Annex 1: Literature Review
Outline of the bodies of literature that would inform the design and framing of the model for infrastructure financing developed in collaboration with PepsiCo.

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This document outlines the bodies of literature that could inform the design and framing of the model for infrastructure financing we seek to develop in collaboration with PepsiCo. The literature is organised around broader themes informing the issues we seek to understand. The themes that we have addressed are:

1. **Water infrastructure**
   Ultimately aiming to address the insufficient provision of water related infrastructure, we first wanted to explore the nature of the gap, why financial resources are not flowing to the necessary extent, and estimations of the size of the gap. The academic literature exploring this field is surprisingly scarce, leading us to complement the review with grey literature.

2. **The rise of ‘green finance’**
   The growth in issuance of green bonds could serve as an inflection point to motivate this intervention. If we seek to address the problem through the utilisation of for example, green bonds, then there is a need to understand this mechanism as part of a wider trend of green financing. Due to the tight deadline, and limited previous knowledge of this literature, we have only managed to scrape the surface of this huge and multifaceted body of literature, but an interesting finding is the broadening of scope of ‘green financing’ from narrowly including only climate mitigation and adaptation, to now encompassing wider sustainability interventions (including infrastructure).

3. **The business – society relationship**
   What drives corporations to engage in addressing issues like insufficient water related infrastructure? We suggest that part of the reason is a reconceptualised role for the corporation in society, placing a larger responsibility on the corporation to take action on issues that were previously seen as being beyond its sphere of concern. We have, thus, looked at literature outside pure ‘corporate risk mitigation’, and examined theories around how businesses’ role in society is being reconceptualised (as well as why). We have examined this both in the context of both water resources management, and in the development discourse, as the latter is intimately tied with the provision of water, sanitation and hygiene (WASH), which in turn is closely tied to insufficient provision of water-related infrastructure.

4. **Mexico**
   We have examined the (very limited) academic literature on the water infrastructure gap in Mexico, and how and why green bonds have been utilised to address this in the region.

5. **Motivations of the public and private sector to issue green bonds**
   Our argument is that actors that come together in partnerships – whilst still acting in line with their own self-interest – will achieve greater impact. To this end, we have examined literature around what motivates public and private actors to issue green bonds (financial, and non-financial incentives).

6. **Multi-stakeholder partnerships**
   The idea of working collectively in the water sector to achieve shared objectives is not a novel idea. In order to demonstrate how the type of partnership that we are proposing is different, we have examined the literature around private sector engagement in water services provision (PPP arrangements) and ‘Collective Action’ in watersheds, as well as their opportunities and potential shortcomings.
The Infrastructure Gap

The investment challenge to ensure adequate provision of water-related infrastructure is twofold: to develop and extend infrastructure to match the accelerating growth of people in urban areas (i.e. increase capex), and to refurbish the existing and deteriorating infrastructure (i.e. increase opex) (Rouse, 2014). Whilst the first part of the challenge is most pressing in emerging economies, the second challenge is of great concern in developed countries. Although it is challenging to acquire accurate estimates of current infrastructure spending on water-related infrastructure, recent calculations demonstrate that in 2014, O&M (opex) spending was higher than capex ($317 billion and $216 billion respectively) (World Water Council & OECD, 2015). To meet current and future demands, there is an urgent need to scale up investments in capex, as well as opex.

There are many reasons why finance is not flowing to the necessary extent. One reason is the many types of risks associated with infrastructure investments (Figure 1). Risks will vary across the life of the project. Generally, risks arise from the nature of the underlying asset itself, contracts with the public sector, and its exposure to the environment in which it operates. The degree of a risk varies depending on the country (and its underlying investment climate), the sector (and its institutional maturity) and the project (and its complexity) (OECD & World Bank, 2015).

<table>
<thead>
<tr>
<th>Risk Categories</th>
<th>Development Phase</th>
<th>Construction Phase</th>
<th>Operation Phase</th>
<th>Termination Phase</th>
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<tr>
<td><strong>Political and regulatory</strong></td>
<td>Environmental review</td>
<td>Cancellation of permits</td>
<td>Change in tariff regulation</td>
<td>Contract duration</td>
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<td>Currency convertibility</td>
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<tr>
<td><strong>Macroeconomic and business</strong></td>
<td>Prefunding</td>
<td>Default of counterparty</td>
<td>Refinancing risk</td>
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<td></td>
<td>Financing availability</td>
<td></td>
<td>Liquidity</td>
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<td></td>
<td>Volatility of demand/market risk</td>
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<td></td>
<td>Change in taxation</td>
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<td></td>
<td>Social acceptance</td>
<td></td>
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<tr>
<td></td>
<td>Change in regulatory or legal environment</td>
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<tr>
<td></td>
<td>Enforceability of contracts, collateral and security</td>
<td></td>
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<td></td>
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<tr>
<td></td>
<td>Inflation</td>
<td></td>
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<tr>
<td></td>
<td>Real interest rates</td>
<td></td>
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<td></td>
<td>Exchange rate fluctuation</td>
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<tr>
<td><strong>Technical</strong></td>
<td>Governance and management of the project</td>
<td>Environmental</td>
<td>Qualitative deficit of the physical structure/service</td>
<td>Termination value different from expected</td>
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<tr>
<td></td>
<td>Project feasibility</td>
<td>Construction delays and cost overruns</td>
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<td></td>
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<tr>
<td></td>
<td>Archaeological</td>
<td></td>
<td>Force majeure</td>
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Source: (OECD & World Bank, 2015: 16)

However, there are many factors holding back future investment in water infrastructure and the availability of finance is only one of these constraints: in many cases it may not even be the most pressing (World Water Council & OECD, 2015). Examining the problem from an institutional
and public policy perspective, Tortajada and Biswas (2016) suggest three reasons as to why the required investments in water-related infrastructure have not historically been made. Firstly, infrastructure development and investments have lagged behind the increasing demands resulting from rapid population growth and urbanisation, particularly in emerging economies. Secondly, comprehensive planning for water infrastructure development is rare in most countries. Inter-institutional coordination between public water, and water-related institutions is often insufficient, meaning that plans often conflict or overlap. Finally, water and sewage pipes are almost always underground, and thus out of sight to populations and policy-makers. When public finances are running low, proper maintenance is frequently deferred.

Serval estimates have been made, seeking to quantify the water infrastructure financing gap, and provide figures for the additional required investments. (a summary of these estimates is demonstrated in Figure 2). With the exception of OECD (2006) the figures provided are for capital investment only. Adding the recurrent costs of O&M would greatly inflate these estimates.

**Figure 2: Estimation of future cost of water infrastructure**

<table>
<thead>
<tr>
<th>Author(s)</th>
<th>Scope of study</th>
<th>Methods and sources</th>
<th>Annual costs US$ billion</th>
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<tr>
<td>World Water Vision 2000</td>
<td>Water supply &amp; sanitation, industry, wastewater treatment, irrigation, storage. Non-OECD</td>
<td>Based on (Briscoe, 1999). Includes 15% allowance for O&amp;M</td>
<td>180 up to 2025; Roughly double assumed current levels</td>
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</table>
| OECD 2006                  | Water & sanitation, wastewater collection & treatment, water resource development. Includes O&M. OECD plus BRICS. | Based on historic % of GDP deemed to go into investment into water, for different country development categories | 772 by 2015
1037 by 2025 |
| David Lloyd Owen 2010      | Sewerage & wastewater treatment. Global                                       | Detailed country by country estimates      | Increase of 40-52 (2029) on current levels of 83.5 |
| WHO 2012                   | Universal coverage of water supply & sanitation. Exc. O&M. Non-OECD           | Detailed estimates of incremental cost in addition to the cost of achieving original MDGs | 27
(Spread over 20 years after 2015)
(water 10, sanitation 17) |
| McKinsey 2013              | Water infrastructure (unspecified, but mostly WSS). Countries representing 90% of global GDP | Based on historical spending on infrastructure as % of GDP (water estd. to be 17% of this) | 500-600 (2013-2030) |
| World Bank 2010            | Adapting specified types of water infrastructure to climate change (coastal zone protection, water supply, flood protection). Developing countries |                                                                      | 75-100 (by 2050) |
|                            |                                                                                |                                                                      | Comparable to total annual ODA. |
|                            |                                                                                |                                                                      | As % of GDP; highest for Africa (0.7%), lower for other regions (0.3% or less). |

Source: (World Water Council & OECD, 2015: 14)
The Rise of ‘Green Finance’

To address the water finance gap discussed above, a central component will be the utilisation of innovative financial mechanisms, particularly those categorised under the heading of ‘green financing’. Although no single definition of ‘green finance’ exists (Inderst, Kaminker, & Stewart, 2012), in the broadest sense, it encompasses “financial initiatives and processes designed to promote environmentally sustainable investments across financial asset classes, to specific products and services that seek to promote environmentally sustainable investments – including energy sources, low-carbon technologies, products, projects, industries, and businesses” (BIAC, 2016: 1).

In its early stages, ‘green finance’ was more narrowly equated with investments that provide environmental benefits in climate change mitigation and adaptation (Bloomberg Philanthropies et al., 2017). For example, the Green Climate Fund – an outcome of the 2009 Copenhagen Summit – was designed to mobilise $100 billion per year by 2020 to assist emerging economies to mitigate and adapt to climate change (Cui & Huang, 2018). However, as the links between environmental, economic, and social wellbeing have become more apparent, the idea of green financing has evolved, and broadened in scope to also include investments in sustainable natural resource management, inclusive finance, education and other sustainable development criteria identified by the Sustainable Development Goals (SDGs) in the 2030 Agenda (Bloomberg Philanthropies et al., 2017).

UNEP notes that the development of green finance has primarily been driven by public concerns rather than policy measures (Paulson Institute, SIFMA, Green Finance Committee, & UNEP Inquiry, 2017). Market based instruments like green bonds, and Impact Investments – driven principally from specialist funds, high-net wealth individuals and family trusts, and increasingly from institutional investors – have been key in reducing the presence of environmentally intensive and high-risk assets in investment and lending portfolios (Paulson Institute et al., 2017). However, although green finance is on the rise – and trends indicate that it will continue to grow in the next years – it still remains a small portion of global investments: Green bond issuance and green infrastructure investment are below 1% of total bond issuance and total infrastructure investment respectively (Paulson Institute et al., 2017). Nevertheless, looking at green bonds in particular, they have seen a remarkable growth in recent years (Figure 3).
Reconceptualising ‘the Corporation’

There are indications of that the relationship between society and business is being re-defined; Friedman’s idea that “there is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits” (Friedman, 1970) is increasingly questioned. Instead, pressure is placed on companies to contribute in a positive way to generate value for stakeholders as well as shareholders. Calls for businesses to widen their responsibility to society has puzzled scholars devoted to theorising the business-society relationship (see, for example, Fykke, Feldner, & May, 2016; Schwartz & Carroll, 2008; Siltaoja & Onkila, 2013; Warhurst, 2005). Trends like Corporate Social Responsibility (Luetkenhorst, 2004; Palazzo & Scherer, 2012; Wilks, 2013), Social Entrepreneurship (Fykke et al., 2016), Corporate Citizenship (Post, 2000; Schwartz & Carroll, 2008), and Creating Shared Value (Porter & Kramer, 2011) are all expressions of this blurring of the traditional separation between business and social life (Fykke et al., 2016).

Beyond the bid for companies to fill the ‘governance gaps’, (discussed below), two factors can be identified as motivating this reconceptualisation. Some scholars point towards changing societal expectations and an increase in stakeholder pressure. For example, (Whetten, Rands, & Godfrey, 2002: 402): “stakeholder and special interest groups are increasingly well organized, and becoming more vocal and encompassing in the demands they make on businesses.” If companies fail to meet expectations, it could negatively impact the value of the company. As argued Mayer, the last 40 years has seen a complete reversal in the market value composition, in terms of tangible and intangible assets, of corporations (Figure 4).
Investment in intangibles is also on the rise, with a robust resistance to wider macroeconomic instability (Figure 5). The brand and reputation of corporations is, therefore, of far more significance than ever before. Regardless of the cause, damage to corporation’s intangible assets may result in far greater consequences than is obviously apparent from merely observing the businesses’ share price. The need to preserve trust and goodwill with surrounding communities is paramount to ensuring this intangible value is maintained and not jeopardised.

Another group of scholars (see Hart, 1997; Porter & Kramer, 2011) argues that for businesses to expand their role is good business strategy. In their view, engaging in activities such as water governance or development projects can lead to improved financial returns, a safeguarded ‘licence to operate,’ and enhanced investor relations. Therefore, they suggest that these undertakings can simultaneously serve both shareholder and stakeholder interests. In essence, the promoters of this perspective attempt to construct a ‘business case’ for engagement, illustrating that action for social or environmental purposes can lead to positive financial returns.
Mexico is one of the leading countries in green bonds issuance in Latin America, along with other countries such as Brazil and Colombia (CEPAL, 2017). In Latin America there is an recognised infrastructure gap in the economic development literature (Calderón & Servén, 2004; CEPAL, 2017; Lucioni, 2009). Such a gap is explained to be the result of prolonged policies (and debt guidelines) that limited and constrained public spending implemented during the 70’s, and which prevailed in the following two decades of fiscal austerity (Easterly & Servén, 2003), but also due to the pressing need to increase the level of investment (Pargal, 2003). One of the major arguments justifying such cuts in public infrastructure investment was – and still is – the potential of the private sector in leading infrastructure provision and the potential of increasing the available investing amount (Easterly & Servén, 2003).

To address this gap, there is a call for Public Private Partnerships (PPP) - bringing the private sector in to invest and provide additional infrastructure to places where it is severely lacking (CEPAL, 2017). This has been the case in Mexico, where such partnerships have been the central strategy for filling long-term infrastructure investment.

Infrastructure financing and debt issuance are often related. Infrastructure development – in Latin America but also in other emerging economies – is generally associated with economic growth and, under the right conditions, poverty alleviation (Calderón & Servén, 2012). The link between increasing debt levels and economic growth and inflation has been widely questioned in academia (Reinhart & Rogoff, 2010), however mechanisms like green bonds are relative new to the discussion as a way of debt issuance.

In recent years, Mexico has seen an increase in subnational debt, generally attributed to the amendments made to the National Fiscal Coordination Law, where municipalities gained the ‘ability to contract debt from public and private sources’ (Smith, 2015). For instance, Mexico City is one of the most indebted municipalities in Mexico, even when compared to larger states (Diputados, 2012; Smith, 2015).

Climate change is particularly threatening to urban areas, since it could be one of the main drivers of infrastructure deterioration (droughts) and saturation (floods), as well as one of the factors that would enable an adaptive capacity to face climate hazards. Such is the case of Mexico City, which is highly vulnerable to severe flooding and water scarcity (Romero Lankao, 2010).

Mexico city was the first municipality in Latin America to issue a green bond in 2016, but also in 2008 was the first municipality to have a climate-specific policy. The city’s Local Climate Action Program 2008-2012 (CAP) includes strategies for climate change mitigation and adaptation, including water as one of the five priority areas for reducing emissions.
The motivations of the public sector can be studied both from the literature on public debt issuance and on literature that studies the policy process. Both bodies of literature address different concerns, but will help to reflect the aspects that green bonds contain.

The literature that studies the motivations of governments to issue debt, or to expand beyond their current expenditure budget, will help cover the practical side of green bonds. Green bonds are a type of debt based on fixed-income securities (investment with fixed returns) used to finance or refinance policies that follow the Green Bond Principles (the voluntary guidelines for the development of the green bond market). Green bonds, as a mechanism for issuing debt and expanding the budget, conditioned to specific projects, forcibly have political connotations and implications. For example Alesina & Tabellini (1990) showed that policy-makers can use government debt as a strategic variable to influence their successors’ choice of policies. The use of green bonds implies a compromise of finishing the project, and to pay the corresponding fixed returns to the investors. In a way, it guarantees a policy legacy until the bond is fully liquidated. Debt issuance also implies a negotiation inside the government and between the ministries, where each would seek to maximise the allocated expenditure, an issue that when it includes local governments is forcibly related to fiscal federalism (Alesina & Passalacqua, 2015, pp. 31–32).

The body of literature on the policy-process can shed light on the motivations on issuing green bonds attached to a specific policy. In the case of Mexico City, the green bond issued in 2016 had as purpose to finance projects attached to the city’s Local Climate Action Plan, on public transportation, public lighting and sustainable water infrastructure. For Downs, all forms of political action and, therefore, of policy too, respond to an aim of gaining votes in the subsequent elections, in a logic where the government ‘sells’ policies for votes, ‘instead of products for money’ (Downs, 1957, p. 137). The implications of this are twofold: first that governments would prise policies that are popular among citizens (or voters), and secondly, the ambition of such will be determined by the public opinion on the matter.

There are multiple of theories around how and why policy changes, encompassing a vast body of literature (see, for example, Baumgartner & Jones, 1991; Hajer & Wagenaar, 2003; Hall, 1993; Jasanoﬀ, 2004; Jenkins-smith & Sabatier, 1994; Owens, 2005). One of the key works within this ﬁeld is Kingdon’s seminal book: Agendas, Alternatives, and Public Policies. Kingdon (2014) outlines three different streams that are critical components of policy-change. The ﬁrst stream is ‘policy’ encompassing the range of non-political experts debating an issue. Kingdon suggests that these groups are constantly looking for ways to promote their preferred policy, ultimately producing solutions to pre-determined problems. The second stream is ‘politics’ encompassing politicians. This stream is ultimately engaging in setting new agendas, or modifying existing ones based on dynamics such as elections, interest group behaviour, or ideological conﬂict. The ﬁnal stream is ‘problems’. Kingdon argues that socio-economic conditions or events come to be deﬁned as problems only when political actors believe that something should be done to change them. Ultimately, Kingdon argues that when these three streams coincide through a ‘window of opportunity’, policy change occurs.
From the previous review, we can suggest five factors that could describe the motivations of a government body in raising green bonds:

- **Policy**: when it follows a specific policy. For example climate change policies for adaptation and mitigation that mandates the reduction of GHG emissions and of climate hazards. In this type, the issuance of a green bond will follow the same motivations of a policy considered important but that was not allocated a (sufficient) budget.

- **Vulnerability-urgency**: when it follows a need to increase infrastructure investment that would contribute to the resilience capability of the city, but that goes beyond the current planned budget. A matter that is urgent and subject to public opinion, but that is not a priority.

- **International and national guidelines**: Priorities set in allocated expenditure and international and national public expenditure, but that are strategically allocated to debt issuance.

- **National and international investment priorities**: Take advantage of a financing inclination towards projects that fill ‘green’, ‘environmental’, and/or ‘sustainable’ conditions to finance projects that fall into those categories to expand the current budget available.

- **Public exposure opportunity**: when there is a benefit in terms of increasing good public opinion and votes by raising green bonds or by showing regional *avant-garde*.

Private Sector Motivation

The capital raised utilising green bonds, implies that the funds raised will be used to finance or refinance projects that follow green bond principles, guaranteeing to investors that the type of projects financed are going to contribute to sustainability goals. For studying the motivations of corporates in issuing such fixed debt, we will focus on the ‘green’ characteristic of this type of bonds.

The literature that studies the motivations of the corporation on adopting sustainable practices and green technology is an essential start point. The seminal article ‘Why companies go green?’ (Bansal, Pratima; Roth, 2000) presents an analysis of the different motivations inside a corporation that could influence ecological responsiveness. There are three motivations: competitiveness, legitimation, and environmental responsibility, each tied to respective contexts: issue salience and public opinion, field cohesion and transfer of policies, and shareholders’ or directives’ ecological concern and values (see figure below).
The interest in sustainability of the corporation can also be studied by type of actor: management, directors, and shareholders – in the case of public corporations – (see Jensen, *A Theory of the Firm*, 2000). In this division, there is a growing literature studying the relation between the long-term view of shareholders and their interest towards adopting or promoting environmental actions. Such a discussion involves thinking of sustainability as paired with efficiency, as well as thinking about the investment in sustainables (for example, green technologies) as investment in a long-term sustainable return (Clark, Feiner, & Viehs, 2014). In this argument, the role of the shareholders is central for undertaking such a decision, since it is the only actor that has a long-term interest in their investment, which makes them a potential stakeholder for investing in sustainable returns (Clark et al., 2014).

A fair reading of such issues involves including the value derived from reputation, both for investors and for companies. The intrinsic relationship between investors and global financial markets makes the investors receptive to the risks that companies face in relation to consumers and capital markets, and more interested in environmental and sustainability standards which, though reputation building, can lower some risks (Clark & Hebb, 2005).

We suggest that there are five factors that could describe the motivations of a corporation in raising green bonds:

- **Reputation**: the reputation associated by investing/implementing green and sustainable projects.
- **Efficiency and higher standards**: green and sustainable technologies could raise the company standards and its value.
- **Cost reduction**: the efficiency gained from adopting better practices and technologies can represent the reduction of costs and, therefore, increase returns and profit and represent and advantage against competitors.
- **Risk mitigation**: the adoption of better technology can contribute to mitigate risks associated to production to ensure long-term profitability of business.
- **Issue salience**: the opportunity to play a central role in being part of the solution of a pressing issue that involves the business directly and indirectly.
Multi-Stakeholder Partnerships

The demand for multi-stakeholder partnerships stems from the recognised interdependence between different actors (Karkkainen, 2004) when faced with new, complex problems like that of the water challenge. In this paper, we suggest that the corporation is a key stakeholder in such partnerships, and that it has a critical role to play in addressing the water infrastructure financing gap. This section will provide a critical overview of different types of partnerships in the water sector, and the role that the corporation could play in furthering their aims and objectives.

Unpacking ‘Partnerships’

Broadly defined, partnership can be understood as “initiatives where public-interest entities [and] private sector companies…enter into an alliance to achieve a common practical purpose, pool core competencies, and share risks, responsibilities, resources, costs and benefits” (Utting & Zammit, 2009: 40). However, the term ‘partnership’ embodies a range of different types of relationships.

In the context of water services delivery, a partnership is often of contractual nature between a public body and a private utility. The early 1990s saw a dramatic increase in private sector contracts, with the year 1997 representing an unparalleled peak in private sector investment: in the first seven years of the 1990s, private sector investments in water and sanitation increased by 7,300% compared to the previous sixteen years (Morgan, 2011). Since the peak of 1997, the number of contracts granted to private sector operators has continuously declined, but the total number of people served by private operators has steadily risen, due to many new contracts being signed by large urban utilities. In 2014, the number of people served by private operators passed 1 billion (Aquafed, 2018). Whereas much of the language used in academia is still entrenched in a 1990s debate raging between ‘market liberalisation’ versus ‘water privatisation’, practice has long moved beyond this. Private sector involvement in water services provision happens along a spectrum (Figure 7) where privatisation—also called Full Divesture—is just one type of relationship. More commonly is some form of Private Public Partnership (PPP) where the ownership of the infrastructure usually remains in the public domain (Marin, 2009).

Figure 7: Private Participation in Water Services Delivery

Source: (IRC PPP, 2016)
In the context of water resources management, another type of partnership has evolved more recently under the banner of ‘Collective Action’: “a new manner of solving complex social problems, one in which unlikely partners come together with new business models, technologies, and an appetite to work together to find solutions” (Lopez & Sarni, 2015: 23). Whereas cross-sector partnerships for water services delivery has traditionally formed between public bodies and private utilities, Collective Action usually brings together a wider set of stakeholders: international NGOs (e.g. WWF, TNC, and IUNC), local community groups, public donor agencies (e.g. Sida, GIZ, DFID, and USAID), and companies (that are perceived to be) using large quantities of water. Although these partnerships are formalised under some type of agreement, they are less contractual in nature than conventional PPPs designed for services delivery. These types of partnerships are often ambitious in scope, as they take the whole watershed as the basis for intervention. Examples of programmes that facilitate Collective Action initiatives in various locations around the world include the International Water Stewardship programme (IWaSP), and the 2030 Water Resources Group.

Collective Action should not be confused with bilateral business partnerships, conventionally formed between an international NGO, a multilateral agency, or a donor. Examples of such partnerships include Stella Artois’ (Anheuser-Busch InBev) partnership “Buy a Lady a Drink” with water.org, or Coca-Cola’s partnership “New World” with UNDP. Whereas Collective Action embodies collective planning, execution and evaluation of a project, these types of partnerships typically only facilitate the transfer of corporate funds into a good cause in exchange for favourable press.

Critiquing partnerships with business

Sceptics of the involvement of businesses suggest that these partnerships predominantly operate in favour of corporate interests by granting business significant access to defining policy priorities and regulations (Schäferhoff, Campe, & Kaan, 2009), and that businesses’ ‘short term-thinking’ could weaken the necessary long-term objectives of partnerships for the public good (Forman & Segaar, 2006). Brühl & Hofferberth (2013: 351), point in particular towards the dangers of self-reporting exemplified in, for example, the UN Global Compact and its associated body the CEO Water Mandate, which in their view leads to a situation in which “the regulation of private business has changed to new forms of regulation together with or even through private business.” Coming from a similar perspective, Mert (2012: 478) argues that the involvement of business could lead to the privatisation of governance, which would mean that “regulatory approaches based on state-coercion are replaced by market-based and voluntary mechanisms.” Moreover, Hale and Mauzerall (2004) argue that businesses can use partnerships to ‘green-wash’ or ‘blue-wash’1 their business, and divert attention from otherwise unsustainable activities. In general, critics are concerned that the involvement of business will place such actors “at the center of this extraordinary and complex metastasis of governance outside the state” (Backer, 2011: 755).

1 Legitimacy granted by UN endorsement.
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