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Consumer Cooperatives for Delivery of Urban Water and Sanitation Services

To find the optimal delivery model for urban water supply and sanitation (WSS) services, one must look beyond ownership structures to the practices and designs that support good performance. Consumer cooperatives are often attractive institutional models. This note focuses on a Bolivian cooperative that is one of the most successful water cooperatives in Latin America.

Cooperative characteristics

Cooperatives are autonomous associations of members who unite to meet common needs through a jointly owned and democratically controlled enterprise (box 1). The members may be legal or physical persons. Today some 800 million producers, consumers, and workers are members of 740,000 cooperatives in 93 countries.

Members are simultaneously owners and customers of the cooperative. As owners, they seek to protect their assets by ensuring that the cooperative recovers its costs. As customers, they seek the lowest possible prices. Profits are generally reinvested—members cannot withdraw or reallocate investments. The only way to capture value is by using the service.

The cooperative's managers generally come from within the membership and so are users of its service. Managers therefore have a built-in motivation to benefit the cooperative's members.

Box 1. What makes a cooperative?

Structure

- Cooperatives are open to all who can use their services and are willing to accept responsibilities.
- Members set policies, serve as representatives, and have voting rights.
- Members contribute equitably, and capital is common property. Surpluses are usually plowed back in to the cooperative.
- Cooperatives are self-help organizations controlled by members.

Practices

- Cooperatives provide education and training to members and employees.
- They work together through local, national, regional, and international structures.
- Their goal is sustainable community development.

How do cooperatives differ from other models?

There are several differences between cooperatives and traditional investor-owned utilities. Investors in private utilities, organizations charged with maximizing owner profits, have no relationship with the organization beyond equity, which

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is transferable. In cooperatives, profits are not pursued; if realized, they are generally reinvested in the cooperative. Members cannot withdraw and reallocate investments; good service at low cost is what they seek.

Public utilities also have the mission of providing good service. But public utilities can be swayed by political pressure, whereas, in cooperatives, the members' dual role as owners and customers helps maintain priorities.

Ownership patterns differ substantially among cooperatives, private utilities, and public utilities. A cooperative is governed by a board of owner-members, each with one vote, regardless of production or consumption levels. In investor-owned utilities, votes are proportional to shares held. In public utilities, the state is the owner.

WSS services are a natural monopoly. An independent external regulator is needed to prevent the owners of WSS services, public or private, from charging excessive prices or otherwise acting in a manner inconsistent with the public interest. Cooperatives, by contrast, achieve the same goal through self-regulation.

Lessons from a successful cooperative

The Cooperativa de Servicios Publicos Santa Cruz Limitada (SAGUAPAC) provides water and sewerage services in the city of Santa Cruz, Bolivia. Established in 1979, it has been in business for almost 30 years, during a period of rapid population growth. The city is sparsely populated, with 1.2 million inhabitants spread over 36,300 hectares of tropical flatland. Their geographic isolation from the rest of Bolivia has bred habits of self-reliance and civic-mindedness.

SAGUAPAC, serves 750,000 people, drawing its water from deep wells. Over the years, performance has been very good by international standards. Water is available 99.92 percent of the time. Only 17 percent of water cannot be accounted for—a low percentage. There are 3.1 employees per 1,000 connections. Some 97 percent of connections are metered. Collection efficiency is 95 percent.

Structure

SAGUAPAC is owned and controlled by its customers. Membership is open to individuals and organizations connected to the network. It is structured on the classic cooperative model (figure 1). Every two years, members elect representatives to a district board and to the delegate assembly, which meets annually. The delegate assembly selects members to serve on the administrative board and the oversight board. Board members serve six-year terms, with a third of each board elected every two years.

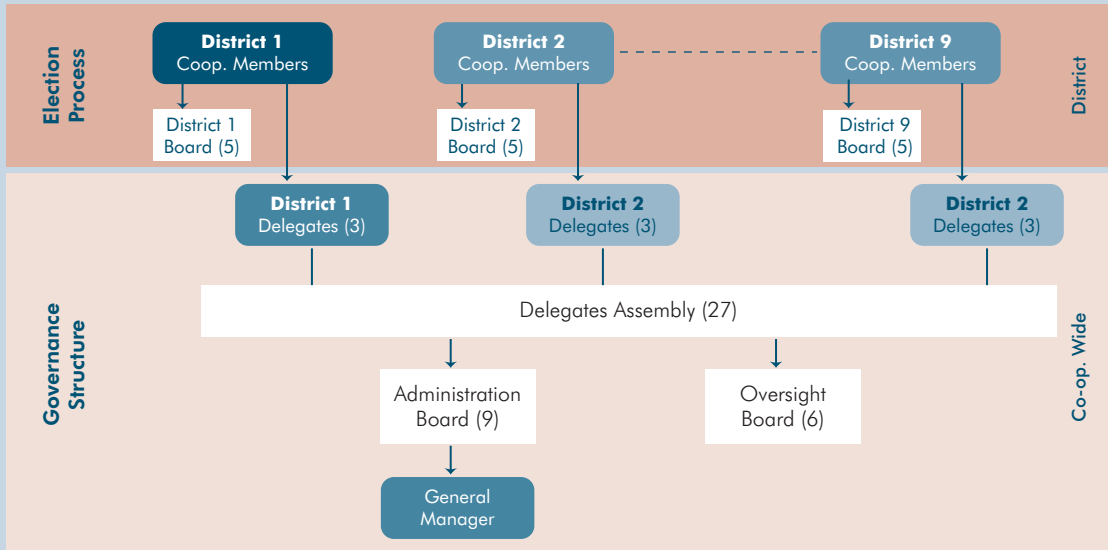
District boards promote member participation and represent members before the administrative board, which defines policies, approves budgets, appoints the general manager, sets salary scales, oversees bidding processes, and informs the delegate assembly. It meets twice a month. Majority vote rules. The oversight board acts as a corporate controller, focusing on accounting and financial control and ensuring legal compliance. It meets monthly. Here, too, majority vote rules. The manager of the administrative board appoints the utility's general manager (GM), who serves at the discretion of the board. Since 1979 SAGUAPAC has had just four GMs.

Success factors; limitations

SAGUAPAC's success is partly attributable to the cooperative structure, which helps deflect attempts at political interference, eliminates cumbersome procedures, and keeps the utility focused on consumers. But three other success factors stand out as well:

- SAGUAPAC's governance structure gives members a sense of direct participation and ensures that elected members are truly representative. Elections are closely scrutinized and board members closely monitored—key drivers of officer integrity. Term limits and staggered terms ensure balanced representation of member districts.
- SAGUAPAC's corporate culture is notable for employee loyalty and a strong service ethic. This ethic has been created by a strong and continuous management.
- A final success factor is an external one. As noted, Santa Cruz's isolation has meant lim-

Figure 1. SAGUAPAC’s governance structure and election process



ited central government presence, resulting in a self-reliant population and a well-organized civic movement—an environment favorable to cooperatives.

But SAGUAPAC also has limitations, and some of these are related to its cooperative structure. Compared with public utilities, SAGUAPAC has limited access to concessional multilateral financing. SAGUAPAC has never expanded beyond its original service area, and extension of the sewer system has been slow. Some critics believe that leadership has balked at expansion because the costs might make it necessary to raise tariffs without creating new benefits for current members.

The keys to successful consumer cooperatives

Consumer cooperatives work best when external conditions are favorable, when the cooperative is designed properly, and when it follows certain practices.

Among the *external conditions*, three are key: a small population, the absence of the state, and a strong civic culture.

- Population size is important because smaller cooperatives generally perform better than

larger ones. Relations between members and management are more direct in smaller coops.

- Cooperatives seem to work better where the state has not provided the services needed, and the population has organized to provide for itself.
- The willingness of members to serve is essential for an effective cooperative, and a strong civic culture encourages participation. Where civic culture is weak, a cooperative may be subject to political interference or capture by interest groups.

The cooperative’s *design* is specified in its by-laws. The procedures for electing the board are particularly important. Successful cooperatives encourage the selection of technically capable members and ensure that members feel well represented, which fosters participation. Open, transparent procedures minimize the possibility of manipulation and encourage the election of appropriate directors.

Human resources policies are also important. Appointment procedures should be clear and transparent. The administrative board should be empowered to hire and fire the general manager. Hiring from within and performance-based promotions and salaries strengthen the bond with staff.

We have observed that the most successful cooperatives are those with a high rate of member participation. Member participation depends not only on the prevailing civic culture, but also on the cooperative's internal structure; that is, on how board members and managers are elected and on the effectiveness of member-feedback mechanisms. Growth in the membership may weaken identification with the cooperative and dilute incentives to participate. A two-tier representative system can help members feel that their input is heard.

Finally, the design of a cooperative should help deflect political interference. A cooperative captured by politicians usually embraces objectives other than providing good services. Excluding active politicians from the board, rotating elected members, and incorporating other checks and balances keep political influence at bay. An alert, politically aware membership is also essential for shielding the cooperative.

Good practices may proceed from good design or be introduced by effective leadership. Over-dependence on a particular leader, however, should be avoided. Institutionalization of good practices, by contrast, particularly in financial management and planning, makes the cooperative more independent. Fortunately, the accountability inherent in cooperatives encourages sound financial management practices and information systems that focus on cost control and performance.

The members' dual role as owners and customers facilitates balanced decision making. For example, members can balance the need for service quality against pressure to keep tariffs low. The notion of increasing profits is not part of the equation.

Members' sense of inclusion can be further enhanced through customer service improvements and by accessible information about available services, billing, disconnection, and complaint processes.

Good personnel practices can lead to increased efficiency. Cooperatives usually combine traditional public employment practices (job security and good salaries; promotions based on longevity) with incentive-based, private-sector approaches. Effective cooperatives achieve low staff turnover through market-based salaries, performance evaluations, and performance-based promotion and salaries.

Successful cooperatives focus on building internal technical and managerial capacity. Most are leaders in technical and organizational innovation. They monitor operations, standardize processes where possible, engage in business planning, and clearly define responsibilities. Management uses benchmarking to assess performance gaps. Outsourcing is normally low, because the incentive of secure employment is stronger than the potential savings to be had from outsourcing. However, because cooperatives are not bound by public procurement procedures, contracting can be done quickly when needed.

Using the cooperative model for reform

The cooperative model can be introduced by creating a new utility from scratch, or through transformation of an existing public utility. Starting up a new utility cooperative is indicated in cases where no services are currently provided. Most new utility cooperatives start small—for example, in unserved pockets of a city. Over time these small cooperatives can be aggregated with or subsumed under larger utilities to achieve economies of scale. Transforming an existing utility into a cooperative is well-suited for improving performance but less suited to the goal of expanding service. In other words, it is indicated where the existing utility has high coverage but performs poorly.

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