

# Summary Sheet

## Guidance For A Successful Aggregation

**This Summary Sheet is an excerpt of the report "Joining Forces for Better Services? When, Why and How Water and Sanitation Utilities can Benefit from Working Together" (Chapter 7).** This sheet sums up the lessons learned about successful aggregations based on the evidence gathered at the international level, through the statistical analysis and the 14 case studies. It then proposes recommendations and specific guidance for a successful aggregation, shaping lessons learned into a road map and pointing out key decision points.

### Lessons Learned

The list below consolidates the main lessons and observations from the report's various evidence bases, including the global data set, the IB-Net database, and the various case studies. For more information, refer to the "Joining Forces for Better Services? When, Why and How Water and Sanitation Utilities can Benefit from Working Together" report, and more specifically to Chapter 7 to gain deeper insights on each lesson learned.

### What Are Global Aggregation Trends?

- The level of decentralization of WSS services increases in countries with higher levels of development and overall service coverage.
- Aggregation is a relatively recent trend mainly observed in African, European, and Latin American countries.
- Aggregation is more predominant in countries where local governments are responsible for WSS service delivery.
- The predominant aggregation type is a top-down, mandated process, targeted toward economic efficiency, encompassing all functions and services, following administrative boundaries, and taking the form of a merger.
- Aggregations are happening in a diversity of contexts but are more frequent in countries with high WSS services coverage.
- Aggregations in countries with limited sector performance are predominantly aiming at improving services, whereas in countries where the coverage is high, economic efficiency is the main driver.
- Countries with smaller utilities and more fragmented water sectors pursue voluntary aggregations more frequently.

### When Do They Work? The Quantitative Evidence

- Utilities serving several towns do not see a straightforward decrease in unit costs when their size increases.
- Most aggregations involve larger, urban utility companies taking over smaller, more rural towns, and therefore tend to add few customers and decrease density.

- Utilities going through aggregation do not see decreases in the cost of labor, a key expenditure and expected area of economies of scale.
- Limited, less complex aggregations, and aggregations of utilities that are already serving multiple towns, are more likely to achieve cost savings.
- Aggregations that involve small or weak utilities tend to improve their overall performance, but costs do not decrease as economies of scale are reinvested into maintaining the improved services.

### Why Do They Work? The Qualitative Evidence

#### Success factors

- Having a stable champion throughout the aggregation often improves the likelihood of success.
- Building ownership and aligning the interests of stakeholders at all levels is essential.
- Defining principles but allowing flexibility in implementation ensures local ownership.
- Results take time; gradual improvement strategies with a consequent focus on results are particularly successful.

#### Risks

- When political leadership changes over time, aggregation can be jeopardized.
- Harmonization of administrative practices may level performance down and costs up.
- Transaction costs can hamper aggregation success.
- Not acknowledging context and purpose when designing an aggregation can lead to failure.
- Cherry-picking practices can undermine the outcome of an aggregation whose purpose involves externalities such as cross-subsidies or capacity transfers.

### How Do They Work? Concrete Insights

#### Scope

- In countries where WSS coverage is high, aggregations encompass water and wastewater services.
- Very few case studies of aggregation include unbundling stages between bulk and retail activities.
- Aggregation of all functions is the common situation; however, there are examples of utilities where only some functions were to be aggregated.

#### Scale

- Although aggregations along administrative boundaries are predominant, they do not necessarily encompass contiguous territories.

- The population and number of towns covered by an aggregation vary widely depending on the initial urban versus rural context.
- Having a large utility as nucleus can work, but aggregation of similar-sized small utilities can also be successful.

### Process

- Countries using aggregation as part of a broader sector reform package—for example, in the context of European accession—have usually settled on a mandated, top-down process.
- Financial support and/or incentives (a “Big Push”) are important to help services get out of the low-level equilibrium trap.

### Governance

- Aggregations in EU countries have tended to use long-term delegated arrangements signed with public operators, whereas aggregations in other countries have tended to use mergers.
- Aggregation forces more explicit decision-making processes, leading to better corporate governance.
- Establishing a system of checks and balances among shareholders is important.
- Strong citizen engagement and clear accountability mechanisms should be put in place in parallel with the aggregation.
- Oversight of tariffs is usually done by a shareholders assembly within the country’s overall regulatory framework.
- Not all aggregated utilities use uniform tariffs across their service area.
- Setting clear exit and entry clauses encourages joining and ensures orderly withdrawal.
- Cost- and revenue-sharing agreements vary according to the governance form of the aggregation.
- Asset ownership, development, and management depend on the form of governance of the aggregation.
- In most case studies, liabilities are dealt with separately from the aggregation.
- Managing staff transfer is key to mitigating transaction costs.
- IT systems and administrative practices harmonization take time and can be costly.

### Road Map to a Successful Aggregation

Figure 1 presents an overview of a road map toward a successful aggregation, starting with the decision about whether aggregation is the proper policy instrument given the context and purpose intended, continuing to the design of a successful aggregation process and its

**FIGURE 1. Road Map to a Successful Aggregation**



implementation, and finally looking at how to sustain such success. For each stage, the figure and underlying table summarize the key messages emerging from this study and refer to more specific sections of the report and associated toolkit (accessible at [www.worldbank.org/water/aggregationtoolkit](http://www.worldbank.org/water/aggregationtoolkit)) for further resources.

Table 1 also indicates the approximate timeline for each stage, based on the experience collected in the case studies. Overall, aggregations are long-term efforts rather than short-term policy fixes, taking anywhere from 3 to 20 years, although individual circumstances can affect the duration of each stage significantly.

The figure and complementary table are not meant to represent a definitive and unilateral set of principles; as stated throughout this report, understanding context and

purpose, and designing and implementing with those taken into account, is key to success. Nonetheless, both represent an effort to provide, to the extent possible, the best guidance available based on this study's evidence.

Table 1 may point to specific chapters and boxes of the “*Joining Forces for Better Services? When, Why and How Water and Sanitation Utilities can Benefit from Working Together*” report, for additional information on the key messages.

**TABLE 1. Road Map**

When you need to...	Consider the following...
<b>DECIDING whether to conduct an aggregation</b> <i>Typically 1-3 years</i>	
<b>Understand the policy purpose you seek to achieve and the context in which it takes place</b>	<ul style="list-style-type: none"> <li>• The main purpose(s) of the aggregation process (lowering costs, improving performance, establishing cross-subsidies, and so on) and the overall context in which you operate will influence the design and implementation of the aggregation (chapter 2). Understanding and analyzing the physical context and enabling environment is a key prerequisite to deciding whether to pursue an aggregation process and to designing it properly (chapter 4). As part of the context analysis, it is important to identify the vested interests of all stakeholders that will be affected by aggregation, so as to tackle the potential problems, conflicts, or resistance and their potential impacts on the aggregation process. These stakeholders comprise not only national and local elected officials but also staff, customers, and the general public (chapter 5).</li> <li>• Some aggregations failed because the champions did not understand who would win and lose from the process, did not build the necessary coalition with winners, and did not offer incentives to bring potential losers on board. Take the time to understand the political economy of the sector and proposed reform before deciding (chapter 5; box 5.2).</li> </ul>
<b>Decide whether aggregation is the right policy option to achieve your purpose</b>	<ul style="list-style-type: none"> <li>• Make sure aggregation is the right policy tool for the context or purpose. For instance, small and less complex aggregations are more likely to achieve cost savings. In contrast, economic efficiency may be hard to achieve if the utility is trapped in a low-level equilibrium (chapter 2; box 2.1). Small utilities tend to see their performance increase through aggregation; expanding utilities that already serve several towns can create cost savings. Economic efficiency is more likely to be achieved when the sector is mature and performing well (box 4.5). There might be other sector reform options more suitable to achieve the purpose sought (box 6.2).</li> <li>• Aggregation can take more than a decade to deliver its benefits. Do not expect quick outcomes, and allow some time for them to materialize. Set up performance-based monitoring to report on progress at timely intervals (chapter 5).</li> <li>• Aggregations will often involve trade-offs between service quality and cost of service; be prepared to understand and communicate those trade-offs clearly to stakeholders to build their principal support for the reform.</li> <li>• When coupled with support for investments, aggregation can act as a Big Push, helping utilities get out of a low-level equilibrium (characterized by low cost and low quality). However, costs (and tariffs) are likely to increase alongside service quality (chapters 4, 6, box 5.3, box 6.5).</li> </ul>
<b>Identify other complementary policy actions that will be necessary</b>	<ul style="list-style-type: none"> <li>• Conducting successful aggregation requires the proper policy and legal instruments to be in place, in particular with regard to the regulatory framework or the corporate governance of utility companies. In some countries, legal barriers with regard to responsibility for and delegation of service provision, competition rules, or public asset transfers might need to be addressed before the aggregation is launched (chapter 6, box 6.4).</li> </ul>

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When you need to...	Consider the following...
<b>DESIGNING a successful aggregation</b> <i>Typically 1-5 years</i>	
<b>Engage with stakeholders to build ownership and defuse conflict</b>	<ul style="list-style-type: none"> <li>• Ensure that the design is widely consulted and validated with politicians, local officials, and utility managers to ensure all interests are taken into account during the design of aggregation. Also implement communication and engagement campaigns with unions, media, customers, and civil society to gain cooperation and acceptance from those parties (chapter 5, box 5.2).</li> </ul>
<b>Define the appropriate scope and scale to achieve the purpose intended</b>	<ul style="list-style-type: none"> <li>• Small utility providers aggregating together are more likely to achieve performance improvements (chapters 3, 4, and 6); however, costs might not decrease as economies of scale are “reinvested” into better services.</li> <li>• Include a large utility in the aggregation to act as a nucleus only if this is necessary to achieve your purpose; look at alternative models to achieve the same purpose while grouping primarily providers of the same size (chapter 6, box 6.2).</li> <li>• Cost savings are easier to reach for small and less complex aggregations (chapter 4).</li> <li>• Be mindful of the risk of cherry-picking, which could undermine the achievement of the aggregation’s purpose if strong externalities are involved and providers are left with loopholes to opt in and out on the basis of their individual interests (chapter 5, box 5.4).</li> <li>• Whereas most aggregations involve all functions and follow administrative boundaries, there are successful examples of more narrow aggregations of either scope (chapter 6, box 6.3, box 6.2) or scale (chapter 6, box 6.1)—so be open and explore options.</li> </ul>
<b>Select a governance model that will ensure success</b>	<ul style="list-style-type: none"> <li>• Take the opportunity of the aggregation to adopt strong corporate governance practices to ensure financial and managerial autonomy as well as business-oriented practices, while maintaining clear accountability to shareholders (chapter 6).</li> <li>• Set clear rules of the games to address routine decision making as well as the unexpected: entry and exit rules, asset transfer, voting rights and power distribution, cost and revenue sharing, investment decisions, and so on (chapter 6).</li> <li>• Compensate for loss of accountability by embedding mechanisms in the utility routine to reduce distance from customers (give customers the possibility to complain, improve responsiveness through website and upgrading of IT systems) (chapter 6).</li> <li>• Design a balanced governance arrangement in which consensus reaching is embedded, to overcome local authorities’ fear of loss of control; this can be done through a balanced allocation of voting rights (equal allocation, or according to population served, to volume sold, to asset ownership) (chapter 6).</li> <li>• Choose the legal form adapted to your purpose, scale, and scope (chapter 3, box 6.3): pure economic efficiency might be best achieved through special-purpose vehicles focused on a narrow scope, whereas a broad cross-subsidy scheme might be better served by a full merger solution in which costs and revenues are not separated across service areas.</li> <li>• Aggregation must be designed as a long-term process and as such should not rely on specific circumstances that might change over time (enlightened mayor, specific crisis, and so on) (chapter 5).</li> </ul>
<b>Agree on the process that will most likely lead to success</b>	<ul style="list-style-type: none"> <li>• Design the process of aggregation in accordance with the purpose targeted: externalities are easier to reach through incentivized or financially supported processes whereas internalities may be reached through voluntary (or incentivized) processes (chapters 2, 3, and 6).</li> <li>• When designing aggregation, leave space for local flexibility and ownership, following a principle of subsidiarity. This will help gain support from local stakeholders and ensure that the final design is the most appropriate to ensure the success of the aggregation (chapter 5).</li> <li>• Be aware of key elements that generate transaction costs, such as staff transfer, liabilities, and consolidation of IT systems, and seek to mitigate them by planning ahead (chapters 2 and 5).</li> </ul>

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When you need to...	Consider the following...
<b>IMPLEMENTING a successful aggregation</b> <i>Typically 1-10 years if the aggregation is gradual</i>	
<b>Establish the appropriate legal framework for the aggregation</b>	<ul style="list-style-type: none"> <li>• A proper legal framework must be in place before the aggregation process can be implemented. Given the time that some legislative changes might require, plan and deploy the corresponding laws and bylaws ahead of time (chapters 5 and 6).</li> </ul>
<b>Involve stakeholders throughout the process</b>	<ul style="list-style-type: none"> <li>• Build consensus among stakeholders through early consultation (chapter 5).</li> <li>• Identify a few champions who will help move the process forward at the various levels (chapter 5).</li> <li>• Be clear about expected outcome and trade-offs, and communicate on progress achieved, as in many cases, costs and tariffs are likely to go up along with service quality (chapter 5).</li> <li>• Strengthen the working relationship between local authorities and utility executive management through regular meetings, monitored performance, and objective indicators, and the like (chapter 5).</li> </ul>
<b>Define the necessary incentives to align interests at various levels</b>	<ul style="list-style-type: none"> <li>• Align interests at all levels in a sustainable and reliable manner using financial, legal, or other incentives, for instance, to compensate the perceived loss of control of certain stakeholders and ensure the interests of various stakeholders are broadly aligned behind the aggregation's purpose (chapters 5 and 6).</li> <li>• Externalities are easier to reach when financial support is provided to aggregating utilities, as it helps them fund investment projects (chapter 6).</li> <li>• When financial support is provided by external partners, consider linking the allocation of external funds to the implementation of aggregation through eligibility criteria, as it is an effective tool to boost aggregation (chapter 6).</li> </ul>
<b>Provide the necessary technical and financial support to aggregating entities</b>	<ul style="list-style-type: none"> <li>• Provide financial and technical support, especially to small utilities, to implement aggregation and address transaction costs, both one-off and long-term ones (chapter 5).</li> <li>• Provision of technical assistance by the government or donors can be effective to help local stakeholders tailor an aggregation to their conditions and needs (chapter 5).</li> <li>• Investment (co-)financing (EU, state) is an important incentive, but it can have perverse consequences such as rushing reforms to meet tight deadlines to spend aid, encouraging white elephants or suboptimal solutions, or degrading cost recovery levels. Be mindful not to create perverse incentives when designing them (chapter 5).</li> </ul>
<b>Manage the risks linked to the aggregation process</b>	<ul style="list-style-type: none"> <li>• Mitigate cherry-picking practices by encouraging principle of solidarity and establishing stringent criteria for entry and exit (box 5.4).</li> <li>• Anticipate and lower transaction costs as much as possible (IT systems merger and management, staff transfer and wages harmonization policies) (chapter 5).</li> <li>• Set up harmonization processes to ensure that service management improves its capacity, through best practices review and implementation across aggregating services (chapter 6).</li> </ul>
<b>SUSTAINING success</b> <i>Typically 5-15 years</i>	
<b>Document the process and publicize success to all stakeholders</b>	<ul style="list-style-type: none"> <li>• Show and document success to build and keep stakeholder commitment through performance-based monitoring, accountability mechanisms, and the like (chapter 5).</li> </ul>
<b>Learn from challenges and adjust accordingly</b>	<ul style="list-style-type: none"> <li>• Adjust the framework through a gradual improvement strategy, after reviewing monitored achievements against purposes (chapter 5).</li> <li>• Consider that most aggregations are not one-off processes and that the results of the initial phase should inform continued consolidation of the sector.</li> </ul>
<b>Deal with longer-term harmonization issues</b>	<ul style="list-style-type: none"> <li>• Deal with aftermath issues and transaction costs: excess staff, harmonization of working practices, consolidation of IT systems, reorganization of the utility chart, and so on (chapters 2 and 5).</li> <li>• Some of the harmonization challenges can be costly and time-consuming to solve, so plan time and financial resources accordingly, not just during the aggregation but also in the years thereafter (chapter 6).</li> </ul>

