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PUBLIC-PRIVATE PARTNERSHIPS
IN THE ITALIAN REFORM OF WATER
SUPPLY AND SANITATION SERVICES

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The article deals with the Italian reform of water and sanitation service provision, examining the existing models and focusing on the composition of Public-Private Partnerships (PPP's) established over the past decade, highlighting their prevalent configuration as "mere" devices for the collection of private capitals while control and management remain at least partly in public hands; furthermore, most private actors involved are "corporatized" public-owned companies.

This apparent distortion of the role of PPP's, in addition to overlapping roles of controller and provider, and private-law incentives and norms, has abolished the old frame of accountability without introducing an effective new one.

Keywords: *Italy, Public-Private Partnerships, Water Privatization, Local Government Reform.*

Italian Local Government Reform and its Context

The 1990's were a period of intense change and reform in Italy under many respects. Central and local levels of government underwent deep attempts at transformation, partly following some of the wider international trends, in the direction of increased regional and local autonomy, new public management, and a progressive shift to a bipolar party system and a majoritarian, increasingly presidential model of government at all levels.

Local government in particular was reformed along several dimensions:

- increased autonomy and responsibilities: Law 142/90, and later sectoral laws, gave local authorities the power to define their own structure and operation, increased their autonomy in regulation and the scope of their intervention, and set off a process of reform in the management of local authorities in the direction of managerial autonomy and performance;
- financial autonomy and accountability: following the principles of Law 142, Legislative Decree 77/95 and other acts reduced the incidence of formal hierarchical control over local authorities and their activities, while introducing more internal controls on performance and outcome; this reform was accompanied by a persistent decrease in direct transfers of money from central to

¹This paper was first presented at the ECPR General Conference in Budapest (September 2005); it draws on the author's work in the Research Unit on Local Governance headed by Prof. Franco Cazzola (Università di Firenze) and also including Dr. Nicola Giannelli (Università di Urbino), Dr. Andrea Lippi (Università di Firenze), Dr. Stefania Profeti (Università di Firenze) and Luca Martinelli. To contact the author please email: giulio.citroni@unifi.it

peripheral institutions, and by the creation of local channels of revenue through taxes and tariffs;

- direct election of mayors and presidents of provincial and regional executives: Law 81/1993 established that mayors and presidents of provincial executives be elected directly, and that they appoint and dismiss members of the executive on the basis of a personal relationship of trust.

Each of these dimensions of change has some impact on the field we wish to analyse in this paper, namely the transformation of the management of local utilities and more specifically water supply management.

Increased autonomy in regulation, as well as specific provisions in L. 142, implies relevant choices by local bodies with respect to the way in which services and utilities are to be managed: a variety of different models and trajectories may be expected, and local choices and decision-making processes necessarily become the focus of analysis.

Increased financial autonomy has implied a more stringent need to manage services with an eye to sustainable budgets and full cost recovery: while this is sometimes specified by legal provision, as in the case of water services, it is in fact a need that municipalities come to feel more and more strongly. Priorities and solutions may vary, but the objective of financial optimization must be included among the goals of local administrations.

The strengthening of the executive body within local administration is meant to help this process, by giving the executive sufficient authority to make decisions and supervise implementation than was ever possible when the elected assemblies were responsible for all acts. Thus, while of course relevant goals and policies are set by the assemblies, the executive has direct responsibility over many decisions – including appointments – and managers in turn are responsible for their performance.

Some of these factors can be viewed as converging pressures and facilitating elements contributing to the offset of privatization policies [Wright 1994]: in addition to factors shared by all Western European countries (the Hirschmann pendulum, technological innovation, market internationalization, EU pressures to liberalization,

and financial pressures), Italy does present some other characters and policy objectives that are specific to her recent history and that contribute to the shift to privatization: severe budget restraint, (attempts at) NPM reform, decentralization, deconcentration, subsidiarity [ibid.]. As we shall see, however, contrasting pressures at the local level have turned decentralization in the Italian case a force that goes partly against the development of privatization policies, through the efforts that many mayors and local authorities are exercising in order to keep control of water services. We must add that Italy in the 1990's was also undergoing a deep rethinking of the role of the state and of politics in society, given the profound shock that the scandals of widespread corruption had produced – many of them in the fields of local utilities and public works. Thus, a distinction between politics and management, between the strategic and political planning and the actual awarding of contracts, was believed to be urgently needed [Lanzillotta].

Finally, and crucially in the case of water services as we shall see, privatization has been considered the way to a restructuring of Italian industry through the creation of large investors and groups that may become competitive in the international markets, and through the construction of new links between banks and enterprises, given an overall situation dominated by small enterprises and loan banking rather than investment banking [Prodi 1992]. Somewhat contrary to the Thatcher programme of creating as wide a population of owners as possible [Feigenbaum 1999], the Italian way to privatization aims at creating large blocks of industrial and institutional investors.

A concrete trend towards privatization in its several forms has been witnessed in Italy as elsewhere in Western European countries, at both central and local level.

As far as the national level is concerned, during the 1980's a first phase took place in which state participations in industrial enterprises were dismissed, mainly following independent, strategic decisions by CEO's of national holdings and without a coherent, explicit political input [Cassese 1994].

It is rather in the 1990's, however, that a sort of "privatization craze" leads to the sale of large quotas of the state participations in industrial enterprises, both in manufacturing (food, iron and steel, etc.) and service industries (insurance companies, banks, utilities) [Zanetti, Alzona 1998]. The process is still continuing, as

witnessed by the recent sale of further stocks of ENEL, the electricity company, to the public, or the sale of Cassa Depositi e Prestiti (public investment lending agency) to recently-privatized banks.

Part of these sales, and especially those of the very early 1990s, have in fact been described as “pseudo-privatizations” because the enterprises and holdings that purchased the shares being sold were in fact publicly-owned themselves [Cassese 1994]. Thus, the sale of Crediop, or of Telecom, were in the beginning just a way of restructuring the complex system of State participations. Only later, and only in some cases, has actual privatisation followed.

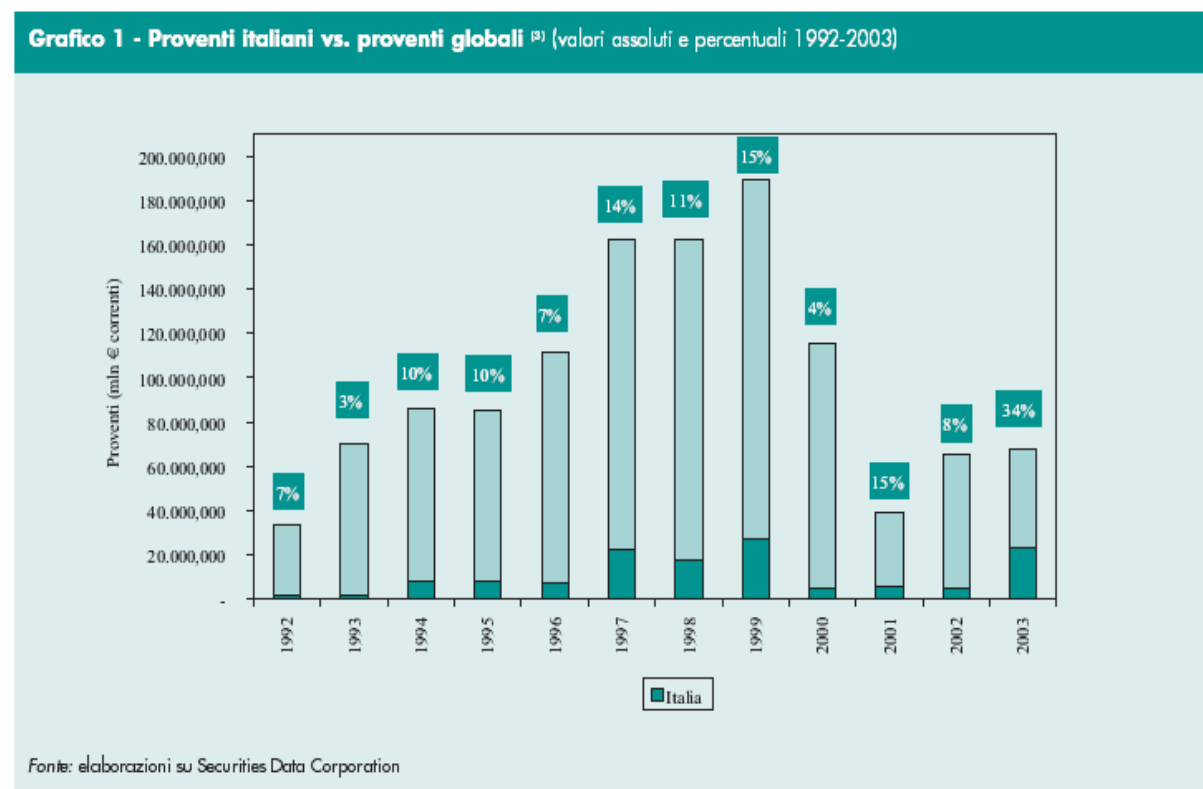


Figure 1: Italian Vs. Global levels of revenues from privatization (Italian data include local level, Data: Ministero dell’Economia, 2004)

Apart from industrial privatization, of course, other elements pertaining to a wider notion of “privatization” can be identified in administrative reforms and policies carried out in the 1990’s. According to the definition given by Feigenbaum et al. [1999], to which we will return later on, several policy instruments contribute to “the shifting of a function, either whole or in part, from the public sector to the private sector”: in particular, management reform, load shedding, asset sales, contracting out, user fees, voucher systems, public-private partnerships. These elements are present in the Italian case in addition to actual industrial privatization.

Privatization at Local Level

Given the specific conditions of increased subsidiarity and decentralization, of wider financial autonomy and accountability, of more direct and visible electoral legitimacy of local leaders, it is at the local level that some of these innovations are most visible and most acutely perceived, and the most varied practices are carried out [Bobbio 2002, 204]. The different policy instruments associated with privatization have all been implemented in different sectors with varying degrees of consistency and intensity: in social services planning¹, as well as in the sale of public housing, the transformation of relationships between political and administrative staff in Municipalities, or the creation of joint ventures for the management of disparate activities (car parks, sport facilities, and so on).

As regards the management of local public utilities, a wave of debate and confrontation took place in the late 1990's with the discussion in Parliament of a bill proposing compulsory competitive tendering of local utilities. In the absence of consistent political-scientific analysis of the subject, scholars of public economics and public law dominated the academic and public discussion, and were for the most part convinced that a new model of public service delivery was just about to substitute municipal direct administration: excluding some critical views on the difficulties and inefficiencies of local privatization and regulation (Becchis 2003, Massarutto 1998, 2002), economists were proposing a neo-liberal model centred on the notions of state failure, liberalization, competition for the market, public planning and price regulation, private management and operation (Petretto 2000, Bulckaen, Cambini 2000) while jurists were theorizing a shift from citizenship to customer rights (Napolitano 2005, Cassese 1996). The model proposed by scholars, and discussed in Parliament for over four years (1997-2001) was in its substance very similar to that proposed by international organizations such as the World bank and OECD (Finger, Allouche 2002).

Something, however, went "wrong": Parliament never approved the long-debated bill, and approved instead a series of acts postponing the introduction of compulsory competitive tendering (art. 35, L. 448/01) and finally establishing (DL 269/2003) the

¹ Law 328/2000, providing for wide involvement of private and third sector organizations in the planning and in the carrying out of services

possibility of in house provision. While these decisions were being taken at the national level, implementation at the local level, however, was taking its own – somewhat unexpected and contradictory – directions, as we shall see with reference to the water sector. In comparison with other sectors of local utilities (public transport, waste disposal management, provision of energy and gas), the water sector is particularly interesting in order to exemplify this process: it is involved in all the trends we have just described, but presents at the same time some elements that characterize it as a policy field:

- the presence of a specific national policy which – albeit not fully unambiguous – does give an indication of the boundaries of the policy field and of the objectives to be used as benchmark to evaluate subsequent action at the local level and discuss the unexpected outcomes of national commitment;
- the considerable lapse of time (just over a decade) over which the policy outputs can be assessed: the present situation, still far from stable as we shall see, demonstrates however some consolidated trends;
- the relative “insulation” of the reform from regulation at EU level, in that relevant directives and norms set out policy goals (cost recovery, drinking water quality standards, etc.) but leave ample freedom of choice as concerns the policy instruments.

Water Sector Reform in Theory and Practice

Along with gas and waste management, the water sector is one of the few local service industries that have been affected by consistent and systematic reforms.

The so-called Galli Law of 1994 (named after its proponent member of Parliament), and its intended effects in combination with the other reforms of local administration, represented in fact quite a drastic transformation of the water sector, viewing several dimensions of privatization as the solutions for problems such as the extreme fragmentation of water management companies (see Table 1), the lack of investments by public authorities, and the related bad conditions of much of the infrastructures.

Thus, the Law provided for the creation of “optimal territorial districts” within which the planning and management of civil uses of water should be integrated both

Municipality	6.463	82,58%
Municipal agency or firm	635	8,11%
Other public agencies	53	0,68%
Private firm	215	2,75%
Other	460	5,88%
TOTAL	7826	100,00%

Table 1 – Authorities, agencies and companies managing water and sanitation services in Italy, data Istat 1999

horizontally (one regulatory authority, and one concessionaire firms) and vertically (the one firm would be responsible for all phases of water services, from the collection and distribution to sewerage and depuration). Regions were

responsible for the definition of such districts, so that over the following years (1994-1999) they all issued specific Regional Laws and defined an overall 91 districts (“ATO’s”).²

The objective of the reform is to: 1) aggregate service provision and regulation horizontally at basin level, and vertically along the water cycle, and reduce the number of decision-making and operating centres; 2) separate service provision and regulation, leaving the latter in the hands of local political personnel (mayors), and transferring the former in the sphere of commercial and industrial management strategies; 3) through the aggregation of services and separation of responsibilities, encourage private sector participation in the management sphere in order to attract private know-how and capitals.

In fact, contrary to the model of “unbundling” practised in other sectors (e.g. electricity), whereby production phases are separated and several markets are created to improve the chances of liberalization, the model of water services in Italy has gone in the very opposite direction: the aim of industrialization and reduction of fragmentation has been predominant, and has led to the creation of one single market for all water services

The model proposed by the Galli Law is based on “competition for the market” as the second-best option for liberalization of a natural monopoly, whereby medium-to-long term concessions (20-30 years) guarantee continuity and development of service

² We shall use the Italian acronyms ATO (Ambito Territoriale Ottimale) to indicate the “optimal territorial districts” for water service delivery and AATO (Autorità di ATO) to indicate the regulating authority established in each ATO district.

'Gestion déléguée' (2), concession

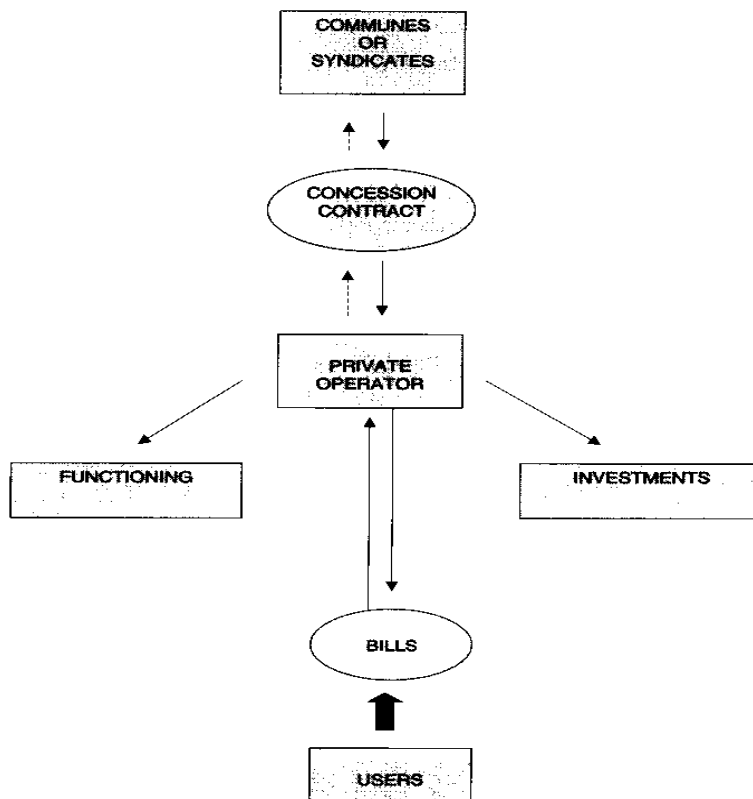


Figure 2 - The concession model (Finger, Allouche, 2002)

and investment, while other provisions aim at preserving competition at the end of concessions: public ownership of infrastructures, and public planning of investments and tariff levels. As a general rule, the model can thus be described as a “concession model” like the one represented in Figure 2.

The firm that provides the service collects tariffs directly from families and enterprises, and retains all the money collected (except

for concession fees paid to municipalities) in order to carry out and remunerate investments. It is responsible for all work contracts that are required by the investment plan on the basis of which it was selected, and may be asked to pay penalties if the investment and service standards set in the plan are not met.

The regulating authority (AATO) is responsible for all preliminary operations: analysis of previous service standards and investment needs, definition of the investment plan, selection of the service provider and control over its operations. AATO’s are formed by an assembly that gathers the representatives of all the municipalities that compose the territory of the ATO district, usually the mayors or their delegates; by a president elected by the assembly from among its components; sometimes by a board of governors equally selected within the assembly. AATO’s also have a number of administrative and technical employees (an average of just over five people in each), but it is generally believed that the level of competence is inadequate for effective control over service providers.³

³ As the CEO of a water company told us during an interview: “We have the good technicians and economists! Can you really imagine an AATO that is more competent than my engineers?”

Implementation of the Galli reform, however, has been very slow and incoherent, as we can see in figure 2, which describes the situation in June 2004: in each of the 91 districts (ATO), the competent authority must be established by municipalities; secondly, a recognition of infrastructures and service levels is carried out by the Authority; thirdly, the Authority defines the investment and tariff plan that can respond to the needs of infrastructures and services in a financially-sustainable way; fourth, a firm is accorded the concession to manage service over the whole ATO territory. As the Figure below shows, most AATO's have been established (not all, in over a decade...), while just over 40% of AATO's have reached the conclusion of the process; notably, regional dynamics are visible: Northern regions are lagging behind as regards all steps of the process, Central regions are the furthest ahead, while Southern regions have complied with all formal and preliminary provisions but have not reached the concession stage.

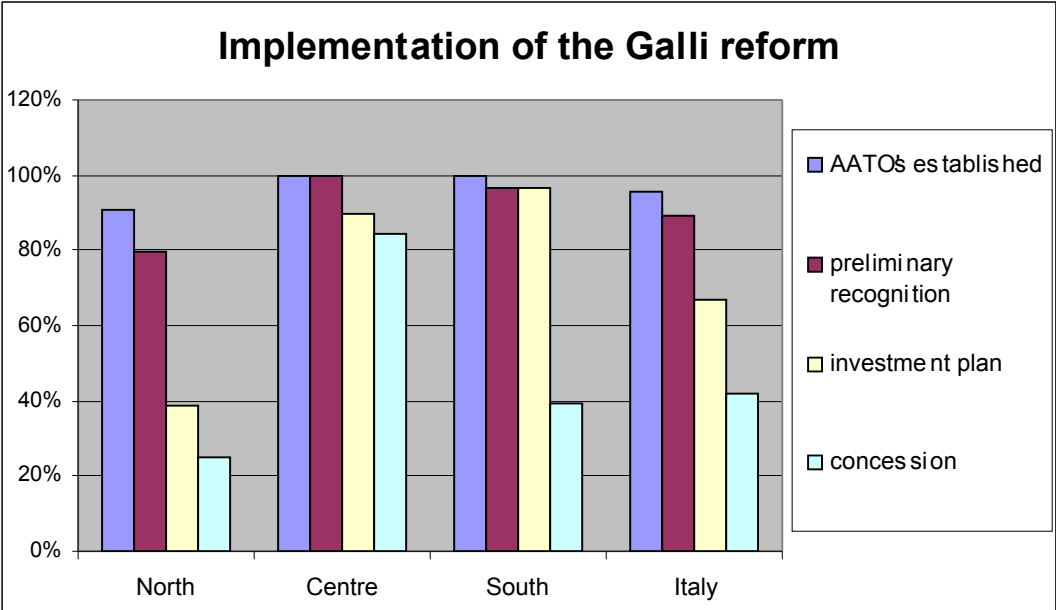


Figure 3 - Implementation of the Galli Law (Data: Comitato per la Vigilanza sull'Uso delle Risorse Idriche)

Within this general model – and implementation process – of concession contracts, the forms in which water services can be managed are three, according to L. 142 mentioned above and subsequent modifications of it:

- concession to private-law companies by competitive tendering;

- “direct” (i.e. non-competitive) concession to public-private joint venture companies, with either public or private majority in ownership, with the requirement that the private partner be selected through competitive procedures;
- “direct” concession to public-law companies (a long-established tradition in Italy, but abolished by the 1997 Bassanini Laws and transformed into private-law, joint-stock companies) or in house provision (since 2003) through publicly-owned private-law companies;⁴ note that this option – allowing as it does non-competitive selection – was not permitted (*rectius*, was only permitted as a transitional mode) from 1997 to 2003.

This set of possibilities apparently leaves wide scope for local choice of preferred paths leading to the selection of a managing firm – and yet, due to the parliamentary debate on compulsory competitive tendering, and the provision (from 1997 to 2003) that all other forms of selection (and all concessions based on them) would cease to be valid at the end of a transitional period, a high degree of uncertainty was felt by local and regional administrations, and conflict arose between them and Altero Matteoli – Minister for the Environment since 2001 – who endorsed a restrictive interpretation of norms on the selection of firms, stating that only competitive tendering, either in the form of concession or in the form of selection of the private partner in a joint venture, was legally feasible. This view was also shared by the European Commission, which issued a letter of formal notice to Italy on the subject. On the other hand, and at the very same time, many AATO’s proceeded to non-competitive concessions in favour of public-owned firms (former public agencies transformed into stock companies) and “postponed” (often *sine die*) competitive selection of a partner hoping that legislation would – as it has – change again and admit in-house provision: a retreat by the government, that finally found a way of escaping Commission pressures by exploiting the ECJ “Teckal vs. Agac” decision that tolerated municipal preference for direct selection of fully owned companies.

⁴ The definition of *in house* provision adopted by Italian law in order to preserve non-competitive selection is derived from the European Court of Justice *Teckal vs. Agac* decision.

Local Choice of Service Provision Models

Table 2 below describes the present status of the 91 water service districts (ATO's) in terms of:

- whether the ATO Authority has been established;
- if so, whether it has reached a decision as to how to proceed to the concession of water management services, and which option it has chosen
- whether the agreed procedure has been carried out to its final consequence, the activation of the service concession.

		ATO's		
AATO established	not	4		
Procedure decided	not	30		
		ATO's	of which: concession started	% started
Procedure decided	Public	13	12	92,31%
	Mixed	33	25	75,76%
	Private	11	1	9,09%
	Total	57	38	66,67%
TOTAL		91	38	41,76%

Table 2 – Present situation of the 91 ATO authorities (data: Comitato per la Vigilanza sull'Uso delle Risorse Idriche)

Some remarks can be made about these data.

First of all, as was said above, most ATO authorities have been created – only four districts are still governed by individual municipalities with no specific, district-wide arena for planning and decision-making. However, it is also noteworthy that as many as 30 ATO Authorities, albeit functioning, have not as yet decided which procedure to follow for the concession (which is in line with the data presented in Figure 2, according to which two-thirds of the Authorities have not approved an investment plan). It must be borne in mind that each ATO comprises an average of nearly 90 municipalities, which makes it quite understandable that agreements may be hard to find unless there is some degree of political homogeneity or consensus, or the leading, even charismatic role of provincial or regional institutions.

Secondly, where the first steps have been taken, the choice of the procedure seems to be very much in favour of mixed companies, i.e. joint ventures: this strong preference would seem to reveal two specific elements that municipalities gathered in AATO's appear to consider important when taking decisions, namely 1) non-competitive procedures and 2) private sector involvement. A fully competitive procedure such as the one required in the case of concession to private firms is only chosen by 11 AATO's. In all other cases, previously-operating public firms are preserved from competition and granted non-competitive concessions. Only in 13 cases have AATO's (that is, municipalities) decided to maintain water companies in public (that is, municipal) hands – while 33 deem it preferable to look for private partners that may contribute to the management of services.

Thirdly, however, and most decisively, we must look at the last column of our table, where actual implementation is described – dramatically confirming one of the trends we just mentioned, while softening the other. The preference for non-competitive procedures is confirmed by the fact that out of 11 AATO's that have made a decision in favour of private management only one has actually held the competitive tender and selected a private company: all other ten cases are so far no more than potential cases of “competition for the market”. Nine of these ten cases are in Sicilia and Calabria, two Southern regions that are strongly encouraged to undertake competitive procedures by Structural Fund (Community support framework) requirements, so we may imagine that they will proceed along this line – but auctions are being postponed, delayed, or in some cases annulled due to the presence of only one competitor or no competitor at all.

On the other hand, those Authorities that have chosen to entrust the service to a mixed company have reached the end of the process in 75% of the cases, while those that chose public management have started the new “Galli Law” management in virtually all cases: demonstrating a more concrete commitment to their decision and/or the fact that a “direct” selection is in fact an easier, more familiar procedure.

This is all the more evident if we look at the present state of “mixed company” concessions, in terms of the actual composition of these joint ventures.

To this purpose, we present a table describing the various participants in all 26 mixed and private companies that manage “reformed” water services. Table 3 shows the

composition of the 25 mixed companies and of the one private company that won the competitive procedure held by the Frosinone AATO in Lazio.

The column marked “Public Share” indicates what percentage of the company is held by the local authorities (municipalities, provinces, and in some cases regions), either directly or through pre-existing publicly-owned companies (the former “municipalizzate” public-law companies, now joint stock companies). What is immediately evident is that a large number of AATO’s are in fact sticking to full public ownership in spite of their formal decision to partly privatize the company. This is the case in 11 ATO’s out of 25. Very few of them have actually started the competitive procedures for the selection of a private partner, and it is possible that they are planning to switch to an in-house provision model.

	Region	AATO	Company	Public share	Italian public and "ex-municipalizzate"	Foreign Water Companies	Financial institutions and companies	Other (Cooperatives, Building firms, etc.)	Italian Companies
1	Abruzzo	1 - Aquilano	Gran Sasso Acqua	100%					
2	Abruzzo	3 - Peligno Alto Sangro	Saca Spa	100%					
3	Abruzzo	6 - Chietino	SASI Spa	100%					
4	Basilicata	UNICO	Acquedotto Lucano	100%					
5	Calabria	1 - Cosenza	Cosenza Acque	100%					
6	Campania	S - Sele	SIIS scarl	100%					
7	Lombardia	Milano (Provincia)	AEMME; Brianzacqua; Miacqua	100%					
8	Lombardia	Bergamo	AKUA	100%					
9	Marche	3 - Marche Centro-Macerata	Unidra; S.I.Marche; C.M.A.; Astea	100%	(Amga)*				
10	Marche	5 - Marche Sud - Ascoli Piceno	Cicli Integrati Impianti Primari	100%					
11	Umbria	3 - Foligno	Valle Umbra Servizi	100%					
12	Veneto	VC - Valle del Chiampo	Acque del Chiampo	100%					
13	Umbria	2 - Terni	SII S.p.A.	75%					Omnia/ Enertad
14	Campania	SV - Sarnese vesuviano	G.O.R.I. S.p.A.	73%	Acea				
15	Umbria	1 - Perugia	Umbra acque	72%		Bouygues**			Sorain Cecchini
16	Toscana	3 - Medio Valdarno	Publiacqua Spa	60%	Acea	Suez	MPS		SILM S.p.A. C.C.C. C.T.C.
17	Toscana	6 - Ombrone	Acquedotto del Fiora	60%	Acea	Suez***	MPS		SILM S.p.A. C.C.C. C.T.C. CMIT
18	Toscana	5 - Toscana Costa	ASA	60%	Amga Aquamet (Amga)				Galva (Amga S.p.A.)
19	Em. Romagna	9 - Rimini	HERA	56,60%			stock market 43,4%		

20	Piemonte	5 - Astigiano, Monferrato	ASP SpA	55%	Amga Smat		Aurelia SpA		
21	Toscana	2 - Basso Valdarno	Acque Spa	55%	Acea	Suez****	MPS	SILM S.p.A.	C.T.C.
22	Toscana	4 - Alto Valdarno	Nuove Acque	54%	Amga	Suez	Banca Popolare dell'Etruria e del Lazio MPS	Consorzio Iride	
23	Lazio	2 - Lazio Centrale - Roma	Acea Ato 2	51,00%		Suez	Schröder Investment Management <i>stock market</i>	Unione Generale Immobiliare	
24	Lazio	4 - Lazio Meridionale - Latina	Acqualatina	51%		Veolia	SIBA SPA Italcogim		
25	Liguria	GE - Genova	AMGA	51%	Comune di Roma		<i>stock market</i> 38%		
26	Lazio	5 - Lazio Meridionale - Frosinone	A.T.O. Frosinone	5 0%	Acea	Bouygues**		CPL Concordia	Cons. Acquae (incl. AMGA) C.C.C

* Negligible share in Astea S.p.A.

Through subsidiary / participation in:

** Crea S.p.A.

*** Acque Toscane S.p.A.

**** Degrémont

Data: Comitato di Vigilanza sull'Uso delle Risorse Idriche; Autorità Garante della Concorrenza e del Mercato; Sole 24 Ore; Consob Commissione Nazionale per le Società e la Borsa; corporate financial statements.

Table 3 – Public share and public/private partners in “mixed” companies holding water concessions according to Galli Law

Indeed it seems that municipalities gathered in AATO's are generally not eager to dismiss their control over service companies; we can now reformulate Table 2 according to actual ownership of companies, and find that most "Galli Law" concessions have in fact entrusted the service to fully public-owned companies (Table 4).

Form envisaged		Actual ownership		
Public	12	23	(60%)	public
Mixed	25	14	(37%)	mixed
Private	1	1	(3%)	private
tot	38	38	(100%)	tot

Table 4 – Actual ownership of concessionaire firms

Looking back at Table 3 above, the following columns describe the partners that have joined in the mixed companies – in most cases *following* the concession to the publicly-owned company. It must be noted that competitive selection of the private partner is in fact always a single auction, in which however the competitors are groups formed by several firms of different nature: the table thus describes the composition of these groups, while the direct composition of the water company is formally made up of only two subjects – namely the local authority and the “private partner”. Within the components of such “private partner” groupings we distinguish four main types of actors, due to their different nature, their different impact on service management, their presumably different interests and motivations.

First, there are a number of formerly public-law companies (the so-called “ex-municipalizzate”) that in the process of transformation to private-law, joint-stock companies, have altered their mission towards a more competitive, “expansionist” strategy and are entering joint ventures for the management of services in territories different from those to which they originally belonged to. We shall get back to these companies presently – suffice it to say here that the presence of one such company is virtually a constant element of all mixed companies: Amga, Acea, Smat and Hera appear in 12 out of 14 “mixed” or “private-law” companies in our table. Furthermore, they always represent the largest share of the groups competing for inclusion in the joint-venture, and they usually receive a mandate by their partners to represent the group in transactions and negotiations with public counterparts and authorities.

Secondly, the three French multinational corporations that operate world-wide in the management of water services are part of most groupings, as well as participating directly in the ownership of Acea (3.4% owned by Suez). The presence of these companies in Italy has a long history in a few cities (such as Venice, where Compagnie Générale managed water services since 1880), and the present expansion is relatively limited if compared to the initial expectations of many operators and politicians – possibly due to the instability and uncertainties of the legal and economic framework we are describing. They are however a regular component of the groupings competing for shares in mixed companies, and they represent the only component, along with the mentioned former municipal agencies, that may be expected to contribute expertise and technical capacities specific to the water sector.

Indeed, the other two types of participants do not appear to have such competences: financial actors, such as banks in Tuscany (MPS – Monte dei Paschi di Siena, and Banca Popolare dell'Etruria e del Lazio), investment companies in Lazio and Piemonte (some of them international: Schröder, as well as SIBA and Italcogim which are transnational French-Italian joint ventures), and the stock market quotas in Acea, Amga and Hera; and the actors that we have included in the last column, that is mainly building firms and cooperatives. These are partly local actors (C.T.C and C.M.I.T. in Tuscany) and partly national actors (Consorzio Acquae, Sorain Cecchini, CPL Concordia).

It is fairly easy to suppose that building firms may be willing to participate in companies that handle commissions for huge amounts of construction and maintenance works (an estimated 51 billion Euros over the next 26 years according to investment plans drawn up by AATO's);⁵ on the other hand, participation by financial institutions has contradictory pressures, given the high level of stability of the water business in commercial terms and on the other hand the high degree of instability in political and legal – and hence financial – terms that we are describing.

⁵ Data: Comitato per la Vigilanza sull'Uso delle Risorse Idriche

Public-Private Partnerships and Public-Private Hybrids

What we have been describing is in fact a fairly complex and differentiated set of institutional hybrids that need some classification in order to be analysed more carefully.

We may identify three models of service provision and regulation now present in Italy:

- ATO's where no concession has been reached (53 cases), either because the Authority has not yet been set up (four cases) or because it has not yet decided which procedure it will follow (30) or because the procedure agreed has not yet reached its conclusion (19); in all these cases, service provision is either continuing in its pre-existing forms (mainly direct municipal management, see Table 1 above), or – in some few but significant cases, such as most ATO's in Emilia Romagna – it is being restructured in order to prepare the reform “on the ground” before taking formal steps: in particular, by proceeding to the merger of existing public-owned companies and to the creation of an ATO-wide public water company that may be ready to take over service in the whole district (e.g. Emilia Romagna).
- ATO's where concession has been awarded to fully public companies (23 cases), owned by the same local authorities that regulate the service; this happens either because Authorities have formally selected this procedure (12) or because they have decided to create a mixed, public-private company but have not yet proceeded to the selection of a private partner (11 cases).
- ATO's where local authorities have decided to get other actors involved (15 cases) either by creating a public-private joint-venture company (14 cases) or by selecting a private firm (one case).

Involvement of external actors thus appears a very limited phenomenon. The creation of “institutionalized PPP's” – as the European Commission defines public-private partnerships in the form of joint-venture companies (see Table 5) – is restricted to a very small number of cases.

Italian L. 142 and later EU public works directives and PPP green paper modifications		
	works contract	contractual PPP
Concession to private firm	concession contract	
Mixed-ownership	- "...involving the creation of an ad hoc entity" - "control of a public entity by a private operator"	institutionalized PPP
Public-owned firm	in house provision (→ works contracts)	(contractual PPP)

Table 5 – Italian service provision models vs. EU models

The setting up of such PPP's seems to pose some problems that are specific to the service concessions sector: aggregated data on PPP's in the sectors of water, energy, gas and telecommunications (Table 6) show that the amount of competitive procedures for works contracts and service contracts is much larger than the amount of competitive procedures for the creation of "institutionalized PPP's", and the conclusion of such procedures much more common:

Service Model	Provision to	PPP model	Procedures started	Procedures concluded	% concluded
Concession private firm	to	Contractual PPP - concession contract	181	47	26%
Mixed-ownership		institutionalized PPP	39	3	8%
Public-owned firm		Contractual PPP - works contract	149	20	13%

Table 6 - PPP's in water, gas, energy and telecommunications 2003-2004 (Data: Osservatorio Nazionale Project Financing)

Within this context of relatively low recourse to institutionalized PPP's, it is particularly important to stress the role of what may be termed "public-private hybrids": those few "ex-municipal" companies that are competing in the national market of water services. These companies, either fully owned by municipalities and other public authorities, or - in most cases - partly privatized themselves, appear to be the only actors that are actually able to combine two decisive factors: the financial and technical capabilities that public counterparts require due to their own lack of

funds and commercial-industrial outlook, and the (party-)political know-how that is made necessary by the delicate equilibria that underlie AATO decisions.

The need for viable industrial plans, given the full-cost-recovery requirements and the extended territorial scope of service delivery, has set off a series of different trajectories to industrialisation: while municipalities have generally tended to create one company for the whole ATO through processes of merger and acquisition, significant differences are present in the way in which these unified companies behave in the market:

- limiting their scope of action to the territories of their founding municipalities or searching for opportunities of expansion
- opening up their ownership structure to private investors and operators, or sticking to fully public ownership.

ownership	public	mixed
<i>strategy</i> <i>localist</i>	ADAPTATION Acquedotto Pugliese MM Milano ACA, CAM (Abruzzo)	PRIVATISATION Publiacqua and other Tuscan Companies HERA (Emilia Romagna)
<i>expansionist</i>	EXPANSION SMAT Torino	INVESTMENT AND PROFIT Amga Acea

Table 7 – Municipal strategies for water sector reform

The two dimensions described compose a typology of four different trajectories that can be witnessed in different cases.

Thus, municipalities have in many cases opted for minimal adaptation, merging local companies into a single ATO-wide company (Abruzzo), or just transforming public delivery into a public-owned corporation (Milan).

Other municipalities have started a process whereby local consolidation and integration is accompanied by partial privatization, which does not, however, imply a radical transformation in the company’s mission as far as the territorial scope of action is concerned (Tuscany, Emilia Romagna); this option may sometimes entail relevant financial income at the outset when part of the company is sold – albeit in most cases private contribution comes in the form of increase in capital in the

company. In these cases, the strategic choice favours industrialisation and the viability of investment plans, while financial advantages are limited to concession fees and to the removal of assets and expenses from municipal budgets.

On the other hand, expansionist strategies are exerted by other municipalities that intend to profit from their water companies; this may take the form of sheer “colonisation” by public companies that take over service delivery in neighbouring territories, or it may take the more aggressive, financial-market oriented form of a corporation competing in markets all over the country and – in some cases – all over the world. Acea and, to a lesser extent, Amga are now operating internationally, jointly managing – for example – water services in Tirana (Albania); Acea’s presence is particularly strong in Central America but also in Mediterranean and Middle-East countries. In these cases, municipalities are in fact profiting from a commercial activity by entering other markets – while in fact opposing competition in their own territories and resorting to direct, non-competitive selection of the service provider at home.

Concluding Remarks

Speaking of privatization in the case of Italian water sector reform is in fact an exaggeration. Rather, a diverse and complex combination of public-private partnerships is a phenomenon that has been witnessed and will probably develop further in the next years.

Distinguishing four dimensions of privatization according to the definition offered by Feigenbaum et al [1999] may help us discern some trends:

- along the dimension of financing, transfer of the burden on private citizens is in theory complete, and collection and administration of all fees is carried out by the private firm. However, direct and intense relationships between AATO’s and firms, and a direct interest of municipalities in the management of water services, do allow for substantial public contributions still being injected in investment programs: national, regional, and local funds are being spent in the form of “incentives” to private-firm investments.
- along the dimension of provision, service delivery is carried out by companies that are always at least 50% public, owned by local authorities. Their private-law

nature is relevant in financial and contractual terms, but most key positions in corporate governance structures are appointed by public authorities (in mixed companies, the president is usually appointed by mayors, while the CEO is appointed by the private partners).

- Along the dimension of responsibility, the citizen is effectively transformed into a customer, bearing all responsibility concerning her ability to pay bills and her compliance with contractual norms. On the other hand, responsibility for commercial, industrial, financial and environmental risk is shared by public and private actors, in the absence of effective regulation (due to the insufficient technical know-how of AATO's, and to the blatant conflict of interest that underlies the role of municipalities and mayors acting at the same time as regulators and as regulated operators)
- along the dimension of decision making, public input is formally predominant at the stage of selection of service provider and in permanent regulation and control; however, the overlapping roles of regulator and service provider make it impossible to keep the two levels of regulation and provision distinct.

Thus, in the variety of solutions adopted by local administrations, a general trend towards conservation of public voice and role in service provision is predominant, and generally takes the form of direct company ownership and board membership, while the diverse forms of involvement of the private sector tend to be restricted to the contribution of capital input and support to the financial sustainability of water enterprises. The willingness of local political actors to remain involved in the management of water companies can be explained in two (non-mutually exclusive) ways: an interest in the strategic appointments and well-remunerated posts in these companies, and a dissatisfaction with the regulatory functions that they can exercise in ATO authorities from *outside* the companies.

In those cases in which industrial partners are included, such as the French multinationals, their presence is mediated by public-private hybrid companies, that possess the politico-administrative know-how that makes it possible to cooperate with local institutions. Banks and financial investors are mainly local, and are themselves part of the network of interests that coagulates around the new water companies.

Thus, along with industrial integration and investment plans, a gradual realignment of power networks in local government seems to be taking place: not quite a divestiture on the part of mayors and municipalities, who do maintain relevant participations, but rather a process of top-down, public-led co-optation of interests and groups that are included in the business.

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