

A public sector multinational company: The case of Canal de Isabel II

Enrique Ortega de Miguel ^{a,*}, Andrés Sanz Mulas ^{b,1}

^a *Centro de Estudios Hidrográficos, Paseo Bajo de la Virgen del Puerto n°3, 28005 Madrid, Spain*

^b *Instituto Complutense de Ciencia de la Administración, Facultad de Ciencias Políticas y Sociología, Campus de Somosaguas, s/n., 28223 Madrid, Spain*

Received 1 February 2007; accepted 23 February 2007

Abstract

Some publicly-owned enterprises (POEs) in water services have recently developed behaviour similar to private companies, tendering for and managing concessions and other contracts, both in their countries and abroad. The article first discusses the reasons for public sector provision of water services, and the different public and private mechanisms of production. It then examines the development of Canal de Isabel II, the public sector water company of Madrid, as a vehicle for public service responsibilities, and then its more recent policies of commercial diversification and overseas expansion, and discusses some contradictions between this commercial activity and the original terms of the company's public service remit. In conclusion, it seeks to explain this behaviour and its relation to transparency and democratic control, especially of risk.

© 2007 Published by Elsevier Ltd.

Keywords: Decision-making; Water and sewerage systems; Canal de Isabel II

1. Introduction: production and provision of water services

Some goods and services have specific characteristics which suggest that a competitive market will not deliver an efficient amount of these goods and services, and so require public sector intervention (Atkinson and Stiglitz, 1980; Leach, 2004). The reasons justifying intervention in water services fall under three main headings.

Water is a crucial input for economic development and so one objective must be to guarantee the amount of this resource required by the economy, especially in countries such as Spain, with irregular distribution of rain, periods of drought, and other geographical features. Different methods can be used to achieve this objective, for example desalination, reuse of water, or transfer of water sources (Raluy et al., 2005).

Water supply and sanitation is also one of the natural monopolies that require the intervention of the public sector in

the provision of these services: natural monopoly theory argues that government ownership is necessary to keep prices away from monopoly levels (Glaeser, 2001, p. 26). This is important for general economic efficiency, because of the importance of water as an input, not only in agriculture, but also in other many economic sectors, which makes the price of this resource a key component in the prices of many products. As a result, the price of water has a major impact on national efficiency, competitiveness, stabilization and development.

A number of human rights are now recognised in relation to water, including the social right of every citizen to water supply and sanitation services regardless of his capacity to pay, as well the right to a sustainable ecological environment – pollution of rivers is one of the paradigmatic examples of external diseconomies (Arrojo, 2005; Broadbent, 1998; Bosselmann, 2001). For this reason, in many countries an important part of the cost of water supply and sanitation has traditionally been financed by taxes: the cost recovery principle in the EU Water Framework Directive thus raises the question as to how these social rights are to be financed through water policy or social policy.

This intervention by the public sector does not imply that public institutions must carry out the production of these

* Corresponding author. Tel.: +34 91 3358006.

E-mail addresses: enrique.ortege@cedex.es (E. Ortega de Miguel), watertime@cps.ucm.es (A. Sanz Mulas).

¹ Tel.: +34 914076906.

goods and services. As Atkinson and Stiglitz (1980) explain, “we need to make an important distinction, between public production and public provision. Both are often confused, though logically and in practice they are distinct. The government provides for the National Defence, yet much of the production of the goods purchased for national defence is within the private sector”. Thus in the case of Spain, the provision of these services is the competence of municipalities, a public provision, but the production of these services may be carried out by public or private institutions (Puente, 2005).

The system of production can be evaluated against public goals, including the objectives of efficiency and accountability. Public production could produce inefficient results, due to so-called government failures, but the assumption of a greater level of efficiency in the case of private production is based on the assumption of a competitive market amongst public services suppliers, and since there are no competitive markets in this field, private production is carried out in a monopoly or oligopoly context, and so in this case the allocation of resources will be inefficient (Mas-Collell et al., 1995). With the public sector, it is possible to establish mechanisms to reduce inefficiency through transparency and citizens’ participation in decision-making (Sanz, 1998). Thus, public production permits the combination of efficiency and also the control, participation and accountability that any public provision requires. Efficiency improvements are also expected to come from creating an ‘arms-length’ publicly-owned enterprise (POE), permitting a greater level of management flexibility and as a result more efficiency and effectiveness, but the reduced level of public control of decision-making generates a greater risk that public goals may be reduced in importance. Thus, contrary to common assumptions, there is ample evidence of satisfactory achievement of social and public service objectives through efficient public sector undertakings, in transition and developing countries as well as in developed ones (Lobina and Hall, 2000).

The water company of Madrid, Canal de Isabel II (CYII) is one example of a public organizations that has been able to provide and supply water services in an efficient and effective way over the years, as acknowledged in a World Bank report (World Bank, 2002). Other big Iberian cities have had private concessions for many years, though some of these returned to public management – Seville after a concession lasting from 1882 to 1966, and Lisbon after a concession lasting from 1868 to 1974 (Cámara de Cuentas de la Comunidad de Madrid, 2005a). But in recent years CYII has developed a commercially oriented strategy, developing this POE into a multinational holding company.

This article focuses on the case of CYII as an example not only of efficient public production of water services, but also of the impact on public goals and objectives when a publicly-owned enterprise begins to operate commercially, and so more like private companies. The account of CYII is based on the report in the Watertime project (www.watertime.net) and the Urban Water Cycle Report of the Camara de Cuentas de la Comunidad de Madrid (Regional Audit Office) (Cámara de Cuentas de la Comunidad de Madrid, 2005a).

2. Water supply in Madrid: Canal de Isabel II (CYII)

Madrid is both the capital of Spain and the Autonomous Community of Madrid (CAM). For historic reasons, the management of water supply in Madrid is not a responsibility of the City Council of Madrid, but has been assumed by CYII, which was set up to provide the capital city, and subsequently expanded its area of activity to the whole CAM. CYII is a public sector company which belongs to the regional government, and in 2006 served 161 municipalities and 5,211,343 inhabitants, 96% of the CAM population.

This arrangement is the result of developments since the mid-19th century. Following an outbreak of cholera which decimated the Madrid population in 1834, the city attempted unsuccessfully to improve the water supply of the city, mainly by using private contractors, and so the central government decided to take responsibility. On June 18th 1851, a Royal Decree was issued by the cabinet of the Queen, Isabel II that the Government would build a pipeline bringing water from the Lozoya River, to be named Canal de Isabel II, in honour of the Queen. The participants in the public company created to build and operate this supply were the State, the municipality and also a small group of private shareholders. In 1867 CYII lost its status as a company and became part of the Ministry of Public Works, but in 1907, faced with a need to raise more finance from users, CYII was constituted as an autonomous body with greater flexibility and capacity, though still part of the Ministry of Public Works. This structure continued until 1977, when Royal Decree 1091/1977 of April 1st set up CYII as a publicly-owned enterprise with its own legal personality separate from the State, allowing greater flexibility and greater decision-making powers for the board of directors in the management of the CYII.

The decentralisation introduced by the new Spanish constitution of 1978 included the creation of a new authority for the capital, the Autonomous Community of Madrid (CAM). In 1984 the state made the CAM responsible for the production and treatment of water in Madrid: water distribution, and sewerage services remain the responsibility of municipalities. At the same time, CYII was reconstituted as a CAM POE, with its own legal personality and governed by private law. Its objectives were specified in Article 6 as the supply and treatment of water in the territory of the CAM, and other related functions. It also provided that the board of directors of CYII should include representatives of the municipalities, the State and the CAM, and that tariffs must cover all expenses of delivering the service – the cost recovery principle.

These objectives, and the composition of the board, were further modified in 2002. Decree 51/2002 allowed CYII to provide services of consultancy, advice, technical assistance and any other kind, in any territory, not only within the boundaries of the CAM. It also allowed CYII to carry out any kind of commercial or industrial activity directly linked with its functions, including taking a minority or majority shareholding in companies, with the permission of the CAM government. The decree also altered the composition of the board of directors: one President and eight members representing the CAM; two

متن کامل مقاله

دریافت فوری ←

ISIArticles

مرجع مقالات تخصصی ایران

- ✓ امکان دانلود نسخه تمام متن مقالات انگلیسی
- ✓ امکان دانلود نسخه ترجمه شده مقالات
- ✓ پذیرش سفارش ترجمه تخصصی
- ✓ امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله
- ✓ امکان دانلود رایگان ۲ صفحه اول هر مقاله
- ✓ امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب
- ✓ دانلود فوری مقاله پس از پرداخت آنلاین
- ✓ پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات