, and across sectors. It is most prevalent in market economies (the focus of this book) but contemporary socialist states such as Cuba and Venezuela have created stand-alone public enterprises as well (Alvarez 2006; Benzing 2005; Bremmer 2009; Chavez and Goldfrank 2004). China is arguably the most active on the corporatization front, converting thousands of its state-owned enterprises into arm's-length agencies (Aivazian et al. 2005; Ocko and Campo 1994; Ramesh and Araral 2010), although for logistical reasons the experience of corporatization in that country was not included in our empirical study.

We are also interested in corporatization because it is seen by many as an 'alternative to privatization'. This is particularly true in countries in the South where private sector investment in essential services has not materialized as expected, and where resistance to privatization has been strong (Hall et al. 2005; Mansfield 2007; Spronk 2007). Private sector participation in services in Africa, Asia and Latin America has not disappeared, but governments and policy advisers such as the World Bank have become less bullish about the potential for private sector management and investment in core services, especially in lower-income countries where the investment risks are high (Bakker 2007; Bayliss 2002; Roland 2008). As Ramesh and Araral (2010: 1) note: 'States are back, hesitatingly, even unwillingly, and it is widely accepted that they have no option but to rescue the market from itself.'

Corporatization has not been the only response to this market failure but it is widespread and could become the dominant form of service delivery in countries in the South in the near future,

if it is not already. Corporatized entities currently ‘make up the bulk of the public sphere in many Western European countries’, making it essential to better understand ‘the governance of this increasingly important class of hybrid organizations’ (Kickert 2001: 135; see also Bach et al. 2012; Dan et al. 2012; Florio 2013; Pollitt and Talbot 2004).

Teasing out what is local and what is global in this trend is another important challenge. There is much that is universal about corporatization – particularly its neoliberal variant – but differing social, political and economic contexts can result in diverse operational realities. There is no singular form of corporatization and no simple mode of analysis for explaining how it works (or not). What counts as a success or failure in one place or sector may be seen very differently in another. This is not to abandon any notion of shared norms or objectives, but simply to acknowledge the complexity and ambiguity around corporatization in practice. More than any other public service model, corporatization raises conflicting and complex questions about the meaning of ‘public’ and the nature of the state in the delivery of essential services in countries of the South.

State of the debate

Central to our inquiry is the question of whether corporatization should be seen as a progressive form of public service delivery or, by contrast, as a precursor to deeper forms of commercialization. The literature is divided on this question. Writings in favour of corporatization tend to celebrate market-based management as an effective way to depoliticize public services and improve efficiency through marketization (Hood 1991; OECD 2005; Osborne and Gaebler 1992; Preker and Harding 2003; Shirley 1999). Those opposed tend to see corporatization as the proverbial wolf in sheep’s clothing, offering a façade of public ownership while propagating market ideology and advancing corporate accumulation; a form of privatization without the political and financial risks associated with direct private sector participation (Blum and Ullman 2012; Gentle 2009; Magdahl 2012; Van Rooyen and Hall 2007).

Much of the debate has focused on countries in the North, but the literature on corporatization in the South is equally bifurcated. The World Bank is arguably the most prolific and influential

pro-corporatization advocate in this regard, offering up textbook rationales for why it should be done, along with pecuniary incentives for corporatized reforms throughout Africa, Asia and Latin America (Andres et al. 2011; Kessides 2012; Marin et al. 2010; Preker and Harding 2003; Shirley 1999; World Bank 2006).

Opponents, meanwhile, point to the especially pernicious effects of corporatization in low-income countries, where publicly owned service providers can prove to be even more commercially oriented than their private sector counterparts, cutting off services to poor households, building multi-tiered service systems, aggressively pursuing private sector contracts outside their home country, and valorizing new moral codes of conduct around the ‘responsibility to pay’ for market-oriented services (Blum and Ullman 2012; Gentle 2009; Magdahl 2012; Van Rooyen and Hall 2007). These experiences have persuaded many that corporatization is little more than a ruse for commercializing service delivery in the South while deceiving people into thinking that the crisis of privatization has been averted.

And yet, research also reveals positive examples of corporatized service providers in the South where equity, accountability, sustainability and other progressive indicators of ‘publicness’ are taken seriously, suggesting that not every corporatization is created equal. Preliminary investigations for the case studies in this book, for example, found corporatized utilities that appeared to have bucked the neoliberal trend to varying degrees, openly resisting marketized forms of public management. The selected cases are not the only such examples in the world today, but they offer detailed, comparative insights into how and why some corporatized utilities in countries of the South have managed to retain an equity-oriented, and less commercialized, public ethos.

In this regard, the cases in this book demonstrate the need to move beyond the dualistic opposition that plagues much of the debate on contemporary public sector reform, labelling models as *either* ‘empowering the public’ or ‘just another means of strengthening neoliberal rule’. Following Newman and Clarke (2009: 132), we attempt to offer a more nuanced reading of what is actually happening on the ground, ‘suggesting a number of ways in which publicness is being disassembled and reassembled’.

Having said that, we cannot ignore the ongoing – and shape-shifting – influence of the market, particularly in countries of the

South where the power of international financial institutions and multinational corporations remains disproportionately strong in policy-making circles. The ability of local politicians, workers, community organizations and other anti-commodification groups to resist neoliberal reforms exists – and is remarkably strong in some places – but even the most robust examples of progressive corporatization in this book reveal just how fragile these alternative ideologies and practices can be, haunted by forces of marketization from within and without. Theorizing these neoliberal pressures, without abandoning context and agency, is critical to understanding the potentials and limitations of corporatization on the ground.

Added impetus for our research came from the need for more explicit and consistent research methodologies on corporatization in the South. Pro-corporatization literature tends to rely on a narrow set of financially oriented performance criteria that pay little attention to questions of equity and affordability. Anti-corporatization research tends to be critical of these restrictive financial criteria but does not always specify what the alternatives might look like or how they might be evaluated. We do not claim to resolve these methodological challenges here, but our case studies do benefit from a more explicit set of analytical tools than have been employed in the comparative critical research on corporatization to date (more on this below).

Corporatization in historical perspective

In some respects, the concept and practice of corporatization are as old as the state itself. The Achaemenid Empire of Persia, for example, was dominated by state enterprises with some autonomy from political rulers, run as ‘professional’ entities and renowned for their ‘efficiencies’ (Farazmand 1996: 2–3). Similar patterns can be seen in other ancient and medieval regimes, with varying degrees of success. Sweden began to ‘structurally disaggregate the provision and production of public services’ as early as the seventeenth century, for example, and has employed modified versions of this arrangement ever since (Moynihan 2006: 1034).

So too did the Soviets experiment with the corporatization model, creating some 750,000 arm’s-length public enterprises while in power. Communist China has established more than one million. Many of these entities have since been sold or outsourced but some of the

largest and most strategic remain as stand-alone public agencies in both countries (Farazmand 1996; Painter and Mok 2010). Widespread experiments in ‘municipal socialism’ from the late 1800s to the 1940s in Europe and the United States also saw extensive corporatization, as local authorities took over fragmented private services and/or created new public utilities as autonomous corporations. Everything from gas works to restaurants to hospitals was run as a corporatized public entity (Booth 1985; Graicer 1989; Radford 2003).

Even fascist states employed the corporatization model. In Italy, Mussolini created the Istituto per la Ricostruzione Industriale (Institute for Industrial Reconstruction), which, ‘as of the late 1930s ... led to the Italian state owning a bigger share in the economy than in any other country except the USSR’ (Baker 2006: 229). Hitler undertook similar initiatives in Germany, building an expanded range of new state-run public services intended to improve ‘the folk’ and boost public welfare (at least for those deemed sufficiently ‘Germanic’). The state was argued to be the best institution to oversee the moral obligations of public service, regarded as essential to the generation and protection of a disciplined and good society (although the Nazis were then among the first to privatize such public entities, starting in the late 1930s) (Bel 2009; Guérin 1938; Schweitzer 1946).

In other words, the creation of arm’s-length, state-owned entities is neither historically specific nor ideologically predetermined, with the rationale for public enterprises having differed dramatically across place and time. The one common feature is their quasi-independent cadre of professional bureaucrats tasked with managing a delineated set of activities, buffered to some degree from direct political intervention. Whether the aim is to sustain a monarchical elite, advance a racist agenda, build a socialist society, or promote market ideologies, the creation of arm’s-length public enterprises can lend itself to radically different political objectives.

Even within market economies there are differing motives at play. As noted earlier, some policy-makers see corporatization as a first step towards privatization. Some see it as an opportunity to commercialize services without the political and economic risks of direct private sector participation. Others are committed to Keynesian forms of welfarism, while others still see corporatization as a form of state capitalism.

The cases in this book are illustrative of these eclectic market rationales and motivations. The creation of the Instituto Costarricense de Electricidad (the electricity utility in Costa Rica) in 1949 grew out of the import-substitution model popular in Latin America at the time, and has reformed along with the social democratic policies of the Costa Rican state. Tunisia's electricity provider – Société Tunisienne de l'Électricité et du Gaz – was a product of post-independence nationalization, followed by tight public management under the authoritarian regime of Zine El Abidine Ben Ali; it is now grappling with the rapid changes of the so-called Arab Spring. In Malaysia, the Tenaga Nasional Berhad dates back to the creation of the Central Electricity Board (CEB) by British colonial managers, also in 1949, and is part and parcel of a post-war economic recovery effort to counter communist insurgency in rural areas, modified again in the 1980s and 1990s in response to changing post-independence politics.

In the water sector, our case studies include Obras Sanitarias del Estado, which was transferred to the Uruguayan government from a private British firm in 1952 in partial payment of Britain's debts following the Second World War, and has survived dictatorships, neoliberal governments and the current left-wing coalition. In the Philippines the corporate nature of water services was established in 1955 with the passage of the Republic Act, creating the National Waterworks and Sewerage Authority, which later gave way to a more decentralized system exemplified by the Leyte Metro Water District. And finally, the Office National de l'Eau et de l'Assainissement emerged as a corporatized water service provider in Burkina Faso with the nationalization of a private company in 1977, and is now influenced strongly by the World Bank and other international donors.

In the face of such diversity it makes little sense to speak of 'corporatization' as a single model in market economies in the South: 1940s Costa Rica bears little resemblance to 1990s Malaysia or to contemporary Burkina Faso. A simplistic rubric also conceals the multiple ways in which policy-makers, managers and employees of corporatized entities transcend grand narratives of public sector reform, and disregards the varied behaviours within 'actually existing' corporatizations.

In this regard, the book highlights the heterogeneity of corporat-

ized entities in the global South, and offers concrete examples of the potential for a public ethos that goes beyond the narrow confines of new public management (for similar accounts in Europe, see Lobina and Hall, this volume). The case studies document how public servants can escape the logic of commodification (to varying degrees) and how public ownership and management can be used as a platform to leverage relatively equitable and effective service delivery in a global market economy.

And yet, the book also tells a cautionary tale. In each of the case studies powerful neoliberal forces percolate near the surface, threatening to undermine progressive gains in service delivery. Despite claims that new public management has run its course, or that neoliberalism more generally is on the wane, corporatization remains heavily influenced by both. Recognizing and theorizing this impact are essential to understanding the limits and opportunities of public ownership in a marketized global economy.

Equally important is the need to pay attention to problems with ‘traditional’ forms of service delivery. Our case studies also reveal patterns of top-down, paternalistic forms of welfarism with little in the way of public engagement. This is not to reject these models outright, but we must not wax nostalgic about Keynesian-era public management systems that have at times been exclusionary, opaque and blindly productivist in their orientation (Esping-Anderson 1990; Newman and Clarke 2009).

Neoliberal corporatization

The diversity of corporatization notwithstanding, it is useful to outline the contours of what I argue to be the most dominant form of public enterprise today, that of the neoliberal corporatized utility. As with any typology, the intent is not to suggest that there is a single, inescapable neoliberal model of public ownership, but rather to highlight general characteristics and trends to better understand the larger political, economic and ideological context in which corporatization is taking place.

A useful starting point is the debate over the merits of new public management (NPM) as an analytical concept. Despite widespread use of the term, some have argued that NPM is too broad and ambiguous to be of theoretical use. Hughes (2008: 3, 6), for instance, calls it a ‘mythology’, arguing that the concept exists only ‘in the

eyes of critics’, suggesting it ‘has no theorist, no doctrine, no agenda and no program. Its only utility has been as a punching bag for public administration academics antithetical to the idea of public management reform ... used more to scare than as something that is real or can be analyzed ... [B]etter not to use the term at all.’

Hughes goes on to argue that there are no paradigmatic examples of NPM, and that it has not penetrated as deeply or as smoothly into public sector thinking and practice as some of its critics suggest. The cases in this book attest to this, as do studies in other parts of the world, making it clear that ‘ideal type’ NPM does not exist in practice (Nor-Aziah and Scapens 2007; Pollitt 2006).

Pollitt and Bouckaert (2011: 11, 14–15) agree, calling NPM ‘something of a mirage’. For them, NPM has run its course, with the most recent public trend being that of ‘modernizers’ – such as Finland, France, Italy, the Netherlands and Sweden – which ‘place greater emphasis on the state as *the* irreproducible integrative force in society, with a legal personality and operative value system that cannot be reduced to the private sector discourse of efficiency, competitiveness and consumer satisfaction ... a distinctive public service’ (ibid.: 98–100, emphasis in the original). Countries that still practise new public management (a largely Anglo-American cluster that includes the UK, the USA, Australia, Canada and New Zealand) are portrayed as being stuck in the past, continuing to ‘see a large role for private sector forms and techniques in the process of restructuring the public sector’.

While it may be true that ‘core’ NPM has faded in popularity, new forms of public administration are not that different at heart, with neoliberalism casting a much longer shadow than these authors suggest. Much of what Pollitt and Bouckaert refer to as ‘modernizing’ would be better characterized as revised forms of NPM: a softer, less aggressive form of commercialization that grants a stronger role for the state than was being called for in the 1980s and 1990s, but one that does little to alter mainstream public administration’s commitment to commoditization and its faith in the market. The hyper-commercialized NPM of Margaret Thatcher’s era may have lost its supremacy, but to suggest that its central ideals about market efficiency no longer dominate public management discourse and ideology is simply incorrect.

As with neoliberalism more generally (Aalbers 2013; Harvey 2005;

Peck 2010), NPM has undergone significant change, morphing over the years to respond to its own internal contradictions and limitations. As certain features of NPM have become difficult to sustain in the face of resistance or failure (e.g. outright privatization, full cost recovery, drastic cutbacks in spending), modifications have been made on these themes (e.g. in the form of public-private partnerships, pre-paid meters, 'self-help' programmes). It is exactly this shifting nature of NPM which is one of its defining characteristics, with modified language and modes of practice emerging in response to crises, as variations on the original leitmotif. The NPM leopard may have changed its spots, but the underlying objectives of marketized public ownership remain strong in governments around the world today.

A review of what Pollitt (2002: 474) has characterized as the most commonly accepted features of NPM reveals just how little has actually changed: a shift in management systems away from 'inputs and processes' towards results-based management; a continuing trend of performance measurements that prioritize market-based indicators and standards; a 'preference for more specialized, "lean", "flat" and autonomous organizational forms rather than large, multi-purpose, hierarchical bureaucracies'; and a 'widespread substitution of contract or contract-like relationships for hierarchical relationships' resulting in the 'use of market or market-like mechanisms for the delivery of public services'. Despite Pollitt's assertions that governments have moved on, these features remain strongly embedded in public management, resulting in an ongoing trend towards what he feared most: 'a broadening and blurring of the "frontier" between the public and private sectors' and a 'shift in value priorities away from universalism, equity, security and resilience towards efficiency and individualism' (*ibid.*: 474).

As a result, renewed interest in 'the state' obscures as much as it reveals. If public agencies are no longer ridiculed by pro-market advocates it is because they are increasingly seen as the preferred vehicle for private capital accumulation, enhancing the institutional and infrastructural frameworks for market growth in ways that privatization could not. Neoliberalism today draws as much on John Maynard Keynes as it did on Milton Friedman, looking to the state as an essential moderator of market cyclicity and a broker of ideological reform, making the current vogue for

government intervention as predictable as its inevitable shift back to a more laissez-faire discourse once markets have been restabilized and capital accumulation patterns restored (Aalbers 2013; Crouch 2009, 2011).

In this respect, it could be said that ‘We are all neoliberals now’ (Harvey 2005: 13), a play on former US president Richard Nixon’s quip, in the 1960s, that ‘We are all Keynesians now.’¹ So hegemonic have the language and practice of neoliberalism become that it is virtually impossible to find governments or government agencies that do not embrace its principles. Public hospitals and universities promote their ‘brand’. Cities speak of being ‘entrepreneurial’. Countries write legislation that refers to ‘customers’ instead of citizens. The ethos and evaluation of public service have altered so dramatically over the past thirty years that it is hard to remember what a less marketized form of public service delivery looked and sounded like, let alone bring it back (Newman and Clarke 2009).

Contemporary Sweden illustrates the point, with no less a pro-market voice than *The Economist* (2013: 5) touting it as the ‘next supermodel’ of public sector governance, noting, as a case in point, that ‘the Swedes have done more than anyone else in the world to embrace Milton Friedman’s idea of educational vouchers’ while at the same time the country appears statist in its orientation. Francis Fukuyama (2011), another market stalwart, speaks enthusiastically of ‘getting to Denmark’, by way of illustrating what he sees as the need for a strong and engaged state to be competitive in today’s global economy; this is a significant discursive shift from his previous triumphalist language about state failure and the superiority of market forces. But the fact that these same voices continue to argue for a larger suite of neoliberal policies – such as liberalization, deregulation, export orientation and inflation targeting – suggests that it is more a case of *neo-neoliberalism* than one of *post-neoliberalism*, serving to strengthen and broaden neoliberalism’s grip on a wide spectrum of policy actors (Saad Filho and Johnston 2004).

This is not to say that it is impossible to escape these world views; quite the opposite. It is inevitable that the neoliberal practices and narratives of new public management will be challenged. As the limits and contradictions of market reforms reveal themselves, alternative forces emerge to resist their inequities. We can therefore acknowledge that ‘the imperative towards opening up public services

to markets and market-like principles remains strong', while at the same time insisting that 'wherever markets are being made, there are other voices and other discourses that challenge the appropriateness of market relations – questioning their subjection to profit rather than need, pointing to the risks of corruption and collusion, demanding that values other than market value are relevant, or insisting on the superiority of morals, ethos and solidarity to individualism and self-interest' (Newman and Clarke 2009: 75–6).

These voices are the *counter-publics* that emerge from the contradictory spaces of neoliberal corporatization (Olesen 2010), where the logic of commodification has run amok, and where unions, community groups and (sometimes) bureaucrats are pushing back. In post-apartheid South Africa, for example, corporatized institutions such as Eskom (electricity) and Rand Water have proved themselves to be hyper-commercial entities, cutting off services to millions of low-income households for relatively minor payment infractions, introducing pre-paid meters that limit access to services, and outsourcing tasks to private firms. These agencies have been the target of sustained protest by community groups demanding a different form of public service (Alexander 2010), but their ambiguous 'public' status has confused and divided opposition among South Africans otherwise opposed to privatization (see Chapter 9 in this volume for a more detailed discussion).

Being alert to these tensions within new public management is important. No two cases of neoliberal corporatization will look exactly the same, and no two patterns of resistance will be identical, but there are powerful common features of market-based forms of agencification that will make the creation of equitable and sustainable corporatized service delivery difficult in a global market economy. Three trends deserve particular attention.

Commoditization The emphasis on monetary performance in neoliberal corporatization has had particularly corrosive effects on the publicness of services. The trend towards performance-based salaries for senior managers and other narrow pecuniary incentives often leads to a change in management ethos, with a focus on short-term financial bottom lines, creating publicly owned and operated entities that behave like private companies, mimicking business discourse and practices and establishing systems of competition that can serve

to ‘hollow out’ the state (Dunsire 1999; Stoker 1989; Taylor-Gooby 2000). The outcomes can be a heightened sense of commercialization, multi-tiered services that rely on ‘responsibility to pay’ (rather than ability to pay), and a service agency that caters to the demands of an increasingly fleet-footed global elite.

Like converts to a religion, corporatized managers can adopt overly zealous market-oriented styles, languages and techniques, often pushing through policies and actions that private companies would dare not implement (such as widespread water cut-offs to low-income families). Sometimes this behaviour is adopted to impress superiors. Occasionally it is done to protect jobs from outsourcing or privatization. Increasingly it is because managers believe in these market-based incentives (owing in no small part to the slick training programmes offered by neoliberal organizations such as the World Bank). Whatever the cause, the outcome has been a growing emphasis on raising revenue through cost-reflexive pricing and reducing expenses via outsourcing and other discreet forms of cost-cutting.

The political effect on service users can be just as dramatic. Consumers are increasingly seen (and come to see themselves) as ‘customers’ instead of ‘citizens’, with services seen as commodities to be bought and sold like any other product on the market, dissociated from broader public goods and concealing the complex social and labour arrangements behind their exchange price (Clarke et al. 2007). An illustration of this last point is the contentious debates over cost-reflexive pricing. Market-oriented public managers often argue that the only way to truly ‘appreciate’ a service is to pay its full price. To illustrate with the case of South Africa once again, post-apartheid policy-makers and bureaucrats have used the public status of service providers such as Eskom and Rand Water as a bully pulpit of sorts, haranguing low-income households about their ‘moral responsibility’ to pay for services, despite the fact that prices for water and electricity are highly skewed in favour of industry and high-income households and service quality remains poor in most low-income areas. No less a moral authority than Nelson Mandela has been used to rebuke these households for a so-called ‘culture of non-payment’, blaming them for thwarting efforts to roll services out to a broader number of ‘customers’.² This ‘Mandela factor’ may be unique to post-apartheid South Africa

but it serves to illustrate the deep penetration of commodified thinking around essential services such as water and electricity in 'public' service agencies.

Myopia By definition, all forms of corporatization create silos of activity, but this trend is exacerbated under neoliberalism with its emphasis on narrow financial performance criteria. Under 'traditional', aggregated forms of welfarist public administration, infrastructure projects were typically brought together under horizontally organized public service departments. With the advent of neoliberal marketization, they have been legally and physically separated from one another, told not to 'waste' resources on other departments, contributing to a blinkered and myopic approach to service planning. Water and sanitation personnel, for example, often make decisions about long-term infrastructure investments in their own units, independent of planning decisions in public health or waste management. As a result, corporatized entities can operate in splendid isolation from one another, even when they may share the same building and equipment, and service the same jurisdictions.

The same myopia can apply to workers. Forced to operate in vertically oriented administrative structures, front-line staff toil in isolation, sometimes in separate unions, making worker coordination and solidarity across public services difficult (which can, of course, be a neoliberal strategy in and of itself). These managerial and accounting systems are intended to reveal the 'real' costs of running a service, allowing managers to identify areas of financial loss or gain otherwise hidden in the intricate accounting systems and cross-subsidization mechanisms of a more centralized production and distribution system. In this process, ring-fencing can deny synergistic gains that may be had from collective planning (Bollier 2003; Whincop 2003).

Cross-subsidization across sectors also becomes difficult in this context. Where revenues from one service may have supported non-revenue-generating services such as libraries or primary healthcare, managers are now disinclined to share resources, and elected officials may no longer have the power to demand their transfer. Corporatized entities become fiefdoms, with protective barriers erected in the name of autonomy. Competition within and across service units becomes valorized, typically requiring deregulation of monopolistic

state control and allowing multiple service providers to compete for sub-contracts based on price.

Productivism Neoliberal corporatization can also result in a fixation on growth. An expansion of water and electricity is imperative in many places, of course, but the fetishization of growth distracts us from the challenges of over-consumption, not to mention the wildly unequal distribution of services in Africa, Asia and Latin America. Corporatized service agencies are inclined to behave like any other private firm in this regard, promoting service expansion in industrial and wealthy neighbourhoods in the hopes that revenues will trickle down to finance service delivery in lower-income areas, contributing to the development of mass consumption economies.

Large-scale, high-tech networked infrastructures are key to this expansionist mentality, with market-oriented, cost-benefit environmental analyses employed to justify the advantages of creating a larger service pie rather than dividing up or reorienting the existing one. In this respect, corporatized services are part of a capitalist machinery geared towards ‘creating new infrastructure for market-oriented economic growth’ (Brenner and Theodore 2002: 362).

A progressive future?

But enough of the negatives. As much as this book is a cautionary tale about neoliberal corporatization, it is also an attempt to understand how and why some corporatized entities have managed to provide relatively progressive public services while others have not. None of our case studies has escaped the clutches of new public management entirely, but they offer concrete evidence of the potential for arm’s-length public entities to prioritize objectives other than cost recovery and commodification.

In the case of ICE (the electricity utility in Costa Rica) the commitment to public service has a long history, embedded in the social democratic nature of the Costa Rican state. For decades, ICE has been one of the most efficiently run companies in all of Latin America, public or private. The specific characteristics and historical evolution of the *modelo solidario* (solidarity model) are key to understanding the scope and prospects of this particular form of corporatization. ICE has occupied an important place historically in the configuration of national social identity, and has been shaped

by specific political, social and economic conditions. Costa Rican citizens are aware of the state's contributions to national development, and have broadly resisted previous attempts to privatize public enterprises. ICE, in particular, is perceived as an essential driver of social and economic progress, and has been at the centre of some of the most important social mobilizations of the past.

Our other Latin American case study comes from Uruguay. Obras Sanitarias del Estado (OSE) has been providing high-quality, affordable, nearly universal water services to the country's population for more than sixty years. OSE has achieved one of the highest coverage rates for water and sanitation in the region, and Uruguayans consider it a point of national pride that it was the only country on the continent not to be affected by the cholera epidemic in the late 1990s. OSE's unionized workforce is also involved in decision-making to some degree, and the company is considered to be run effectively, transparently and efficiently for the most part.

Our case studies from Asia and Africa are not quite as encouraging but still cut against the grain of powerful neoliberal trends. In Malaysia, we examined the state-owned and -operated electricity provider Tenaga Nasional Berhad (TNB), which, like many Asian electricity utilities, was consolidated under state control after the Second World War. TNB has introduced some private sector participation, but has managed to resist much of the neoliberal pressure for unbundling and commercialization that have altered electricity utilities elsewhere on the continent. For TNB, public objectives have remained at the forefront of decision-making, with a strong central government making important investments in long-term service expansion *and* equity. Access is improving and service quality is generally good.

In the Philippines we looked at the Leyte Metro Water District (LMWD), which has benefited from a national effort to create more institutionally coherent water systems. LMWD has created partnerships with other public service providers and actively shares resources and knowledge within the public sector. It has taken environmental sustainability and watershed management seriously, and to some extent issues of equity as well, seeing water as an essential service for poverty reduction in the region.

North Africa provides a different sort of corporatization history, as evidenced in our study of Tunisia's state-owned electricity

provider, which benefited from massive investments by the autocratic regime of Zine El Abidine Ben Ali, but suffered from corruption and a lack of transparency. The provider is now grappling with pressures to democratize its governance structures. Nevertheless, a commitment to state service provision still pervades the public sector and has contributed to widespread electricity coverage and considerable capacity.

Sub-Saharan Africa, on the other hand, has generally not had the same levels of investment in human resource development or infrastructure to create strong public service providers. The fact that most sub-Saharan African states remain beholden to international financial institutions such as the World Bank makes it even more difficult to break out of the neoliberal mould. And yet, even in one of the poorest and driest countries in the world – Burkina Faso – we see a corporatized water service provider that has fought off privatization and is managed by (some) senior staff working to maintain a strong public ethos in its service provision.

These are not the only, or even necessarily the best, pro-public corporatized entities in the global South today, but they demonstrate the potential for non-neoliberal corporatization. Learning from their strengths (and weaknesses) will hopefully help better understand the possibilities for progressive corporatizations in the future, and the mistakes of the past.

Research methods

What constitutes the rest of this chapter is a review of the methodologies employed in our evaluation of each case. For if we are to claim that public enterprises can be more ‘progressive’ than typical market-based corporatization suggests, it is essential to have a research method that allows for transparent and comparative study across different places and sectors.

The cases in this book were drawn from a previous study of ‘alternatives to privatization’ in the water, electricity and health sectors in Africa, Asia and Latin America (McDonald and Ruiters 2012b). What follows is a summary of the research methods employed in that investigation, updated and modified to accommodate the specificities of corporatization.

Our starting point was to have case studies from all three continents to give the book as broad a comparative reference as possible,

TABLE 1.1 List of case studies

Water sector	Electricity sector
Leyte Metro Water District (LMWD) – Philippines	Instituto Costarricense de Electricidad (ICE) – Costa Rica
Obras Sanitarias del Estado (OSE) – Uruguay	Société Tunisienne de l'Électricité et du Gaz (STEG) – Tunisia
Office National de l'Eau et de l'Assainissement (ONEA) – Burkina Faso	Tenaga Nasional Berhad (TNB) – Malaysia

with candidates selected from the most promising examples of 'progressive' forms of corporatization found in our initial mapping exercise (see Table 1.1). Not surprisingly, the largest number of potential candidates was found in Latin America, where the establishment of autonomous, municipal service providers was part of the expansion of the developmentalist state in the early and middle decades of the twentieth century, and where there has been a concerted and extensive period of experimentation with 'post-neoliberal' public policy over the past ten to fifteen years with New Left governments (Cameron and Hershberg 2010; Chavez and Goldfrank 2004; Weyland et al. 2010).

As noted above, progressive examples of corporatization from Africa and Asia were less easy to identify, with sub-Saharan Africa being the most desolate in this regard, as illustrated by the compromised example of Burkina Faso in this volume (see also Bayliss and Fine 2007; McDonald 2009; Pigeon 2012). Nevertheless, these regions remain heavily embroiled in anti-privatization struggles and debates, with a growing interest in and awareness of the possibilities of pro-public service options.

In terms of sectors, the case studies were limited to water and electricity provision, in part because these services lend themselves relatively easily to corporatized ring-fencing (owing to their status as 'natural monopolies' with clear revenue and expense streams), and in part because they are essential services that have been flashpoints for debates about corporatization and privatization in the past. As a result there are sector-specific outcomes that are unique to water and electricity, but it is hoped that the findings will be of relevance

to readers interested in similar trends in other sectors as well, such as healthcare, education, telecommunications and transport.

Researchers for the case studies were drawn from a network of scholars and activists working on public service reforms, in association with the Municipal Services Project, many of whom were involved in the initial mapping exercise.³ Research teams were given the same terms of reference, including being asked for a history of the corporatized entity, a review of its performance, a discussion of the extent to which the utility can be considered a ‘progressive’ model of corporatization and whether the experience is transferable to other places and sectors.

Fieldwork involved a review of primary and secondary literatures and government documentation, as well as interviews with policy-makers, managers, labour unions, community associations, NGOs, donors, politicians and social movements. All researchers had previous experience in the country or municipality in question and all had strong connections with stakeholders associated with the corporatized entity, ensuring broad and representative access to documentation and interviewees.

Another important feature of the research was the normative framework used to evaluate utility performance. In contrast to the narrow financial and statistical data used for studies of corporatization by neoliberal organizations such as the World Bank, we employed a broader set of qualitative and quantitative benchmarks, all of which had been used in our previous work (for an extended discussion, see McDonald and Ruiters 2012c). The objective was to establish a general set of universal principles against which to evaluate the performance of a given corporatized service unit, while still allowing for contextual difference.

The criteria selected will come as little surprise to those familiar with the debates about privatization and corporatization. Many are simply a revision of neoliberal evaluative criteria, extrapolating out from narrow tropes of cost–benefit accounting in an effort to better assess principles such as transparency, social efficiency and affordability. We also employed criteria unique to public services, such as ‘public ethos’ and ‘solidarity’, and have opted for criteria (such as equity) with sufficient elasticity of meaning to allow for variations in interpretation. The aim has been to challenge or rule out narrow neoliberal interpretations of success, such as highly marketized

notions of efficiency, which can limit discussions of performance to contracted financial indicators and exclude important qualitative factors such as discrimination and dignity (Spronk 2010).

These normative criteria are summarized in Table 1.2. Not every measure was examined in depth, and not all were examined in every case, but interviews and literature analyses were informed by the same basic measuring sticks, allowing for a relatively comprehensive and transparent set of data for comparative use across the case studies.

Importantly, we were not looking for ‘perfect’ examples of corporatization. No single service provider can realistically meet all of the normative criteria outlined here, and what may be deemed important in one place at one time (e.g. community participation, access to information) may be less important in another. In other words, there are no singular forms of measurement, and no simple blueprints for success.

Neoliberals, by contrast, adopt a very different methodological approach to evaluating public services, arguing that all human behaviour is ultimately based on self-interest that responds to signals from the market. There may be variations in the way people produce and consume a service, but self-maximization is seen to be central to all human behaviour, with concepts of marginal utility serving as a universal indicator, explaining everything from ‘willingness to pay’ to the creation of ‘entrepreneurial spirit’ (Becker 1992; Dasgupta et al. 2009; for a critique, see Fine 2001). Using this rationale, neoliberal researchers see selfish conduct behind every action, allowing them to argue that market signals are the only way to accurately measure service satisfaction.

At the other extreme, post-structural analysts reject any notion of universal norms, seeing them as ‘erroneous patterns of Enlightenment thought, incapable of adaption to a world of incommunicability and irreconcilable cultural difference’ (Harvey 2000: 86). Social perceptions of water and localized forms of energy production are argued to be too dissimilar from place to place to allow for consistent forms of assessment, or reproducibility, making it impossible to employ any notion of universal evaluation.

Our aim, by contrast, has been to try to build a dialectical bridge between the universal and the particular, employing broad global objectives (such as equity and accountability) that still allow for

TABLE I.2 Criteria used to evaluate corporatization

Equity	<p>Is availability of the service equitable for different social groups? Are the quality and quantity of the service equitable? Are prices equitable? Is equity formalized, legalized or institutionalized in some way?</p>
Participation in decision-making	<p>Are the depth and scope of participation adequate? Is participation equitable? Is participation formalized, legalized or institutionalized in some way? Is the model of participation sustainable?</p>
Efficiency	<p>Is the service delivered in a financially efficient manner? Are adequate investments being made in long-term maintenance? Do efficiency gains undermine other potentially positive outcomes? Do efficiency gains take into account other services and/or levels of government?</p>
Quality of service	<p>Is the overall quality of the service good? Is quality improving?</p>
Accountability	<p>Are service providers accountable to end users? Is accountability formalized, legalized or institutionalized in some way?</p>
Transparency	<p>Does the general public understand the operating mandates of the service provider? Are decisions about service delivery regularly communicated to the public? Is transparency formalized, legalized or institutionalized in some way?</p>

<p>Quality of the workplace</p>	<p>Do front-line workers participate in the policy-making of the service? Are workers paid a fair salary and benefits? Are there adequate numbers of workers to ensure quality, safety, sustainability? Are there good relations between front-line workers, managers and end users of the service? Is there equity among workers?</p>
<p>Sustainability</p>	<p>Are there sufficient financial resources available to ensure successful continuity of the service? Is there sufficient political support for the service entity at different levels of government? Is the service using natural resources in a sustainable way?</p>
<p>Solidarity</p>	<p>Does the service help build solidarity between workers, community, bureaucrats, politicians, NGOs, end users? Does the service help to build solidarity between different service sectors? Does the service help to build solidarity with other levels of state?</p>
<p>Public ethos</p>	<p>Does the model help to create/build a stronger 'public ethos' around service delivery? Does the model promote thinking and dialogue about concepts of public ownership and control? Does the service model explicitly oppose privatization and commercialization?</p>

difference, recognizing that expansive generalizations are fraught with cultural and political tensions (see *ibid.*: 83–93, 246–55). Our normative criteria are therefore intended as a reference point for research, not as a fixed anchor. The aim has been to allow for context-based evaluations that acknowledge local norms but do not fetishize difference. The spiritual importance of water may be different from place to place, for example, but the goal of fair, equitable and affordable access to water for everyone should be seen as non-negotiable, forcing open a debate about the different mechanisms by which these goals can be achieved and the extent to which they can be considered ‘successful’.

With this in mind we can better compare the pros and cons of experiences with corporatization in places as diverse as Uruguay, Tunisia or Malaysia, and we can see the varied circumstances that have allowed some corporatized service entities to become relatively progressive while others have been captured by market logics. We can also see why good corporatization experiences are not as easily transferable as organizations such as the World Bank would like us to believe, and why the neoliberal template, as powerful as it is, can never fully shape human behaviour.

In the end, there are no magic bullets for progressive corporatized services. Networked infrastructures such as water and electricity are extremely complex and capital intensive, impacting the built and natural environments for decades (if not centuries), with rapidly increasing demand and shifting technologies of production. Figuring out what works in one place at one time requires research flexibility.

Finally, the book includes an analysis of corporatization in the European Union (EU). More a survey than a case study, the chapter by Lobina and Hall provides useful comparisons of the diverse and long-standing history of corporatization in the EU, outlining ‘strong’ and ‘weak’ forms of corporatization, and comparing these to the experiences of the case studies from Africa, Asia and Latin America. Even here, in the birthplace of the welfare state, we see how difficult it can be to hold on to even a modicum of public ethos in public services, indicative of how difficult it is to resist neoliberal trends. But experience begets innovation, and it is in the EU that we see some of the most progressive and pioneering alternatives to privatization being developed today, with useful lessons for countries in the South.

Notes

1 Nixon's phrase was actually taken from a quote by Milton Friedman in *Time* magazine on 31 December 1965 (content.time.com/time/magazine/article/0,9171,842353,00.html, accessed 5 July 2013). Friedman subsequently wrote a letter to the magazine arguing that his original statement had been: 'In one sense, we are all Keynesians now; in another, nobody is any longer a Keynesian' (content.time.com/time/magazine/article/0,9171,898916-2,00.html, accessed 5 July 2013).

2 An example is Mandela's speech at the launch of the government's Masakhane ('Let Us Build Together') campaign in 1995, when, despite widespread protests about the rising costs and poor quality of basic services, he stated that: 'We all have the responsibility to pay for what we use, or else the investment will dry up and the projects come to an end. We must ensure that we can, as a nation, provide for the millions still without the basic needs' (see Mandela 1995). Desmond Tutu made similar remarks in the 1990s, before beginning to challenge cost-recovery policies in the 2000s.

3 For more information, visit the Municipal Services Project website at: www.municipalservicesproject.org.

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2 | AN EXCEPTIONAL ELECTRICITY COMPANY IN AN ATYPICAL SOCIAL DEMOCRACY: COSTA RICA'S ICE

Daniel Chavez

Costa Rica is an outstanding example of a country with efficient and egalitarian public service delivery. It has extended electricity services – as well as water, health and education – to all social groups and every region of the country, with remarkable results on indicators for equity, quality, affordability, public ethos and environmental sustainability. Since its foundation in 1949, the Instituto Costarricense de Electricidad (ICE, Costa Rican Electricity Institute), a public enterprise active in the fields of energy and telecommunications, has evolved as one of the pillar institutions of a peculiar Latin American welfare state that ranks today among the world's most advanced in terms of social development.

For many decades, ICE has been one of the most efficiently run companies in all of Latin America, public or private. The specific characteristics and historical evolution of the *modelo solidario* (solidarity model) that made Costa Ricans so proud until recently is key to understanding the specific meanings, scope and prospects of corporatization in this Central American country.

Our research focuses on the creation, expansion and ongoing transformation of public provision of electricity in Costa Rica. This required an in-depth analysis of the sector's political-economic foundations and the special place that ICE has occupied historically in the configuration of the national social identity. The basic assumption is that ICE's institutional profile, evolution and impacts have been shaped by very specific political, social and economic conditions not commonly found in other countries of the South. Costa Rican citizens are aware of the state's contributions to national development, and have resisted previous attempts to privatize public enterprises. ICE, in particular, is perceived as an essential driver of social and economic progress, and has been at

the centre of the most important social mobilizations of the past decades.

The public character of ICE is by no means guaranteed, however, and therefore we also explore the pressures for neoliberal reform that haunt this corporatized entity from within and outside the country.

An atypical social democracy

Social science researchers and development practitioners often draw attention to Costa Rica as a ‘model country’. Basic services such as health and education are accessible for all sectors of the population, and the national life expectancy of 79.3 years at birth, the highest in Latin America, is above that of the United States and European countries such as Denmark, the Czech Republic and Poland. Costa Rica’s modest gross national income – slightly below US\$10,500 at purchasing power parity per capita – makes its high level of social development even more noteworthy (UNDP 2011).

The roots of the Costa Rican welfare state were established in the late 1940s, after a fleeting civil war that concluded with a pact backed by the country’s main political forces. The social democratic path that the country followed in the post-war period was influenced by the *desarrollista* (developmentalist) paradigm put forward by the United Nations’ Economic Commission for Latin America and the Caribbean (ECLAC), including strong state intervention in the economy, the promotion of import-substitution industrialization, and the implementation of comprehensive social policies and gradual agrarian reform (Bulmer-Thomas 1987; Wilson 1998). Despite its relative success, the social democratic model has been increasingly challenged by neoliberal advocates in government since the early 1980s (Haglund 2011; Seligson 2002; Wilson 1994).

Between the 1950s and 1970s, and particularly during the climax of the *estado empresario* (entrepreneur state; see Sojo 1984), the state became the centrepiece of the Costa Rican economy. The state-owned and -operated enterprises in a wide variety of sectors, ranging from aluminium and sugar production to energy and telecommunications, financial and insurance services, water delivery and oil refineries (Rovira Mas 1989). Within that framework, ICE played a very significant role. It has been argued (Hoffmann 2007: 11) that ICE:

[N]ot only was the state monopoly company for energy generation and electricity supply, but also for the nation's telecommunications system – a nearly unique combination internationally. It provided the energy resources for the state-led development and industrialization plans that started in the 1950s; and it fulfilled a central social function by investing great sums in a continuous push for a geographically and socially inclusive system of electricity provision. As electricity was a key concern for all sectors of society, *ICE became probably the most emblematic institution of the Costa Rican development model.* (Emphasis added)

In its earlier history, Costa Rica's insertion into the global market after independence was based on the production of agrarian commodities – like other Latin American countries. By the 1920s, Costa Rica was still characterized by meagre economic growth, limited labour legislation, a narrow internal market, little industrialization, and an agricultural sector structured around export crops, basically coffee and banana (Bulmer-Thomas 1987). It is under these circumstances that the reorientation of public services began to take place.

Throughout the 1930s and 1940s, increasing grassroots activism forced the state to adopt a more proactive role in the national economy and to mediate in capital–labour relations, making it more difficult for the agro-capitalist class to set the political agenda. The Partido Comunista de Costa Rica (PCCR, Communist Party of Costa Rica), founded in 1931, 'successfully unified ethnically diverse segments of urban and rural, agrarian and factory workers, and provided organizational and fundraising skills to landless peasants' (Shin and Hytrek 2002: 470). At the same time, other social forces fearful of the communist rise – the Catholic clergy, liberal intellectuals, white-collar workers and small rural and urban entrepreneurs – promoted the creation of new political parties, such as the Partido Social Demócrata (PSD, Social Democratic Party), and civic organizations such as the Catholic-aligned Confederación Costarricense de Trabajadores Rerum Novarum (CCTRN, Workers' Confederation 'Rerum Novarum').

In 1940, Rafael Calderón Guardia, a supporter of the Christian social doctrine initially backed by the conservative coffee oligarchy, was elected president. Relying on an unorthodox alliance between the Communist Party, the trade unions and segments of the clergy,

the government endorsed several social reforms. He gained extensive support among the poor, but a coalition formed by the rural oligarchy, local industrialists, conservative military officials and traditionalist members of the Church strongly opposed his policies.

In 1948, Calderón Guardia lost the presidency to a conservative candidate by a narrow margin as proclaimed by the Electoral Board. But the national parliament nullified the electoral process and Calderón Guardia seized power, only to face a coup led by José 'Pepe' Figueres, a coffee grower and leader of the Social Democratic Party. The Costa Rican army and communist fighters joined the government's side.

The peculiar political process that followed rooted social democracy in Costa Rica in a way that would hardly be replicable in other countries. After a brief eruption of violence that left approximately two thousand dead, the civil war concluded with significant outcomes in terms of institutional and social progress. In a period of less than two years, under Figueres' leadership, the revolutionary junta and the constitutional assembly passed several laws that shaped the evolution of politics and economics for the rest of the century, including: the nationalization of private banks; the consolidation and expansion of the social and labour legislation approved in previous years; the abolition of the army; and not least, the creation of ICE. Such actions affected the most traditional fractions of the rural bourgeoisie and benefited the more 'modern' fractions of capital linked to the emerging industrial sector, the small and medium agrarian producers, and the public sector workers. The foundations of what has been called the *via costarricense* ('Costa Rican way'; see Vargas 2005) had been laid. In the aftermath of the 'revolution' of 1948:

Labour emerged divided and weakened, the power of the conservative elites was diminished, and the social democrats were poised to become the culturally hegemonic class in the post-1950 period. Thus, with the return to formal democracy in 1950, and the social legislation written into the Constitution (e.g. the Social Security Act, a labor code and income tax legislation), the institutional basis was set for the post-1950 social democracy regime. (Shin and Hytrek 2002: 473)

Between 1948 and the 1970s, this social democratic hegemony strengthened. With Figueres once again president from 1970 to

1974, the state's role expanded further with the creation of the *Corporación Costarricense de Desarrollo* (CODESA, Costa Rican Development Corporation), a large industrial holding mostly owned and controlled by the state (67 per cent of shares). At the same time, the government promoted comprehensive anti-poverty programmes (Jiménez Gómez 2009).

During most of the post-war period, Costa Rican society benefited from a period of extended economic growth and welfare policies. But in the context of global recession in the 1980s, the exhaustion of the import-substitution model across Latin America, growing national energy needs, a plunge in the international price of coffee and problems accessing foreign currency, economic and political elites began to push for radical change. The governments of the 1980s and 1990s introduced new market-oriented policies, including cuts to public expenditure, the sale of companies owned by the CODESA group, the liberalization of trade and the elimination of subsidies in agrarian products.

Nevertheless, neoliberal policies in Costa Rica have been more gradual and much less brutal than in other Latin American countries (Mesa-Lago 2003), owing in part to the peculiar characteristics of an institutional system historically based on negotiated compromise between different political and social forces, and in part to the significance that Costa Rica had as a model that mainstream international organizations could showcase as 'an alternative' to more radical left-wing revolutionary projects evolving in other Central American countries.

The evolution of electricity services in Costa Rica

The history of electricity in Costa Rica began in 1884, when the first generator was installed. The plant, with just 50 kilowatts (KW) of capacity, provided the energy required for street lighting in the central area of the capital city, San José, and for the private needs of a few wealthy families. In the following three decades, other private companies entered the growing electricity market (Jiménez Gómez 2009).

By the mid-1920s, the private sector was not able to cope with the mounting demand for power. Total installed capacity in 1927 was 10,820 KW, contributed by three providers: the National Hydroelectric Company, the National Electricity Company, and the Costa Rica

Electric Light and Traction Company. In 1928, the three companies were bought by American and Foreign Power, the local subsidiary of the USA-based Electric Bond and Share Company (EBASCO), creating the *Compañía Nacional de Fuerza y Luz* (CNFL, National Power and Light Company). The control of the market by a single company, the limited coverage of the grid (only a handful of cities and towns in the Central Valley) and the low quality of services generated widespread discontent (Rodríguez Argüello 2000).

In 1928/29, parliament passed legislation that nationalized energy generated by water resources in the public domain, and created a new state agency responsible for regulation and generation of power: the *Servicio Nacional de Electricidad* (SNE, National Electricity Service). In the following years demand continued to grow, but the private operators failed to invest in the maintenance and expansion of services (Fernández Robles 1985; Rodríguez Argüello 2000). By the early 1940s the situation was critical.

In the wake of the civil war of 1948, the constitutional assembly approved a radical transformation of the electricity sector. In 1949, Decree 449 was passed, creating the Costa Rican Electricity Institute, ICE. The new agency was put in charge of the provision of the energy needed for the expansion and modernization of the agricultural and industrial sectors, as well as securing affordable electricity services for all segments of the population (Fallas and Alvarez 1997). The first article of the decree made ICE responsible for ‘the rational development of the physical energy sources that the Nation possesses, principally the hydraulic resources’.¹ It also mandated ICE to ‘utilize the country’s hydroelectric energy to bolster the national economy and promote the greater welfare of the people of Costa Rica’. The second article defined ICE’s primary objectives, including ‘to provide for the rational use of natural resources and to end the destructive and wasteful exploitation of those resources’, and ‘to conserve and defend the hydraulic resources of the country, protecting the basins, sources, and beds of the rivers and currents of water’ (Junta Fundadora de la Segunda República 1949: 1).

Within such a framework, ICE was expected to develop rapidly and be ambitious in its planning. In 1952, the National Electrification Plan aimed at the full electrification of the Central Valley, where 65 per cent of the population lived. ICE was also made responsible for extending services to cities and towns where electricity was managed

by municipal governments. According to statistics from the period, only 55 per cent of the country's population was covered by the grid (Jiménez Gómez 2009).

At first, ICE focused on the consolidation of existing services, and then invested steadily in expansion, constructing large hydroelectric projects (La Garita, 1958; Río Macho, 1963; Cachí, 1966; Tapantí, 1972), and extended the national grid to cover practically the entire country. As the national public utility developed, foreign and privately owned companies began to leave the Costa Rican market, and consequently ICE took control of the national company CNFL. Moreover, during the 1960s, influenced by similar movements in the United States, rural electrification cooperatives evolved in the country and for many years relied on ICE's support to expand the coverage of their network in the geographic areas that had been assigned to them.

ICE's track record

For more than six decades, ICE has demonstrated the technical, financial and managerial capabilities to develop one of the world's most sustainable, efficient and equitable electricity systems. The Costa Rican electricity sector has evolved in parallel to the country's economic and social development, achieving international recognition.

Coverage and quality of services Costa Rica has the highest coverage of electricity services in Latin America. Since its creation, ICE has expanded access from 14 per cent in 1949 to more than 99 per cent at present (SIICE 2011). Between 1985 and 1999, the national electricity system tripled its capacity, in sync with the growth of the gross domestic product. Despite the political limitations imposed on ICE's operations in recent years, it has been able to respond to the growing demand for electricity.

The national electricity system is composed of ICE, the CNFL, two municipal companies and four rural electrification cooperatives. CNFL is a public company owned almost entirely by ICE (96 per cent). Over the past seven decades CNFL has focused its operations on transmission and distribution of power in San José and the metropolitan region. Since the liberalization of the electricity sector in the 1990s, it has also been encouraged by the state to

TABLE 2.1 Current situation of the Costa Rican electricity sector vis-à-vis countries that have adopted market reforms

Type of reform	Countries with market-driven reforms	Costa Rica at present
Privatization	Ownership of assets and managerial responsibilities have been transferred from the state to the private sector	ICE remains entirely owned by the state, but the expansion of the private sector in generation and distribution is promoted
Vertical unbundling	Different responsibilities within the electricity sector (generation, transmission, distribution and retail) have been allocated to different companies or separate commercial units	ICE remains a vertically integrated utility, but companies in charge of distribution have been authorized to engage in generation
Wholesale electricity market	Electricity has become a commodity that can be bought, sold and traded according to market rules	There is no wholesale market
Regulation	After liberalization of the electricity sector, regulation focuses mainly on compliance with market rules	The national electricity sector remains highly regulated, and it has been strengthened in recent years
Extension of services and subsidies	Subsidies have been cut and the extension of coverage of electricity services tends to prioritize the most profitable areas and social sectors	The ICE tariff system is based on cross-subsidies that enable access to electricity services for all sectors of the population
Responsibility of delivery	The responsibility for delivery of electricity services has been diluted among different entities	ICE remains the fundamental entity for the provision of electricity services
Decision-making regarding generation	Generation follows the laws of supply and demand in the electricity market	ICE remains the fundamental entity responsible for securing power supply in response to the national demand
Promotion of renewable sources	The expansion of renewable energy in the electricity sector is based on market principles	ICE remains the main entity responsible for the promotion of renewable sources, based on normative planning

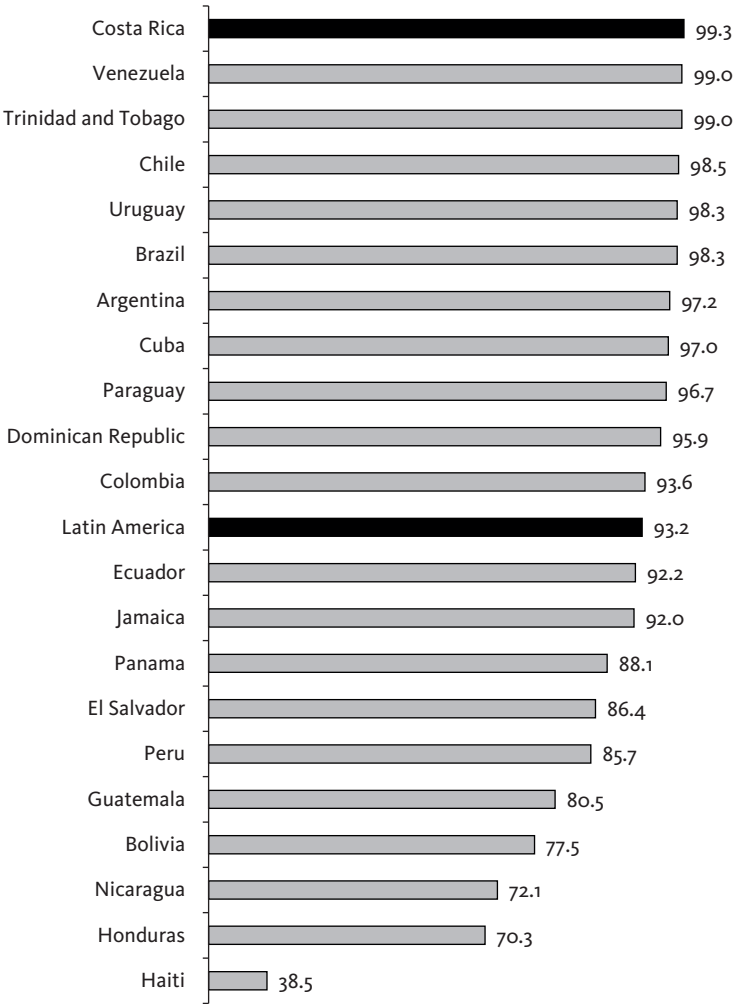
participate more actively in generation. At present, Costa Rica shows important differences in comparison with countries that have already introduced more radical market-oriented reforms in the electricity sector, as Table 2.1 illustrates.

The two companies owned by local governments, the Junta Administrativa del Servicio Eléctrico Municipal de Cartago (JASEC, Cartago Municipal Electricity Service Administrative Board) and the Empresa de Servicios Públicos de Heredia (ESPH, Heredia Public Services Enterprise), were created with the aim of generation and distribution of electric power at the municipal level (Law 3300 of 1964 and Law 5889 of 1976). The four cooperatives – Coopeguanacaste, Coopesantos, Coopelesca and Coopealfaro Ruiz – were founded in 1963, with the purpose of distribution of electricity in rural communities. The cooperatives have formed a non-profit consortium also active in generation.

The Costa Rican system allows participation in power generation by for-profit private companies. The activities and the tariffs of commercial providers are regulated by the national regulator, and they can engage in public-private partnerships through BOT (build-operate-transfer) schemes.

The legal entity responsible for the regulation of electricity services is the Autoridad Reguladora de los Servicios Públicos (ARESEP, Public Services Regulatory Authority), established in 1996 (Law 7593) as the agency taking over the responsibilities previously in the hands of the National Electricity Service (SNE). ARESEP is in charge of supervising and overseeing the services delivered by both public and private providers. This includes the fixing of prices and tariffs, and the control of the quality, quantity, reliability and continuous delivery of electricity services, as well as granting new concessions for generation, transmission or distribution of power. ICE is the country's single buyer and the owner of the transmission lines.

The Costa Rican solidarity model has achieved Latin America's most inclusive coverage (see Figure 2.1), enabling investment in socially advantageous but economically unprofitable projects, such as the extension of services to geographically remote or sparsely populated areas. In 2009, the national consumption of electricity totalled 8,238 gigawatts (GW), of which ICE provided 40 per cent; CNFL, an ICE subsidiary, contributed another 40 per cent,



2.1 Electricity access in Latin America and the Caribbean (2009) (source: IEA 2011)

and the cooperatives and municipal utilities were in charge of the remaining 20 per cent. In terms of geographic coverage, ICE was responsible for the provision of electricity in 78 per cent of the national territory (SIICE 2011).

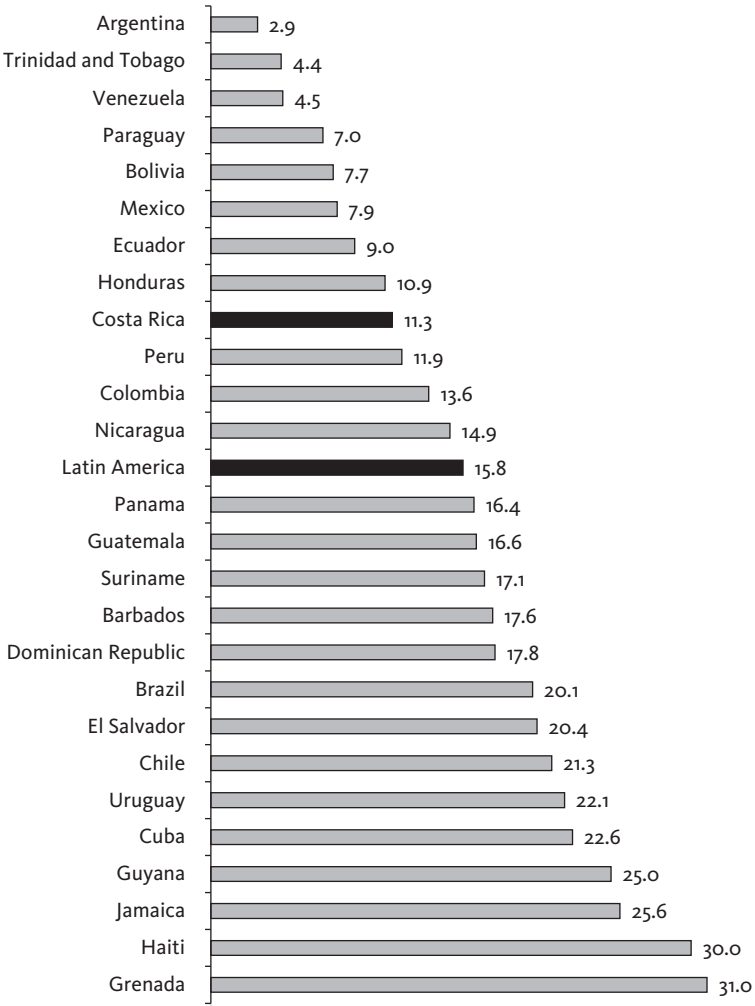
As far as installed generating capacity is concerned, the role of ICE is even more significant. At present, total capacity is 2,500

megawatts (MW), of which ICE controls 81 per cent (including 4 per cent in the hands of CNFL). At the same time, the national grid extends almost forty thousand kilometres, of which more than half has been built by ICE.

As for affordability of services, the price of electricity in Costa Rica remains lower than in most Latin American countries, as Figure 2.2 demonstrates. According to ICE's calculations, using the percentage of monthly minimum salary that must be allocated to pay for a residential consumption of 250 kilowatt/hours (kWh), only three countries in the region have lower prices – Venezuela, Argentina and Paraguay, where the cost of electricity has been frozen since 2002. In Costa Rica, 250 kWh would be enough to satisfy the monthly needs of low- and middle-income households. The average domestic consumption in 2009 was slightly above 224 kWh, and 75 per cent of ICE's users consume that amount or less. On average, in other Latin American countries, users had to dedicate 14.6 per cent of the minimum salary to electricity bills, while in Costa Rica only 7 per cent was needed to pay for an equivalent amount of electricity (CENPE 2009).

In terms of quality of services, ICE's investment in the expansion and maintenance of the national grid has resulted in Latin America's most efficient electricity system. According to the ICE engineers' union, 'the Costa Rican population became used to good quality electricity, and therefore people are much more demanding, because our services are perceived as a fundamental right to which every person should have access, regardless of geographic location or the social position or economic capacity of users' (SIICE 2011: 19). In terms of security of supply, Costa Rica has suffered only one rationing period over the last three decades, in 2007, to a great extent caused by delay in the construction of the Garabito hydroelectric plant (because the neoliberal government of the time was not willing to approve the financing for the project). And despite recent political limitations, ICE has managed to reduce the average duration of the (very rare) interruption of service from 21.1 hours a year in 2000 to 14.8 hours in 2009 (*ibid.*).

Since 1963, ICE has also been responsible for the provision of telecommunications services, which until then had been entirely controlled by foreign private corporations. Although telecommunications for a long time appeared as the 'smaller sister of ICE's



2.2 Average price of electricity in Latin America and the Caribbean (residential, US\$ cent/kWh, 2009) (source: OLADE 2010)

electricity activities, here, too, the institution made great strides in the nationwide extension of the network, following the same pattern of geographical and social inclusion as the power grid’ (Hoffmann 2007: 11). ICE developed a country-wide telephone network that was comprehensive and affordable, also contributing to the expansion of electricity services. Indeed, even though the two sectors – telecom-

munications and electricity – were quite different from a technical perspective, they complemented each other from a financial point of view. One analyst explains: ‘The telecommunications sector was more profitable, required less investment and its costs could be recovered within a shorter period, in comparison with the electricity sector,’ and therefore ‘for many years the international telephone calls financed part of the expansion of the national electricity sector and rural telephony programmes’ (Jiménez Gómez 2009: 189).

A previous study by Hoffmann (2007: 12) summarizes ICE’s main achievements in the telecommunications sector:

The ICE subsidized rates for telephone access and domestic calls, and engaged in outreach programs for rural areas ... In contrast to the prevailing approach in most of the Third World, the Costa Rican model saw telecommunications not as a luxury item for the urban elites, but as a core function of national integration and development. As a result, Costa Rica enjoys one of the densest and socially most balanced telephone networks of all developing countries. (ITU 2006; see also Fumero Paniagua 2006a)

Environmental sustainability ICE has contributed to Costa Rica’s current position as one of the world’s most advanced countries in the utilization of environmentally sustainable sources of energy. Electricity produced using renewable sources has long been an essential component of the national energy policy. Costa Rica’s development in this area cannot be explained just by pointing at the country’s lack of oil wealth and the easy availability of water resources; in fact, its hydroelectric potential is much lower than in many other Latin American countries. Furthermore, in contrast to other small countries in the South that rely almost entirely on hydropower, Costa Rica ‘has developed a remarkably diverse arsenal of renewable electricity’ (SIICE 2011: 19). The country also exhibits relatively low electricity intensity in comparison with other countries in Latin America and other regions of the world (Ziesing 2012).

The commitment to promote renewable electricity sources was already instituted in the founding law of 1949. Subsequent legislation confirmed and deepened ICE’s commitment to renewable energy (see Fernández Robles 1985). In 1953, Law 1657 established a hydraulic energy reserve zone, ensuring protection for several water

sources being used for power generation from further depletion and contamination. In 1976, Law 5961 made ICE responsible for investigating, exploring and exploiting the country's geothermal resources. In 1980, Law 6449 declared the country's interest in the promotion of wind energy, in particular in rural communities isolated from the national power grid.

As Table 2.2 demonstrates, the national installed generating capacity still relies heavily on renewable sources, with hydropower, geothermal, wind and biomass composing over 80 per cent of the national electricity mix. In terms of consumption, an impressive 93 per cent of the power used in the year 2010 was based on renewable sources, while non-renewable thermal electricity constituted the remaining 7 per cent.

TABLE 2.2 Costa Rica's installed generating capacity and power generation per source (2010) (%)

Source	Installed generating capacity	Power generated
Hydropower	67	76
Geothermal	7	12
Wind	5	4
Biomass	2	1
Thermal	19	7

Source: Adapted from Jiménez Gómez (2011)

However, according to governmental sources the installed capacity is insufficient for the current rate of growth of the economy and its high dependency on imported oil (De La Torre 2010). Neoliberal advocates have used this argument to strengthen their demand for further liberalization. In response, the ICE engineers' union argues that the real problem with oil consumption is in the transport sector, which consumes approximately 80 per cent of all oil-related products consumed in the country. Electricity constitutes only 20 per cent of the energy consumed, out of which only 5 per cent is produced using oil derivatives (SIICE 2011).

In the long run, however, the impacts of climate change on electricity supply in Central America are worrisome (Ventura et al. 2011). Unstable rain patterns have been noticeable for some

years. In 2011, Costa Rica experienced a slight decrease in the amount of energy produced by hydro-generation, despite the fact that the Pirris hydroelectric plant was inaugurated in September of that year, adding 134 MW to the grid. As a result Costa Rica was forced to produce 24 per cent more thermal electricity (La Nación 2012).

In a context of rising energy demand, the discussion about further exploiting the geothermal potential of the country has gained momentum. The problem is that the most optimal locations for geothermal exploitation are found near volcanoes in protected national parks (Arias Molina and Mora Chaves 2012), creating a dilemma for decision-makers.

Quality of workplace and labour relations Throughout ICE's history the governing board has maintained close and friendly relations with electricity workers, represented by the Frente Interno de Trabajadores (FIT-ICE, Internal Workers' Front). The FIT-ICE is an umbrella organization that amalgamates ICE's eight main trade unions (ASDEICE, ANTTEC, ANTTEA, ACOTEL, AJEICE, SIICE, SITET and SIPROCEICE) to which workers are affiliated according to their professional backgrounds and areas of work.

Several Costa Rican presidents and ministers have negotiated in person with the electricity sector's unions, and when the institutional integrity of ICE was threatened in the recent past, other unions rallied in support. In May 2003, for example, the Asociación Nacional de Empleados Públicos (ANEP, National Association of Public Employees), one of the country's largest trade unions, organized a national strike against the government for refusing to release enough funds for ICE's new electricity projects (La Nación 2003), demonstrating the strong social roots of the electricity utility.

ICE has also invested substantial resources in the expansion of the technical capacity of its workers, offering training programmes for engineers, managerial and administrative staff. The Institute has provided scholarships for higher education and study visits to electricity companies and projects abroad, as well as training and research programmes in partnership with the University of Costa Rica. Moreover, it has been offering attractive incentives to secure the tenure of workers, such as the creation of an employees' savings and guarantees fund to which ICE contributes an additional 7 per

cent of an employee's monthly salary and which workers could use as collateral for loans for the construction or purchase of their homes (Fernández Robles 1985; Wilde-Ramsing and Potter 2006).

The development of in-house technical capacity has also contributed to ICE's leadership in the field of renewable energy. The Institute has developed 'a technical proficiency atypical of most other developing countries', which has proved to be a great advantage 'when cheap and relatively simple thermal plant technology led many countries to shy away from technically complex renewable electricity projects' (Wilde-Ramsing and Potter 2006: 73). Moreover, technical expertise has afforded ICE 'a degree of autonomy from short-term interests, because it has allowed a national evaluation of energy strategy instead of having to rely on foreign multinational companies to produce cost-benefit analyses'.

Over the past decade, ICE workers have organized several trade union actions in defence of the public nature of the agency, such as the action in September 2011, when FIT-ICE led a twenty-four-hour strike against the liberalization projects debated in parliament. Before the strike, the unions had issued a public statement that summarized labour's view on the legislative proposals (FIT-ICE 2011: 1):

Those who have promoted the privatization of the electricity sector will stop at nothing; lie and intimidate to achieve their ends ... By contrast, the ICE workers' organizations have demonstrated the Institute's technical and professional capabilities, exposing such lies and proving that ICE should be allowed to remain in charge of the planning and management of the national electricity sector, be granted access to adequate financial resources, and allowed to set tariffs to a level appropriate to cover its costs.

Solidarity and public ethos in the Costa Rican electricity sector Previous research has argued that ICE's ability and willingness to plan in the long term and pursue renewable sources of energy is a product of the Institute's relationship with Costa Rican society, noting that 'ICE's embeddedness among civil society organizations, labor unions, intellectuals, and mass public opinion has allowed it to acknowledge society's interest in a clean, sustainable, and domestic supply of electricity' and that 'ICE's technical expertise, its public nature, and its financial independence provide the autonomy and internal

coherence' required to pursue a far-sighted vision (Wilde-Ramsing and Potter 2006: 73).

After more than six decades, public support for state ownership and management of electricity (and telecommunications) services remains strong in the country, as an annual public opinion survey conducted by the University of Costa Rica reveals. In the year 2000, at the height of nationwide social mobilizations, 72 per cent of the population were against the privatization of ICE; in 2011, after years of media campaigns against public enterprise sponsored by big business, 64 per cent of the respondents still expressed the same view (Poltronieri 2011).

Much of ICE's positive image has to do with the existence of a robust internal technocracy, committed to its institutional mission and social responsibilities and very active in defending and publicizing its achievements as a public enterprise. This group is composed of professional staff who operate with relative managerial and technical autonomy from the political leadership. According to Jiménez Gómez (2009: 613, emphasis added), himself a member of this group:

The members of the *tecnocracia* are ICE employees, with diverse levels of authority and functions within the electricity sector, who know the Institute by heart. They tend to focus on ICE's specific responsibilities and defend the way it has functioned for many years, seeking to maintain or improve its current position. In general, their objective is to preserve the role of ICE as the fundamental actor, in order to secure the provision of public services with renewable sources, under appropriate standards of quality, and based on social solidarity principles, beyond just preserving their benefits as employees. Their ideological preferences have tended to prioritize a strong participation of the state in every value chain, strengthening ICE and demanding that it be allowed to make the required investments to secure the rising demand, *expanding the solidarity model that defines electricity as a public service and not as a commodity.*

Liberalization and corporatization of ICE

The Costa Rican development model has gone through a prolonged crisis over the past four decades. In the late 1970s, the national economy suffered from the impacts of the rising cost of oil

and the deterioration of the price of coffee and other agricultural commodities. The first stabilization agreement with the International Monetary Fund (IMF) was signed in 1982, beginning a long phase of structural adjustment. In the 1980s and 1990s, the country was also affected by the rising political violence in neighbouring countries, as well as by the explosion of the Latin American debt crisis. In this context, conservative politicians and representatives of the economic elite began to push for a policy turn towards fiscal deficit reduction, deregulation, privatization, and the adoption of an export-led growth strategy (Rovira Mas 1989).

Since the mid-1980s, a series of neoliberal governments have promoted radical reforms in the solidarity model that had shaped the evolution of public services in Costa Rica. The first government of Oscar Arias (1986–90) privatized public enterprises that were part of the CODESA holding and enabled the liberalization of the financial sector. Costa Rica experienced more gradual reforms than most Latin American countries, which has meant ending state monopolies in several sectors and passing new legislation aimed at reducing social benefits. Despite strong social opposition, neoliberal reforms have already weakened the roots of the electricity system and challenged the role and capacities of ICE in particular, as outlined below. The most visible mechanisms used to reform the electricity sector have been the following (SIICE 2011):

- Pressure on ICE to generate a financial surplus to assist with the fiscal deficit
- Limits on ICE's capabilities to invest in further development of the electricity sector
- Stricter political control over ICE's planning and management, and elimination of its authority to set tariffs for the electricity sector
- Radical legislative proposals such as the *combo eléctrico* (explained below), aimed at the full-scale privatization of power generation plants
- Aggressive and systematic media campaigns (financed by business interests) aimed at weakening ICE's positive image

The neoliberal consensus against ICE The first market-oriented reforms in the electricity sector were introduced in the 1990s, after the

approval of Law 7200 (1990) and Law 7508 (1994), which opened space for participation by the private sector in the generation of power. Social mobilization impeded the implementation of radical neoliberal plans, however, such as the attempt to deregulate the telecommunications sector via a concession for mobile services with the Luxembourg-based Millicom corporation in 1987. After a series of protests and legal actions initiated by ICE's trade unions, the country's audit office (Contraloría General de la República) blocked the deal, and later the Supreme Court declared the concession unconstitutional.

The neoliberal offensive nevertheless gained momentum under the rule of the Partido de Liberación Nacional (PLN, National Liberation Party), headed by President José María Figueres Olson (the son of the founding father of Costa Rican social democracy, José 'Pepe' Figueres), who proposed the privatization of a wide range of public companies (Haglund 2006, 2011; Jiménez Gómez 2009). Faced with extensive political and social opposition, Figueres opted for a bipartisan agreement with the Partido de Unidad Social Cristiana (PUSC, Social Christian Unity Party), led by Rafael Calderón Fournier, the son of Rafael Calderón Guardia. The result was the 'Figueres–Calderón pact' of 1995, signed by the president and his immediate predecessor. The deal symbolized the end of an era, since its signatories were the sons of the main leaders representing the two sides that had fought in the civil war of 1948, giving birth to the social democratic Costa Rican state.

The two parties agreed not to push for the full-scale privatization of ICE, but instead to change its internal structure and break its monopoly in the telecommunications sector by enabling private competition. The initial proposal, sent to the National Assembly in September 1996, proposed the managerial separation of the telecommunications and electricity sectors, and distinct laws to regulate them (Monge 2000). The government also set up a committee to look at solutions to the country's internal debt, which produced a report with the ominous title *Mañana será tarde* ('Tomorrow Will Be Too Late') recommending the privatization of all state-owned power plants (Comisión para el Análisis de la Deuda Interna 1996). Although the committee had been ostensibly set up in response to the growing fiscal deficit, 'there was a great deal of suspicion outside this group that those involved were exaggerating the crisis, and

stood to gain a great deal personally by the privatization of ICE' (Haglund 2006: 13). The 1998 elections were won by Calderón's PUSC party, which decided to go ahead with the reforms and submitted the new proposal for legislative approval.

Mobilization against the combo eléctrico In March 2000, the Legislative Assembly passed the legislation known as the *combo eléctrico*. The government had hoped that combining the electricity reform proposals into one piece of legislation would accelerate the process. In reality, the opposite proved to be the case, leading to the mobilization of a very diverse set of actors opposed to the reforms. The ICE unions backtracked from their initial half-hearted endorsement, and soon other unions also expressed their opposition, fearing that similar initiatives could affect employment security and trigger the loss of social benefits in their own sectors. The student movement expressed its concerns with what it perceived to be part of a much broader agenda of neoliberal reforms. Environmental activists also joined the struggle, concerned by the potential effects of Article 119 of the law, which authorized the private construction of new hydroelectric projects in nature reserves. In short, country-wide demonstrations around the *combo eléctrico* were 'the result of a plural, multisectoral and intergenerational social movement, which was actively supported in many different regions throughout the country', constituting 'the most important social struggle in Costa Rican history in several decades' (Cortés Ramos 2009: 69).

Another important actor was the peasant movement. Concerned by the fall in international food commodity prices, rural producers had organized protests demanding greater government support, and they merged with street demonstrations in urban areas. Particularly in the countryside, 'appreciation of the ICE's role as a cherished institution of development and social integration was very much present; and it was in the rural areas where the privatization of services raised particularly strong fears of losing the ICE's developmental commitment' (Hoffmann 2007: 17).

The *combo eléctrico* also revealed the mutual interests of different groups in the Costa Rican elite relying on the support of business associations and a broad coalition of neoliberal politicians. Nevertheless, mobilizations against the reforms demonstrated an ongoing positive perception of state-owned enterprises, and ICE in particular. Despite

expensive ads on national TV and in newspapers, ‘the citizenry still perceived terms such as “modernization” and “liberalization” as mere euphemisms that tried to hide the aim of privatization’ (Cortés Ramos 2009: 69). When public actions showed no signs of decline in early April, the government withdrew its legislative proposals.

The protests therefore managed to prevent the privatization of the electricity sector – thereby contributing to broader resistance to neoliberalism in the country – but the debate is far from over, and ICE has not escaped the marketization trend entirely.

The corporatization of ICE Since the mid-1990s, ICE has been experiencing a process of corporatization, changing both the institutional and managerial frameworks of the organization in an effort to have it engage with private competitors in a more liberalized market. From 1996 ICE began to apply internal reforms that included: ‘the definition of a strategic plan, the establishment of a new administrative structure, new employment descriptions and new requirements for categorizing personnel and selecting candidates for managerial positions’ (Fumero Paniagua 2006a: 82). Other objectives, such as setting up a new system for remuneration based on productivity, were never implemented in full.

One of the first and most important reforms was the administrative and financial separation of the energy and telecommunications components. Presented as a means to maximize the potential for the development of each sector, and to increase ICE’s overall efficiency, in fact it resulted in higher costs and the loss of internal synergies. The separation was left incomplete in 1998, owing to a change of government, but ‘the resulting hybrid made internal coordination more difficult and, far from strengthening the Institute, facilitated its disintegration’ (ibid.: 85).

Working from interviews with members of three trade unions,² it has been possible to reconstruct in more detail the process that began in the 1990s and continues to this day. The previously existing five *subgerencias* (managerial units) were merged into two (energy and telecommunications) and all internal procedures had to shift to a new structure with new objectives. Years later, a new *subgerencia* focused on the provision of managerial and administrative support was created, somehow reinstating the previous structure, but many of the pre-existing internal links had already been severed.

In a May 2011 interview, union leader Fabio Chavez, ASDEICE's president, argued that:

The internal restructuring promoted a new strategic vision based on market principles, but for a while there was no clarity on the roles and responsibilities of each unit. Many internal services and functions became too fragmented, which on occasion led to competition rather than cooperation among diverse units. The Institute also had to cope with duplicity of resources and lack of coordination, challenging the whole purpose of the reform, which was supposed to result in efficiency and efficacy gains.

Another issue raised by the unions and other researchers has been the renewed emphasis on outsourcing in support areas such as janitorial services, office rental, call centres, security, repair and maintenance of equipment, and staff training. Even strategic services such as installation and repair of energy and telecommunication lines were outsourced to private companies. To a large extent, the reliance on external contracts was seen by ICE's managers as a way to comply with the constant request for budget surpluses and internal cost reduction communicated by the Ministry of Finance. Outsourcing, in many cases, led to higher costs rather than savings.

Corporatization also included an early retirement incentive package, while others were invited to leave ICE to create new private companies and offer their services on a contract basis, doing the same work they had done previously as fully fledged employees. According to Fumero Paniagua (2006a: 88):

Hundreds of workers decided to leave ICE, in particular many who were precisely those who had the capacities to enter the private labour market in the country or abroad. Therefore, the Institute paid millions in stimulus packages that only resulted in the expulsion of the best-qualified and most experienced technical and professional workers. Besides, the indirect hiring of personnel through outsourcing brought other problems; for instance, the steady loss of workers' self-identification with the Institute.

Further liberalization of the electricity sector? Neoliberal advocates continue to argue in favour of the liberalization, deregulation and eventual full privatization of the electricity sector, as illustrated

in the preamble of Proposal 17812, sent to parliament in August 2010, which highlights purported problems: (a) the country's external vulnerability to changes in the global energy market owing to a growing dependence on imported fossil fuels; (b) insufficient investment by ICE, with risks of blackouts and deterioration of the quality of services; (c) the non-competitive composition of the national electricity system, which would further hinder investment; and (d) a faulty correlation between demand and supply, which would preclude big consumers engaging in self-generation of power.

Similar arguments were made in 2007, with then-president Oscar Arias declaring that a period of blackouts at the time was caused by ICE's inability to make the required investments in power generation and 'ideological prejudices' against the private sector's participation in the electricity sector (Mayorga 2007). The editorial page of *La Nación* of 29 January 2007 portrayed ICE as a 'reckless bureaucracy [with] technical inefficiency and unjustifiable monopoly'. The main culprits, according to the newspaper, were ICE's trade unions. The solution was to pass, as soon as possible, the ICE Modernization Act and related laws to enable 'the private sector's contribution to national efforts aimed at the provision of abundant energy, with better prices and cleaner sources' (La Nación 2007). Both the diagnosis of the problem and the solutions proposed ignored a rather obvious paradox, which was that a previous process of liberalization had granted private operators access to water for power generation on the condition that ICE would be obliged to buy it back at three times its production cost.

In 2009 two additional proposals for liberalization were submitted to the Legislative Assembly: the General Electricity Act and the Electricity Sectoral Strengthening Act, which were later integrated into a unified legislative project (Proposal 17666). The objective was the total liberalization of the electricity sector. The justification was the need to secure a reliable provision of energy, based on the 'efficiency' and 'competency' that would come after the entry of private power providers into the national market.

There is also a less ambitious project, the Electric Contingency Act (Proposal 18093 of June 2011), focused on expanding the quota for private generation. The proposed legislation would authorize private power providers to sell electricity directly to major consumers, understood as those with energy needs equal to or larger than one

megawatt, and enable them to export any surplus to the regional Central American market. Moreover, the project would increase the limit for private generation, from 20 to 30 MW, and expand the percentage for parallel generation from the current 15 to 25 per cent.

The risk of moving backwards A comparative analysis of electricity in Central America published a decade ago painted a very gloomy scenario – in which Costa Rica was the only ‘exception’ – suggesting that the sector would see ‘private investment made under market conditions without the protection of the state or specific contracts; the growth of technical and non-technical losses in most countries; the weak expansion of rural electrification; the marked increase in polluting emissions by an electricity system mostly based on thermal plants; the drastic reduction in the share of new and renewable sources; the high concentration in the segment of distribution, and limited competition in liberalized markets’ (CEPAL 2003: 90). A decade later, the market reforms being debated by the National Assembly risk letting the Costa Rican electricity sector slip back from its position as the most successful electricity system in the region. The main challenges that ICE faces are summarized in the following passages of a May 2011 interview with Leonel Fonseca, a former director general of Costa Rica’s Public Services Regulatory Authority (ARESEP):

The plans that some market-oriented groups present today as blueprints for reforming the electricity sector will destroy the very nature of a system of which Costa Ricans feel extremely proud. Those who accuse ICE of being inefficient are the same groups and individuals that have been strangling its financial capacity during the past six governments. Our citizens are very much aware of three things: first, that ICE achieved the electrification of more than 99 per cent of the country; second, that ICE produces first class energy, based on renewable sources; and third, that our electricity is provided at affordable prices and based on the idea of solidarity, because if you live in the city and have a good income you are subsidizing the poor who live in rural areas.

We should not forget that the offensive aimed at dismantling ICE intensified in the year 2004, when those in charge of the electricity sector were well-paid consultants working for UCCAEP

[Unión Costarricense de Cámaras y Asociaciones del Sector Empresarial Privado, Costa Rican Union of Private Business Chambers and Associations] ... What they want is to sell electricity to the biggest consumers, including large corporations such as Intel, Holcim and Cemex. And the big consumers want to be free to produce their own energy or to import it from elsewhere, without being forced to buy it from the state and even being allowed to export any surplus electricity. That would create a great disequilibrium in power generation, forcing ICE to invest in more generating capacity to be able to respond to potential energy crises, while the private sector would profit from such imbalance.

A further concern is the reconfiguration of political programmes and alliances that has occurred over the past two decades. The ruling PLN has shifted from one-time champion of the welfare state to representative of private business interests, baffling much of its traditional electorate and social base. Recent PLN administrations have clearly prioritized liberalization and deregulation of the national economy. Costa Rica is experiencing a crisis in its political system, in which the marriage between the economic and the political powers is more conspicuous than ever before (Vega Carballo 2008: 6).

The identity and interests of pro-market reformers was made very explicit in August 2010, when a team of researchers and journalists produced a glossy ninety-two-page publication with the title *Costa Rica se apaga* ('Lights off in Costa Rica'). Co-published by a business magazine and the region's most prestigious executive school, with private sector funding, the publication put forward arguments in favour of radical neoliberal reforms, predicting unavoidable cuts in the provision of electricity services if the sector were not liberalized (El Financiero and INCAE 2010).

Another vocal actor has been the Asociación Costarricense de Productores de Electricidad (ACOPE, Costa Rican Association of Power Producers), an influential UCCAEP affiliate that has been pushing for the full liberalization of the sector, both at the national and the regional levels – expecting to be allowed to sell energy to other Central American countries. In general, the business associations have been promoting mixed reforms, with some sectors more radical in their demands (proposing, for instance, the full privatization of ICE) and others expressing a more moderate or gradualist position.

The theoretical arguments for neoliberal reforms have been mostly supplied by two organizations during the past two decades, the already mentioned INCAE and the Academia de Centroamérica (Central American Academy), a private research centre from which have emerged many of the officials who occupy strategic posts in the public administration and in the private sector today. The Academia de Centroamérica has ‘a significant influence in the direct or indirect design and implementation of public policies’, being ‘the group with the most homogeneous ideological profile, with clear objectives and the greatest capacity to have an impact within relevant sectors such as politicians and business leaders’ (Jiménez Gómez 2009: 325).

Sources of resistance At the other end of the spectrum, the social and political sectors that were at the forefront of demonstrations in 2000 continue to express their opposition to market-driven reforms. In a May 2011 interview, opinion-maker Gerardo Fumero declared:

We have been accused of trying to ‘demonize’ the private sector, but we are only resisting the imposition of a neoliberal agenda. We are not against the private sector per se, but in this country nobody could deny that, in order to guarantee the provision of basic services to every citizen regardless of income, the existence of autonomous state-run institutions such as ICE is essential. In order to preserve and expand our level of development we need well-managed and efficient public enterprises, with a clear vision and able to plan for many years ahead.

The main pillar of this resistance continues to be ICE’s trade unions, which have been to a large extent ‘the public face’ of the Institute since the late 1990s. The ICE unions have had to deal with strong campaigns led by the country’s main newspapers, which have presented the workers as the main obstacles in the process of ‘modernization’ of the electricity sector in particular, and the national economy in general.

Nevertheless, the heterogeneous coalition of social movements that emerged previously has weakened. The Costa Rican left (a heterogeneous mix of Marxists, nationalists and social democrats) is rather anaemic in institutional politics, although it is still influential among students and academics based at public universities and continues to declare its opposition to market reforms and willingly

defends the ‘democratic social state’. Environmental organizations are also part of this informal coalition that supports ICE, based on their concerns around the commoditization of nature – notwithstanding their ongoing criticisms of ICE for the impact of its projects on indigenous communities and protected areas.

Local community groups, including faith-based collectives associated with the Catholic Church’s social wing (Pastoral Social), have also been opposed to the liberalization of the electricity sector, mobilizing grassroots opposition. Many of the most active communities have ‘been affected by hydropower projects built by private developers, where local productive, cultural and social interests had been subordinated to the need for reduction in costs, with negative externalities not properly addressed’ (Jiménez Gómez 2009: 323).

In parliament, opposition to the neoliberalization of the electricity sector is represented by legislators of the centre-left Partido Acción Ciudadana (PAC, Citizens’ Action Party) and the smaller and more leftist Frente Amplio (Broad Front). Many PAC parliamentarians are disenchanted social democratic cadres who split from the PLN.

Conclusions

As the title of this chapter suggests, ICE is *an exceptional electricity company in an atypical social democratic country*. As such, the significance of and prospects for its corporatization are highly conditioned by national factors unlikely to be found in other places. Despite the lingering neoliberal wave, Costa Rica entered the twenty-first century preserving a state-friendly national identity still evident in current debates about the future of ICE and other public enterprises. The prevailing values are based on a strong presence of the state as decision-maker, supervisor, regulator and provider of public services, combined with equity and social justice principles embedded in the functioning of government agencies and in ideals defended by broad sectors of society. There is strong social trust in, and support for, state-run institutions.

Over the past sixty years, the evolution of electricity services in Costa Rica has to a large extent developed in opposition to private business interests, unlike what has been observed in most countries of the South. Our research confirms the findings of other studies, one of which has argued that ‘ICE was created to oppose big business and drive private capital out of the electricity industry’, and that,

‘as a public, not-for-profit entity, ICE has resisted privatization and has had a largely adversarial relationship with the private sector’ (Wilde-Ramsing and Potter 2006: 74). Further research is needed on the specific conditions that gave rise to the very peculiar ‘social embeddedness’ of ICE and other Costa Rican state-owned enterprises. The study of the water utility OSE, included in this book, shows that similar conditions can be found in Uruguay, another atypical social democratic country.

Nevertheless, more research is needed on how ICE’s institutional ties to ‘business elites’ might evolve in the coming years, particularly given the fact that the telecommunications sector has been fully liberalized as of 2011 and that proposals for reform could lead the electricity sector down a similar path. Research should also consider the fact that the state in Costa Rica has been more ‘benevolent’ than anywhere else in Latin America, but also that such distinctiveness is rapidly changing as the neoliberal project gains momentum.

In the end, ICE’s prospects are clouded but not gloomy. Costa Rican citizens and unions have proved they can take to the streets to defend public services, and ICE remains by far the most emblematic institution of a popular public model.

Notes

- 1 All translations by the author.
- 2 Asociación Sindical de Empleados Industriales de las Comunicaciones y la Energía (ASDEICE, Industrial Telecommunications and Energy Workers’ Union), the Asociación Nacional de Trabajadores y Técnicos en Energía y Comunicaciones (ANTTEC, National Association of Energy and Telecommunications Workers) and the Sindicato de Ingenieros y Profesionales del ICE, RACSA y CNFL (SIICE, Union of Engineers and Professional Employees).

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3 | HYBRID WATER GOVERNANCE IN BURKINA FASO: THE ONEA EXPERIENCE

Catherine Baron

Public management of drinking water has often been criticized for poor performance, particularly in sub-Saharan Africa. There are, however, examples of relatively successful public utilities in the region, such as the much-studied Ugandan National Water and Sewerage Corporation (Baietti et al. 2006). Another less documented case is Burkina Faso's national water enterprise, the Office National de l'Eau et de l'Assainissement (ONEA), which demonstrates effective public management of urban water services, high productivity and good infrastructure maintenance.

But ONEA's pursuit of efficiency via the introduction of new public management principles has made it difficult to reconcile economic goals with a stated desire to promote 'pro-poor' policies. This tension must be seen in light of the larger political-economic context of Burkina Faso, a country that committed early on to neoliberal reforms and is heavily dependent on international aid. As ONEA struggles to remain public, it is faced with a complex range of pressures for reform, locally and internationally.

Sub-Saharan Africa has a long history of public-private partnerships (PPPs) in the water sector. Côte d'Ivoire has opted for private partnership since 1959, and over the last two decades fifteen countries in the region have experimented with water PPPs (Fall et al. 2009). In Burkina Faso, the private experiment was short lived and the management contract signed in 2001 between the public operator, ONEA, the private water supply company Veolia and auditing firm Mazars & Guérard lasted six years. Once the contract ended, the government decided to take back full operational control of ONEA, but retained corporate operating principles.

At present, the state-owned utility is responsible for drinking water and sanitation services in urban areas. It is in charge of the treatment and distribution of water, the extension of the networks

and capacity-building of local authorities in cities under its supervision. It is the central government through the Ministry of Water which directly supervises water supply in rural areas.

Official performance indicators for ONEA suggest that it is ‘successful’. However, these evaluations tend to focus on technical and financial indicators as measured by ONEA itself or by government ministries, consultant firms (e.g. Trémolet Consulting) or donors (e.g. AFD, Danida, GIZ, World Bank/WSP/PPIAF).¹ Very little critical research has been published on ONEA’s performance since its corporatization in 2007.

In this chapter we evaluate whether, as a public enterprise, ONEA defends water access as a public service. We discuss criteria of equity, affordability and quality, taking into account vulnerable populations, especially in informal settlements, and call into question the political will to keep water in the public domain. As in many other African countries, neoliberal principles and donor conditionalities are often imposed, but ONEA retains some autonomy none the less. We analyse how the rules of new public management have influenced ONEA’s organizational arrangements, including in the form of performance indicators put in place as part of the contract between the state and the water utility. The example of ONEA attests to the often blurry boundaries between public and private in corporatized entities.

We start with an overview of the water sector in Burkina Faso and ONEA’s role. We then review criteria used to assess its performance with an emphasis on equity and participation. Our evaluation is based on a literature review of ONEA and official state documents, as well as some thirty interviews with representatives from ONEA, various ministries, the water union, consumer groups, NGOs, small private operators and residents, as well as multilateral and donor agencies.²

Neoliberal macro-reforms and foreign aid

In 2011, Burkina Faso ranked 181 out of 187 countries based on its level of ‘development’ (Valfrey-Visser and Rama 2012). GDP per capita in 2007 stood at a low US\$268 despite strong economic growth averaging 5.9 per cent a year since 1997 (AfDB and OECD Development Center 2008). Inequality remained a major concern and was widening in urban areas, including in terms of access to basic needs, in particular safe water.

As early as 1988 the country had engaged in negotiations with international financial institutions to remedy high debt and boost development, leading to rapid economic liberalization. Many of the reforms were part of Structural Adjustment Programmes (SAPs), which called for reallocation of public spending towards poverty reduction. SAPs also introduced neoliberal principles of ‘good governance’ – particularly new public management principles and public–private partnerships.

More recently, programmes linked to the Millennium Development Goals (MDGs) and the initiative on Heavily Indebted Poor Countries (HIPC) were rolled out. In 2010, the government adopted a Strategy for Accelerated Growth and Sustainable Development, providing a framework for the achievement of its MDG targets, with a focus on job creation through private investments and diversified high-value production (Fonds Africain de Développement and PASCACAF 2011).

ONEA’s stated approach is in line with this development agenda and its website identifies the private sector ‘as one of the key players of sustainable development, representing an alternative as the state gradually withdraws’.³ But in practice, private involvement in the water sector remains limited, with a handful of small private operators having entered the market nationally (PPI-Burkina Faso Hydro, Sawes and Sore & Frère) (Valfrey-Visser and Rama 2012). Moreover, while very few non-sovereign loans have been awarded by major international aid agencies to public enterprises in the country, ONEA is one of few exceptions, reflecting general donor confidence in this public utility.⁴

The national budget allocated to water supply and sanitation (the government’s own funds plus intergovernmental donor commitments) has increased considerably in the past decade, rising from US\$27.4 million in 2001 to US\$61.6 million in 2007 (WSP and UNICEF 2010: 16). But there is a new donor trend towards a focus on loans instead of grants (Coalition Eau 2010). For example, while France’s aid agency – the Agence Française de Développement (AFD) – put its emphasis on grants between 2001 and 2009 (65 per cent of its aid in the water and sanitation sector for sub-Saharan Africa, including Burkina Faso), it is now primarily offering loans to finance large-scale water-related infrastructure, especially in urban areas (*ibid.*).

Many NGOs, such as WaterAid, Eau Vive and SOS Sahel, also have water projects in the country, primarily in rural capacity-building, and to some extent in peripheral urban areas. Their funding tends to come from the European Union via Water Facility Programmes (2004, 2010), creating new partnerships with public actors and small private operators. It should be noted that the first Burkina Faso National Water Forum was held in December 2011 to engage these various water stakeholders, fifty of which represented Burkina Faso at the World Water Forum in Marseille, France, the following year.

Millennium Challenges

Burkina Faso has shown political will to comply with the recommendations of international institutions on water policy while at the same time retaining some autonomy over how to implement them. In the context of the Millennium Challenges, since 2006 the government has elaborated a new programmatic approach. The reference framework is the Programme national d'accès à l'eau potable et à l'assainissement (PN-AEPA, or National Drinking Water and Sanitation Programme). PN-AEPA aims to reduce by half the proportion of people without sustainable access to safe drinking water and basic sanitation by 2015. All interventions in rural and urban areas are expected to comply with this framework as a condition for accessing international funding.

The PN-AEPA is also expected to encourage civil society participation and coordination of efforts in partnership with public authorities. Dialogue is facilitated by an annual review process among government and its development as well as financial partners. This joint monitoring programme gathers all the partners (state, ONEA, local authorities, NGOs, civil society, private sector, donors) each year to evaluate whether the objectives have been reached.

According to statistics produced for PN-AEPA, Burkina Faso surpassed its urban drinking water target by reaching 80 per cent coverage in 2011, but rural access stood at only 58.5 per cent and it is unlikely that the country will meet the target of 76 per cent by 2015 (MAHRH 2012). The measurement of water access rates is often subject to controversy, however, as the various sources of information use different methods. As a case in point, the WHO-UNICEF Joint Monitoring Programme focuses on supply-side improvements (access to improved sources such as household connections, public

standpipes, boreholes, protected dug wells, protected springs and rainwater collection) whereas the government and ONEA emphasize 'reasonable access', which takes into account conditions of access in terms of distance, waiting times and quality of water, for example. Another issue is the fact that informal urban settlements are not considered in these statistics. As a large proportion of Burkina Faso's urban population lives in these areas (Fournet et al. 2008), safe water access rates appear unreliable.

For sanitation, the government statistics match those of the WHO-UNICEF Joint Monitoring Programme, but with only 10 per cent coverage in 2008 the country was far from the sector target of 55 per cent by 2015. Further, recent data show that while the rate of access to sanitation in urban areas in 2011 was 24 per cent, it was at a low 0.8 per cent in rural areas in 2010, revealing a strong geographical disparity (MAHRH 2012). As in many African countries, there is a major implementation gap in sanitation. It is only recently that Burkina Faso focused on sanitation issues, as evidenced by the 2008 creation of the Direction Générale de l'Assainissement des Eaux Usées et Excrétas (DGAEUE, General Directorate of Wastewater Treatment) under the Ministry of Agriculture and Water (now the Ministry of Water).

Decentralization

In 2004, Burkina Faso adopted a new General Code of Local Governments (*Code général des collectivités territoriales*) that defines the legal and regulatory framework for the implementation of its decentralization policy. In contrast, to this day regulation in the water sector remains very centralized and top-down. Until recently, the Ministère de l'Agriculture et de l'Hydraulique (Ministry of Agriculture and Water) set regulations on drinking water and sanitation, and drove implementation of the PN-AEPA in rural and urban areas. To resolve the tension created by mandating one sole ministry with both agriculture and water management, a new Ministère de l'Eau, des Aménagements Hydrauliques et de l'Assainissement (Ministry of Water, Hydraulic Planning and Sanitation) was created in January 2013. The Ministry of Health and the Ministry of Environment and Sustainable Development also regulate the sector, although the allocation of responsibilities is not very clear.

Some decentralization has taken place in rural areas, where the

General Directorate of Water Resources (DGRE) and DGAEUE take the lead, under the supervision of the Ministry of Water. They identify needs, plan activities, mobilize finance, provide guidance, coordinate interventions, and develop project management and monitoring tools. This is carried out in rural areas by the thirteen Regional Directorates for Agriculture, Water and Fisheries (DRAHRH, Directions Régionales de l'Agriculture, de l'Hydraulique et des Ressources Halieutiques). There is ambiguity in the DGRE's role in defining rules while also implementing them via the newly decentralized state structures, however.

ONEA is also under the direct supervision of the Ministry of Water. As such, ONEA is at the same level of the organizational chart as DGRE but it is concerned only with urban areas. These duplicated policy-making roles are problematic in peripheral areas of cities, particularly when former villages are integrated into urban areas as part of decentralization.

At the local level, decentralization (*communalisation*) is progressing gradually. The territorial decentralization was completed in April 2006 and responsibilities for water services were transferred to the new rural and urban 'municipalities' (*communes*) in February 2009. Each municipality signs a contract with the central government (through the DRAHRH) and is responsible for planning, infrastructure development, and management of water and sanitation services in their area. They are designated as '*maîtres d'ouvrage*' as infrastructure belongs to them, and they develop their own communal development plans for water supply and sanitation under the supervision of the DRAHRH. Municipalities can choose among different governance models: they can decide to manage the service themselves (as a '*régie*') or to have a lease contract with ONEA, but outsourcing to private operators is encouraged in areas where ONEA is not involved. As will be discussed further, this latter approach is symptomatic of the spread of neoliberal policy at the local level via decentralization.

The decentralization of government structures is supposed to bring services closer to citizens and provide technical support to local authorities. However, most of the municipalities suffer from a lack of human, technical and financial resources that prevents them from successfully assuming their new responsibilities and ensuring that investment is sustainable. Appropriate decentralized financial

instruments, combining budgetary transfers between central government and local authorities as well as developing local taxation, are yet to be established. This helps explain why NGOs in Burkina Faso are now deeply involved in capacity-building programmes.

Inconsistencies also exist with regard to the infrastructure planning process in municipalities. In principle, municipalities present their infrastructure needs to DRAHRH based on local priorities, regardless of funding (Valfrey-Visser and Rama 2012). The DRAHRH then compiles information for transmission to the central authority, which decides on the use of funds not on the basis of priorities identified at the community level, but based on other considerations (e.g. regional balance) that are rarely made explicit to the *communes*. The latter do not hear about funding allocations until implementation is started. Furthermore, the state relies on two separate implementing agencies that decide on infrastructure works without involving the municipalities or DRAHRH, exacerbating tensions. Such institutional conflicts over implementation pose a threat to the sustainability of water policy.

Rural–urban divides

In Burkina Faso, the governance of water and sanitation has different logics depending on the nature of the territory concerned (urban, semi-urban or rural), and the status of semi-urban areas remains the most ambiguous. According to the *Code général des collectivités territoriales*, there are 351 municipalities (*communes*), 49 urban areas and 202 rural areas. Urban area is defined as a territorial entity with at least 25,000 inhabitants. A rural area is composed of villages with at least 5,000 inhabitants. Semi-urban areas are not defined in this code, but the PN-AEPA and DGRE use the term to refer to territories with a population of between 2,000 and 10,000 inhabitants.

With a few exceptions, in urban centres with a population of more than 10,000 people ONEA provides water to domestic, public and private (industrial) users in collaboration with municipalities. As part of its contract with the state, ONEA is responsible for water supply and sanitation services in thirty-nine urban centres across the country. Thus, in reality, ONEA undertakes infrastructure expansion only in the urban centres where it operates and if they are deemed profitable, to avoid weakening its financial bottom line.

Although the urbanization rate is relatively low in Burkina Faso (22.7 per cent), the population growth is significant and the number of urban dwellers doubled between 1996 and 2006 to reach 2.8 million (Ouedraogo and Ripama 2009). The two main cities concentrate most of the population, with 46.4 per cent of urban dwellers in Ouagadougou (the capital city) and 15.4 per cent in Bobo Dioulasso (Marin 2009). This trend is expected to persist owing to political tensions in the sub-region, rural depopulation, climate change, and the urbanization of rural areas.

Ouagadougou is one of the fastest-growing African cities. According to the last census, the population of Ouagadougou was estimated at 1.3 million inhabitants in 2006; in 2011, it was assumed to have reached 2 million. The urban population is growing much faster than local economies, leading to high unemployment rates, informal settlement proliferation, social polarization, and a lack of access to basic services such as safe water. In 2009, roughly 35 per cent of households were located in informal settlements (Boyer 2010) and half of all housing was built out of precarious materials.

The issue of urban land tenure is strongly connected to water access (Moisseev 2010: 33). During Thomas Sankara's revolutionary regime (1983–87), large areas of public land were provided for housing development, alleviating huge demand pressure and reducing land prices. Today the situation has changed dramatically, with urban expansion characterized by informality and unplanned settlements (Boyer 2010). But as outlined in its contract, ONEA is not mandated to operate in these areas and does not do so because those households are considered insolvent. Furthermore, public authorities are reluctant to provide basic services in informal settlements because it may imply recognizing them as formal. As a result, households in these neighbourhoods get access to water primarily via boreholes and wells financed mostly by NGOs and international donors. A recent example is the new project financed in part by the World Bank to provide standpipes or individual connections to households in five informal settlements of Ouagadougou via small private operators contracting with ONEA.

History of ONEA

From colonial provider to state monopoly (1954–94) In the decades preceding nationalization of water supply in 1977, the management

of drinking water in the country then called Upper Volta was private. In 1954, the French company Énergie AOF became the first energy and water provider when an agreement with the colony's governor was signed. After independence in 1960, the company name changed to Société africaine d'eau et d'électricité (SAFELEC), and then to Société voltaïque d'eau et d'électricité (VOLTELEC) in 1968.

In 1970, responsibility for management of water and electricity was disaggregated, with the creation of the Société Nationale des Eaux (SNE), a semi-public national water enterprise in charge of the production and distribution of water in seven urban centres, while the state would supervise rural water supply directly. With the signing of the contract between the state and SNE, the latter was tasked with 'redressing the service's financial management, including through a campaign to recover unpaid bills and introduce systematic water cuts for debtors' (Jaglin 1995: 135). In 1975, SNE opted for a policy of private connections that would facilitate payments, mainly for the central districts of Ouagadougou. The company profited, but at the expense of public water kiosks and low-income outlying districts.

In 1977, the government decided to 'correct this policy by replacing the SNE with a public institution, ONE (Office National de l'Eau), responsible for resolving the contradiction between the constraints of profitability and the political requirements of urban services in drinking water' (ibid.: 135). ONE became ONEA with the addition of responsibilities for sanitation in 1985, and it was then given the status of 'industrial and commercial public state entity'. As such, ONEA is now a state monopoly in charge of treatment and distribution of water.

During the 1980s, ONEA faced a difficult situation of insufficient supply in the face of growing demand, particularly from low-income households. In addition, the government refused to raise rates from 1983 when Sankara came to power with his leftist agenda. ONEA then adopted a new policy to move from a service offered to a minority of subscribers to one encouraging the creation of community infrastructure (ibid.: 152).

ONEA's corporatization (1994–2001) The context changed radically in the 1990s when ONEA underwent corporatization. During that period, the private sector was considered a source of financing for

major capital investments by means of long-term lease or concession contracts. The World Bank wanted to implement private sector participation, especially in water (Blanc and Botton 2012). In Burkina Faso, World Bank investments began in 1993 in the urban water sector, after which ONEA was transformed from a quasi-public agency into a state-owned public company with legal autonomy in November 1994. An arm's-length relationship was established between ONEA's management and the government, supported by three-year performance contracts with explicit operational targets (Marin et al. 2010).

This transition period was also marked by deteriorating relations between the government, ONEA and donors (see World Bank 1999). Another point of contention involved tariffs, which had not been adjusted since the early 1980s and had contributed to significant financial losses at ONEA. A 1990 study financed by the German Development Bank (KfW) had recommended annual tariff increases to gradually recoup costs, and ONEA subsequently proposed a similar course to the government for 1997–2000. The increase that the government approved was well below the initial request, and implementation was delayed until December 1997. In response the World Bank and other donors insisted that ONEA carry out another tariff study aimed at restoring financial equilibrium. This study was conducted in 2000, with the objective of determining the long-term cost of water and proposing gradual tariff adjustments to achieve full cost recovery, according to Lamine Kouaté, former director general of ONEA (author interview).

The World Bank also argued that 'future Ouagadougou Water Supply projects should ensure that ONEA's operating, commercial and financial capabilities are adequately addressed through a sound institutional arrangement to be set up with private operator involvement' (World Bank 1999: 12). As will be explained next, this led to a service contract between ONEA and French multinational Veolia.

Private service contract (2001–07) Since 2000 there has been increased pressure for private sector participation in the water sector in the country. The government has resisted outright privatization but has accepted limited involvement by the private sector where ONEA was inefficient. As Ballance and Trémolet (2005: 45) note,

the large investments required and the frequent inability of residents to pay probably ruled out divestment in any event. But the government also appeared steadfast in its will to maintain water sector management partly in the public domain.

In 2001, ONEA signed a five-year service contract with an international private water operator and a consultancy firm (Veolia and Mazars & Guérard). This contract ended in 2007, after an eighteen-month extension to the original contract. The objectives were to promote efficiency by strengthening ONEA's capacity to manage commercial, financial and accounting operations. The contract dealt with improving customer satisfaction and financial management, via the secondment of two full-time specialists from the private consortium to act as deputy managers of ONEA's commercial and financial departments as well as providing short-term administrative support, subject to ONEA's approval. Outcomes included setting up a new accounting system and corresponding operational financial modules, preparing ONEA's annual financial statements, and defining and implementing new commercial management procedures. One of the key performance indicators would be related to the collection of payments from private customers. The bonus/penalty system for the private consortium was based on 5 per cent of the sector revenues (Marin 2009: 34).

The impact of the service contract was analysed in a report by the World Bank (2008: 19). It concluded:

- 'ONEA's accounting is in order'
- 'The bill collection ratio has increased from 86 percent in 2001 to 95.4 percent in 2007; and unaccounted-for-water (UFW) was stabilized at 18 percent which compares well to the best performing water utilities in Sub-Saharan Africa'
- 'The financial equilibrium of the urban water sector has been restored, and ONEA is able to recover its operating and maintenance costs, and its cash contribution to the capital expenditure program (Capex) from collected bills'
- 'There has been a jump in the staff productivity index which far exceeded the target of 230 connections per employee initially set for 2007 (the figure now stands at 810 connections)'
- 'A 2007 survey of ONEA customers found that 85 percent were highly satisfied with their water service'

Given these improvements, donors saw this initial contract as a first step towards an extended public–private partnership. But it has not materialized yet, despite the Burkinabe government’s general commitment to liberalization and privatization. Between 2005 and 2007, the government implemented a privatization programme for ten state enterprises (SONABEL, SONABHY, CBMP, CENATRIN, Hôtel Silmandé, BUMIGEB, CCVA, ONATEL, Ouagadougou and Bobo-Dioulasso airports). ONEA was the exception and the state deferred a decision. One factor could be related to concerns with the limited expansion of network coverage in low-income areas during the contract period (Ballance and Trémolet 2005).

Water has always been considered as a strategic resource in Burkina Faso, and the government appears reluctant to relinquish control over management of access and quality. It is this vision which led to the creation of Act No. 002-2001/AN in 2001 on the management of water. This law designates water as a common good and recognizes the need to ensure public provision. However, if language around ‘serving the general interest’ is employed in the Act to justify the importance of a public utility, private management methods are also cited as a preferential method of management (particularly in small urban centres).

Furthermore, even as ONEA remained public, it moved towards full corporatization to ‘mobilize the staff around a common vision of corporate objectives and governance’ (World Bank 2009: 12). This was achieved through a Corporate Strategic Plan that was formulated with staff participation and the development of a ‘quality assurance approach’. The latter resulted in the ISO 9001 certification of the company, the first public water utility in the sub-region to be certified as such.

The high levels of foreign aid in Burkina Faso, notably from the World Bank, may explain these corporatization choices, and the pressures are only mounting. One of the biggest challenges ONEA will face is the availability of water in the context of high urban growth. As a result, a project to build a new dam (Ziga II) has been submitted to a pool of donors, including the World Bank, the European Investment Bank and AFD. Negotiations are ongoing but will likely give these donors the potential to impose conditionalities once again.

ONEA today

From a technical-economic perspective ONEA has maintained, and even improved, the level of performance achieved under the private service contract that ended in 2007. But to what extent has it attained the social objectives that were made part of its constituting mandate in the 1990s? Low rates of connectivity remain a concern in some areas and the country has seen an increase in protests against high water prices since 2008. Interviews for this research underlined the need for the state to control the price of water at affordable levels in a country where poverty remains rife.

The response of the state appears to be in the form of a hybrid governance model that adopts certain principles of private management, technical and economic efficiency, and the types of performance criteria promoted by new public management, while at the same time retaining a strong political will to keep ONEA as a public entity and pursue equity goals. These tensions play themselves out in several ways, as outlined below.

Governance: hybridization of public and private rules When ONEA was transformed by the 1994 decree (94-391/PRES/MICM) from an organization answering to the Ministry of Water into a state enterprise, it gained financial and organizational autonomy. This status means that it is subject to the same regulations as the commercial sector.

ONEA's objectives are approved by the Council of Ministers, while its operations are governed by three-year 'contract plans' signed with the national government (the first one signed in 1993). This contract attributes to ONEA a role similar to that of a delegated contracting authority, and places it under the technical supervision of the Ministry of Water. This contract is also the main form of regulation as there is no independent regulatory authority. The contract plans were put in place on the recommendation of the technical and financial partners as a way to introduce management tools usually associated with private companies, further blurring public-private boundaries.

ONEA operates as a limited liability company governed by private laws, except for some aspects which are under government control (Ballance and Trémolet 2005: 67), such as the appointment of the director general and the secretary general. The company is managed by a director general (currently M. Ouibiga, appointed in 2006)

who manages day-to-day operations and is evaluated annually by the board of directors; he can be dismissed on the recommendation of the minister or the board if objectives are not met. The director general is now assisted by a secretary general who controls the management and legal departments, as well as communications and public relations.

ONEA's operations are decentralized. There are four regional departments (Ouagadougou, Bobo-Dioulasso, North-East and North-West) that propose investments based on their reading of the situation on the ground. They are autonomous in their spending to a certain point, beyond which the director general can intervene based on larger financial considerations.

Once a year, the General Assembly of State Companies examines the functioning and management of the utility based on a report submitted by the director general. The assembly is headed by the country's prime minister. It provides guidelines to the head of the board. It also approves ONEA's accounts.

The board of directors is the ultimate management body of the company and is appointed by a Council of Ministers' decree. It is headed by a representative of the Ministry of Water or the Ministry of Finance. It includes nine representatives from the concerned ministries supervising the utility (Baietti et al. 2006) and a representative of the Consumers League of Burkina (Ligue des Consommateurs du Burkina) serves as an observer. The League can initiate public inquiry into ONEA, with a focus on water quality, 'customer service', prolonged water cuts and pricing. The League is represented in most regions of the country. In addition, a representative of the Association des Municipalités du Burkina Faso also sits on the board. Finally, the board is completed by a staff representative, who currently happens to be the chairman of the Syndicat National des Travailleurs de l'Eau et de l'Assainissement (SYNTEA, National Union of Water and Sanitation Workers).

Human resource management: a model based on merit Since reforms in the 1990s, ONEA staff have been under private law contracts except for the director general and the secretary general, who are public officials. Working conditions at ONEA are generally better than in the country's public service, and its staff receive higher salaries on average than other civil servants (though comparable to employees

in other public agencies; see Fall et al. 2009). ONEA's performance evaluation of staff and promotion mechanisms are based on merit rather than seniority or political affiliation, and are grounded in the principles of benchmarking against set targets. However, 'it is unclear whether the criteria for staff evaluations are realistic or objective or what types of follow-up mechanisms to track performance have been implemented' (WSP and PPIAF 2009). Overall, relations between management and staff are cordial, although there was some tension following implementation of a salary increment scheme that was unilaterally imposed by the state in 2004. A disciplinary committee settles disputes between employees and management, and is empowered to take disciplinary action, including dismissal in case of a serious offence.

The company maintains regular dialogue with the union, whose role is important within ONEA. SYNTEA, created in 1972 after the separation of the water and electricity mandates, is the sole union in ONEA. It is affiliated with the powerful umbrella group Union Syndicale des Travailleurs du Burkina (USTB)/Confédération Générale des Travailleurs du Burkina (CGT-B). Almost all workers at ONEA are part of the union, but only about a third participate regularly in union activities. The union's main activities relate to remuneration and benefits, internal advancement and recruitment, working conditions, and labour-management relations. The union also has a role in training and is involved in ONEA's management through its representative on the board of directors.

Regional equity? A public enterprise working in the public interest should follow principles of territorial equity, but ONEA adheres to them only partially. It does have a national equalization policy that sets a single price for all cities (which in practice means that Ouagadougou and Bobo Dioulasso subsidize the rest of the system). Yet while by contract ONEA must supply cities of more than 10,000 inhabitants, in practice some locations of this size may not be covered because they are not considered financially viable.

There is also disparity within cities; roughly half of the urban population has household water connections, a quarter accesses standpipes and the remainder get water from private vendors. Current access rates reflect progress made since 2000, but the countrywide data reveal important geographical disparities.

By 2011, thirty-nine cities were under the direct control of ONEA but seven were under lease contract with ONEA.⁵ These leases were signed in 2010 in the context of decentralization, and are unique to the sub-Saharan region. These cities can choose to manage the water service directly (*régie directe*) or to delegate to a private operator, though in practice very few private water companies exist in the country.

Contract plans and performance indicators The contract plan is developed every three years to set performance indicators for ONEA (there were thirty-four indicators in 2001 and twenty-eight in 2011). Most are related to technical, financial and commercial performance with no direct indicators on the impact of water services on health, the environment or gender inequality (Ballance and Trémolet 2005).

Current performance indicators are as follows:

- Protection of water resources (one indicator);
- Technical: total yield from production capacities, coverage rates, leakage rates, drinking water quality, investments in sanitation and realization of strategic sanitation development plans (twelve indicators in total);
- Financial: return on investment, debt ratio, operating costs (three indicators in total);
- Commercial: payment collection ratios, number of complaints and time required to address a complaint (seven indicators in total);
- Human resources: expenses on staff as percentage of operating costs, training expenses (five indicators in total).

ONEA must evaluate its performance indicators every six months. The monitoring committee meets twice a year to appraise the report, which is submitted to the board of directors, and verified by an international auditing firm. The report is then made public and presented to donors, ministries, the Consumers League and the Association of Municipalities. ONEA usually presents satisfactory performance in terms of quantity and quality of water. It also displays strong financial health, with an operating surplus of XOF 2.283 billion in 2011.

There has been a jump in the staff productivity index, up to 810 connections per employee in 2009, far exceeding the target of 230 connections per employee initially set for 2007 (World Bank

2009). Many international institutions consider this ratio a very important one, even though it gives little information on the way the company implements the policy or the impact this has on workers. In terms of human resource management, ONEA has developed new tools, including centralized IT management of personnel, creation of a division for human resource planning, annual staff performance appraisals, and regular analysis of the match between service needs and available resources. It has also strengthened the training offered internally via the Centre des Métiers de l'Eau (CEMEau) and funded training of employees abroad. Finally, between 1999 and 2005 the ONEA workforce expanded by 23 per cent, integrating younger staff (predominantly male, although the percentage of women increased from 10.1 to 11.5 per cent; see Gorse and Chouteau 2008).

Unaccounted-for water levels (including leakage and water consumed but not paid for) tend to be high in Africa, but ONEA is on a par with high-income countries and compares well to the best-performing water utilities in the region, at roughly 20 per cent losses. Some reports state that full-pressure water service is now ensured at all times (World Bank 2009), as compared to the situation in 2001, when it was chronically intermittent and weak. But this claim is not confirmed by interviews and regular visits to the field by the author, particularly in informal settlements, where people complain about water cuts, especially during the dry season. The main problem is that ONEA often faces power shortages, which is a very limiting factor in the treatment and distribution of water. There is a contract between ONEA and the electricity company SONABEL, but when problems occur ONEA has to find its own solutions, for instance by renting generators.

The payment collection ratio increased from 86 per cent in 2001 to 95.4 per cent in 2007 (*ibid.*). A 2007 survey of ONEA customers found that 85 per cent of them were highly satisfied with their water service (*ibid.*). However, ONEA still faces difficulties in cost recovery. For example, the payback period for municipalities and some communities remains long, even for large, high-consumption users who are responsible for 50 per cent of unpaid bills (as of July 2012). Finally, in the contract that binds ONEA to the state, it is stipulated that certain ministries and public health services, as well as some in the administration, cannot have water cut off even in the event of non-payment.

Overall, though, financial balance in the urban water sector has been restored and ONEA is able to recover its operating and maintenance costs as well as its cash contribution to the capital expenditure programme. Cash flow in the sector doubled from XOF 3 billion (US\$6 million) in 2001 to XOF 6 billion (US\$12 million) in 2006, representing 30 per cent of sales. As a result, ONEA exhibits a very high level of solvency and does not suffer from liquidity problems. However, ONEA's accounts have exhibited relatively high personnel costs at approximately 23–24 per cent of its total gross revenue. Since 2010 the wage bill has risen much faster than revenues, even if the projections show that this gap should be reduced starting in 2013.

Overall, the financial position of ONEA did not require any rate increases in 2011 or 2012. But it is expected that the rate will need to increase in 2017 because the average cost will have surpassed the average rate by then. In addition, the increasing burden of debt service resulting from investment efforts points to a sharp drop in the level of cash from 2014 onward.

In the end, ONEA is evaluated on criteria borrowed from private companies. These performance criteria give little weight to the principles of common good or questions of 'public ethos'. Nevertheless, in interviews conducted with water officials from ONEA, 'public ethos' was repeatedly referred to as the foundation of their utility's strategy. This seemed to stem in large part from what the corporation refers to as its 'pro-poor' policies and projects targeting vulnerable populations.

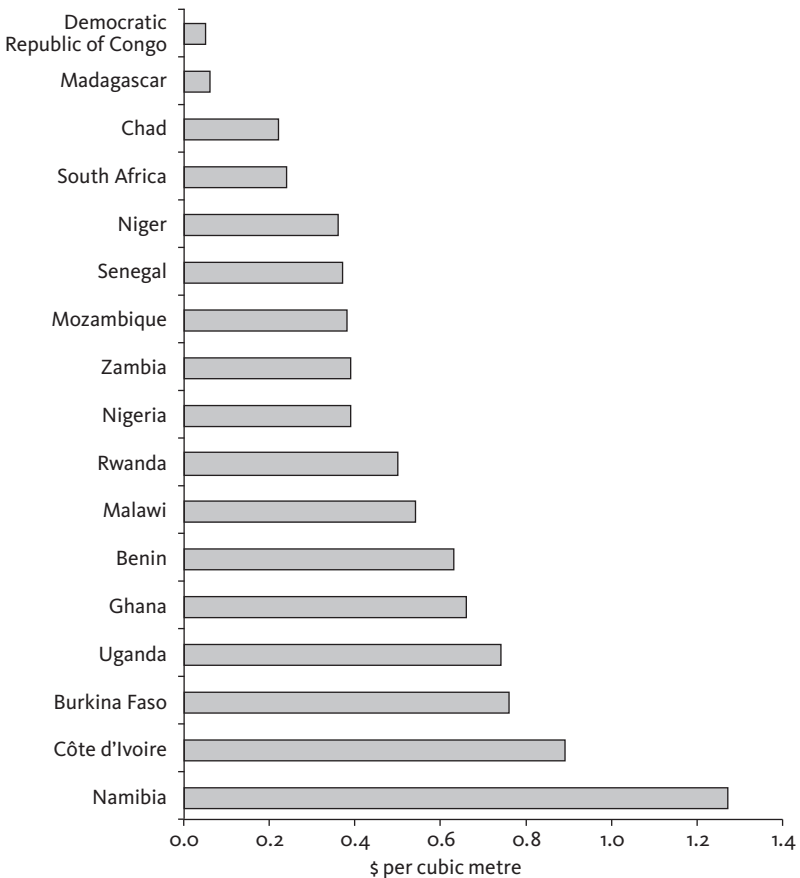
Progressive tariffs? There have been debates within ONEA about the meaning and objectives of a 'pro-poor' policy. In October 2011, three consulting agencies made proposals, which were discussed with government and ONEA officials as well as the World Bank. One of the key mechanisms identified for helping poor households to access water services was tariffs. Beginning in 1990, ONEA outlined its tariff policy every five years, in consultation with external consultants (the last plan covered 2008–12). A new tariff review financed by the AFD for the period 2013–17 period is ongoing.⁶ ONEA's current tariff policy is based on the following principles:

- financial equilibrium in operations
- marginal costs

- affordability for low-income households
- rising block tariff structure
- cross-subsidization and a single tariff across the country

Burkina Faso’s water prices are among the highest in the sub-region. Indeed, the expansion of drinking water access (characterized by increasing private connections and more water kiosks) has raised prices more than in other countries (see Figure 3.1).

ONEA chose to recover costs through high tariffs, while equalization transfers allowed the maintenance of financial balance in



3.1 Water prices in selected African countries (\$) (source: Banerjee et al. 2009 as cited in Briceño-Garmendia and Domínguez-Torres 2011: 27)

the system as a whole (Briceño-Garmendia and Domínguez-Torres 2011). However, ONEA does not apply the principle of full cost recovery (*'vérité des prix'*). Thus an equalization system was established at several levels (among cities, categories of users, etc.) to allow households to pay for drinking water at a price considered affordable.

ONEA also uses a rising block tariff system, with a 'social' block aimed at providing cheaper water for a minimum usage. Prior to 2001, the social block comprised up to 10m³ per household per month. In 2001, this quantity was lowered to 6m³, and then raised again to 8m³ in 2005 after pressure from consumers' organizations. The current social tariff price is XOF 188/m³. Studies show that households are aware of this system and seek to limit their consumption to stay within the lowest price category, given the large price jump in the next block to XOF 430/m³ (ONEA, as cited in Marin 2009). A fixed monthly fee of XOF 1,000 is included every month in the bill.

This tariff structure has limited benefits. As Ballance and Trémolet (2005: 56) note: 'Whether this kind of tariff structure actually helps the poor is the subject of considerable debate: analysts have pointed out that in some cases such tariff structures can harm the poor because they would tend to consume more water or would often be unconnected, therefore unable to benefit from cross-subsidy.'

Reaching peri-urban populations In an effort to bring water to a larger proportion of the urban population, ONEA is working to improve access to standpipes. There are 1,300 standpipes under ONEA supervision (992 for Ouagadougou alone). These are located in formal urban areas, especially peri-urban zones, but ONEA has built standpipes close to informal settlements so that households living in these areas can get access to safe water. As there are very few alternatives for these households, standpipes represent an essential access point for safe water.

There are many different modes of governance for standpipes and a high degree of complexity in their management, even if a contract is signed between ONEA and the private vendor. Operations are closely supervised by ONEA, and any deviation from contract conditions can lead to the reassignment of the standpipe to another manager. There is an association of standpipe managers that seeks to bring common concerns to the attention of ONEA,

including transparency in the selection of standpipe managers. The contract may specify resale prices, hours of operation, terms of payment and conditions for rescinding the contract, although actual practices often deviate from agreed terms. In reality there are few control mechanisms as ONEA does not have the financial or human resources to enforce them.

In order to be selected to manage a standpipe, one must deposit a certain amount of money (Water Utility Partnership 2003). Standpipe operators are expected to sell water according to the social tariff, but often sell at a higher price to make their profit. Water can also be sold to informal vendors who resell water to households. Some studies have shown that consumers using informal vendors pay much higher rates (World Bank 2009), correlated in part to the distance between houses served and the standpipes, and in part to the resource availability (in the dry season water is much more expensive as demand is high).

Social connections Progress in water access in Burkina Faso mainly results from ‘social connections’ in the form of subsidized fees. Some 88,000 social connections were completed between 2007 and 2010, and 172,000 more are planned by 2015 (ONEA 2010b). However, some of the newly installed connections are not used: the percentage of ‘inactive connections’ varies from 6.8 per cent in Ouagadougou to 20.3 per cent in Bobo-Dioulasso (World Bank 2009). This can be explained in part because the connected household is not occupied; however, in some cases it is because it has ceased to use it and returned to the previous source of supply owing to low and irregular incomes that make it hard to cover the monthly bill. ONEA disconnects households after non-payment of two water bills, but it is making efforts to bring back inactive consumers.

Conclusion

Water, it seems, is a key policy concern for the government of Burkina Faso, with easy and regular access to safe water cited as a priority for ONEA. In this sense, the country’s water sector appears to be a strategic one that the government does not want governed by ‘external’ actors. The political will to retain a public water operator in Burkina Faso is also justified by claims that it focuses on poor households.

But is water policy in Burkina Faso akin to the neoliberal rules that have been implemented in other sectors? We have shown in this chapter how ONEA is ‘successful’ primarily according to narrow financial, commercial and economic criteria, while issues of equity, community participation and access (particularly for sanitation) remain problematic. Very few official documents refer to these ‘social’ criteria, raising questions as to how committed the state is to a ‘pro-poor’ policy.

When will rural delivery be accelerated and what role will ONEA play? To what extent will external funders and NGOs continue to influence water policy in the country? Such is the ambiguous nature of corporatization. The impulse to keep water public in Burkina Faso appears strong, but the rationale for doing so is unclear, and the larger macroeconomic pressures for privatization and liberalization remain. It may be that the success of other public water providers around the world, and the growing trends towards (re)publicizing services, will animate those in favour of ‘publicness’ at ONEA, but the meaning of public, and its socio-economic composition, will be a matter of political struggle and debate.

Notes

1 Agence Française de Développement (AFD), Danish International Development Agency (Danida), German development agency Gesellschaft für Internationale Zusammenarbeit (GIZ), Water and Sanitation Program (WSP) and Public-Private Infrastructure Advisory Facility (PIIAF).

2 More specifically: ONEA (including the former director general), Direction Générale des Ressources en Eau (DGRE), the Housing Ministry, the water union, the Ligue des Consommateurs du Burkina Faso, NGOs (e.g. Eau Vive, WaterAid), Réseau Projection, Eau et Assainissement pour l’Afrique (EAA), small private operators, standpipe managers, some residents of ONEA-serviced households, the World Bank, the Agence Française de Développement (AFD, in Paris and in Ouagadougou) and academics.

3 All translations by the author.

4 For example, the Agence Française de Développement (AFD) granted a non-sovereign loan of €18.5 million (with European Investment Bank co-financing) in 2007, together with a grant of €2 million to ONEA for the extension of the Ziga dam project for water supply to Ouagadougou, the capital city.

5 Information on the performance of these seven cities is available at: www.slideshare.net/Chomaca/bilan-centres-afferms.

6 The objectives of this study are to: 1) conduct an analysis of the willingness and ability to pay of low-income households for water services; 2) determine costs of water provision for domestic and bulk supply; 3) formulate a proposal for tariff levels and structures for integrating water and sanitation activities.

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4 | AN 'ARAB SPRING' FOR CORPORATIZATION? TUNISIA'S NATIONAL ELECTRICITY COMPANY (STEG)

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The Tunisian revolution of January 2011 saw the ousting of long-time president Zine El Abidine Ben Ali, and the launch of a wider social movement towards anti-authoritarianism in the region. Much has been written about this so-called Arab Spring and the effects it may have on the future of Tunisia, but little has been said about its impact on large publicly owned service providers such as the Société Tunisienne de l'Électricité et du Gaz (STEG).

STEG has been an independently managed public company since its creation in 1962, and has been enormously successful in extending electricity and gas throughout Tunisia. With more than 99 per cent coverage in rural and urban areas, STEG has achieved the highest level of access to electricity in Africa, and is a notable example of the ability of the public sector to offer reliable and affordable electricity services. Despite pressures to privatize, STEG management and union leaders have largely resisted this trend, managing to keep the company in public hands.

But as with other corporatized service entities around the world, STEG has not been immune from neoliberal trends, such as the introduction of market-based performance indicators, cost-reflexive pricing and private sector outsourcing (see Chapter 1, this volume, for an extended discussion of these tendencies within corporatization). Nor has STEG managed to stave off privatization entirely, as evidenced by the introduction of an independent power producer in the 1990s.

Much of STEG's 'success' also comes from its authoritarian roots and centralizing management culture.² From the 1950s onward, successive Tunisian governments have dictated investment strategies for electricity provision with little consultation or debate about the character of power generation or its long-term roll-out plans.

Whether for purposes of improving people's lives, boosting economic output, currying political favour, or some combination thereof, the Tunisian state has made electricity delivery a priority for the country and has done so using a publicly owned and operated utility.

Post-revolutionary Tunisia presents STEG with some remarkable new challenges, however, not least of which will be its ability to democratize itself and work out new governance relationships with the state. STEG's status as a 'public' agency may also be in question, as neoliberal actors (internal and external) put pressure on the state to privatize or at least introduce stronger market-based operating principles in the electricity sector.

How these political dynamics will play out in a highly fluid national and regional context remains to be seen. What is clear is that STEG offers fascinating insights not only into the Tunisian revolution, but into the complex nature of corporatization and its ability to adapt (or not) to a democratized regime.

This chapter provides a brief history of STEG, and reviews the company's main strengths and weaknesses as a public electricity provider over the past four decades. It summarizes the current political transition in the country and its effects on STEG to date, followed by a discussion of (possible) future trajectories for corporatized electricity provision in Tunisia. The analysis draws on extensive research on the electricity sector in the region carried out over the past decade, combined with interviews with senior STEG managers, union leaders and regular union members since the January 2011 revolution, as well as representatives of the Department of Industry, funders and international organizations with projects linked to STEG, such as the European Union and the Agence Française de Développement (AFD, French Development Agency).

History of STEG

On the eve of independence in 1956, the distribution and production of electricity in Tunisia was in the hands of eight private companies. These companies provided electrical power to an estimated 100,000 urban residents located close to the plants. Total installed power was 100 megawatts (MW), most of which was provided by the thermal plant of La Goulette (Tunis) and three smaller hydraulic units in the north of the country. In the central part of Tunis, 25,000 customers relied on gas sold by private vendors. The

major cities of the centre and south of the country were supplied by diesel generators from dealers who had their own distribution and production networks as well as their own tariff systems. This arrangement did not allow for any inter-regional connection. The provision of electricity was limited to a few hours per day in big cities.

After independence, the government established the Tunisian Company of Electricity and Transport (1958) to oversee the operation of these providers. Four years later they were nationalized and the monopoly over production and distribution entrusted to STEG, a public utility with legal and financial autonomy. STEG is currently under the supervision of the Department of Industry.

Tunisian political leaders have long considered electricity to be strategic economically, socially and politically, and set early on the objective of universal access (STEG 2009: 30). Electricity was seen as a touchstone of national development and improved living standards. The fact that this objective garnered political support nationally is telling in a political context rife with regionalism and ethnic cleavages. In other words, STEG played a major unifying role in Tunisia post-independence and helped the state establish a national presence.

Three major stages can be identified in the development of STEG. The first corresponds to large investments in the transmission network in the 1960s to connect cities and new industries to the national grid, as well as to standardize voltage. The second stage, starting in the late 1970s, saw the expansion of electricity to rural areas, initially in agglomerated villages and towns of more than one hundred households and later, in the 1990s, to sparsely populated areas.

The third phase, since 2000, has been characterized by a slowdown in the connection of new users to the electricity grid and a shift towards gas distribution after large natural gas fields were discovered in the country. The extension of the gas network is now part of a strategy to reduce energy dependency on petroleum from neighbouring countries and to promote the use of this cheaper and more efficient energy source. STEG has prioritized gas distribution to cities with energy-intensive companies.

In 2012, on its fiftieth anniversary, STEG could be commended for raising the urban rate of electrification from 21 per cent in 1962 to 99.5 per cent, and rural electrification from 6 to 99 per cent. Installed power had reached 3,473 MW in 2010 (from 100 in 1962),

and STEG had thirty times more subscribers (3.15 million) than when it began operating (STEG 2011).

Although the company still holds a monopoly over the transmission and distribution of electricity, production has long been shared with other actors. Already in the 1960s, 12 per cent of electricity produced came from surpluses generated by industry and sold to STEG – an independent capacity developed initially in response to STEG’s shortfalls. Today such surpluses represent 8 per cent of electricity produced.

Faced with growing energy demand and pressure from foreign actors to privatize, the Tunisian government also conceded a share of production in 1994 to the Carthage Power Company (CPC), which operates as an independent power producer on a ‘build, own and operate’ basis.³ CPC provides 25 per cent of the commercial electrical production in the country, on largely favourable terms because STEG commits to providing the gas required for generation and to buy all of the electricity it produces. But according to the 2011 report of the National Auditor (Cour des Comptes 2011), CPC electricity production has fallen short of what was stipulated by the contract, forcing STEG to operate very inefficient simple-cycle gas units to compensate for the private company’s shortfall, contributing to a loss of more than TND 38 million (approximately €19 million). To make matters worse, the company has not settled for non-compliance with its production commitment, estimated at TND 14 million (*ibid.*).

In general, however, STEG has managed to avoid the privatization thrust that affected other parts of the Tunisian economy with the introduction of Structural Adjustment Programmes in the mid-1980s, and the same is true of other large national public service companies such as SONEDE (drinking water), ONAS (sanitation) and those involved in urban transportation.

Contractualization = corporatization

During our research for this chapter, Tunisian interviewees were generally surprised by the use of the term ‘corporatization’, a word that is absent from the reform vocabulary in the country. The term used is ‘contractualization’, which refers to a series of contracts signed between a public agency and the state; it parallels the definition of corporatization used in this book – that is, the creation of

an arm's-length publicly owned and operated agency ring-fenced financially and managerially from the state.

According to Ben Letaïef (1998), the introduction of contracts between the state and public enterprises began in the 1970s and picked up rapidly from 1987 onward. STEG's contractualization is based on external contracts with the state and on internal ones that set objectives and targets for different branches, encouraging their autonomy, albeit with control mechanisms in the form of performance indicators that contribute to overall national development plan targets.

More importantly, Ben Letaïef (*ibid.*: 393) argues that contractualization has been used as a way of 'inserting public companies into the logic of the market, and alignment of their management with private enterprises that are excessively focused on financial and commercial aspects'.⁴ In the contract between the state and STEG for the period covering 1992–96, for example, objectives assigned to 'serving the public' remain vague, with 'the search for financial balance ... considered a priority objective' (Contract 92–96, Art. A VI Financial Strategy). The establishment of a policy of cost recovery 'making the customer bear the economic cost incurred to the company' is particularly noteworthy, as is 'the progressive elimination of preferential rates whose prices are not justified economically' (Art. VII-1.1).

According to Ben Letaïef (1998: 413), contractualization poses 'the state as shareholder', and as such this process has not been seen as a precursor to privatization, as is the case with corporatization in other countries. In what follows, we analyse the contractualization of STEG and evaluate its performance as a public service provider: some indicators point to a neoliberal bias, some reveal the organization's authoritarian roots, while others suggest a deep commitment to a broader public good. This seemingly paradoxical combination of values is not easy to explain, but this is the complex reality of corporatization in Tunisia. Understanding it may help sustain and expand progressive public electricity delivery in the country in the future.

Assessing STEG's performance

Access to electricity Access to electricity can be seen as a measure of social equity, particularly in geographical terms. Electricity grids

often reflect structural inequalities on a national scale between urban and rural areas, and within cities. From this point of view, STEG has an excellent track record, with close to universal electricity access in cities and a connection rate of 99 per cent in the countryside.

Connection of informal urban settlements has also been a strong focus for STEG. Since the 1970s, a strategy for slums has been part of the restoration of older districts and neighbourhoods undertaken by the Agency of Urban Rehabilitation and Renovation (ARRU). STEG has taken part by rehabilitating old distribution networks to connect households in these areas (e.g. Bab Souika-Halfaouine, the old city of Tunis) or by constructing new networks.

Pricing Social equity can also be assessed in terms of the price of electricity. It is important here to distinguish between connection costs and electricity tariffs. Before 2005, connection was billed to the subscriber at a price depending on installed power and distance to the nearest outlet, which was calculated by the number of poles needed to reach the newly connected building. As such it penalized low-consumption, remote households. To remedy this situation, STEG asked people who applied to split connection costs (although some households would still wait on a better-off neighbour to cover the costs of the initial connection before they subscribed).

From 2005, a flat rate was put in place, helping subscribers in peri-urban and dispersed rural areas. However, officials from the STEG union have argued that this system effectively subsidizes developers in urban areas and does not translate into reduced costs for consumers. Indirectly, this new pricing scheme has also encouraged the development of informal settlements near the network, since informal dwellers can share the cost of connections and the state cannot deny them access despite their 'illegal' situation.

The issue of electricity pricing has also been the subject of intense debate in Tunisia. In 2005, a block tariff was introduced for low-voltage consumers (65 per cent of domestic subscribers) in an effort to subsidize the poorest households – a model similar to that of the country's water sector. In practice, there are now three levels of pricing based on the amount of electricity used (less than 50 kWh, 50–300 kWh, and more than 300 kWh). Some of these gains are cancelled out by a municipal tax that penalizes small consumers, but an international comparative study based on 2009

rates found STEG's pricing of domestic subscribers to be relatively progressive (Union de Producteurs 2009). It is also interesting to note that electricity pricing appears more equitable than that for water in Tunisia, which is proportionately more expensive in rural areas and for small consumers (Sahtout 2010; Touzi et al. 2010).

Nevertheless, tariff increases have generated complaints. STEG's contract with the government requires tariffs to be cost-reflexive – a policy called '*vérité des prix*' in French – in an attempt to limit budget deficits. From 2000 to 2010, prices increased up to twice a year (5 per cent annual average), at the same time as consumption was growing (2 per cent more per subscriber on average) (STEG 2011).⁵ The fact that STEG also invoices consumers for access to public television channels has made it even more unpopular (Turki 2011: 181).

Trade union delegates say that STEG's pricing policy is not progressive enough, arguing that pricing for the upper block of consumption is insufficient, suggesting that industry should pay more.⁶ It is also worth noting that subscribers unable to pay their bills receive tough treatment from STEG. After two unpaid bills, and if the amount is higher than TND 30, an order of disconnection (*coupon de coupure*) is issued. To be reconnected customers must pay the full amount of the bill plus a reconnection fee of TND 17.70 – although in practice local party representatives can deal with this on a case-by-case basis. It is unclear whether the contractualization policy has made enforcement of such rules stricter. Since the 2011 revolution, non-payment has grown so sharply (see below) that the government temporarily issued more flexible rules to recover payments without disconnecting.

Participation in decision-making Public consultation is not formalized at STEG but it has taken three forms. First, STEG's fourteen-member board of directors⁷ includes two union representatives who participate in decision-making. On two occasions, the union has threatened to go on strike over partial privatization projects and subcontracting (to collect unpaid bills and to initiate a second concession for a thermal power plant), which led management to abandon those projects.⁸

Secondly, although consumer participation is not formal practice, a sales management representative at STEG claims that his department regularly conducts large consumer satisfaction surveys.

In addition, customer offices receive complaints and the company's website offers a forum through which to voice concerns with the service. There also existed a convention with the Organization of Consumers that is no longer in force because the organization was associated with the ruling party under former president Ben Ali and it did not demonstrate its effectiveness as an electricity watchdog.

STEG has therefore opened various channels for communication with end users but this has been done essentially in the spirit of a commercial relationship. STEG has not provided opportunities for deeper citizen engagement in shaping the utility's long-term objectives. Instead, citizen engagement has been ad hoc and highly dependent on the whims of the ruling party (Chabbi 1999; Legros 2005). Since the end of Ben Ali's regime, consultation mechanisms have changed, but it is too early to know what new shapes they will take or how effective they will be.

Relationships with private companies are STEG's third mode of interaction. Client companies are surveyed to measure satisfaction with the service. Large commercial customers in particular are asked to assess their needs and make suggestions for service improvement. In the post-revolutionary context, media have uncovered privileges of certain companies close to the regime (e.g. cement plants), and investigations are under way.⁹ STEG has procedural safeguards against patronage, but these will also have to be reviewed in light of the political developments of the 'Arab Spring'.

Quality of service Service quality is a major concern of STEG's and is integrated in its policy of contractualization. Indicators relate to the quality of the electricity service offered to subscribers. Technical performance data show that the number of incidents per 100 kilometres of network (largely caused by exogenous factors such as lightning, birds, etc.) has decreased from 2.55 in 2000 to 1.75 in 2010, although indicators vary significantly from one district to another. Major incidents such as the blackout of 2002 – which interrupted the broadcasting of the World Cup football final – have not recurred. Another quality indicator measures time required to troubleshoot. According to STEG, troubleshooting time varies from one to two hours on average in urban districts (although delays of more than five hours have been recorded in more remote districts).

STEG estimates that connection delays vary from one week to

a month. Data show a degradation of the service between 2002 and 2010 as the connection time increased in some districts: for example, it jumped from 17 days up to one month in the north of Tunis; from 10 to 39 days in the north of Sousse; and from 12 to 28 days in Kairouan.¹⁰ It appears that this extension of waiting periods is linked to the strong demand in some areas (suburbs of major cities, touristic areas), technical connection problems and insufficient equipment, some of which has to be imported (the National Auditor has criticized STEG on several occasions when it lacked spare parts because of bad planning; Cour des Comptes 2011).

STEG also measures the satisfaction of its customers by looking at the number of complaints from subscribers as received via a call centre and website; complaints have been in sharp decline and stand roughly at 70 per 10,000 subscribers, in line with international standards.¹¹

Financial efficiency STEG's supervisory authorities (Directorate of Energy, Department of Industry and Mining Resources) monitor its financial efficiency closely, as do donors and funding agencies. Two major objectives are assigned to the company (République Tunisienne 2010: 13):

- 'Take appropriate measures to enable the company to achieve positive financial results and to self-finance the investment programmes of the sector;
- 'Take the necessary measures to enable the company to reach the required levels of financial ratios and to attract external funding.'

Among the main demands is optimization of fuel consumption, which accounts for roughly 75 per cent of the cost of electricity production for STEG. The company has been transitioning to technologies of combined-cycle power plants, which are more efficient. This change has not come as fast as expected, however, as noted in the 2011 report of the National Auditors. STEG planned to establish two simple-cycle units in Ghannouch (Gabes) and in Sousse starting in 2005 but major delays raised costs significantly and blocked the transition to cleaner energy. At the Ghannouch plant, works were delayed until 2011, and dead-end negotiations with private partners forced STEG to sign contracts for the creation of two gas units even though they would require double the energy

that a simple-cycle unit would. Thus, the optimization purpose was defeated. Delays have also been recorded with regard to wind turbine installation owing to opposition from expropriated landowners (Cour des Comptes 2011).

More recently, fuel price hikes have prompted STEG to request tariff adjustments from the government. Indeed, under the terms of the contract the state has to compensate for the gap between the cost of production and the selling price by earmarking operating subsidies for the public utility. But despite such subsidies STEG experienced recurring deficits in 2007, 2008, 2010 and 2011. STEG is now forced to look for less volatile sources of energy such as nuclear power, which may be installed by 2023,¹² and renewable energies, which are already being developed. In both cases, production costs would appear to be higher than current costs to STEG, thanks to gas subsidies from the state.

Despite these concerns, STEG is recognized by international donors as rigorous in its management and control of debt. State guarantees also allow STEG to access sovereign borrowing rates. Its principal lenders are the AFD, the African Development Bank, the Arab Fund for Development, and the European Investment Bank, often in the form of co-financing.

Despite a generally positive assessment of the financial management of STEG, funders do point to some shortcomings in the internal financial information system that make it difficult to analyse performance by sector (gas and electricity) or by branch.¹³ Funders are also pushing for greater correspondence between costs and prices, and are concerned with the suspension of the tariff adjustment policy that came with the revolution (more on this below).

Accountability There are no clear laws in Tunisia defining the type of data that public utilities must provide or the form of public consultation they should facilitate. The public can access information on STEG's activities (including from its website), and its contract requires the publication of annual reports, including its financial situation (costs, profits and losses), but much of this data is published in summary format requiring strong technical and accounting skills to understand it, and internet access is not widespread in the country. STEG is no different from other major Tunisian public companies in this regard, however.

Quality of workplace STEG is one of the largest Tunisian companies. As of 2010, the workforce had decreased slightly to approximately 9,200 employees and it was set to expand to 12,000 by the end of 2012, as production and demand kept increasing. The profile of employees has changed in recent years, with more staff qualifying for supervisory jobs (currently at roughly 56 per cent), reflecting the increasing need for qualified personnel. A significant decline in the number of lower-skill employees, on the other hand, reflects a process of outsourcing of certain tasks (e.g. security, cleaning). There are still very few women employed (14.3 per cent, much lower than the national employment average of 25 per cent for 2011) and they mostly occupy administrative positions (STEG 2011).

Employment in STEG promises good pay in comparison to other sectors in Tunisia, and good job security. Remuneration is set by a salary scale and raises are based on seniority and collective agreements. In 2007–10, annual salary increases were between 5 and 7.5 per cent while inflation stood at 3–4 per cent (ibid.). There also exists a system of performance bonus, which represents a maximum of two months' salary. It is unclear when it was introduced and how it is actually assigned.

There are also professional development opportunities in the form of training that benefited some 4,500 staff in 2010, and STEG offers social benefits such as medical coverage and free electricity (10,000 kWh per year for executives and 5,400 kWh per year for other workers, which is set to be raised¹⁴).

After the revolution

The 2011 Tunisian revolution has forced radical changes on STEG. The new government and the Tunisian population are demanding more transparency, challenging the company's technocratic model of operation. In some cases, mistrust has led subscribers to refuse to pay. More broadly, in a context of requests for greater social justice and redistribution, Tunisian public companies, including STEG, are being asked by the state to contribute to progressive change, breaking with the rigours of the past. These changes raise questions about the sustainability of the autocratic and heavily subsidized growth model that has characterized STEG until now.

Financial turmoil and new charges Even before the revolution, STEG

was facing increasing non-payments of bills, but they have risen dramatically following the revolution: in the first month it was estimated that a quarter of users were refusing to pay.¹⁵ Despite a gradual regularization of the situation, unpaid sums amounted to TND 304 million by the end of 2011 (compared to 160 million in 2010) or 12 per cent of revenues (Kapitalis 2011; STEG 2012).

According to one STEG official, households represent 44 per cent of unpaid sums (Kapitalis 2011). STEG's trade union estimates this figure to be closer to 15 per cent and blames other state actors for losses, arguing that unpaid bills from municipalities account for 63 per cent of lost revenue.¹⁶ It has also become evident in the post-revolutionary era that favours were granted to the members of the ruling clan, including the presidency (African Manager 2012; Tiwinoo 2011). This information is partly true and partly exaggerated but has fed into public mistrust of STEG none the less. Some commentators also fear a possible deterioration in the performance of the company, in a scenario '*à la libanaise*', whereby power would no longer be available at all times (Moalla-Fetini 2011).

Whatever the reasons, unpaid bills have weakened the company's financial position, worsened by rising production costs due to global fuel price hikes. Government has granted STEG heavy subsidies to compensate for both unpaid sums and rising production costs but these neither completely cover the deficit nor guarantee future sustainability.

Regardless, the general public continues to ask for lower electricity rates. In this context, both the electricity union and management have indicated that they would like to eliminate the flat taxes included in invoices to help consumers better understand the real price of electricity. A general price hike appears excluded for the moment.

The revolution has also introduced significant changes in human resource management policy at STEG. In an effort to fight unemployment, the new government has encouraged all public companies to hire new graduates. According to figures from September 2011, STEG recruited 700 new staff after the change in government, especially in management positions. In addition, employees previously subcontracted are being hired as STEG employees. This recruitment process is ongoing and aims to create 1,200 administrative jobs for young graduates at middle and senior levels, and some 2,000 lower-skilled positions such as for cleaners and security

guards. It is anticipated that total staff levels will reach 15,000 by the end of 2013, but it is unclear how the new payroll and parallel reduction in subcontracting will affect the budget.

Evolution of political attitudes towards STEG A second major question raised by the new political context is that of a possible change in the government's position with regard to the public status of STEG. According to some analysts this is not a concern because they see the Tunisian revolution as a reaction against neoliberal policies imposed by international institutions (Hibou 2011). Most company executives¹⁷ seem opposed to privatization, with one senior official noting that, in the short term at least, 'government will not let the bird go before knowing how to control it because after that you cannot catch it'.¹⁸ The STEG union reaffirmed its opposition to privatization at its union assembly in March 2012, and the General Union of Tunisian Workers (UGTT) – a major political force in the 2011 social struggles – has also taken an anti-privatization stance.

However, some observers argue that if the current government does not develop an explicit position on public versus private ownership of public utilities, there is a chance that Islamist and Reformist parties may opt for liberalization policies. In August 2012, following power cuts that disrupted water supply in several regions and indirectly caused one casualty in a hospital lacking alternative power, the prime minister made harsh comments about the management of STEG. It fuelled a controversy between the union and the government over alleged privatization designs (Colonna Waleski 2012; Espace Manager 2012; Tunisie Numérique 2012). Furthermore, aid conditionality could force a change in management style for public companies, particularly if the deficit continues to grow.

One area where privatization is de facto on the agenda is that of renewables. STEG had to accept the decision of the Ministry of Industry and Commerce to create a renewable energy subsidiary (STEG-ER) in May 2010, of which it owns only a 35 per cent share; other shareholders are private industrial companies, consulting firms and banks. STEG-ER can study, build and operate wind farms or solar plants and is responsible for the implementation of the Tunisian solar plan, beginning with the planned construction, with the assistance of the Japanese government, of a concentrated solar plant in the Tunisian south (El Borma). Moreover, a 2009

law on energy management authorizes and encourages the self-production of electricity from renewable energy by industry, and requires STEG to buy back any surplus.¹⁹ However, the regulation has not been implemented to date, owing to flaws in its design and lack of financial incentives, according to representatives of the National Agency for Energy Management and from the GIZ.²⁰ In 2012, new measures were being studied to ease its implementation, including through small independent power producers.

As a result, energy diversification has involved the liberalization of the electricity sector and the emergence of private actors competing with STEG. Ongoing projects such as the Desertec Project and the Mediterranean Solar Plan reinforce pressures in this direction (Moisseron 2010). The planned construction of new power plants (thermal or wind turbines) and a high-voltage power line from Cap Bon to Italy to supply this market will require STEG to adjust over the longer term, but negotiations are currently at a standstill.

Towards more decentralized and participatory governance? STEG is characterized by centralized technocratic management, as are all public Tunisian companies. As mentioned previously, users have no role in decisions on major developments in the company. But with the revolution came renewed pressure for transparency, and investigations into a number of scandals and cases of bad management. The public debate around the new constitution also featured arguments in favour of greater decentralization, particularly regarding policy planning and regional development. But to date these requests have not been addressed by the members of the Constituent Assembly. In sum, no concrete proposals addressing the sectoral management of public utilities have been issued and they are not likely to be on the agenda for some time.

Reflections and lessons learned

Since its creation, STEG has operated as an autonomous public company. From the early 1990s, the relations between STEG and the state were redefined by a contractual agreement that incorporated some measures associated with corporatization, particularly by emphasizing demands of cost reduction and financial efficiency. This policy has been accompanied by the privatization of certain activities, most importantly electricity generation.

Overall, STEG's performance is satisfactory, particularly considering the regional context. STEG has managed to meet set objectives, most notably the near-universalization of access, including in poor urban neighbourhoods and rural areas. STEG has also managed to meet the growing energy demand of households and industry, and was able to secure international funding at affordable rates thanks to its solid financial management and state backing. Electricity tariffs have remained relatively cheap, responding to social development needs and making the country more attractive for industry. Finally, lacking local fossil fuels and faced with rising global oil prices, Tunisia has put in place a policy to control energy consumption and to diversify towards renewable energies. The fact that the Tunisian revolution has not generated widespread demands for improved access to infrastructure, and in particular to electricity and gas, points to STEG's overall good performance.

Three main factors may explain the utility's success. First, there exists a relatively strong public ethos in Tunisian service utilities, despite the fact that they have been pursuing efficiency through new management techniques such as greater flexibility and financial autonomy of branches. A culture of technological innovation has enabled them to cope with the challenges of extending the network across the territory and improving energy efficiency. Importantly, these management changes have not blindly replicated logics from the private sector (e.g. individualization of remuneration, performance incentives for executives, etc.). The contractualization policy has helped STEG meet its financial objectives and has allowed the identification of performance indicators that it can use to justify subsidies for the development of certain technologies or unprofitable investments (such as the electrification of rural areas).

Secondly, contractualization has preserved the economic and social development objectives of the company. Staff are proud to belong to a company dedicated to social progress. To be sure, STEG has not been immune to vested interests close to the former regime (some corrupt, some progressive, such as presidential programmes in poor urban or rural areas, contributing to legitimizing the dictatorial regime of Ben Ali), but at least the company seems to have resisted privatization projects and subcontracting that would have directly benefited Ben Ali's clan, as happened in other economic sectors in the country (Hibou 2006).

Thirdly, STEG's overarching objective was initially to foster national integration and social cohesion in the name of development. The state gave STEG the means to meet set goals, particularly with regard to network development programmes in the rural and informal urban areas, as well as to access, thanks to substantial subsidies on tariffs.

The strict financial management policy followed by STEG until 2011, however, resulted in a significant casualization of employment for groups of less qualified workers that are now subcontracted. This situation has led to a sharp polarization within the workforce. But the situation is changing, with STEG agreeing to regularize the situation of contractual workers and subcontractors by integrating them within the company at the request of the post-revolutionary government. It remains to be seen how this process will unfold and whether it will impact on the efficiency of the company.

What is more problematic is the continuously growing reliance on direct and indirect subsidies from the state, made more acute by spiking fuel prices and problems with non-payment of bills since the revolution. To date, the state's plan to move away from subsidized electricity involves a push towards more renewable energies. This plan opens the door for private sector participation, and corresponding pressures from international financial institutions could radicalize this trend. Debate also continues regarding the best social pricing formula, and this risks fuelling tensions among socio-economic groups, as happened in the water sector (Touzi et al. 2010).

Tunisian citizens tend to overlook the technical performance behind STEG's historical success, and are quick to point to its mistakes. One challenge therefore is to raise public awareness of the conditions that make possible fair and equal electricity services. In a context where these conditions are rapidly changing, STEG will have to involve citizens in redefining how to achieve these objectives.

Notes

1 The authors would like to thank Samir Kebaili of the University of Sfax for assistance with data collection.

2 In French political culture, the term Jacobinism refers to a centralized power organization with state institutions concentrating most of the power.

3 Equity in CPC was initially held by Public Sector Enterprise Group Global from the USA (35 per cent), Marubeni Corporation from Japan (32.5 per cent) and Sithe Energies (based in New York but dependent on Vivendi France, 32.5 per cent) (see business.highbeam).

com/3882/article-1g1-6o822964/tunisia-1st-ipp-rades). Today, its shareholders are BTU Ventures and Marubeni (www.carthagepower.com.tn/actionnaires.php).

4 All translations by the authors.

5 Our own calculation according to data from STEG (2011). The rise in consumption comes from the fact that more than 95 per cent of Tunisian households now own a television, against 87 per cent in 1984; 92 per cent own refrigerators (against 49.6 per cent), 57.5 per cent own a washing machine (against 10 per cent) and 14.6 per cent now own an air conditioner (against 0.9 per cent) (STEG 2009; summary tables provided by STEG for our survey).

6 Interviews with STEG union officials, December 2011.

7 Composed of nine representatives from various government departments (energy, agriculture, etc.), a state controller, two staff representatives (often from the union) and two members at large.

8 Interviews with STEG union officials, December 2011.

9 Ibid. Several stories about embezzlement involving relatives of former president Ben Ali in STEG projects have been leaked in the press (African Manager 2012; Tiwino0 2011).

10 Ibid.

11 STEG, Department of Audit (*Contrôle de gestion*), data computed at our request, March 2012.

12 The nuclear project is still being assessed, despite the recent Japanese nuclear disaster. Since the revolution, a debate on nuclear energy has been under way in the press (see, for instance, Sghaïer 2011 and Cahiers de la Liberté 2011).

13 Interviews with several funders' representatives, Tunis, September 2011. The National Auditor also recognizes such shortcomings (Cour des Comptes 2011).

14 Interviews with several STEG representatives, 23 September, 2011. Such quantities greatly exceed the average consumption.

15 Interviews with STEG high-ranking executives, April and September 2011.

16 Interviews with the delegates of the union of the company, 22 December 2011.

17 Out of ten senior executives we met for interviews, none seemed to back the idea of privatization. Only a high-ranking executive at the General Directorate of Energy mentioned the usefulness of privatization, although he noted that the current experience with CPC in Rades was not fully convincing.

18 Abdelmoumen Ferchichi, Director of Electricity, Gas and Energy Efficiency, General Directorate of Energy, Ministry of Industry and Technology (formerly Industry and Commerce), interview, 22 December 2011.

19 By-law 2009-2273 of September 2009 on the tariff for transporting and buying electricity.

20 Interviews in Tunis, 6/7 December 2012. GIZ is the German development agency (Gesellschaft für Internationale Zusammenarbeit).

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5 | MODERNIZATION AND THE BOUNDARIES OF PUBLIC WATER IN URUGUAY

Susan Spronk, Carlos Crespo and Marcela Olivera

Uruguay is one of the few countries in Latin America where citizens turn on the tap, fill a glass of water, and drink it without thinking twice. The publicly owned and operated Obras Sanitarias del Estado (Sanitation Works of the State, OSE) has been providing high-quality, affordable, nearly universal water services to the population of Uruguay since 1952. Owing to high levels of public investment over six decades, OSE has achieved among the highest coverage rates for water and sanitation in the region. The public health benefits are obvious; Uruguayans consider it a point of national pride that it was the only country on the continent not to be affected by the cholera epidemic in the late 1990s, largely a result of its excellent water services.

While many Uruguayans consider OSE to be a national treasure, water and sanitation services have not always been public. With the neoliberal turn in the early 1990s, two concession contracts to serve wealthy neighbourhoods in the beachside resort of Maldonado were granted to private multinational operators. Yet owing to a successful campaign launched by a coalition of the water workers' union and other environmental and civil society groups, water privatization was reversed. In 2004, Uruguay became the first country in the world to enshrine the right to water in its Constitution through popular plebiscite (Dugard and Drage 2012). The government cancelled the larger of the two concession contracts, returning water and sanitation services in the department of Maldonado to public control.

Despite these victories, the 'public' quality of OSE and the future of the water company remain a subject of debate in Uruguay. While the larger concession contract was cancelled, a public-private partnership with the engineering firm Aguas de la Costa continues to operate in the eastern zone of Maldonado. In addition, the utility has created several other entities that operate under private rather

than public law, to build infrastructure and drive market innovations. In addition, the company continues to rely on subcontracting, a form of ‘privatization by stealth’ (CUPE 1998). The space for worker participation in the decision-making of the utility has also been narrowing in recent years, after a brief period of expansion. In short, concerns regarding the impact of ‘corporatization’ on social equity and efficiency relate not so much to where the utility is at but to the direction in which it is heading.

In this chapter, we argue that OSE remains a model public company: it scores highly on equity and quality of service delivery, solidarity, financial sustainability, gender equity and public ethos. Nevertheless, neoliberal reforms of the 1990s that included the ‘modernization’ of public utilities and the partial privatization of OSE started a trend towards administrative decentralization and the formation of public–private partnerships that threaten to erode the company’s public character as the lines between public and private are increasingly blurred.

OSE in regional context

In many respects, Uruguay is a trailblazer. It has often been considered the Switzerland of South America owing to its economic stability and high levels of social equality. It instituted free public education before England, women’s suffrage before France, the eight-hour workday before the United States, and legalized divorce seventy years before Spain (Galeano 2004). Uruguay is also renowned for its highly developed welfare state, which dates back to the early twentieth century (Pendle 1952). Healthcare, which is provided by both public and private providers, is nearly universal. Electricity, telecommunications and railway services, and even gas stations and rum production, are run by state-owned enterprises. Approximately 16 per cent of workers are employed by the state (ECLAC n.d.), and government social spending, including a comprehensive pension system, has historically been among the highest in Latin America, representing about a fifth of the gross domestic product.

The country’s long-standing commitment to public health and welfare has translated directly into the highest level of spending in water and sanitation per capita in the region (see Table 5.1). Access to potable water is nearly universal but coverage rates with respect to sanitation are much lower: OSE serves 2,996,750 inhabitants

by way of 756,282 water connections, which represent coverage of more than 98 per cent of the population in potable water; but only 249,000 sanitary sewerage connections, which represent roughly 35 per cent of the population (OSE n.d.).

TABLE 5.1 Average annual investment per capita in selected Latin American countries in water supply and sanitation (2010 or most recent data)

	Annual investment (millions of \$US)	Population (millions)	Investment per capita (\$US)
Uruguay	154.4	3	51.46
Paraguay	67.4	6	11.23
El Salvador	61.6	6	10.27
Ecuador	143.0	14	10.21
Venezuela	288.6	29	9.95
Colombia	435.9	46	9.48
Argentina	360.0	40	9.00
Chile	151.2	17	8.89
Costa Rica	34.4	4	8.60
Peru	220.2	29	7.59
Panama	29.8	4	7.45
Brazil	1300.9	195	6.67
Nicaragua	39.9	6	6.65
Guatemala	78.1	14	5.59
Dominican Republic	49.0	10	4.90
Honduras	32.2	8	4.03
Bolivia	33.8	10	3.38
Mexico	868.6	113	1.02

Note: The CAF report does not provide the years over which calculations regarding average annual investment are based, but notes that data are from 2010 or the most recent year available

Source: CAF (2012: 26) and data.worldbank.org/indicator/SP.POP.TOTL, based on authors' calculations

While high levels of public investment are undoubtedly the main reason why Uruguay has achieved nearly universal coverage for water, important demographic and geographical factors have made it easier to provide water compared to the situation in poor countries

such as Bolivia, with dispersed, rural populations. By contrast, access to sanitation in Uruguay is much lower but the UNDP considers that it has achieved universal coverage in terms of access to improved sanitation since most households not connected to the OSE network have closed septic systems, such as seepage pits (Raul País, author interview) or are served by the municipal government of Montevideo, which has been responsible for providing sanitation services in the country's largest urban area since 1913.

Uruguay is the most urbanized country in Latin America, at 91 per cent. Approximately half of the population of 3.3 million lives in the capital city, Montevideo, and the majority of the remaining population clusters around regional centres. According to the most recent census in 2011, the population is shrinking. As with many countries that have achieved high human development, the birth rate is declining and immigration has not compensated. Compared to other countries in the region (for example, Ecuador and Peru), emigration has been low. It has been estimated, however, that 14,000 Uruguayans left after the economic crisis following the meltdown of the Argentine economy in 2002, although many of them have returned with the revitalization of the economy in the past five years. The declining population means that demand for water – at least for domestic use – is stable if not in decline.

Considering geographic factors, Uruguay is also a small country with a generous supply of freshwater. Bordering Argentina, Brazil and the La Plata river (the second-largest river basin in the region after the Amazon, and among the five largest in the world), Uruguay benefits from a clean and readily available source of freshwater for domestic consumption. Seventy-two per cent of the potable water is provided by surface water. The entire city of Montevideo is supplied by the Santa Lucia river, which never runs dry. While there is an important agricultural industry in Uruguay – there are four times as many cows as people in the country – there has historically been little competition over water use. But future mining development, the intensification of tourism and agricultural production may eventually change this scenario.

History of OSE

Like most public water and sanitation utilities in Latin America, OSE has been 'corporatized' to some degree from its inception (see

Chapter 1, this volume, for an extended discussion of the meaning and definition of corporatization in public utilities). In 1952, OSE was established by the central government as a publicly owned and operated water and sanitation enterprise at arm's length from the state. Initial infrastructure included a water treatment plant and associated network that served Montevideo, which had been transferred to the Uruguayan government from a private British firm in order to pay Britain's debts following the Second World War.

OSE is widely considered by social movement activists within the region to be a model public company (Spronk et al. 2012). Within OSE, public ethos is so strong that there is even an expression for it: workers feel a strong emotional connection to the public water company and identify themselves as '*camiseteros*' – that is, they 'wear the shirt' of the public water company in the same way that they would proudly wear that of their football team. As manager of human resources at OSE Carolina Moll (author interview) describes this: 'If you go to a small town in Uruguay, the OSE worker is the one who raises the flag in the morning, answers questions of the citizens, hands out the water bills. And in the afternoon, the OSE worker lowers the flag, folds it up and puts it away. It is a form of love of country.'

OSE vice-president Daoiz Uriarte (author interview) echoes these sentiments:

We Uruguayans see ourselves as sons and daughters of the state, both when we are complaining as well as when we are singing the praises of our public services. The state is our father or mother. When the company was privatized it was like someone took away our mother or father. This attitude is different from Bolivia or Peru where the state is the enemy; it is seen as the Spanish [colonial] state. In Uruguay the state has taken care of our basic needs. When I turn the tap on clean water comes out. We are all very happy that these services are public.

The close ties between workers also explain the high level of public ethos within the organization. Workers and managers describe OSE as a 'big family'. Many trace their OSE lineage back to their grandparents and great-grandparents. In an interview with the authors, Adriana Marquisio, one of the key spokespersons for the Red Vida and former president of the trade union (Federación

de Funcionarios de Obras Sanitarias del Estado, FFOSE), described with pride how she is the ‘third generation’ of OSE workers in her family. Her grandfather, an activist who was the founder of the Communist Party in his province, was also an OSE worker. She entered the company as a secretary over thirty years ago and worked her way up to be communications adviser, one of the highest paid positions in the company.

Carolina Moll (author interview), also with thirty years of service with OSE, tells a similar story:

There are a large number of civil servants with OSE, especially the older ones, who identify strongly with the company ... My father started working for OSE in 1960 ... When I went to find a job I was an eighteen-year-old university student. It was difficult to find work because we were in the middle of the dictatorship. In 1980, I applied for a job in a competition for the family members of civil servants and I got my first job ... OSE taught me everything. Sometimes we complain because our salaries are low, but a public job has real advantages – it allowed me to continue studying and build my career.

This depiction of OSE as a close-knit community based on strong familial ties defies conventional beliefs about the problems of nepotism and corruption that plague public utilities in the region. As Daoiz Uriarte (author interview) explains, one of the reasons that corruption is so low in OSE is that ‘everyone is the relative of someone’. Problems related to nepotism are mitigated by the rule that no two family members can work within the same department. He emphasizes as well that low rates of corruption are not unique to OSE but relate to Uruguay’s tradition of wage equity in the public sector: the president of the republic earns a salary of US\$10,000 per month, a senator US\$6,000 and a minister US\$5,000 (one of the lowest central government ‘wage compression ratios’ in Latin America; see World Bank 2006), while the average worker in OSE earns US\$2,000.

The role of workers in public service reform One of the other reasons that public ethos in OSE is so high is the protagonist role that the trade union has played in the operation, management and defence of the public company. Indeed, it is impossible to tell the story of

OSE's privatization and 'remunicipalization' without telling the story of the water workers' union, FFOSE, whose activism and strong opposition to privatization helped to return water to public control.

In the 1990s, the World Bank recommended that the Uruguayan government privatize part of the water services as a means of 'modernizing' the sector by introducing competition (see Santos 2006). Following this advice, in 1992 the Uruguayan state granted the first concession for water and sanitation services in the wealthy, eastern zone of Maldonado to the company Aguas de la Costa. In 1998, FFOSE began to organize opposition to privatization as rumours started that the government planned to increase private participation in the sector. Despite growing public opposition, in 2000 OSE granted a concession for the entire department of Maldonado to URAGUA, a subsidiary of Spanish water company Aguas de Bilbao.

In October 2000, various organizations called a meeting at which the Comisión en Defensa del Agua y Saneamiento de la Costa de Oro y Pando (CDASCOP) was born – a precursor to the Comisión Nacional en Defensa del Agua y la Vida (CNDAV, National Commission in Defence of Water and Life). Throughout 2001, residents of Ciudad de la Costa held a series of demonstrations in front of OSE's offices in Ciudad de la Costa and Canelones. OSE workers held partial work stoppages in solidarity with these protests. CNDAV was comprised of dozens of organizations that joined the campaign along the way, but the principal organizations were the CDASCOP, FFOSE, the Liga de Fomento de Manantiales and the Red Ecológica Social–Amigos de la Tierra (Redes). Each of these organizations brought a distinct but complementary vision to the campaign: Redes brought an environmentalist perspective, the workers shared their concerns about service delivery, and neighbourhood organizations stressed the importance of access to affordable services.

FFOSE is widely considered as the 'backbone' of the national social movement alliance that achieved recognition of water as a human right (Wainwright 2012), providing ideological direction, human and financial resources. In 2000, FFOSE published a series of pamphlets that laid out the ideological basis for the CNDAV campaign to push for a national referendum to promote the right to public participation and the return of the service to public control based upon the notion that water is a 'fundamental human right'. Within this same discourse, the referendum aimed to modify the

Constitution to declare that ‘all superficial and subterranean water resources in all of their forms and uses are not alienable to multinational capital’.

The campaign to collect signatures to call for the referendum was officially launched on 18 October 2002. The objective was to collect 250,000 signatures. Within a year 282,000 signatures were collected and the campaign shifted gears to mobilize the ‘yes’ vote. The coalition organized months of national and international events to draw attention to their work. Activists from all over the continent came to Uruguay to speak in favour of the campaign, along with local celebrities. On 31 October 2004 – the same date as the electoral victory that brought the new left-of-centre government to power – 64.7 per cent of the population voted to make water a human right, a victory that set a fundamental precedent in the defence of water and for direct democracy.

When the new left-of-centre Frente Amplio government came to power in 2005, it also signified a change in political orientation in the public water company. The new board of directors faced the challenge of making the human right to water a concrete reality. When the concession contracts were cancelled in 2005, the utility was in bad financial shape. As Carolina Moll and Daoiz Uriarte (author interviews) explained, OSE’s deficit skyrocketed following the regional economic crisis triggered by the Argentine economic collapse in 2002. Alicia Araujo, the former vice-president of OSE (personal communication), adds that OSE went into the red after 2002 owing to lower revenues (lower water sales and increased payment delinquency) and a hike in the price of the dollar-denominated debt as a result of the devaluation of the Uruguayan peso. In addition, owing to poor oversight mechanisms, some workers were also engaged in acts of petty corruption such as charging the company for ‘travel expenses’ when they did not even leave Montevideo. Another and arguably more important factor was the concession in Maldonado that bled the utility of a major source of tariff revenue. Owing to the poor financial state of the utility, the Inter-American Development Bank refused to grant OSE a loan in the early 2000s.

Buoyed by the success of the constitutional campaign and electoral victory, the new board of directors appointed by the Frente Amplio government executed an ambitious plan to rid the company of corruption and eliminate wasteful practices. New internal accounting

mechanisms were established to place stricter controls on spending, particularly for employee travel, and to restrict the use of company vehicles to official business. To weed out workers engaged in abusive practices, OSE conducted fifty internal investigations, which resulted in fourteen prosecutions of former directors. Crucially, this painful restructuring process involved the active support of FFOSE, which ensured that workers received due process but would not, and did not, defend workers found guilty of conducting illicit activities that harmed the company. As Adriana Marquisio (author interview) comments: ‘It was a difficult process.’ After corrupt workers were weeded out and new accounting systems were put in place to increase accountability, the company, which was running an operating deficit of US\$3–4 million per year in 2004, turned its financial situation around. Today, OSE is running an operating surplus of US\$24 million and financial efficiency has been achieved without sacrificing social goals.

A model public water company

Over the past six decades, OSE has built relationships of solidarity not only among workers of the company but among citizens. The fact that OSE is a *national* water company has allowed Uruguay to achieve economies of scale and enact a tariff policy that redistributes wealth from high-income to lower-income neighbourhoods and transfers resources from urban to rural areas. OSE’s expansion plan demonstrates that it takes seriously its responsibility to contribute to public health and socio-economic development by providing potable water and sanitation to every household in the country with the help of other government agencies.

Equity: water services While nearly all Uruguayans have access to an improved water source, there are currently two sectors of the population that do not receive their water services from OSE: a handful of cooperatives operating in relatively wealthy neighbourhoods and remote rural communities that OSE has not yet reached. OSE uses a rising block tariff system of cross-subsidization that is widely recognized as being the most progressive form of charging users for water (Spronk 2010). The tariff structure distinguishes between twenty-six categories of users. Commercial and industrial customers are charged more than domestic customers, and tariffs

vary depending on the zone, the diameter of the water pipe and the type (or absence) of water meter. The charge for water rises substantially by 5m³ blocks beyond consumption of 15m³. Impressively, the utility is auto-financing: the rising block tariff system allows the company to cover its maintenance and operation costs. In addition, some 67 per cent of the company's revenues are generated in the Montevideo area, which subsidizes rural users. In past years, increases to the water tariff have been below the rate of inflation, which means that the price of water has effectively dropped. The rate increase of 5.5 per cent on 1 February 2011, for example, fell under the official rate of inflation of 6.93 per cent at the time (Business News Americas 2011).

The quantity and quality of water services provided to households with OSE water connections are also excellent. Water is available twenty-four hours per day, seven days a week. Even when water demand rises in the hot summer months, the utility does not suffer from water shortages. Water takings at the Santa Lucia river are secure because they drain from one of the world's largest aquifers; hence scarcity is not a pressing public issue.

Although the quality of OSE's water services in Montevideo is excellent, there are still some public concerns about safe drinking water depending on where one lives in the city. Most people's concerns relate not to the water produced and delivered by OSE but to contamination that takes place owing to poor infrastructure, such as water tanks on the top of large apartment buildings and cracked pipes within buildings in older parts of the city. Elevated tanks are used by some households in buildings over three storeys and in the higher areas of Montevideo in order to maintain adequate water pressure, because OSE guarantees water pressure in buildings only up to 15 metres in height.

As a result, many higher-income households tend to consume bottled water rather than drink straight from the tap. When there have been occasional problems with water quality OSE has put in place a drinking water advisory. For example, when a rupture in a water main threatened the safety of Montevideo's water supply for a brief period in 2007, OSE distributed to households free bags of drinking water that were produced by the company's own water packaging plant.

Informal settlements The greatest equity concern in water and sanitation services relates to informal settlements (or *asentamientos* as they are known in Uruguay). The exact number of people living in these areas is unknown, but estimates range from 200,000 to 400,000 residents. According to municipal statistics, in 2010 there were 355 informal settlements in Montevideo, 70 in Canelones and 25 in Rivera (López Reilly 2011). Residents in these areas do not enjoy the same quality of water services as users with formal connections.

Households in informal settlements also consume higher volumes of water than in other parts of the city, which raises a potential concern about the equity impact of the rising block tariff. According to one report, on average, households in Montevideo slums consume 25m³ of water per month, almost double the average consumption of households in formal areas, which stands at only 13m³ per month. As Gabriel Apolo (author interview), the manager of the Programme to Reduce Unaccounted for Water, explains, higher consumption rates are due to more populous households and leaky infrastructure, the majority of which is self-constructed. In the *asentamientos* it is not uncommon to see water running down the streets owing to leaks in the pipes.¹

Nevertheless, the potential negative impact of a rising block tariff is mitigated by a system of public subsidies. In 2005, the Frente Amplio government created the Social Development Ministry (Ministerio de Desarrollo Social, MIDES), which was tasked with implementing the party's flagship National Social Emergency Assistance Plan (PANES), which targets the 10 per cent of households living in extreme poverty (Lanzaro 2011). The average household pays roughly US\$20 for water per month while households registered with the MIDES pay a 'social tariff' of US\$2–3 per month regardless of their consumption. In 2009, there were about 25,000 households (roughly 3 per cent of OSE's total customers) who were registered with the plan (MIDES 2009).

Small Rural Community Programme While OSE has achieved nearly universal coverage for water, as in other Latin American countries it has been a technical and political challenge to expand service to remote rural communities. In 2008, OSE began a programme to expand its services to every last citizen. In order to identify what communities to reach first, OSE identified the most vulnerable

based on the official census data from 2004, the latest then available. According to these data, only 6.6 per cent of the Uruguayan population is classified as 'rural'. As noted previously, most of Uruguay's population lives in Montevideo, with the rest clustered around the small regional capitals (100,000–200,000 inhabitants each). Thirteen per cent of the rural population is classified as 'vulnerable', representing about 6,000 households or 20,000 people.

Even though OSE could have afforded to finance the expansion programme with its own resources, it solicited international donor funds available for this purpose. In 2010, OSE received a US\$6.6 million donation from the Spanish cooperation agency, which is matched by OSE funds to execute the Small Rural Community Programme. OSE is working with small rural schools to map the areas of need identified by the census and to provide data about access to potable water in these communities. Next, priorities are established based upon the number of students in the school and the form of water provision, such as rain or creek water. The choice of technology depends on location and geographical characteristics, such as distance from water source and the form of water available. The majority of the projects are serviced by wells, with relatively pure water being found only 20 to 56 metres underground in most cases. Once the well is drilled water is tested for quantity and quality, using technicians from the local labs owned by OSE. Depending on the availability of energy sources, some pumps are powered by solar panels. There are currently eighty solar panels in operation.

According to the director of the programme, Karina Azuriz (author interview), the challenge of such a programme is not simply to build infrastructure but to ensure its sustainability. OSE is training the local population to maintain the infrastructure in cooperation with the Ministry of Stock Farming, Agriculture and Fisheries (Ministerio de Ganadería, Agricultura y Pesca), which has a long-running programme to raise the capacity of farmers called Uruguay Rural.

The project has also included the participation of the local population. In some communities, participation has involved digging trenches (work done mainly by women) and an educational component coordinated through the schools. Teachers and students learn how to fix basic problems with the water system, such as repairing leaks or removing blockages in pipes. More complicated

problems, such as replacing a water pump, are the responsibility of OSE. Local communities further help to monitor their own systems, adding chlorine. OSE has also built on an initiative of the Tabaré Vázquez government to provide a computer to every child; it has facilitated OSE's work because communities can now communicate with the water company in the event of a problem. OSE has also established an educational web page to teach children about OSE and basic water services.

Although the programme is heavily subsidized by OSE and the Spanish government, Azuriz emphasized that it is important for the company to charge communities a small fee for the programme in order to inculcate a feeling of 'ownership'. Following the cholera epidemic in Latin America, some communities that were provided with water services for free caused a major problem, since local elites created 'water mafias' and charged others exorbitant prices. Encouraging the strong participation of communities in the management of these water systems is seen as a way to prevent the monopolization of water resources by local elites. Under OSE's programme, each community signs a contract with the company and pays a quota, which nevertheless represents only a small fraction of the true cost of the infrastructure. As Azuriz explains, when people are paying for a service, 'they feel like citizens'. She adds: 'Communities that do not have a high level of knowledge about potable water systems can also waste water, and use treated water for their livestock or their crops.' The fee for a connection is US\$100 paid in thirty-six monthly instalments, and there is a special rural tariff of US\$2–3 per month for 15m³.² Azuriz says participants have lauded the programme as preventing further rural–urban migration, which has the deleterious effect of expanding informal urban settlements. As a young student comments in a promotional video about the programme: 'having water helps me stay in my community'.

While participation is often seen as an end in itself in international policy debates about public service provision, the promotion of participation by the residents of rural communities but not by residents of wealthy urban centres raises questions about urban/class bias in service delivery programmes that target the poor (Jaglin 2002; Laurie and Crespo 2007; Spronk 2009). In such schemes, participation is at times mobilized as a way to reduce the costs of providing services in the construction and installation phases, while

paying for services is mobilized as a way to inculcate a feeling of ownership over the infrastructure to ensure its sustainability.

Equity: sanitation services While OSE has achieved near-universal access to water, access to sanitation has lagged behind. The collection and treatment of wastewater is the least profitable part of the service. OSE has a separate charge for sanitation services, which means households do not have to pay for a service that they do not want but also discourages connection. Even in areas where sanitation infrastructure is available the connection rates are very low. While OSE provides subsidized loans to users who wish to connect to the sewerage system, this incentive has not been enough to promote universal coverage. In Montevideo, 85 per cent of households are located in areas served by the sewerage system, but in many cases this statistic only indicates that the pipes run by the house. In some areas in the interior of the country only 15 per cent of households are connected to the system (La Red 21 2011).

Typically, high-income households have formal sanitation connections whereas low-income households make do with ‘pro-poor technologies’, representing a two-tiered system of service delivery. The most popular home-grown solution for dealing with household sanitation in both rural and urban areas is the seepage pit. According to the World Health Organization, seepage pits are an appropriate technology in areas with dispersed populations where the environment can absorb and process the quantity of waste.³ In more densely populated areas, however, seepage pits can cause serious environmental and health problems. They can also be smelly, and responsibility for maintenance must be borne by individual households.

OSE is responsible for sanitary sewerage in all parts of the country except for Montevideo, where it is the responsibility of the municipal government. This arrangement reduces potential economies of scale for OSE with regard to sanitation services and makes it difficult to coordinate efforts to improve the situation in the country as a whole.

Public awareness of potential threats to environmental integrity due to contamination by wastewater is a relatively recent phenomenon in Uruguay. The lack of sanitary sewerage has become a public concern in Ciudad de la Costa, where rapid urban growth over the last decade has outstripped infrastructure and generated

serious environmental impacts on the coastal dunes. The loss of public beaches and shorelines of rivers and streams – especially in Montevideo and along the Uruguayan river – has also raised the urban population’s understanding of contamination. As yet, however, no social movement has arisen to contest unequal access (Carlos Santos, author interview).

The Frente Amplio government is making efforts to ameliorate the situation in order to ‘improve the quality of life, public health and take care of the environment’ (La Red 21 2011). In July 2011, the parliament passed a law that makes connection to the sewerage system obligatory. The new bill includes provisions to provide subsidies and grants to those who cannot afford a connection, as well as fines for those who fail to comply with the new law.

Environment Like many public water and sanitation utilities with ageing infrastructure, OSE is facing high rates of water loss, known in the water sector as unaccounted-for water. OSE currently loses about half of the water it produces owing to physical and commercial losses, which is well above international norms and suggests a somewhat casual attitude.⁴ Given Uruguay’s plentiful water resources, however, physical water scarcity does not drive concern about unaccounted-for water as much as the cost of producing and delivering the water. Notably, some are concerned that a substantial portion of OSE’s budget is spent on electricity to pump water from treatment stations through the pipes.

Uruguay currently treats about 70 per cent of its wastewater. But owing to the division of powers between OSE and the municipal government of Montevideo, as noted above, the bulk of urban wastewater is not the responsibility of OSE. The urban waterways of Montevideo become open sewers owing to the flow of untreated household and industrial effluent escaping from old and deteriorating sewerage systems, mixing with storm water and household effluent where the two systems are combined. When it rains, the volume of water to be treated far surpasses the capacity of the water treatment plant, contaminating public beaches in the city. That being said, a study by the Inter-American Development Bank concludes that environmental indicators improved with the renationalization of the utility in 2005 and 2006 (Borraz et al. 2013), suggesting that the problem of treating wastewater is one that has been better

addressed by OSE than by its private predecessor, which treated environmental damage as an ‘externality’ in the absence of strict regulation by the state.

Worker participation and equity In Uruguay, trade union membership and dues are voluntary. Nevertheless, FFOSE represents 3,300 of 4,600 full-time employees in OSE (roughly 75 per cent). For those who do not join, Carmen Sosa (author interview) suggests that ‘party clientelism’ may be a factor, but there is ‘also the issue of workers with low salaries who cannot sacrifice part of their pay for union dues (even though dues represent less than 1 per cent of their salary)’.

With regard to worker engagement, Uruguay has a strong corporatist tradition. Neoliberalism has narrowed the space for worker participation in public life, including in public utilities such as OSE, but relationships between the management and the union improved in the first years after the election of the Frente Amplio (FA) in 2004, due to its strong links to organized labour. These shifts are part of a broader national-level politics in which the party reactivated centralized collective bargaining in the public sector. As Silverman (2011: 1) notes:

Beginning in 2005, the FA government led by President Tabaré Vázquez legislated a wide-ranging set of changes to the Uruguayan labor relations framework, through the convening of mandatory sector-wide collective bargaining negotiations known as the *Consejos de Salarios*, the granting of further guarantees for union leaders and activists through the *Ley de Fueros Sindicales*, and the expansion and institutionalization of collective bargaining processes to previously excluded categories of workers, such as teachers, domestic workers, and rural laborers.

Given the close ties between government and unions, two seasoned commentators conclude that compared to other experiences in the region, ‘Uruguay may come the closest to the social democratic ideal, as the FA maintains strong political ties to a centrally organized labour movement’ (Levitsky and Roberts 2011: 415).

Within this corporatist system, a tripartite board composed of members of the board of directors, FFOSE and the Ministry of Labour decides on annual wage adjustments within OSE. Water

workers are the lowest paid compared to those employed by state-owned enterprises for electricity (UTE) and telecommunications (ANTEL).

One of the other initiatives of the Frente Amplio is to improve gender relations at work. According to a 2009 report by the Inter-American Development Bank, Uruguay has the second-largest gender pay gap in the region (after Brazil), with men earning 26.3 per cent more than their female counterparts of the same age and with the same level of education (Atal et al. 2009: 23). In 2007, Uruguay passed national legislation on equal rights and opportunities for men and women. As part of this initiative, OSE established a Gender Observatory, with the mandate to monitor gender equality within the enterprise. The first report published by the Observatory in 2008 found that of 4,175 full-time workers in the utility, 900 were women. Data on gender pay gaps within OSE is not available, but Carmen Sosa (author interview) notes that ‘there are no objective differences [between men and women’s salaries], but we do not escape the reality of the society in which we live’.

According to one of the coordinators of efforts to reduce gender inequality in OSE, reforms thus far have been moderate (Carmen Anastasia, author interview). A team of gender educators holds workshops with all managers about using inclusive language and all job advertisements must do the same (e.g. a job advertising for a worker would specify ‘*trabajador*’ and ‘*trabajadora*’, the latter being the female form). A small pilot project monitoring gender balance among staff in a water meter workshop has not produced concrete results. In fact the ratio of male to female workers actually increased slightly. It is also noteworthy that OSE offers accessible daycare for all workers of the utility, including subcontracted workers such as the cleaning staff. While such reforms may seem superficial, they are a step in the right direction.

Corporatization: blurring the public–private divide

While water and sanitation services are now under public control, debate remains as to the meaning of ‘public’ in Uruguay. Although the country has experienced the least amount of privatization in South America (less than 0.1 per cent of GDP in asset value, versus 20 per cent in Bolivia), neoliberalization has left its institutional and ideological mark (Lanzaro 2011: 373). There are two trends related

to corporatization in particular that threaten OSE's character as a model public utility: modernization and decentralization.

Modernization The World Bank has sponsored the 'modernization' of OSE since the late 1980s, with recent loans of US\$105 million in phased programmes (2000–07, 2007–12). The Modernization and Systems Rehabilitation Project entails technical, operational and administrative reforms that aim to improve the efficiency of the water utility. Despite the fact that OSE has been running a budget surplus since 2005, and has achieved nearly universal coverage in potable water, World Bank documents continue to stress the necessity of converting OSE from 'an inefficient monopoly into a more accountable public utility' (World Bank 2010: 1).

The principal problem in the water and sanitation sector, according to the Bank, is lack of competition in a context where a single provider owned by the state provides services. As such, it is difficult to provide 'entry points to improve performance' and to compare levels of service efficiency (ibid.: 1). As a result, the Bank has pushed for reform of the regulatory system at the sector level and in operations and management at the utility level as a means to improve 'efficiency' of water and sanitation services. On 5 July 2012, OSE was approved for a third loan that aims to support four areas in need of improvement: reducing unaccounted-for water; upgrading infrastructure; expanding the water and sanitation networks; and adapting to climate change.

Modernization efforts also include the development of a system of benchmarking and of mechanisms to make information available to the public. Managers interviewed for this study note that OSE has developed two types of benchmarking: one that complies with the conditions of loans from the World Bank and the Inter-American Development Bank; and one that utility managers have 'determined themselves'. Importantly, OSE has rejected one of the most controversial measures of efficiency used by the World Bank, the 'magic number' that dictates that water and sanitation utilities must employ only four workers or fewer per 1,000 connections. Daniel Ríos (author interview) describes this indicator as 'deceptive', for it does not take into account the different conditions under which water utilities operate; it is easy to reach such targets in a water company that serves only a concentrated, relatively wealthy urban popula-

tion, but not in one that serves an entire country. Nevertheless, the World Bank boasts that in ‘modernization’ processes financed by the International Bank for Reconstruction and Development, ‘[l]abor productivity has improved to 4.3 employees/1,000 connections in 2006 from 12.7 employees/1,000 connections in 1987’ (World Bank 2010: 1).

There are several reasons why there has been a reduction in staff at OSE over the past fifteen years. As Alicia Araujo (author interview), former vice-president of OSE, explains, when she started working for the utility in 1982 there were about seven thousand staff. Since then, there has been dramatic technological change. In the 1980s accounts were kept by hand, but the introduction of computers has created obvious labour-saving efficiencies. There has also been a reduction in staff as a result of subcontracting.

The modernization project has provoked tensions between management and workers as few of the changes introduced aim to improve working conditions on the front line. Rather, ‘modernization’ has led to increasing tensions over hiring and promotion, the subcontracting of services and the scope of worker participation in decision-making.

With regard to hiring and promotion, today workers are hired through open, competitive processes as compared to earlier discriminatory hiring practices based on political or family connections. Although this is clearly more transparent, workers with many years of service are now often at a disadvantage when competing with younger workers with more formal qualifications (although change towards a merit system has been slower at senior managerial levels). This issue has therefore become a major bone of contention between the union and management.

Subcontracting is another pernicious trend related to corporatization from which OSE is not immune. When asked directly about whether subcontracting has increased or decreased, managers responded that OSE’s policy is to subcontract only those services that are considered ‘non-essential’. As Emma Fierro (author interview) put it, OSE practises ‘third-party contracting without losing its sovereignty’, while strategic components of the company’s operations have always been performed ‘in-house’ by permanent staff. This outsourcing applies particularly to aspects of work that require specialized training and knowledge for which it is not efficient to constantly be

training new workers, particularly in jobs that have a steep learning curve. OSE also contracts out customer relations to ANTEL, another public service entity, when OSE's call centre is overstretched.

In 2005, FFOSE launched a campaign to end the practice of subcontracting. It was successful in some service areas; for example, reading water meters was completely subcontracted previously but now OSE personnel (students or *becarios*, interns) also perform this task. It is unclear, however, what the ratio of subcontracted workers to permanent, full-time staff in OSE is, and the issue remains sensitive. Anecdotal evidence from a water-metering workshop that we visited in 2011 suggested that seven out of thirty-seven workers recently hired were subcontracted workers.

Lastly, workers fear that a climate that has been friendly to worker participation in OSE is starting to change, with, for example, a lack of consultation (for the first time in recent memory) over the 2012 budget. As Carlos Sosa (author interview), president of FFOSE, puts it:

There are two different aspects to participation: the vision of participation held by the management of OSE, and that of the workers. The board of directors has a narrow vision of participation as something that is restricted to career advancement and working conditions ... We as a union have a fundamentally different vision. For us everything that concerns the worker – whether the issue be related to management, politics and social policy, professional development, personal development, health (whether linked to workplace issues or not) – all of these different aspects should be the subject of collective bargaining. We have tried to promote this concept, although we have faced resistance from the management.

When asked about why the union was not invited to participate in negotiations over the budget, managers argued that the problem tends to be union capacity to intervene. OSE vice-president Daoiz Uriarte (author interview), a former union leader himself, admits that 'there have been problems with the union', but he did not elaborate.

Decentralization and third-party contracting After the constitutional amendment of 2004, a handful of smaller private water companies were absorbed by OSE. In the 'department' of Maldonado, where the

two largest concessions were located, the concession contracts were cancelled. In the case of URAGUA, the government cancelled the concession contract in 2004 for failure to comply with the terms of the contract. The shares were transferred to OSE (Taks 2008). The zone is now served by a public–public partnership between OSE and the municipal council in which both public entities own shares, an arrangement known as the Unidad de Gestión Decentralizada de Maldonado (Decentralized Management Entity of Maldonado, or UGD Maldonado). In the eastern zone of Maldonado, French water multinational Suez sold its shares in Aguas de la Costa to OSE (60 per cent of the total), but the remaining 40 per cent is still owned by private engineering company STA Ingenieros SRL (Aguas de la Costa 2010). With a majority of shares OSE has control over decision-making, but this does not erase the fact that the contract must deliver a financial return to STA Ingenieros. CNDAV has argued that this fails to live up to the meaning of ‘public’ as defined by the constitutional reform, which they understand to mean that OSE has 100 per cent control and ownership of water and sanitation services (Taks 2008).

CNDAV is also critical of some aspects of decentralization. First, administrative decentralization represented by the consortium in Maldonado threatens the strong system of cross-subsidization which has promoted solidarity at the national level. For example, as Carmen Sosa (written communication) notes, the director of UGD Maldonado announced in October 2012 that the state should create similar arrangements in Canelones and Rocha, which threatens to destroy the universal, national tariff policy, ‘the tool that permitted OSE to achieve universal service delivery over 60 years’. Critics such as Sosa fear that over the long term administrative decentralization may make it easier for wealthier communities to make claims for administrative autonomy, which means they would no longer be a source of subsidies, thus weakening the redistributionist tariff structure at the national level. The decision to create 355 new municipal governments in 2009 may intensify these pressures.

Secondly, CNDAV fears that decentralization facilitates the contracting out of services. If OSE is no longer responsible for supplying services in all parts of the country, critics worry that new private contracting firms will emerge to fill the service gap, becoming competitors. For such critics, decentralization was introduced at OSE as

a way to facilitate privatization, requiring certain service areas to be ring-fenced and carved off for tender to the private sector. As noted above, although the constitutional amendment reversed the trend of privatization, it does not protect against the commercialization of OSE; nor has it completely eradicated privatization.

The fear that administrative decentralization is becoming a trend was confirmed during the administration of Tabaré Vázquez (2005–10) when OSE formed another joint venture with the municipal government of Canelones, called Consorcio Canario, SA, to expand sanitary and storm sewer sanitation infrastructure in Ciudad de la Costa. The decision sparked controversy within the utility over the role of public versus private providers in the delivery of services. Although both of the entities are public, the consortium is an ‘anonymous society’ (SA stands for ‘*sociedad anónima*’ in Spanish) and is therefore regulated by private rather than public law.

These internal debates about decentralization hit the news in March 2011 (Brecha 2011), when a struggle between the president and vice-president of OSE over the desirability of the Consorcio Canario contract led the president of the republic to replace both executives. Having expressed her concerns, Vice-President Alicia Araujo was replaced by Daoiz Uriarte, another anti-privatization militant who was well known and respected within the utility for his international profile and strong defence of the right to water. President Caloccia, who favoured ‘pragmatic’ forms of decentralization, was also dismissed and replaced with the president of Consorcio Canario, Milton Machado. The selection of Machado suggests that the José Mujica government is not opposed to some forms of administrative decentralization, while an editorial in a left-wing newspaper argued that his appointment indicates that ‘the influence of private companies [in OSE] is more and more decisive’ (ibid.).

For its supporters, however, decentralization is a first step in the process of strengthening competitiveness between regional branches to reduce costs and unaccounted-for water, and to increase transparency and accountability. As Daoiz Uriarte (author interview) explains, it was necessary to form the consortium so that the project could be executed more quickly, since the procurement process can take from two to three years. And since private rather than public law regulates the consortium, it is not subjected to the same requirements for tender and procurement as OSE.

The above commentary is not meant as a knee-jerk reaction that rejects outright the involvement of the private sector in some aspects of service delivery. Indeed, ‘anonymous societies’ can play a positive role by filling gaps where the public provider lacks capacity or expertise. In the past five years, two other semi-public entities have been created by OSE for the purposes of promoting research and developing technology: Aguasur (Manantial Dorado SA) is responsible for the development of a water purification technology; and the Compact and Transportable Water Treatment Plant (Unidad Potabilizadora de Agua, UPA) was developed by OSE in a joint venture with the national army.

The unit operates under private law in order to be able to commercialize the invention, something the public law prevents OSE from doing. While the director of the unit stresses that the goal of commercializing the UPAs at this point is not to make profit but to share the technology, if the venture is commercially successful the pressure to privatize fully will undoubtedly increase. Thus far, OSE is operating 122 units in Uruguay and has sold 133 units to Venezuela, India, Ecuador, Argentina and Malaysia. In addition, twenty-seven units have been donated as part of Uruguay’s contribution to United Nations peacekeeping missions and to countries that have faced emergency situations caused by natural disasters (OSE n.d.).

OSE also formed a public–private partnership with a local firm to pilot and test new remote sensing technology to monitor large water users such as soft drink plants. So far, it appears that OSE has created decentralized entities to promote and market technological innovation. Again, the justification used by OSE managers is that the public company is ‘too slow’ to be able to perform certain functions they deem can be performed better by the private sector. As Alicia Araujo (personal communication) argues: ‘Nothing is less transparent than a [private] corporation ... When monies are invested in public works while acting under the private law, the entity can escape all control mechanisms ... provided by public law.’

Discourse on how to improve the ‘efficiency’ of the public sector reflects a deeper internal debate on models of service delivery, and in Uruguayan society as a whole: some OSE managers embrace private sector models of management and practice while others emphasize the ‘social’ character of the water company. The debate

raises questions about how the goals of public enterprises are to be defined. Lucila Seretto (author interview), who embraces the OSE's more commercial turn, describes the 'two models' in stark terms:

OSE is only recently beginning to act like a *company*. In reality, before it was more about providing a service. No one is going to complain about the price of water because they are paying so little ... The focus in the company on providing water as a social service did a lot of damage to the company. The changes in OSE are not really about 'modernization' but are about a change in management and a change in culture to convert OSE from being a service provider to a *company* that provides a service. (Emphasis added)

While it is unclear whether Seretto is referring to a state enterprise or a private, profit-seeking company, the meaning of the statement must be seen in the broader ideological context and in light of public debates in Uruguay about how to improve the efficiency of the state. Without a doubt, the Frente Amplio has embraced a project of 'third way' social democracy, as indicated by the government's recent endorsement of public-private partnerships (PPPs) for the construction of public works, despite the failed experiments in the water sector in the 1990s. In July 2011, government approved Law 18786, which allows for the formation of PPPs in transportation, energy, waste management and social infrastructure (including jails, health centres, education centres, social housing, sporting complexes and works that improve 'urban development'). The water and sanitation sector is not mentioned explicitly, but neither is it listed as an 'excluded sector'. In the public debate leading up to the law, the standard arguments in favour of PPPs were rehearsed, including the need for infrastructure financing. The national labour federation spoke out against the law, but only a handful of members of the Frente Amplio coalition criticized the privatization policy openly. The latter's embrace of PPPs is an indication of how 'new public management' ideas have been mobilized to reorganize the public sector, even among the left.

Conclusion

Over its sixty-year history, OSE has provided quality water services to the population of Uruguay. High levels of public investment have led to nearly universal coverage rates for potable water, and

although modern sanitation services continue to be a challenge, the new government is taking steps to address this deficit.

As with many public utilities around the world, the onset of neoliberalism in the 1990s and the economic crisis in the early 2000s led to some troubled times. This chapter identified two aspects of corporatization that are particularly critical in this regard: modernization and decentralization. Each is a mixed blessing. New forms of benchmarking have increased the transparency of the utility and provided clear rules about the ways performance can be measured, but in a neoliberal context of market rule they can also be used to create competitive dynamics between different entities within the utility. While not all competition is bad, the pressure to compete must be moderated by considerations of equity and justice. For example, it might be possible for the utility to be ‘more efficient’ at providing water and sanitation services in Montevideo than in rural areas owing to economies of scale. The ‘modern’ performance measurements set by the World Bank – such as the number of workers per 1,000 connections – do not easily take into account these kinds of variations. At worst, such comparisons can lead to hierarchical forms of management that will hold up as ‘best practice’ relatively wealthy zones (such as Maldonado).

The introduction of third-party contracting creates even greater cause for concern. In interviews, senior managers within OSE justified the creation of entities such as the UPA and the Consorcio Canario because of the need to make ‘rapid’ decisions, bypassing public procurement processes. Once again, there is nothing inherently wrong with rapid decisions, but it must be acknowledged that the potential to justify concentrated power over democratic decision-making is high. On this score, the most glaring aspect of change within OSE is the way that the trade union, FFOSE, has been shut out of collective decision-making processes in recent years. Workers fear that the space for democratic deliberation within the utility is narrowing, coinciding with the rise of the New Left – a political project centred on attending to the needs of informal workers rather than organized labour. For these reasons, FFOSE is waging a campaign against the trend towards subcontracting of the utility’s operations since subcontracted staff do not enjoy the same benefits as full-time, salaried workers. The trend of subcontracting divides the working class, making it more difficult to create broad

coalitions that advance the interests of workers as a whole. As Alicia Araujo (personal communication) puts it, a weather report regarding the ‘publicness’ of OSE might read, ‘nice weather, but unstable with rain in the forecast’.

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Notes

1 According to the World Bank’s IB-NET, in 2009 total ‘unaccounted-for’ (or non-revenue) water in Uruguay was 53 per cent (www.ib-net.org/en/production/?action=country). OSE estimates unaccounted-for water at 47–50 per cent. Of this, roughly 25 per cent is estimated to be the result of physical losses (e.g. leaks), and the remainder the result of commercial losses, including illegal connections, malfunctioning meters, etc. (El País 2010; Últimas Noticias 2011).

2 The minimum monthly wage for an unspecialized agricultural worker is UYU 7,200 or approximately US\$333, plus a monthly stipend of UYU 1,909 or US\$88 for food (if not provided by the employer). See www.mtss.gub.uy/index.php?option=com_content&view=article&id=4019:ajsutes-enero-2012&catid=362&Itemid=200.

3 See www.wssinfo.org/definitions-methods/introduction/.

4 The average unaccounted-for water in developing countries tracked by the World Bank’s IB-NET database is roughly 35 per cent; however, the

World Bank estimates that the average is closer to 40–50 per cent since not all utilities report to IB-NET (Kingdom et al. 2006: 2). This compares with an average of 15 per cent in the developed world (ibid.: 3). The World Bank recommends less than 25 per cent of unaccounted-for water as a standard.

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6 | CAN 'PUBLIC' SURVIVE CORPORATIZATION? THE CASE OF TNB IN MALAYSIA

Nepomuceno A. Malaluan

For most countries in Asia, electricity utilities were consolidated under state control after the Second World War, and continuing into the 1980s. Regardless of ideological orientation, electricity utilities were organized as vertically integrated systems covering generation, transmission and distribution, and largely owned and operated by the state.

The dominant role of the state in electricity provisioning helped push national economic development and integration. This approach was seen as consistent with the economic nature of electricity systems that were generally regarded as 'natural monopolies' requiring enormous investments that governments were in the best position to mobilize at the time.

This state-led model had support from multilateral financial institutions and from developed countries. During that period, for example, the World Bank acknowledged that it 'operated in the framework of state ownership and public control of a power monopolist', which 'helps capture economies of scale in small power systems and provides financing in the absence of capital markets' (World Bank 1993: 34). From 1949 to 1982, the World Bank committed \$17.8 billion in lending to electric power projects around the world, of which 39 per cent went to Asian countries. Even more money was spent on electricity projects via bilateral lending (Hausman et al. 2008).

The public electricity utilities varied in institutional set-up, depending on how the respective government bureaucracies had been organized. While many would be directly integrated within line ministries or departments, some were already organized as government corporations. The latter secured an independent legal identity, with their own board of directors and financial accounts separate from the ministry or department. But the dominance of public objectives

remained, as well as the control or supervision by ministries or departments of major decisions. Examples of state-led entities include the Korea Electric Company, the National Electric Power Company (Perusahaan Listrik Negara, PLN) of Indonesia, and the National Power Corporation of the Philippines (Malaluan 2012).

Starting in the 1980s, however, state-led models of electricity provision came under pressure. The causes were manifold, and affected countries in varying degrees. While some utilities thrived, others suffered chronic financial difficulties, high system losses, poor population coverage and low service quality. Even well-performing utilities faced financing constraints for capacity expansion to keep pace with economic growth, prompting a search for alternative ways to mobilize resources (Williams and Ghanadan 2006).

Discussions on what form restructuring would take, in turn, were increasingly marked by an ideological shift towards maximizing economic efficiency through market-oriented reforms and reducing the role of government – a new perspective that affected economy-wide policies. Development banks and bilateral creditors used policy prescription and lending conditionality to push a ‘standard menu’ for reforms regardless of the state of the electricity utility (see Table 6.1). The ultimate objectives of the reforms were privatization and competition via commercialization (*ibid.*).

It was against this backdrop that Malaysia corporatized its electricity utility in 1990, when it legislated the incorporation of its National Electricity Board (NEB) into a company called the Tenaga Nasional Berhad (TNB), which would come under laws governing private corporations. While the shares were initially owned entirely by the state, in 1992 TNB was listed on the Kuala Lumpur stock exchange, with 23 per cent of its shares on offer. In addition, TNB entered into power purchase agreements with independent power producers (IPPs).

This chapter critically examines this corporatization process. We will see that TNB’s corporatization did not conform entirely to the ‘standard menu’ of reforms. While it did introduce greater private sector participation and market orientation, the government did not let go of control mechanisms and non-market objectives, blending private and public elements. Nevertheless, it is also clear that market mechanisms have unleashed an operational logic that intensifies the tension between market and non-market aims. And while this

TABLE 6.1 The ‘standard menu’ for electricity reform

Policy dimension	Key features
Corporatization	Separate utility from ministry Create clear accounting framework Instal private management
Commercialization	Cost recovery in pricing Reduce or eliminate subsidies Enforcement of collections
Energy law	Legally mandate restructuring Legally permit private participation/ownership Legally permit foreign participation/ ownership/imports
Regulator	Remove regulatory function from ministry Create independent regulator Legally define scope, authority, methods
Independent power producers	Create by privatizing state utility generation Greenfield development Power purchase agreements
Restructuring	Vertical and/or horizontal unbundling Create independent transmission authority company Separate profitable parts for sale to private investors
Privatization	Outright sale Stock sale Joint venture
Competitive markets	Single buyer Bilateral forward contracts Cost-based pool Bid-based pool

Source: Williams and Ghanadan (2006)

mixed model has so far survived, there is mounting pressure for TNB to deepen reforms along a more ‘standard menu’ trajectory.

The first section discusses the nuances of Malaysia’s corporatization approach. The second expands on the characteristics of TNB reforms. The third section evaluates the utility’s performance based on a predefined set of assessment criteria (see Chapter 1, this volume, for more details). The chapter concludes with some insights on lessons learned from the TNB corporatization experience.

The Malaysian policy context

Despite the strong external push for a ‘standard menu’ approach, electricity reform did not take a linear path across countries in Asia. While the old state utility models underwent transformation that included key elements of neoliberal reform, the varying domestic political economies produced diverse policy trajectories (Malaluan 2012; Williams and Dubash 2004). In Malaysia, three key aspects of national economic policy in the 1980s and 1990s underpinned the approach it took in restructuring its electricity utility: the New Economic Policy (NEP), the developmental state approach to industrialization, and the ‘Malaysia Incorporated’ framework of prime minister Mahathir, which envisioned a shared role for the state and the private sector in economic development.

New Economic Policy In 1970, Malaysia introduced the NEP as a key framework for its development strategy. The NEP aimed to drastically reduce poverty at the same time as restructuring Malaysian society to mitigate economic imbalances and inequalities across major racial groups. Such imbalances – regarded as one of the causes of the race-based riots of 1969 – were associated with the ownership and control of economic activity, the distribution of income, and employment. At the time, indigenous Malays (*Bumiputeras*), who made up 53 per cent of the population, were considered to be marginalized in comparison to the better-off ethnic Chinese, who formed 35.6 per cent of the population. Indians made up the remaining 10.6 per cent.

The government’s ‘Outline Perspective Plan, 1971–90’ (OPP), which appeared as a chapter in the Third Malaysia Plan 1976–80, discussed some aspects of these inequalities. In terms of poverty incidence, the OPP reported that 65 per cent of all Malays were poor, compared to 39 per cent of Indians and 26 per cent of Chinese. In terms of employment patterns, Malays were largely employed in lower-income agricultural work. In contrast, the Chinese had more access to better-paid secondary and tertiary sector jobs. In terms of ownership of share capital in corporations, Bumiputera and ‘Bumiputera interests’ accounted for only 2.4 per cent, while ‘other Malaysians’ (Chinese and Indians) accounted for 34.3 per cent, and foreigners for 63.3 per cent (see Table 6.2).

The first objective of NEP was to significantly reduce the incidence

TABLE 6.2 OPP target ownership of share capital in companies, peninsular Malaysia, 1970-90

	1970 ^a		1975 ^b		1980 ^c		1990 ^c	
	\$ millions	%	\$ millions	%	\$ millions	%	\$ millions	%
Bumiputera individuals	84.4	1.6	227.1	2.3	695.4	3.4	5,914.2	7.4
Bumiputera interests ^d	41.2	0.8	541.0	5.5	2,588.9	12.6	18,095.5	22.6
Total (Bumiputera individuals and interests)	125.6	2.4	768.1	7.8	3,284.3	16.0	24,009.7	30.0
Other Malaysians ^e	1,826.5	34.3	3,687.3	37.3	8,290.5	40.4	32,012.9	40.0
Foreign	3,377.1	63.3	5,434.7	54.9	8,952.2	43.6	24,009.7	30.0

Notes: a Actual; b Estimated; c Target; d Shares considered to be held in trust by government agencies; e Chinese and Indians

Source: Third Malaysia Plan, 1976-80

of poverty by providing assistance to the poor to expand their productive capital, relieving pressure in the most congested sectors of agriculture by providing opportunities to move into more productive agricultural and non-agricultural employment, providing better and more efficient public infrastructure and services, and accelerating the creation of employment in the secondary and tertiary sectors of the economy. The OPP aimed to reduce poverty in rural areas from 58.7 per cent in 1970 to 23.0 per cent by 1990, and from 21.3 per cent to 9.7 per cent by 1990 in urban areas.

The second objective for the restructuring of Malaysian society had two components: employment and capital ownership. The first involved the promotion of a more equitable employment pattern by targeting areas of job creation and developing education and training programmes for Malays. The second involved increasing Malays' share in total equity capital during a period when it was expected to boom as the economy grew. Thus, the redistribution in ownership would be achieved not by compulsory divestment, but as a result of income growth among Malays, encouragement of savings, and programmes that assisted individuals in gaining access to the capital market. In addition to ownership by individual Malays, the government set up agencies intended to acquire stocks in trusts for eventual sale to Malays. These agencies would create and expand subsidiary enterprises either wholly owned by or in joint venture with private interests, or would acquire stock in existing private companies. In effect, part of the 'Malayanization' of equity was through government ownership, with a commitment to eventually transfer it to individual Malays. The OPP targeted a figure of 30 per cent by 1990 for the combined capital ownership of individual Malays and Malay interests (through the government 'trust' agencies). The share of other Malaysians was also expected to register moderate growth from 34.3 per cent in 1970 to 40 per cent by 1990. The biggest step in the restructuring was to be the acquisition of foreign interests, to shrink them from 63.3 per cent in 1970 to 30 per cent by 1990 (see Table 6.2).

Developmental state When Mahathir Mohamad became prime minister in 1981, the NEP framework of state intervention was complemented by a 'developmental state' approach inspired by the experience of Japan and South Korea. Mahathir introduced

the ‘Look East Policy’, which sought to distil lessons mainly from those countries’ high growth and rapid industrialization paths. While part of Malaysia’s interest was with respect to the work ethic in Japan, the main policy lesson regarded the ‘solid backing and sound direction from the government, thus enjoying a high degree of protection and security while the economy was coming of age’ (Mahathir 1999: 88). Malaysia thus intervened heavily in the market to promote industrialization. It put in place mechanisms such as the state-owned Heavy Industries Corporation of Malaysia (HICOM), which collaborated with Japanese companies to develop a number of industries and manufactures, at the same time as promoting domestic linkages (Gomez 2009).

In 1986 Malaysia launched the ten-year First Industrial Master Plan, which outlined the development of the manufacturing sector through targeted support and coordination. It identified twelve industrial sub-sectors for development, namely: rubber, palm oil, food, wood-based, chemical and petrochemical, non-ferrous metals, non-metallic minerals, electrical and electronics, transport equipment, machinery and engineering, iron and steel, and textiles and apparel (Kinuthia 2009). Institutionally, the industrial policy was coordinated by multilayered and inter-ministerial bodies, such as the Industrial Coordination Council (ICC) chaired by the minister of international trade and industry, with members from other ministries including the Economic Planning Unit, the Department of Finance, the Central Bank, and representatives from the business sector (Lim 2012).

‘Malaysia Incorporated’ and privatization The flip side of the developmental state was the key role that Mahathir assigned to the private sector in development, particularly private corporations. Still looking to the Japanese model of close cooperation between the state and the business sector, in 1983 Mahathir promoted the ‘Malaysia Incorporated’ concept whereby the country was to be seen as a corporate or business entity in which the public and private sectors worked together in common pursuit of economic development (Mahathir 1999).

Thus, if the state provided planning direction and partnership programmes consistent with the developmental state, the private sector was to provide an enhanced role in generating growth. At the

time of the Fifth Malaysia Plan (1986–90), the government began to pursue a privatization policy that involved the gradual reduction of the size and role of the public sector, and the privatization of certain government services that the private sector was believed to be able to handle. The government expressed its intent to give greater emphasis to market mechanisms and price signals in resource allocation.

Gomez (2009) argues that the American free market system and the neoliberal model inspired this latter element of Mahathir's policy. This is indicative of the importance that Mahathir placed on the development of the stock market as a means to cultivate the corporate sector. The adoption of contradictory approaches from the developmental state and neoliberal models meant that none was implemented in its full form. Instead, various aspects of these approaches combined in Malaysia's policy, and were shaped further by the objectives of the NEP.

These aspects of Malaysian economic policy continued through the 1990s, although priorities adjusted to meet new perceived development challenges. In 1991, Malaysia released its Second Outline Perspective Plan 1991–2000 (OPP2), assessing the implementation of OPP against key NEP targets, and outlining development objectives for the next ten years. In terms of the poverty reduction targets, the proportion of households living below the poverty line in peninsular Malaysia had declined from 49.3 per cent in 1970 to 15 per cent in 1990, surpassing the NEP target by 16.7 per cent. Still, OPP2 noted persisting high poverty rates in the traditional primary sectors and in rural areas. With regard to employment, gains had been made but OPP2 noted the need to improve Bumiputera representation at managerial and supervisory levels, and to further reduce Bumiputera employment in agriculture. In terms of equity restructuring, the Bumiputera share in capital stock had increased from 2.4 per cent in 1970 to 19.3 per cent in 1990, falling short of the initial NEP target of 30 per cent. Meanwhile, the share of non-Bumiputera Malaysians had increased from 34.3 to 46.8 per cent in 1990, higher than the NEP target of 40 per cent. Foreigners' share declined from 63.3 to 25.4 per cent in 1990, surpassing the NEP target of 40 per cent.

OPP2 also introduced the New Development Policy (NDP), which integrated elements of the developmental state approach,

privatization and market orientation found in the NEP. Poverty reduction would come mainly from rapid growth of employment in non-agricultural sectors and from decline in the dependence of rural labour on traditional sources of income. With respect to employment and equity restructuring, OPP2 sought to focus on the development of a Bumiputera Commercial and Industrial Community (BCIC) capable of retaining and enlarging acquired wealth through entrepreneurial development, alongside the continuation of the system of quotas, licences and special assistance to expand Bumiputera participation in the industrial and commercial sectors. The original NEP target of facilitating at least 30 per cent of equity ownership by Bumiputeras would remain the target. In relation to the developmental state approach, the government's role in identifying the areas for economic development and providing support mechanisms was also visible in OPP2. The policy pushed for a structural shift in production to higher-value-added products and intensive use of new and emerging technologies, financed through government investments in new technology and human resource development. Finally, OPP2 committed to orienting services and

TABLE 6.3 Comparative GDP per capita (2000 US\$) and poverty performance (% population), ASEAN-4

	1980	1990	2000	2010
<i>Per capita GDP</i>				
Malaysia	1,910	2,593	4,006	5,169
Indonesia	390	592	773	1,145
Philippines	1,098	991	1,048	1,383
Thailand	785	1,391	1,943	2,713
<i>Headcount poverty at national poverty line</i>				
Malaysia	15.5 ^a		5.7 ^c	3.8 ^g
Indonesia		17.6 ^c	18.2 ^f	13.3
Philippines		40.6 ^d	33.0	26.5 ^e
Thailand	42.2 ^b	33.7	21.0	7.8

Notes: Data are for: a 1989; b 1988; c 1996; d 1994; e 2004; f 2002; g 2009

Source: data.worldbank.org

utilities towards greater recovery of operational costs, and improving the investment climate through further deregulation and simplification of administrative procedures. Privatization would also be a vehicle for expanding opportunities for the creation of new equity capital for Bumiputeras.

Also of relevance was the Privatization Masterplan released in February 1991, which identified several methods for the implementation of privatization. These included sale of assets or equity, lease of assets, management contract, and Build-Operate-Transfer or Build-Operate arrangements. As part of this planning, 424 government-owned entities were reviewed to determine the feasibility and desirability of privatization (EPU 1991). Another relevant document was the Second Industrial Master Plan for 1996 to 2005, which focused on deepening industrial linkages, moving up to high-value activities, increasing productivity and improving competitiveness. Overall, Malaysia's development policy produced remarkable results in the 1980s through to the 2000s, with the country outpacing its comparable neighbours in South-East Asia in terms of growth in GDP per capita and poverty reduction (see Table 6.3).

The corporatization of TNB

It was within the above overall policy context that Malaysia commenced the corporatization of its electricity utility, beginning in 1990. At the time of corporatization, the utility was known as the National Electricity Board of Malaysia (NEB). It was a vertically integrated utility owned and operated by the government following a period of consolidation after the country's independence from the British in 1957. In the 1980s, planning for the electricity sector was centralized, involving the coordination of the inter-agency National Development Planning Committee, the Economic Planning Unit, and various ministries. Implementation was accomplished through the ministries, and the NEB was under the supervision of the Ministry of Works and Utilities (Third Malaysia Plan, 1976–80).

In 1987, the NEB compared well with other electricity systems in Asia. It showed moderate system losses of 16 per cent and a respectable rate of return of 10 per cent. Demonstrating the ability of the electricity sector to keep pace with the demand for electricity in a fast-growing economy, NEB's generation levels per capita were high compared to those of many Asian neighbours, outpacing

Thailand by 73 per cent, China by 111 per cent, the Philippines by 140 per cent, and India by 260 per cent (see Table 6.4).

TABLE 6.4 Electricity sector performance in selected Asian countries, 1987

Country	Generation per capita (kWh)	Total system losses (%)	Rate of return on investment (%)
Malaysia	983	16	10
Thailand	567	10	11
China	465	9	6
Philippines	408	17	10
India	273	24	4
Pakistan	227	25	12
Sri Lanka	165	16	8
Bangladesh	56	37	2

Source: Williams and Dubash (2004)

The corporatization of NEB was largely driven by government, as opposed to resulting from a sector crisis or an external conditionality as is typical of electricity sector restructuring in other countries. It was operationalized by the Electricity Supply (Successor Company) Act of 1990. This law authorized the vesting in or transfer to a successor company of all of NEB's property, rights and liabilities. Pursuant to this authority, the NEB was incorporated as a stock corporation under the name Tenaga Nasional Berhad (TNB), with all its shares owned by the government through the Ministry of Finance. The minister of finance, in turn, had authority to divest shares, to reacquire them, or to appoint nominees for its shareholdings. Subsequently, in 1992, TNB was listed publicly with the Kuala Lumpur stock exchange (now called Bursa Malaysia), and put 23 per cent of its shares up for sale to the public.

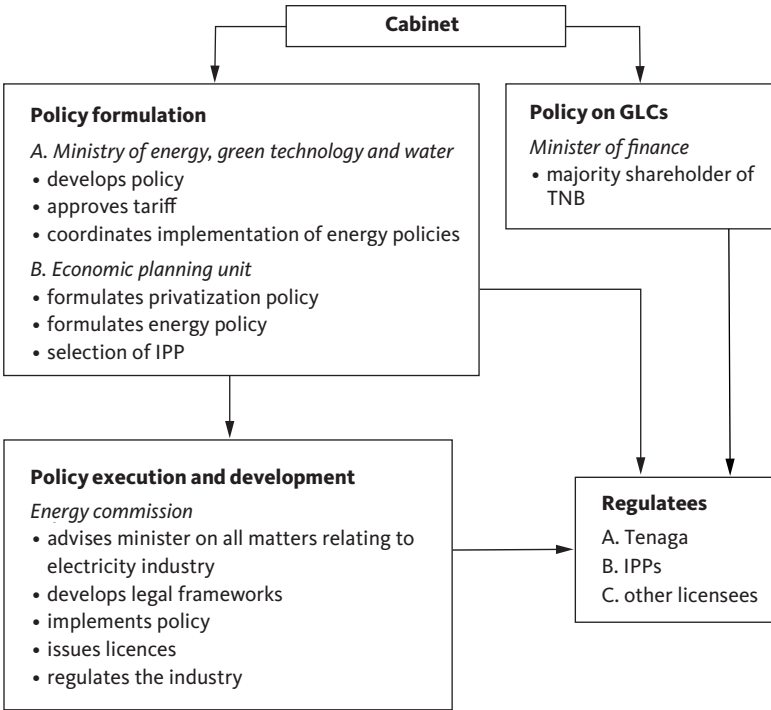
The Electricity Supply Act 1990 made the minister responsible for electricity and granted him the power to make regulations with respect to the licensing of any installation for supply of electricity, operating standards, qualifications of personnel, and charges for electricity supply. Later, in 2001, the regulatory laws were further reformed with the passage of the Energy Commission Act 2001,

transferring a large number of the regulatory functions to a new entity, the Energy Commission or Suruhanjaya Tenaga. The incorporation and related changes in electricity regulation allowed TNB to enter into power supply contracts with independent power producers. In 1993, licences were granted to five independent power producers' (IPPs) generation projects with total generation capacity of 4,157 megawatts, which immediately brought IPP share in generation capacity to roughly 41 per cent of total capacity at that time (Rector 2005).

While the corporatization of TNB (along with partial divestment of shares and contracting with IPPs) reflects the commercialization aspect of Malaysia's economic policy, the developmental state and NEP aspects were also in evidence. The government did not intend to lose its ability to heavily intervene in planning and operation. This was done by retaining control through majority ownership up to this day. The top three shareholders of TNB as of February 2013 are all government entities: Khazanah Nasional Berhad, the Malaysian government's principal investment holding arm in strategic industries and markets, owns 33.8 per cent of TNB shares; the Employees Provident Fund (EPF), a government social security institution funded by mandatory regular contributions from private and non-pensionable public sector employees, owns 12.3 per cent of shares; and the Amanah Raya Trustees Berhad, a government-owned trustee company, has 10.5 per cent.¹ Other smaller shareholdings overseen by the Malaysian government under trust mechanisms bring government ownership of TNB up even higher.

In Malaysia, a corporation under such government control is called a Government-Linked Company (GLC). The controlling stake allows the government to appoint board members and senior management, and to make major decisions. In addition to ownership control, the government also retained strong regulatory powers over TNB through the relevant ministries and the Energy Commission.

Senior officials² of the Energy Commission and TNB illustrate how the regulation operates in practice, taking as examples the decision to enter into a long-term power purchase agreement with an IPP, and the decision to raise tariffs. In contracting with an IPP, the first input comes from TNB as operator of the system with the ability to forecast capacity needs. The Energy Commission will consider such input, in consultation with a working group that



6.1 Structure of authorities in the electricity sector in Malaysia (source: EC 2007)

includes TNB, the government-owned downstream energy company Petronas, and the government’s Economic Planning Unit. This will lead to a recommendation by the minister of energy for consideration by the prime minister. Similarly, for tariffs, TNB will seek approval from the Energy Commission. The Energy Commission, based on its evaluation of the application, will make a recommendation to the minister of energy for final approval at cabinet level. The structure of government decision-making as it relates to the electricity sector is shown in Figure 6.1.

Post-corporatization performance

The corporatization and partial privatization of TNB were mainly based on commercial and market-oriented objectives of efficiency and better quality of service. Nevertheless, continued government control over TNB planning and operations created enough flexibility

to pursue objectives traditionally associated with public provisioning, albeit not as priority goals. How did privatization and the focus on commercial and market-oriented objectives affect performance outcomes?

Efficiency and quality of service Under the Privatization Masterplan, corporatization was expected to improve efficiency and productivity through competition, free up government enterprise from political supervision and civil service rigidities, and introduce employee incentives. The profit orientation was also expected to provide the thrust for expansion and growth.

There are strong indications that TNB's corporatization did increase the drive for efficiency, in terms of both financial and operational performance. As a result of the listing and trading of TNB shares on the stock market, its financial performance is closely monitored by TNB itself and by capital market players. TNB's annual reports reflect a strong focus on improving financial performance, and any financial downturn is considered a concern that needs to be explained or addressed.

Among the key financial indicators monitored are revenue and profit, balance sheet (assets, liabilities and equity) and financial ratios (return on assets, return on shareholder equity, debt–equity ratio). A look at the financial performance of TNB in recent years (2007–12) shows a stable performance. While it experienced a notable downturn in operating profit in 2011, it had made a quick recovery by 2012 (see Table 6.5).

TNB's strong financial performance is confirmed by its high ranking in the latest Top 250 Global Energy Company Rankings (2010) generated by Platts, a source of global price assessments for the energy industry. This global ranking measures energy companies' financial performance through indicators on asset worth, revenues, profits and return on invested capital. TNB ranked ninetieth overall, and twenty-fourth among electric utility companies.

Operational performance is also given priority in the corporatized setting since improvements contribute to the financial bottom line and the competitiveness of the utility. Performance indicators are monitored in generation, transmission and distribution. For generation they include the Plant Equivalent Availability Factor, the Equivalent Unplanned Outage Factor, and thermal efficiency.

TABLE 6.5 TNB summary of financial performance, 2007–12 (year ended 31 August)

Items	2007	2008	2009	2010	2011	2012
<i>Operating results (MYR million)</i>						
Revenue	23,320.4	24,755.3	28,801.3	30,317.4	32,241.2	35,848.4
Operating profit	5,542.7	3,851.0	3,714.6	4,180.0	1,816.8	6,396.9
Profit before tax and Muslim zakat	4,765.9	3,025.2	1,558.8	4,019.4	1,156.7	5,537.2
Net profit attributable to owners	4,061.1	2,594.0	930.5	3,200.8	965.4	4,197.6
<i>Key balance sheet data (MYR million)</i>						
Property, plant and equipment	57,257.9	58,333.4	59,080.6	58,913.3	61,872.8	64,779.7
Total assets	67,725.6	69,841.9	73,165.2	78,662.4	79,064.3	88,469.1
Total borrowings	23,979.4	22,740.4	22,616.0	21,995.6	19,054.1	23,071.8
Total liabilities	43,627.7	44,080.0	45,752.0	46,709.5	46,834.9	52,070.8
Share capital	4,331.7	4,334.5	4,337.0	4,352.7	5,456.6	5,501.6
Shareholder equity	23,998.6	25,657.2	27,373.0	31,761.7	31,997.4	36,137.3
<i>Share information</i>						
Basic earnings (sen/share)	94.92	59.87	21.47	58.92	17.71	76.82
Share price as of 31 Aug. (MYR)	9.95	7.90	8.02	8.86	5.25	6.84
<i>Financial ratios</i>						
Return on assets (%)	6.3	4.6	3.9	4.7	4.1	4.6
Return on shareholder equity (%)	17.6	12.5	10.5	11.4	10.1	11.2
EBITDA ¹ margin (%)	37.6	29.9	25.3	26.8	23.3	25.1
Currency mix (MYR/foreign)	55:45	53:47	51:49	54:46	56:44	65:35
Debt–equity (net of cash) ratio	0.78	0.68	0.60	0.43	0.47	0.40

Note: 1. Earnings before interest, taxes, depreciation and amortization Source: TNB annual reports 2011, 2012

Transmission performance is measured with indicators that include the Delivery Point Unreliability Index, Transmission Related Tripping, and System Availability. The distribution indicators look at the system's average interruption duration and distribution losses. TNB has ongoing programmes of new investments, rehabilitation, technology upgrade and management and personnel training to improve on these indicators (TNB 2011).

Closely related is quality of service. The drive for competitiveness in the context of commercialization carries with it a stronger consumer orientation. The Grid Code requires a defined level of power quality that avoids undue discrimination among categories of users connected to the grid. For its part, the Distribution Code provides the rules and procedures for the development and maintenance of an efficient and safe electricity distribution system, and to ensure availability of electrical energy supply and power quality for all consumers. The Energy Commission also issues regulations imposing performance standards for TNB's electricity supply under its licence obligations. An example is the requirement for 'Guaranteed Service Levels' in terms of limits on frequency of interruption, restoration time on power outage, and time to complete a new supply connection. If these standards are not met, customers may claim a fixed penalty in the form of a rebate on their bill (ST 2010a, 2010b, 2012).

Equity and solidarity Access to electricity is already widespread within TNB service areas, at 99 per cent in peninsular Malaysia. With respect to quality and quantity, the service is very equitable as all customers are given a common standard, with an option for customers requiring higher levels of power to request it at their own expense.

Even after corporatization, affordability has continued to be a key equity goal in Malaysia. In public provisioning, this is often achieved through a system of subsidies; in the context of corporatization and commercialization, subsidies are generally seen as creating economic distortions and inefficiencies that should be phased out. Majority ownership and control over TNB has allowed the Malaysian government to sustain its system of cross-subsidies on electricity tariffs, including for low consumption, as well as qualifying industrial consumers as part of industrial policy. Aside from the system of

cross-subsidies, TNB benefits from a price subsidy on fuel supplied by Petronas, another government-linked company. Such a subsidy is possible only thanks to the centralization of overall policy direction and partial government control over TNB, which enables the utility to supply consumers at a lower price without affecting its own financial performance.

But the tension between commercial objectives and price subsidies has been evident within TNB, as well as in its relations with different government agencies. An example is the episode relating to the downturn in TNB's operating profit in 2011 (see Table 6.5), which was spurred by a Petronas-imposed 30 per cent reduction in the natural gas allocations to TNB. This resulted in a shortfall of 2,100 megawatts in gas-based generation capacity, which TNB compensated for by using a higher-priced fuel substitute and electricity imports from Thailand and Singapore. This drove TNB's costs considerably upward (TNB 2011).

The TNB chairman claims that the utility's actions to ensure uninterrupted supply of electricity on a regular basis, even under severe financial strain, are evidence that its motivations go beyond profit. But the pressure on TNB to quickly recover costs, owing in large part to concerns over its capital market outlook, was also made clear in the pricing adjustments it was forced to make. In June 2011, for example, the government approved a tariff increase as well as the introduction of a Fuel Cost Pass-Through mechanism for end users to foot the bill of fuel cost variations. In addition, TNB negotiated and secured an agreement for three-way sharing among TNB, Petronas and the central government of the MYR 3.07 billion (approximately US\$994 million) in additional costs that it incurred for purchasing alternative fuel during the gas shortage from January to October 2011. While these adjustments facilitated TNB's financial recovery by 2012, the strain on solidarity among various government units was apparent. At the height of the crisis, the Petronas chief executive officer was quoted in a news report saying: 'As a national company, we'll play our part and share the misery. We hope Tenaga will play its part too. Tenaga is encouraged to be inefficient and we're not prepared to fund the inefficiency' (Bloomberg 2011).

Despite such criticism, the cross-subsidies remain for the time being. Also, the June 2011 tariff increase preserved the original rates for low-consumption residential consumers. The lifeline rate for

consumption up to 200 kWh was maintained, as well as the tariff rate for consumption from 201 to 300 kWh.³ Malaysia's electricity tariff remains at comparable levels to those of Thailand and Indonesia, and lower than that of the Philippines (see Table 6.6).

TABLE 6.6 Comparative electricity prices, ASEAN-4 (as of January 2012) (rate for general use per kWh, US\$)

Country	Price of electricity
Indonesia (Jakarta)	0.08 plus VAT
Malaysia (Kuala Lumpur)	0.07–0.14
Philippines (Manila)	0.25
Thailand (Bangkok)	0.09–0.12

Source: JETRO (2011)

One other area relating to equity in the TNB corporatization was the NEP objectives of wealth and opportunity redistribution to Bumiputeras. In this context, the NEP came into play with respect to IPP contracts, as well as with respect to the ownership of shares. Rector (2005) identified the investment controls that were applied in the contracting of the IPPs in the 1990s. There was a requirement that Malaysia-based businesses should have at least 30 per cent Bumiputera ownership. Foreign investors were not allowed to have more than a 30 per cent stake in strategic sectors such as electricity. Malaysia also imposed restrictions on foreign borrowing to finance the IPP projects. As regards the divestment of shares, the government used its trust agencies as a mechanism for fulfilling the NEP equity ownership objectives.

While contributing to the advance of the Bumiputera ownership targets of NEP, the privatization came under criticism. Political connection was seen to have played a big role in the IPP contracting process, as well as in the divestment of shares. Negotiation mediated by the central government was the main mode of contracting rather than open bidding. The IPP contracts for the first wave of IPPs in 1994 were regarded as too expensive, and to the undue benefit of well-connected businessmen.⁴ Overall, concerns about collusion, insider information and special influence attended the privatization process (Jomo and Tan 2003; Rector 2005; Smith 2003).

Transparency, participation, accountability Malaysia was categorized under the Economist Intelligence Unit (EIU) Democracy Index for 2011 as a ‘flawed democracy’, which regrouped countries with free and fair elections but with significant weaknesses in other aspects of democracy. Malaysia scored 6.19 on a scale of 0 to 10, which was slightly lower than Thailand and Indonesia, but higher than the Philippines. However, in terms of transparency and accountability indicators it scored higher than Thailand (and significantly higher than the Philippines), and tied on political participation with Thailand and Indonesia (while being higher once again than the Philippines). What pulled down the overall score of Malaysia was its relatively low score on civil liberties linked to indicators such as freedom of the press, expression, protest and organization, as well as open and free discussion of public issues.

There appears to be an incongruity here. Intuitively, the norms of citizens’ rights should correlate directly with transparency and accountability indicators. Siddiquee and Mohamed (2007) provide a plausible explanation in their study of public sector reforms. On the one hand, they note that Malaysia’s numerous public reform initiatives since the 1980s were aimed not only at enhancing efficiency and institutional capacity but also at facilitating a customer-oriented administration. They acknowledge that these initiatives have produced positive impacts in terms of providing hassle-free and timely services to consumers. On the other hand, they observe that the reforms have not been able to alter the structure of government or its policy process. The Malaysian governmental system remains characterized by a high degree of centralization and a top-down approach to decision-making, and has not widened opportunities for public participation in governance. They conclude that individuals and civil society organizations still have little or no input into the policy process. This is in part a result of the lack of transparency and openness in governmental operations. In Malaysia, government holds sweeping powers under the Official Secrets Act, the Publications Act, the Internal Security Act and the Sedition Act, which deter critical scrutiny of state actions.

These general observations are confirmed by TNB’s corporatization experience. In line with the overall public reform approach, TNB has strengthened its customer orientation. For example, in 2011, it started implementing a Customer Charter, which sets the

standard performance requirements in seven consumer-related areas: new supply/connection; change of tenancy; refund of deposits; billing; service level; disconnection of supply; and reconnection of supply. To facilitate responsiveness to customer concerns, TNB's distribution division maintains two call centres – one for issues such as power breakdown and street lighting, and one for enquiries and customer feedback on electricity bills and accounts. It has also introduced an e-Application programme that allows customers to apply for supply connection online. For 2011, 40.8 per cent of electricity supply applications were processed through this facility.

The corporatization of TNB also compelled new forms of transparency and accountability, albeit geared mainly to private investors. TNB produces annual reports that contain accounts of operational performance, descriptions of corporate programmes and financial statements. A look at how these reports are organized shows that existing and potential shareholders are their key target audience. In addition to producing such reports, TNB holds an annual general meeting of shareholders for corporate reporting and to secure decisions on matters requiring shareholder action. TNB has a dedicated Investor Relations and Management Reporting Department, tasked with coordinating and responding to queries raised by shareholders, research analysts and investors. It also has an Annual Investor Relations Programme, with events to facilitate management interaction with these groups. This programme includes quarterly financial results announcements, analyst briefings, full-year financial results announcements, site visits, and domestic and international road shows (TNB 2011). TNB's website provides more information targeted at residential and business customers, investors and suppliers. TNB's listing on the stock exchange (Bursa Malaysia) also obliges it to observe regulations on continuing disclosure, notably of information that can have a material effect on the price value or market activity of a listed issuer's securities, such as: the acquisition or loss of a contract, franchise or distributorship rights; a change in management; borrowing of funds; involvement in litigation or arbitration; and occurrence of a labour dispute.

However, there is no institutional mechanism for direct participation by outside groups in TNB's decision-making. Rule-making and major decisions (such as on tariffs and restructuring) are highly centralized, with very limited consultation with outside groups, if

any. The idea is that government oversight is already sensitive to the interests of the various stakeholders. The mechanism to approximate broad representation is through inter-agency consultation at cabinet level for major decisions. Reflecting the orientation of accountability in favour of investors and consumer service, the information put out is generally biased towards reporting performance and providing basic data and practical information. There is not much information about ongoing decision-making issues and processes, or the key actors involved in these processes.

Quality of the workplace Even though TNB is majority-owned by the state, its incorporation has recategorized it as a private company. This has implications in terms of the status of TNB employees, who are now regarded as private employees rather than part of the public service.

In interviews, union leaders⁵ affirm that there is a high degree of unionization within TNB which allows collective bargaining for the terms and conditions of employment. However, workers have limited participation or influence in policy-making and management on issues that do not directly affect the terms and conditions of employment.

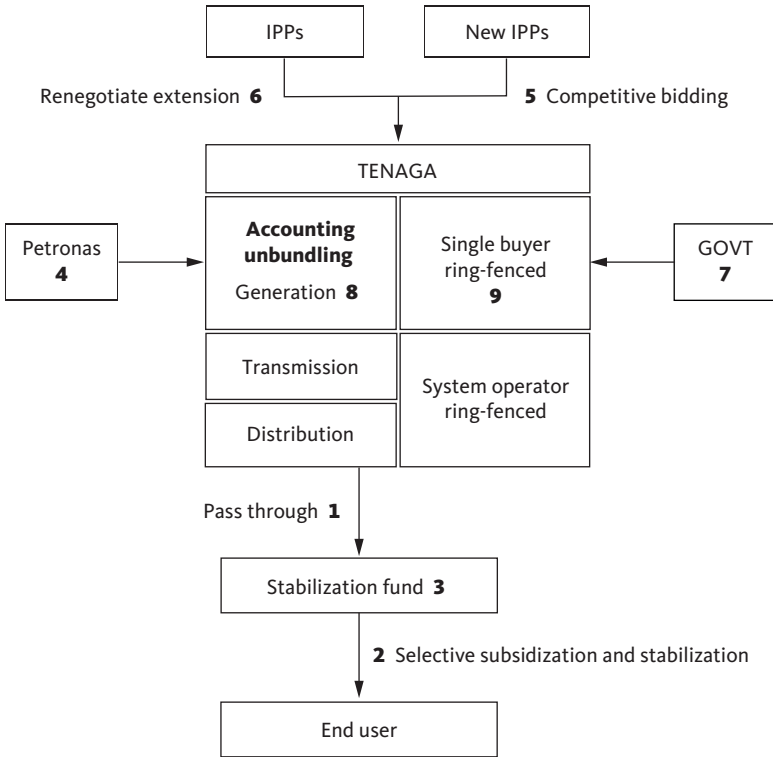
Given its focus on efficiency, TNB does provide training opportunities to its employees, via its own subsidiary, the TNB Integrated Learning Solution (ILSAS). It provides training programmes for various categories of TNB employees, not just in the technical aspect of power utility operation, but in administrative and management aspects as well. It offers training programmes in sub-station operation, overhead lines and cables, metering, instrumentation, mechanical engineering, generation and system operation, live line maintenance, equipment maintenance, fault analysis and troubleshooting, computer and information technology, and management and administration. TNB also runs a Leadership Development Programme, identifying and developing potential candidates to fill leadership positions (TNB 2011).

Union members acknowledge that they have salaries and benefits generally higher than those of comparable private companies in Malaysia. Still, there are observations by employees that there may be better benefit programmes available to workers in the public sector – for example, in terms of medical facilities and pension

schemes. But the bigger concern of union members is that their skill sets and career paths are being narrowed by corporatization and partial privatization. This is because IPPs are taking up a growing proportion of TNB's generation business. There is also increasing pressure to outsource certain aspects of work, such as the call centre operation. Union resistance has prevented this thus far, but new hires at the call centre are beginning to be on a contractual basis. There are thus union fears of erosion of employment security as a result of the corporatization of TNB.

Public ethos, transferability, sustainability The combination of privatization, developmental state and NEP aspects of Malaysian policy is articulated in the 'public ethos' of TNB officials. In interviews, they argue that the essence of TNB reform is to allow efficiency gains associated with the private sector while still retaining a high degree of governmental coordination, public responsibility and price control. They also express a strong sense that TNB plays a key role in driving the national economic agenda. This is very different from the perspective that pervades in countries that have adopted the full privatization model in electricity reform, such as the Philippines, where government is given only a residual regulatory function (Williams and Ghanadan 2006). The Malaysian model should be transferable to developing economies that want to introduce private business norms without losing public control and abandoning public objectives. It can also be a viable alternative for countries where privatization is failing as a way to recover some public control, as opposed to renationalization, which is often politically and operationally difficult.

The question, however, is whether the balancing of contending norms in the TNB model is sustainable in the long run. The incident with Petronas when it withheld subsidized national gas and the resulting commercial pressure to increase electricity tariffs are indicative of the dilemmas that will continually confront TNB. In fact, there is again mounting pressure for TNB to deepen the privatization aspects of its restructuring. The TNB officials interviewed for this research say that private investors assert that the position of TNB remains too dominant and that entry by private players is restricted. They call for greater liberalization of the sector, including possible retail competition instead of the current single-buyer arrangement between IPPs and TNB.



6.2 Power sector reform proposals as applied to Tenaga’s current structure (source: ST 2011)

Another pressure is coming from developments in Malaysia’s overall economic policy. In March 2009, Malaysia launched its New Economic Model (NEM), outlining an updated framework to achieve national transformation into a ‘developed country’ by 2020. The premise of NEM is that Malaysia has been stuck in a middle-income trap. One of the reasons it cites is that the private sector has taken a back seat since private investment declined after the Asian financial crisis in 1997. The first strategic reform identified under NEM is to reinvigorate the private sector by addressing ‘overcrowding’ by the public sector, as indicated in the following:

Malaysia’s major obstacle is the absence of fairer competition to raise competitiveness within the nation. The existing restrictions on equity holdings and operations as well as slow liberalization

TABLE 6.7 Emerging power sector reform proposals

Area	Proposal
Tariff	(1) Separate wholesale tariff formulas for generation, transmission and distribution with automatic adjustments for fuel pass-through, allowable rates of returns and efficiency gains (2) Policy-driven end user tariff, with selective subsidization (3) Stabilization fund as temporary buffer between wholesale and end user tariff
Fuel	(4) Marginal (or unused) gas to be bought/sold at market price, with gradual phase out over time of subsidies for volumes committed
Market structure	(5) Single buyer to secure new capacity via transparent competitive bidding processes (6) Evaluate broader options for PPA renegotiations, including extension
Governance	(7) Separation of agency roles for policy, planning and supervision (8) Enforce accounting unbundling of Tenaga's generation, transmission and distribution operations (9) Ring-fence Single Buyer and System Operations within Tenaga, strengthening supervision of regulator

Source: ST (2011)

and deregulation policies make it difficult for domestic and global entrepreneurs to invest in Malaysia, undermining the efforts of local players to improve themselves through competition. The lack of investment has also resulted in poorly inter-linked and inefficient transport and distribution systems, which hinder economic progress and connectivity. Another key legacy and inherent obstacle in integrating the domestic economic network is the adversarial attitude between the Government/GLC entities and the private sector. The lack of trust between the different ethnic groups in Malaysia is also a barrier to domestic economic network integration. (NEAC 2010: 12)

Consequently, many of the policies under NEM intend to reduce the role of the state. One measure involves rationalizing government

participation in business by divesting ownership of non-strategic companies, and holding equity only as part of its trading portfolio. It also recommends capping government ownership of strategic companies such as TNB at 30 per cent of issued shares, and restructuring them to hand over regulatory functions to an independent body.

Does this mean that TNB will take a more orthodox neoliberal path to privatization? Emerging power sector reform proposals from the Ministry of Energy suggest it might. These include the unbundling of electricity generation, transmission and distribution, a gradual phasing out of subsidies from Petronas and purchase at market price of excess volume, ring-fencing of ‘single buyer and system operations’ functions of transmission, and competitive bidding for purchase of new generation capacity from IPPs (see Table 6.7 and Figure 6.2). These steps would allow increased participation by the private sector, more market pricing, the possible spin-off of an independent system operator, and divestment towards an eventual minority share.

Lessons learned

The corporatization of utilities is not a new mode of organizing public services. In many countries, this approach has given state-owned corporations powers to independently own property, enter into contracts, and operate with greater financial and administrative autonomy, but still under heavy departmental or ministry supervision.

In many ways, the corporatization of TNB was different from this traditional approach. The 1991 legislation authorized the conversion of the former NEB into a stock corporation. It was later listed on the stock exchange and a proportion of the shares was divested. But government retained majority ownership, and with it the power of supervision and control. According to TNB officials interviewed, the essence of this reform was to allow the utility to assimilate the efficiency of the private sector while retaining a high degree of governmental coordination and public responsibility. The partial divestment also served the ownership restructuring objectives of NEP.

The partial privatization and listing on the stock exchange of TNB did introduce a market discipline that appears to have been a key driver in improved financial and operational performance, as

well as customer orientation. But by retaining majority ownership, the government has at the same time been able to keep electricity tariffs low thanks to subsidized gas from Petronas, as well as cross-subsidies in TNB's own tariff structure. The government was also able to retain control over strategic decisions, such as contracting with IPPs and power development in general.

Although it was able to sustain this arrangement for almost a quarter of a century, TNB's experience also shows that the introduction of private and commercial norms creates an operational logic that threatens the public, non-commercial objectives of the utility. The focus on financial and operational performance requires driving down costs, including those of labour. In the past, the management response to this imperative has led to outsourcing and/or contractualization of new hires. Both can undermine job security and unionization. Improving financial performance also requires increasing revenues, and to do so management could decide to remove subsidies. Also, as the private sector enters the market for electricity, it demands more space and a level playing field, putting pressure on government to expand liberalization of entry, reduce government ownership gradually, and confine the state's role to that of a regulator. All these changes are now happening not only in TNB, but in the broader national development policy. The future of public electricity in Malaysia remains unclear.

Notes

1 www.tnb.com.my/investors-media/financial-info/top-30-shareholders.html, accessed 1 April 2013.

2 Author interviews with Azhar bin Omar, Senior Director, Supply and Market Regulation, and Mohd Rizal bin Ramli, Head, Capacity Planning, of Suruhanjaya Tenaga (Energy Commission), on 18 June 2012; and author interviews with Amir Hisham Hashim, Assistant General Manager, Strategic Planning, and Sabar Md Hashim, Senior Manager, Regulatory Relations and Management, Tenaga Nasional Berhad, also on 18 June 2012.

3 See www.tnb.com.my/residential/pricing-and-tariff.html.

4 On a positive note, however, the

'highly contained' model of IPP contracting, involving a predominance of local investors, local financing, and contracts based on local currency, gave the IPP contracts better protection from the Asian financial crisis than the contract structure in other countries (Rector 2005).

5 Personal interviews with Sarojini Devi Jagarou and S. P. Kunasegaran of the Amalgamated Employees Union of Tenaga Nasional Berhad on 15 June 2012.

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7 | QUASI-PUBLIC: WATER DISTRICTS IN THE PHILIPPINES

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The Philippines is a country rich in freshwater resources, with 421 principal river basins, 128 watersheds, 59 natural lakes and more than 1,000 square kilometres of freshwater swamps. But poor implementation of the Philippine Water Code, as well as the Clean Water Act, has led to an over-extraction of groundwater, water pollution, and a denudation of forests, watersheds and catchment basins.

The Philippine government has also underinvested in water supply and distribution systems, failing to provide safe, adequate and affordable water to all. In 2008, about 84 per cent of the population had basic access to safe water but it was largely unreliable and service provision in rural areas was generally poor. The Philippine government nevertheless considers it is on track to meet its commitments to the United Nations Millennium Development Goals of 86.5 per cent coverage by 2015 (National Statistical Coordination Board 2010: 1).

These problems have not gone unrecognized. The Philippine Development Plan for 2011–16 notes that the ‘water sector’s greatest challenge is to balance equity and efficiency in the management of water resources to ensure adequate, safe and sustainable water for all’ (National Economic Development Authority 2011: 133). In October 2011, Philippine senator Edgardo Angara introduced Senate Bill 2997 to institute reforms in the water industry, particularly the ‘rationalization, allocation and distribution of service areas, provision of incentives for infrastructure development or for new, clean, efficient and ecological technologies, reorganizing the National Water Resources Board, and creating Local Water Supply and Sanitation Companies’. The explanatory note accompanying the bill states that ‘the lack of a cohesive regime has led to the detriment of water services in the provinces’ (Angara 2011: 1).

This explanatory note further claims that the water district model that has been employed for over thirty years in the Philippines is flawed, creating water fiefdoms where small operators, in collaboration with local officials, monopolize water services with little incentive to provide quality service. To address these concerns, the bill argues that ‘Public-Private Partnerships (PPPs) of water and sanitation services may be the step in the right direction toward securing uninterrupted, adequate, quality and dependable water services for everyone’ (ibid.: 1–2).

Many water districts disagree, and have struck back against these criticisms. The Southern Tagalog Association of Water Districts, and the executive vice-president of the Philippine Association of Water Districts, for example, advertised in a national newspaper in January 2012, arguing that: a) water districts, despite being government-owned and -controlled corporations providing public water services, had not received any appropriation from the national government and had been deriving their funds from borrowings from banks and financial institutions; b) water districts were not established to generate profits but to provide services; and c) water districts have proved to be successful models based on their record of payment of existing loans even in the absence of state subsidy (Silva et al. 2012: 9).

There is now a vibrant debate in the Philippines about what to do with the thousands of water districts that operate in the country, making it a critical question for water policy. At issue here is not just public versus private water provision – an otherwise important topic in the Philippines (*Davao City Water District et al. v. Civil Service Commission and Commission on Audit* 1991; *Metro Iloilo Water District v. National Labor Relations Commission et al.* 1990) – but the very nature of what it means to be a ‘public’ water agency. Water districts in the Philippines fall into an ambiguous ‘quasi-public’ category, and have operated on mixed public–private operating principles for years. They are essentially corporatized: publicly owned and operated entities that function at arm’s length from the state and operate partly on private sector principles, sending at times contradictory signals as to their mandate (see Chapter 1, this volume, for a lengthier discussion).

In other words, it is not entirely clear what role water districts play in the public/private debate over water in the Philippines, or what their objectives are in defending the status quo. If the aim

is to keep water in public hands, then there is a need to better understand what makes such entities ‘public’, and whether their public mandates can be enhanced (or not) as corporatized entities.

This chapter is an effort to contribute to this debate by looking at the Leyte Metro Water District (LMWD).¹ Based in the city of Tacloban, in the central Philippines, the LMWD is considered successful on commercial terms while at the same time priding itself on its public ethos. As such, it serves to illustrate the public/private tensions inherent in the water district model, and the challenges faced by policy-makers, practitioners and activists who want to retain water districts as public water providers.

On the ‘public’ side, LMWD has shown itself to be promoting partnerships with other public service providers and sharing resources and knowledge. It has taken environmental sustainability and watershed management seriously, and to some extent issues of equity as well, seeing water as an essential service for all that is central to poverty reduction in the region.

But its ‘private’ features are right below the surface. Most significant are its commitments to (World Bank-inspired) performance indicators such as the ratio of workers to water connections and a fixation on financial efficiency and cost-reflexive pricing (often at the expense of equity). None of these practices is inherently private – the efficient use of resources can be a public utility mandate as well – but the day-to-day implementation of these policies suggests that the LMWD is deeply divided on how it might ‘balance equity and efficiency in the management of water resources’, as per the directive of the Philippine Development Plan cited above.

Although this case study is only about one of many water districts in the country, it reveals the nuances in their mandates and the potential for their transformation into more publicly oriented water providers. This will not be an easy task in the Philippines, requiring financial, managerial and ideological commitment from all levels of government. What the LMWD appears to have in its favour is strong local management and a sense of responsibility for providing safe water services for all.

A brief history of water services in the Philippines

The first piped water system in the Philippines was established in 1878 using funds donated by Spanish philanthropist Francisco

Carriedo y Peredo. The system provided some 15 million litres per day to an estimated 300,000 people in the city of Manila. In 1919, Act 2832 created the Metropolitan Water District to cover not only the City of Manila proper, but also its fourteen adjacent cities and municipalities.

The corporate nature of national water services was firmly established in 1955 with the passage of Act 1383, ‘creating a public corporation to be known as the National Waterworks and Sewerage Authority [Nawasa]’ (Republic of the Philippines 1955). This act placed all waterworks, sewerage and drainage systems under Nawasa’s control, direction and general supervision, and vested it with the power to ‘own and/or have jurisdiction, supervision and control over all territory ... embraced by the Metropolitan Water District’.

In 1971, a separate act dissolved Nawasa, and created the Metropolitan Waterworks and Sewerage System (MWSS) to cover Metro Manila, Rizal, Cavite and Valenzuela, Bulacan (Republic of the Philippines 1971). Under this new act, provinces, cities and municipalities had the option to operate separately from the MWSS, effectively allowing them to set their own water rates.

Later, Presidential Decree 198 (Presidency of the Philippines 1973) allowed provinces, cities and municipalities to create their own water districts, to operate and maintain water supply and wastewater disposal systems for their respective population centres. These water districts were expected to submit plans to the Local Water Utilities Administration to conform to national standards and procedures. Additional legislation enacted in 1978 (Presidency of the Philippines 1978a) stipulated that this same agency would promote water district management in cities and municipalities of more than twenty thousand inhabitants and provide institutional, technical and financing assistance. Smaller towns and villages were to be serviced by water associations and cooperatives coordinated by various provincial and national authorities.

As a result, water services in the Philippines came to be delivered by a combination of state-owned but arm’s-length water districts; local government-operated waterworks; privately operated water service providers; and community-managed water systems such as cooperatives (Table 7.1 provides a description of the different types of management models in the country). Attempts to accurately

determine the number of water districts prove to be difficult, but the ‘safest figure is probably 500, give or take a few’ (Villasan 2010: 9).

TABLE 7.1 Philippine water utilities by type of management model

Type of management model	Description of model
Water districts	Quasi-public corporations formed pursuant to the Philippine Provincial Water Utilities Act to operate and maintain water supply and distribution systems
Local government-operated waterworks	Water supply systems owned and operated by provincial, city and municipal governments
Privately operated water service providers	Water supply systems owned and operated by private actors (individual and corporate)
Water systems managed by users and/or communities	Water supply systems owned, operated and/or maintained by communities and/or community-based users groups or organizations
Cooperatives	Organizations formed pursuant to the Cooperative Code of the Philippines to operate and maintain a water supply system
<i>Barangay</i> waterworks and sanitation associations	Non-stock, non-profit organizations composed mainly of residents of a village envisioned to operate and manage Level I water supply facilities
Rural waterworks and sanitation associations	Non-stock, non-profit organizations composed of residents of a village or of adjoining villages envisioned to operate and manage Level II water supply facilities

Source: Dargantes and Dargantes (2007: 54)

The (confused) corporate personality of water districts

A major issue regarding the juridical identity of water districts was whether they were private or government corporations. From 1973 to 1991, water districts were operated as private corporations based on the interpretation that ‘a district shall exercise the powers, rights and privileges given to private corporations under existing laws, in addition to the powers granted in, and subject to such

restriction', as imposed by Presidential Decree 198 (Presidency of the Philippines 1973). As such, water districts operated outside the jurisdiction of the Civil Service Commission in terms of personnel management, and outside the visitorial power of the Commission on Audit in terms of financial administration.

The change in interpretation started when Tanjay Water District filed a petition for an injunction against the municipality of Pamplona and its officials to prevent them from interfering in the management of the Tanjay Waterworks System in 1983. The judge dismissed the complaint for lack of jurisdiction over the matter (water) and over the parties (both being government agencies), and ruled that they should settle the dispute administratively. The dismissal explicitly recognized water districts as government entities. In finally resolving this case years later, the Supreme Court ruled that 'all water districts in the country come under the coverage of the Civil Service Law, Rules and Regulations' (*Tanjay Water District v. Gabaton et al.* 1989).

In another case, the Supreme Court ruled that water districts, having been created by a special law, were quasi-public corporations (government-owned and -controlled corporations, GOCCs), whose officers and employees belonged to the civil service and were therefore governed by civil service rules and regulations (*Datuin v. Tarlac Water District* 1989). This ruling was based on a provision of the 1987 Philippine Constitution that says: 'the civil service embraces all branches, subdivisions, instrumentalities, and agencies of the government, including GOCCs with original charters'. Although water districts were officially deemed to be GOCCs, their quasi-public nature stemmed from the powers, rights and privileges granted to them within the context of natural monopolies being implemented by the state.

Despite the aforementioned rulings, the Third Division of the Supreme Court ruled in 1990 that employees of water districts were not covered by civil service laws (*Metro Iloilo Water District v. National Labor Relations Commission et al.* 1990). A number of water districts then sought clarification. After careful study, the Supreme Court ruled that water districts were GOCCs with original charter created by special law and not under the Corporation Code of the Philippines (*Davao City Water District et al. v. Civil Service Commission and Commission on Audit* 1991). In doing so it noted that Presidential

Decree 198 bestowed juridical personality on a water district by defining its primary purpose and basic organizational set-up. It also fixed the number and qualifications of the members of the board of directors of a water district, so as to represent civic-oriented service clubs, professional associations, commercial organizations, educational institutions and women's organizations. If more than 75 per cent of the total active water service connections were within a municipality, the appointing authority should be the municipal mayor; otherwise, the appointing authority would be the provincial governor. It was also recognized that the power 'to examine, audit, and settle all accounts pertaining to the revenue and receipts of, and expenditures or uses of funds and property, owned or held in trust by, or pertaining to water districts' lay with the national government's audit office (*ibid.*). In short, these provisions made it clear that water districts were *not* private corporations.

LMWD's corporate personality

The Leyte Municipality Water Board was created in 1975 with the merger of two waterworks systems. The intent was to address the 'very significant and necessary steps and substantial commitment to improve the domestic water service to the public' (Local Water Utilities Administration 1975: 1). Initially, LMWD had 3,365 water service connections in the municipalities of Palo, Tanauan, Tolosa and Dagami, and the city of Tacloban (LMWD 2011: 1), and has since grown to include 370 *barangays* (the smallest administrative division – village, district or ward).

Politically, the LMWD has not been exempt from the confusion surrounding the corporate nature of water districts, even after the Supreme Court rulings outlined above. For example, in 1999, when the national Commission on Audit requested that LMWD pay audit fees, the general manager refused, arguing that LMWD had become a private entity through the transfer of ownership from the local government units to the water district, and that LMWD was owned by the district itself. The Supreme Court once again maintained that the transfer of facilities was from one government entity to another and that there was no indication of the privatization of water systems; it noted that 'no law shall be passed exempting any entity of the Government or its subsidiary in any guise whatever, or any investment of public funds, from the jurisdiction of the Commission

on Audit' (*Feliciano v. Commission on Audit et al.* 2004). Another incident relating to the dismissal of the general manager of LMWD by a higher level of government in 2006 further bolstered the public nature of water districts and nullified the contention that LMWD was a private corporation and could make its own internal decisions.

In other words, almost thirty years on, the public nature of the LMWD is still unclear in practice (if not in law), contributing to a mix of public and private operational behaviours. Evidence of this confusion is manifest in the performance indicators imposed on the LMWD by the National Water Resources Board, some of which have a clear market orientation while others are more oriented towards public responsibilities. Tensions over how to prioritize these competing demands go to the heart of what makes a water district 'public' or not, as illustrated in the following sections looking at performance indicators.

Staffing levels, salaries and wages One of the most contentious neoliberal influences on water services policies – in the Philippines and elsewhere – has been the growing insistence on lowering the ratio of staff to water connections (Department of Budget and Management 2011; NWRB 2007). Intended as a proxy for productivity, staff-to-connection ratios can be imposed without adequate consideration of local conditions. In the Philippines, the 2011 guidelines from the Staff Productivity Index are 10 employees per 1,200 service connections. With 156 regular and 45 casual employees, and 27,585 service connections, as of 2008 LMWD fell well within this mandated efficiency threshold.

But when LMWD's entire workforce is taken into account – notably the 150 employees on temporary 'job order' contracts – the 2008 staff-to-connections ratio would be closer to 13 to 1,000. Research by Hall and Lobina (2006: 13) as well as Santiago (2005: 56) indicates that these guidelines forced water providers to implement sensitive labour restructuring. In many cases, a lower number of employees was assumed to increase efficiency, even if it meant sacrificing higher quality and more equitable service. In LMWD, workers and management had to contend with rapid turnover of job order contract workers, as they would usually move on to better and more secure employment, taking with them whatever skills they had acquired while on the job.

A requisite for maintaining staff productivity would be the payment of fair salaries and benefits to employees. For Philippine water districts, low salaries seemed to be less of a problem – at least initially. From 1973 to 1978, water districts and their employees were exempt from the Civil Service Law, particularly the guidelines on position classification and compensation, and the only limit was that total salaries, wages, emoluments, benefits or other compensation paid monthly to water district employees should not exceed 50 per cent of the average net monthly revenue (*Hagonoy Water District v. National Labor Relations Commission et al.* 1988). By June 1978, this exemption was removed, with salaries and benefits of water district employees pegged to a government-approved grade classification system.

In September 1997, the Department of Budget and Management issued the first Local Water District Manual on Categorization/ Re-categorization to provide a general framework for determining the organizational structure, staffing pattern and position classification for water districts. This was revised in 2011, and provided for substantial increases in compensation. The general manager of LMWD, however, complained that the salary grades did not go high enough to adequately compensate the work of its employees. He felt the salaries of field personnel should be three salary grades higher in view of the hazards they experience on a daily basis. For administrative personnel, he argued that an upward adjustment of two salary grades would help improve morale, and encourage better productivity. High employee morale could create a cycle of gratitude and pride, deepen worker commitment to the goals of the water district, and eventually strengthen the relationship between management and front-line workers (Hall and Lobina 2006: 15).

On the management side, the revised guidelines provided for the upward adjustment of the salary grades, but the LMWD general manager expressed dissatisfaction over the fact that they would receive only half of the PHP 100,000–150,000 (approximately US\$2,200–3,300) monthly salary that some employees of other GOCCs were receiving. Considering that the comparison would no longer be among different categories of water districts, he suggested a review of salary grade allocation for personnel of GOCCs, regardless of type, to standardize position classifications and harmonize compensation packages.

Beyond the issue of compensation, the Supreme Court ruling on the GOCC character of water districts could have had repercussions on the security of tenure of employees who did not have the necessary civil service eligibilities. To avert a potential conflict, the Supreme Court ruled that water district employees were protected by the constitutional guarantee of security of tenure, thus employees with permanent status could not be removed for lack of necessary civil service eligibilities. This principle, none the less, might again be tested with the requirement of a graduate degree, or its equivalent, for those appointed to certain levels of management.

Participation Gomez and Terhorst (2005) argue that community inputs into the day-to-day operations and policy decisions of water service providers can help improve service delivery. Moreover, the objectives of such participation – whether to inform, consult or give more substantial decision-making power to community members – can be a major determinant of the quality of community inputs (Murthy and Klugman 2004: 79). In the case of LMWD, there has been no end user participation in decision-making. According to interviews conducted with community members for this research, information they receive on water services typically comes from the media, not from LMWD, and the only direct communication seems to be notices about increases in water tariffs. These interviewees challenged LMWD management to do more, and in particular to inform them of plans to improve the state of water services so they could make appropriate, location-specific suggestions. Focus group participants further recommended that water service delivery be included as a criterion for urban planning and that there should be university personnel involved in this, particularly with respect to the protection and conservation of sources of water supply.

In responding to those criticisms on behalf of LMWD, the general manager contended (in an interview with the authors) that the water district had tried its best to improve the water supply situation, and to accommodate applications for new service connections without compromising service quality. He agreed that consultations with stakeholders and affected sectors could strengthen democratic governance, and emphasized that in the past local government units and other groups were always welcome to participate in the discussions that LMWD conducted to gather feedback during every step

of project implementation. While admitting to a patchy relationship between management and some local government units, he believed that LMWD had properly coordinated with them, especially on the elimination of illegal connections, and in authorizing local government personnel to receive payments of water bills.

In focus groups, additional concerns were raised about the formal representation mechanism for the board of directors of LMWD, which many interviewees felt was limited to a relatively affluent portion of the community, excluding marginalized and vulnerable groups. Thus, even if fairly selected, board members still would not reflect the diversity of the community in terms of location, gender, income and age. For example, Presidential Decree 198 does mandate the appointment of a representative of women's groups, but the selection mechanism has yet to be refined.

Moreover, some focus group participants recommended that there should be a youth representative to advocate for inter-generational rights, especially on such matters as water quality, adequate water supply and transparency. The LMWD general manager, however, argued that while social institutions recognize the intellectual contribution of youth in taking on the challenges posed by issues of sustainability, their involvement in water resource management could be corrupted by local partisan politics. He cited alleged instances of youth representatives being 'used' by politicians.

The general manager preferred the creation of a board of directors composed of 'real professionals' whose appointment would lead to the formation of an intellectually competent board that could handle a wide range of water-related issues, making critical decisions about the efficient management of water districts. According to him, board members could include: a) one representative of civic organizations who should preferably have a track record of implementing projects related to water service provision or water resources management; b) one civil engineer with experience in hydraulic operations; c) one certified public accountant; d) one lawyer with experience in GOCC operations and in water-related laws and legislation; e) one management-level person from a competent institution of higher education, or a retired professor of a state college or university; f) one representative of all water district employees elected by co-workers and not just by the union members; and g) one representative to be elected by water consumers.

Worker empowerment While having an employee representative on the board of directors can contribute to empowering all workers, it can also serve to weaken the union. It can encourage better worker participation to address issues directly related to the workplace, but the LMWD experience has been one of disappointment with management. Since forming an LMWD Employees Association in 2002, union officers have been frustrated with management inaction on granting full recognition of union rights, particularly with respect to collective negotiations. Reportedly, some employee benefits and incentives, as stipulated in the collective negotiation agreement, had not been implemented, leading to an ongoing labour–management conflict. Likewise, the cost-saving measures incorporated in the agreement were reportedly unilaterally submitted by management without union consultation.

Moreover, the union had concerns regarding LMWD policy directions and project implementation practices. For example, some engineers (also union officers) had been kept on ‘floating status’ since 2008, when they disagreed with management on the technical appropriateness of using booster pumps to augment water supplies. Under this status they could not perform the functions and responsibilities stipulated in their respective appointments and were unable to participate in decision- and policy-making processes pertaining to the Water District Development Sector Project (WDDSP).

Equity Although the National Water Resources Board has enumerated rights on water access in the Philippines, these rules apply only to those who already have service connections. In the case of LMWD, 32 per cent of residents in its service areas are connected (PÖYRY IDP Consult et al. 2010: 2). With populations growing quickly, especially in Tacloban City, and with formal and informal housing sprouting up to accommodate the rural poor and economically displaced migrants in urban centres, water and sanitation services are being stretched to the limits. In some areas of LMWD as little as 17 per cent of the population has a service connection.

One of the obstacles to better access is the cost of a water connection – as much as PHP 6,000, or 39 per cent of the per capita poverty threshold for residents of Leyte province in 2009 (National Statistical Coordination Board, Regional Division VIII 2011: 1). Applying for a service connection also requires a building permit

from the relevant local government authority, which can cost PHP 4,000, and getting approval for the building design can double costs again. For the poor, therefore, a major constraint to getting water service is the cost of the connection itself.

Once users are connected, the LMWD does offer a relatively progressive tariff system that subsidizes users for the first 10 cubic metres of water monthly and per household. In practice, commercial and industrial users who consume more have been subsidizing tariffs for residents. This is based on the political assumption that residential water use forms part of the rights of citizens, and thus should be financially accessible, while commercial and industrial water uses would mainly be for private profit. The international human right to water (United Nations General Assembly 2010: 2) makes water a social and cultural good, and to a lesser extent an economic good, for present and future generations. Through the recognition of access to freshwater as a legal entitlement, LMWD can devote a significant part of its efforts to targeting the underserved segments in its area of jurisdiction, and empowering communities and vulnerable groups to take part in decision-making processes. Considering that LMWD operates locally, this would require strengthening ongoing partnerships with local government agencies not only on issues of protection, conservation and beneficial use of water resources, but also on the formulation of investment options to facilitate the realization of the human right to water.

Transparency and accountability Goetz and Jenkins (as cited in Murthy and Klugman 2004: 79) argue that accountability has two key elements: answerability of power-holders to their citizens; and enforceability of penalties for failure in this regard. The National Water Resources Board conducts regulatory audits to review compliance and assess performance of water districts as a way to formalize accountability and ensure that a relationship based on answerability exists between water users and service providers (NWRB 2007: 1).

LMWD management insists that it makes information available to the public, but consumer groups interviewed for this research feel that they are not adequately informed – perhaps even misinformed – about the water situation. When pressed on this matter, the general manager admitted that LMWD does not actively share information on the assumption that they will be criticized regardless of what is

disclosed. Not surprisingly, the lack of effort to inform end users of operational issues contributes to LMWD credibility losses.

Another dimension of accountability is related to relations with workers. The union has complained that cost-saving measures were decided by management without consultation or advance discussion with them. Apparently, management took comfort in the fact that national guidelines mandated an annual financial audit, and implemented decisions without considering vertical and horizontal accountability mechanisms.

Public ethos Despite the implementation of an expansion programme, LMWD has had to contend with the possible entry of private investors, particularly Maynilad Water Services Inc. into Tacloban City. Reportedly, a feasibility study has already been conducted, although public discussions and consultations on this issue have not yet been formally undertaken. Faced with the prospect of competing water service delivery systems in one geopolitical unit, both labour and management of LMWD were in agreement that private operation and management of a water system would negatively affect consumers. Both placed primacy on user satisfaction as justification for continued public ownership and management of LMWD as a sole provider. Despite their differences, both indicated pride in worker-level accomplishments and knowledge, and valued management and worker collaboration. To strengthen this public ethos, management and labour have determined that they must improve transparency and accountability mechanisms, ensuring direct citizen participation to attain better service delivery.

Public ethos among water district managers and workers is deeply rooted. Leaders of the Southern Tagalog Association of Water Districts and of the Philippine Association of Water Districts (PAWD), for example, are conscious that water districts exist primarily to provide a public service. For their part, the Alliance of Government Workers in the Water Sector (AGWWAS) has persisted in its campaign against privatization (Chiong 2007). Such peculiar confluence of interest between management and labour in the defence of the publicness of water districts was also reflected in the message of PAWD to the participants of the Capability-Building Programme on Performance Benchmarking of Philippine Water Districts, which stated that the training provided:

a chance to share information and a chance to compare and evaluate our performance ... As a result, the bar of water and service quality will be raised to a higher level, paving the way for us to serve our people in the best way possible as we believe that our concessionaires only deserve the best ... Together, we can help bring higher accountability and transparency to this life-supporting service. (AGWWAS, MCWD, PSIRU and VSU 2008: 1–2)

Lessons learned

Financial viability Public systems are often assumed to be less financially efficient than their private counterparts (Angara 2011). In the Philippines, financial efficiency is indicated by cost control and profitability, and sustainability or sufficiency of funds to meet operating and maintenance expenses to provide for system improvement and expansion.

To attain efficiency, the LMWD adopted the National Government Accounting System to cover general accounting and financial reporting, billing and collection, disbursements, budgeting, fixed assets management, inventory management and the maintenance of separate regulatory accounts for easy monitoring and review. It also adopted a well-defined collection of policies and procedures, including penalties for non-payment, that allowed local government authorities to become accredited collection centres.

Based on its financial reports, LMWD appears to maintain relatively good liquidity and is able to cover its maturing liabilities. Between 2004 and 2008, LMWD reported expenses ranging from PHP 147 million to 161 million, based on income ranging from PHP 180 million to 191 million. The operating ratio reached a high of 90 per cent in 2005, indicating relative difficulty in fully covering costs, and a low of 78 per cent in 2008, which meant better coverage of operations and maintenance expenses. Overall, these figures indicate that operations and maintenance expenses were rather prudent and cost effective.

To finance continuing operations, LMWD has had to realize returns on investment that are neither too low to provide for capital expansion, nor too high to be considered oppressive in terms of water tariffs. Reportedly, LMWD was able to derive 95 per cent of its revenues from water sales and 5 per cent from service income, fines and penalties, interest and miscellaneous income. The average

growth rate of revenues for the period 2004 to 2008 was 1.2 per cent per annum, resulting in an average net profit margin of roughly 16 per cent per annum, indicating that LMWD could withstand competition and adverse conditions such as rising costs, falling prices or declining sales in the future.

This fixation on optimizing revenues has had some negative consequences, however; most notably, it has resulted in the lack of service to low-income areas where costs cannot be fully recovered. As a National Water Regulatory Board-mandated performance indicator, the pursuit of a positive net income made sense from the point of view of LMWD management, particularly given that funding to subsidize low-income areas was not forthcoming from national government. According to the mayor of Santa Fe – one of the low-income municipalities in LMWD's service area – water is not being provided to all who need it because revenues will not cover the costs of expanding, despite the fact that ample water supplies exist. For its part, LMWD management argues that service could be expanded if the municipality would share in the cost of establishing distribution lines.

One upside to LMWD's financial performance is that it has enabled it to assist other water districts through public–public partnership (PuP) arrangements, especially within the Eastern Visayas Association of Water Districts. Here we see a publicly spirited initiative bankrolled by commercial performance, a tension-ridden relationship that may not be economically or ideologically sustainable.

Environmental sustainability Environmental sustainability of water resources has traditionally been considered outside of the domain of water districts, despite the fact that Presidential Decree 198 (Presidency of the Philippines 1973) charged them with the responsibility of 'management, administration, operation and maintenance of all watersheds within its territorial boundaries'. With its two-pronged watershed protection programme, LMWD has been regarded as advanced in this regard. On the one hand, the Watershed Management Division of LMWD has been actively implementing a reforestation initiative using mainly Philippine native tree species, in collaboration with the Department of Environment and Natural Resources. On the other hand, LMWD has deployed forest rangers, whose foot patrols monitor timber poachers within the watershed.

Considering that water divides go beyond political-administrative boundaries, the management of watersheds and river basins requires inter-agency governance mechanisms, and alternative arrangements to existing state frameworks. As part of a long-term sustainability effort the LMWD entered into a multi-stakeholder co-management agreement with private companies and different tiers of government. The agreement was premised on the right of people to a balanced and healthy environment, and their protection from disasters, such as floods and landslides, and from threats to environmental and economic security, such as wood and water shortages, loss of biodiversity, air pollution and drought. Involvement in the co-management effort was based on the respective functions and responsibilities of each agency or office. The initiative included the LMWD as the primary agency for the protection of Binahaan Watershed and was intended to improve water yield and quality as well as sustainability of water supply for domestic, commercial and industrial uses.

Transferability The experience of LMWD to date has demonstrated that locally controlled public water districts are viable institutional structures for the delivery of water services in the Philippine context, but that significant changes need to be made if we are to celebrate them as progressive public entities. The operational performance of LMWD has shown that water districts can implement sound financial practices through better management of existing assets, together with the application of appropriate technologies. Such practices could even allow water districts to raise funds for the improvement of service quality and for the expansion of coverage.

To attain universal access, however, the national government and local government units must allocate resources to the provision of services to communities where cost-recovery mechanisms make water unaffordable. Operationally, this would mean that government agencies would financially support the underserved rural communities, urban low-income and peri-urban areas. The LMWD experience has shown that although sound financial management allows a water district to raise funds on its own terms, working in partnership with national and local government agencies could better contribute to the delivery of quality service at a fair and affordable price.

Through partnerships with other public institutions, LMWD has been able to demonstrate that intergovernmental collaboration can

be effectively undertaken, suggesting this may be the key to better defining the public character of water districts and overcoming local water challenges in the Philippines.

Note

1 In conducting the case study, primary data were obtained through key informant interviews, including senior LMWD managers, residential and commercial water users, academics, representatives of NGOs, and various officials from different levels of government – *barangay* (village), municipal, city and provincial. Additional focus groups were conducted with LMWD management staff, LMWD Employees Association officers, government officials, and Visayas State University professors and students. Secondary sources of data include laws passed by the Congress, presidential decrees and executive issuances, rulings of the Supreme Court, administrative orders issued by various national and local government agencies, reports from forums regarding water service delivery in the LMWD area of jurisdiction, minutes of meetings of various stakeholder groups, and newspaper articles.

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8 | CORPORATIZATION IN THE EUROPEAN WATER SECTOR: LESSONS FOR THE GLOBAL SOUTH

Emanuele Lobina and David Hall

In Europe, as in the rest of the world, the last twenty-five 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 twenty-five years.

Of the current twenty-eight 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, the 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 Chapter 1 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 *SpA 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 Chapter 1 of 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 centuries, 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 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 Matino 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 (Roerber 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 2005b). 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 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 one hundred 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 lawmakers 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. There is an obligation for any *régie*

directe to cease subsidizing service provision from taxation and move towards 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 well different forms of corporatization may perform 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 analyse.

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 thirty-five-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, remunicipalization 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* called 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 has 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 Moroccan and Mauritanian national water operators ONEP and SNDE, and the funding of social connections in Phnom Penh, Cambodia. As regards participation in decision-making, eleven 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 for its privatization (Massarutto and Linares 2006). However, it 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 the water utility, simplified its organization, retrained its workers, brought the previously outsourced wastewater management operations back in-house, and turned sludge treatment into a profitable activity owing 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 it 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 promoted regional legislation to reduce the separation between the water utility and government and transform it into an autonomous agency governed

by public law, but Italy's Constitutional Court blocked the initiative (Zoppo 2010a, 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 consists not only 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 payments. 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 renegeing 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

decorporatization of public limited companies. As a result, local authorities have decided to change the legal status of in-house operators from that of *SpA 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 remunicipalization, similar to the passage from private to public ownership. In fact, they identify the following two problems, which can also be observed under private sector participation, with public limited companies: a) the orientation of *SpA pubblica* towards 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 was 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, it 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 decorporatize, Turin's municipally owned public limited company SMAT won a water concession for the eighty-one 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, which 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 remunicipalization 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 decorporatization. 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 as that 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 owing 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 2013; Lobina and Hall 2007).

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, Crespo and Olivera (Chapter 5, this volume) in relation to Uruguay, and by Dargantes, Chiong, Dargantes and Mira (Chapter 7, 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

municipal water and sewerage 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 (Chapter 3, 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.

Secondly, the fact that no organizational arrangement is perfect (Williamson 1999) has important implications. Spronk et al. (Chapter 5, this volume) and Dargantes et al. (Chapter 7, this volume) point to the tensions between public interest objectives and practices inspired by new public management under weak corporatization. Baron (Chapter 3, 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 for 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 all 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 towards 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 remunicipalization and decorporatization, the Italian Forum of Water Movements acknowledges that the achievement of their goals will depend not 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.

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9 | CORPORATIZATION IS DEAD ... LONG LIVE CORPORATIZATION?

David A. McDonald

Like it or not, corporatization is here to stay. It will remain a prominent – if not dominant – feature of the international public service landscape for many years to come. As states and communities become increasingly wary of privatization, and as private companies shy away from risky ventures in low-income countries, corporatization is increasingly being seen as a safe ‘public’ option for service delivery in Africa, Asia and Latin America.

Although corporatization remains heavily influenced by the principles of new public management, it is not *inherently* neoliberal. Arm’s-length public corporations have a long and complicated history, and corporatization should be seen in this larger context. Corporatization is an institutional framework, not an ideology, despite the prevailing form it has taken on today.

The case studies in this book are testament to this diversity, demonstrating the potential for corporatized agencies to resist neoliberal pressures and to operate relatively progressive forms of services in a global market economy. None of these utilities is perfect – no public service ever is – but they do represent the possibility of operating state agencies with considerable autonomy from the market.

For those interested in alternatives to privatization, corporatization offers a form of state ownership that is (theoretically) answerable to broad public service mandates, and which removes the structural necessity of profit-taking by private firms. It can shield public utilities from short-term or nepotistic policy-making, with the creation of a ‘professional’ cadre of bureaucrats and technicians sheltered to some extent from the vagaries of elected politics.

Corporatization can also contribute to greater financial and managerial transparency. If done well, it can enhance democratic decision-making about the allocation of resources, pricing, subsidies and investments, all of which can advance more equitable and

affordable services for all. In doing so, corporatization can improve the credit rating of a service entity, potentially making it easier to raise capital domestically and internationally. The case studies in this book are living proof of all these possibilities.

Nevertheless, we cannot overlook the pressures imposed on service providers – public or private – to marketize and commodify service delivery in a neoliberal world. Nor can we ignore the structural limitations of this state-centric model, which assumes a dominant role for the government apparatus. Non-state actors can be incorporated into service planning and implementation, but the balance of power is necessarily skewed in favour of state agencies, potentially leading to autocratic, paternalistic or unequal forms of service delivery in practice.

Corporatization is also predisposed to creating vertical silos – corporatized fiefdoms that can operate indifferently to the needs of other public agencies or other levels of state (Nor-Aziah and Scapens 2007; Pollitt 2006; Pollitt and Talbot 2004). Creative planning and strong political will can alleviate these concerns to varying degrees, but isolationism is intrinsic to the practice of ring-fencing, and necessarily cuts against the grain of holistic service planning.

Another tension is the ambiguity corporatization creates around notions of ‘publicness’, owing in part to the binary nature of our public/private language. Corporatized services are entirely owned and operated by the state, and therefore public in institutional terms, but this designation can be confusing, making it difficult to criticize neoliberal forms of public management, inadvertently contributing to a defence of problematic forms of public enterprises (often in the name of resisting privatization).

This grey zone of publicness is seldom discussed and often poorly understood in the debates about corporatization. In a world of sound-bite media and slogan-driven mobilizations, ‘public’ and ‘private’ are simple, evocative terms, making it difficult to discuss more nuanced features of corporatization (good or bad). After three decades of neoliberalism, anti-privatization activists are understandably reluctant to criticize state-owned enterprises, but this reticence can delay needed improvements to, or the dismantling of, crudely commercialized behaviours.

Corporatized services in South Africa, as noted in Chapter 1, exemplify these tensions. Agencies such as Eskom (electricity) and

Rand Water were reorganized and recapitalized after the end of apartheid to assist with the newly established constitutional rights of all South Africans to water and electricity. In practice, however, these corporatized agencies have proved themselves to be hyper-commercialized, cutting off services to millions of low-income households, imposing regressive cost-reflexive tariffs on the poor, and pursuing private sector contracts elsewhere on the continent (Gentle 2009; Magdahl 2012; Van Rooyen and Hall 2007). There are regular protests against such marketized behaviours in South Africa – perhaps the most frequent service-related protests in the world (Alexander 2010) – but it has proved difficult to build sustained resistance to these state agencies because of their confusing ‘public’ status. The South African government celebrates the fact that it has not ‘privatized’ these agencies, making it even more difficult to mobilize against them, particularly when they have a stamp of approval from the likes of Nelson Mandela.

Progressive corporatization?

Despite these concerns, I would argue that corporatized state ownership of essential services such as water and electricity is inherently better than private ownership, and that it has the *potential* to provide the resources necessary for rapid and large-scale service expansion in relatively progressive ways. And given that the trend towards corporatization is unlikely to disappear soon, it is not just a question of *whether* we think corporatization is a service delivery model that should be adopted, but *what type* of corporatization we should push for. Active and critical engagement in debates over the design and operation of ring-fenced service utilities should be at the forefront of public service deliberations, particularly in countries of the South where the prospect of neoliberal corporatization is strong, its impacts particularly unequal, and where service extension and improvement is most desperately needed.

What, then, should we be advocating for with respect to corporatization? One option is a return to Keynesian models of public enterprise. There is much to recommend the services that were produced in social democratic states in the post-war period, and good reasons to protect what remains. The massive state-led infrastructure investments of the post-war era in the North, and from the 1960s onward in newly independent countries of the South, were

part of a broad ideological shift from neoclassical models to welfare economics, which aimed to offer a baseline of universal production and distribution as part of a basket of essential public goods and services. Decision-making was complex, with a network of subsidies and horizontal integration across departments and jurisdictions (Hughes 2003; Pollitt and Bouckaert 2011).

But one must be careful not to romanticize this Keynesian era. Welfarist public entities have frequently shown themselves to be paternalistic and exclusionary. Management can be top-down and secretive, driven by the cultures and ambitions of men in suits (with the gendering this implies). Service integration has seldom been as complete or equitable as claimed, and universality occurs only in theory, with deep-seated divisions often taking place along the lines of race, class and location. Worst of all, performance has often been poor, particularly in under-resourced post-independence states in the South (Newman and Clarke 2009).

It must also be remembered that Keynesian policy is fundamentally designed to enhance commodification and market dynamics, not to replace them. Keynesian interventionism is intended to (re)create the conditions for capital accumulation after a period of crisis, improving the competitive position of national firms in a global economy. Twentieth-century investments in roads, electricity, schools and other infrastructure were as much about kick-starting or reinvigorating capitalism as they were about addressing poverty and improving quality of life. Debates about when the state should intervene and how it should exit have always been hotly contested within Keynesianism – although not always adhered to in practice – but the principle of temporality has not (Saad Filho and Johnston 2004). In other words, the seeds of state withdrawal and marketization are as immanent in welfarist corporatizations as they are in neoliberal ones. There may be distinctive public service mandates in social democratic states, but the prospect of commercialization (if not outright privatization) is omnipresent (Esping-Anderson 1990). The otherwise inspiring examples of water and electricity services in the social democracies of Uruguay and Costa Rica, as outlined in this book, are illustrations of these deep-seated ideological tensions.

This is not to say corporatized entities lack agency. Managers and policy-makers can be remarkably creative within tightly defined market parameters. Activists can push for equity-oriented reforms,

and new technologies can contribute to greater transparency of government. There are also innovative forms of governance (e.g. participatory budgeting) which can make it harder for the bureaucratic paternalisms of the past to continue. Market-based corporatization has its inherent constraints, but it can be done more equitably and democratically than before.

There is no blueprint for change, however. Progressive forms of corporatization will necessarily be different across place and sector. Imposing stringent rules runs the risk of creating yet another form of managerial hegemony, ignoring local politics, cultures, institutions and capacities. Ham-fisted attempts to foist Soviet-style models of public enterprise on socialist satellite states in the past are a case in point.

But nor should we abandon universal goals. The normative principles outlined in Chapter 1 of this book can serve as a useful reference point in this respect, offering guidelines for planning and evaluation that can allow for local variations without forsaking baseline expectations of performance, including criteria such as gender equity, affordable pricing and accountability for marginalized groups.

Creating and popularizing these alternative performance indicators will not be easy, particularly the abstract criteria such as public ethos and dignity. But the potential to radicalize existing quantitative benchmarking is enormous. Corporatized entities can be pressured to collect better (and more widely available) data on a range of equity-oriented information, such as service cut-offs, injuries to front-line workers, spatial variability in service quality, demographic analyses of community consultations, percentages of household incomes spent on baseline services, and so on. Enhancing and expanding statistics of this sort will help to challenge narrow neoliberal forms of corporatization, while at the same time acknowledging that financial performance can (and should) be part of any progressive evaluative method.

New forms of evaluation will also require new institutions of training. But once again, disrupting the neoliberal pedagogies of the past will not be easy, particularly in countries in the South where international financial institutions such as the World Bank dominate the discourse of public service education. As Pollitt and Bouckaert (2004: 1) note, the 'importing and exporting of public management ideas and practices has always been greatly facilitated

by international and supranational bodies such as the Public Management Service of the OECD (PUMA), the World Bank, and the European Commission’.

The World Bank’s promotion of privatization is well documented (Amenga-Etego and Grusky 2005; Bakker 2010; Gialis et al. 2011; Hall 2010; Harris et al. 2013; Olleta 2007). Less well understood is its role in pushing for neoliberal forms of corporatization, as well as its financial support for implementation. ONEA in Burkina Faso (Chapter 3, this volume) is one example, as are experiences with the corporatization of water in South Africa, Tanzania and Zambia (Cocq 2005; Dagdeviren 2008; McDonald and Ruiters 2005; Pigeon 2012; Smith 2004).

The World Bank’s intent in this regard is clear: to position itself as a ‘knowledge bank ... committed to remaining the premier source of development knowledge through reports, data and analytical tools, conferences, and the Internet’ (see World Bank 2012). For Magdahl (2012: 20), the World Bank actively promotes the corporatization of water services through ‘strategy documents, reports, presentations, ready-made multimedia learning modules, a toolkit and a manual for the reform of water services, lectures at various conferences, advisory roles in reform processes in developing countries, etc.’. In this respect it ‘exerts an agenda-setting authority ... by marginalising political alternatives, disagreement and criticism’ (see also Jessop and Sum 2006; Murphy 2008; Williams-Elegbe 2013; Woods 2003).

It will be difficult to combat this rhetoric, let alone replace it. Untold millions of dollars are spent each year by the Bank on training manuals, conferences and workshops that reproduce the ideas and practices of new public management. Countering this juggernaut will require small steps and strategic interventions, including the development of in-house training alternatives by public sector unions. Thirty years of neoliberal discourse will not disappear overnight, but counter-hegemonic vocabularies and pedagogies are vital if we are to shift away from the ideas and practices of the neoliberal corporatizations of the past.

Re-aggregation

A final point to make is the need for mechanisms that allow for – indeed impose upon – corporatized entities to think beyond their institutional boundaries. Although corporatization is intrinsically

about erecting financial and managerial walls, the shape and character of these partitions are equally important. Legal and financial arrangements that encourage myopia make little sense. Ring-fencing can be effective only if there are doors and windows that encourage cooperation and communication between agencies, and which promote holistic planning across a wide range of public services.

In other words, the architecture of disaggregation depends equally on its conception of re-aggregation, allowing for autonomy when needed, collaboration when appropriate, and accountability at all times. Corporatization should be seen as a fluid and permeable set of institutional relationships, not a rigid and impervious state of being. It is the latter which has contributed to the authoritative behaviours of corporatizations in the past, shielding managers from the demands for more transparent and collective public action.

Once again, there are no magic formulas for these relationships, and no universal building blocks or standardized designs. Each corporatization is shaped by the political and institutional inertias of its past. What we *can* do is insist on corporatized arrangements that enhance equity, transparency, accountability, public ethos, and so on, with performance metrics that allow for regular and effective evaluation.

One trend worth pursuing in this regard is the move towards public–public partnerships (PuPs). As the name implies, PuPs involve two or more public agencies working together to address a public service issue. PuPs typically operate within the same service sector – with water services being the most active on this front – but they can cut across sectors and typically involve more than one jurisdiction (nationally and even internationally) (Boag and McDonald 2010; Dill 2011; Hall et al. 2009). Having progressive corporatized entities sharing their experiences can enhance and spread ‘best practices’, build local and international solidarities, and contribute to alternative forms of training.

Lobina and Hall (Chapter 8, this volume) point to the example of Stockholm’s corporatized water provider – Stockholm Vatten AB – which assisted the municipal water operators of Kaunas, Lithuania, and Riga, Latvia, in their fight against privatization. This partnership has contributed to developing the capacity of the Lithuanian and Latvian public water providers, as well as that of the various public sector trade unions involved.

This last point may be the most challenging task in the creation of more progressive forms of corporatization. If we are to create more equitable, accountable, sustainable and efficient corporatized public services we must not only change the way they are operated internally, but also the way they engage with actors beyond the state, including labour, community organizations and NGOs. This associational model may stretch the institutional definition of corporatization, but it is hard to imagine truly progressive forms of arm's-length public entities that do not engage meaningfully with front-line workers, end users and other non-state actors.

Public sector unions can play a particularly important role here, given their relative resource and organizational strengths, by reaching out in solidarity to community groups and other non-governmental organizations. Neoliberalism has been effective in pitting its opponents against one another, often eroding the social unionisms of the past as workers desperately cling to their immediate concerns of job security and citizens grasp at whatever service delivery straw is thrown their way. Pro-public alliances of front-line staff, civil society and progressive utility managers will not be easy to (re)build, but they could go a long way to creating new forums for thinking about, and implementing, innovative systems of public service in the future.

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