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

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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.

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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
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
representatives of Madrid city council; two members representing the Association of Municipalities of Madrid; and two employees representatives from the works committee.

Although CYII is a company with a legal personality different from the CAM, its annual budget must be included in the CAM general budget and approved by the Parliament. So the whole group is part of the CAM budget, and the risks it incurs are risks that in one way or another would have to be carried by the CAM. This generates advantages for grupo CYII, for example in terms of the cost of borrowings, but also transfers risks to the CAM. If there was some trouble in any of its companies and, as a consequence, the group fell into financial liabilities, the CAM Government would have to contribute the funds required to guarantee the production of water services, which are also the responsibility of CYII.

The effect of these changes was to give CYII greater independence from the CAM and the Madrid Parliament. The 1984 reform had given CYII very clear objectives in relation to the provision of water services to the CAM citizens, but with no profit orientation. It was within that context that a financing system was established, including the principle that CYII had to guarantee that the price would recover all production costs, including infrastructure and environmental costs. While CYII had already started a territorial and sectoral diversification, and it is understandable that some economic activities closely related to the water supply should be carried out by this kind of company, the 2002 Decree defined a new commercial framework for the company, similar to that of any private company. In effect, holding company, the “grupo Canal” was created, with a very low level of accountability and the ability to carry out “business ventures”, with substantial potential risks for the CAM. The Board of Directors has some participation by non-CAM members, and so a greater possibility of transparency. Nevertheless, nine of the 15 members are appointed by the CAM Government, which in fact controls the company: the absence of citizen participation on the board could be a factor in the low level of transparency, and low level of criticisms of the board decisions.

3. CYII: diversification as a multinational company

In the early 1990s, the chief executive of CYII proposed a diversification policy to the Board of Directors, as some business opportunities had arisen, and CYII could use its state-of-the-art technology, expertise in service delivery, and liquid assets to take advantage of these opportunities. The proposal was accepted by the board, on condition that the company assumed only limited and quantified risks which did not threaten the main CYII function of water supply to Madrid. Three areas for expansion were chosen as part of a business strategy: hydroelectric energy, mobile communications, and water supply management.

The old hydroelectric power stations of Navallar and Torrelaguna were renovated and five new mini-stations were built in the Lozoya River dams. Once they were built, the mini-stations were transferred to Hidráulica Santillana to be operated until 2006, when they were to be returned to CYII, in return for 20% of the revenue from the energy sales of these power stations.

In 1993, CYII decided to tender for mobile telecoms business. Two contracts have been won, in Madrid and Galicia, in a joint venture with Union Fenosa S.A. and Sistelcom-Telemensaje S.A. In order to develop and manage such contracts two companies have been set up: Canal De Comunicaciones Unidas S.A. and Sogatel, to which CYII rents its infrastructure and mobile telephony network.

Since 1991, CYII has taken part in tenders for national and international water supply management, sometimes alone and others in joint ventures with other companies.

Within Spain, the most controversial move came in July 2004, when Alcalá de Henares—a town with approximately 200,000 inhabitants, 34 km from Madrid—decided to award a water services concession to a joint venture between CYII, SUFISA and Aqualia (the water division of FCC), in which CYII’s participation was 37%. This privatization was the subject of much public protest. In becoming part of a private joint venture with a concession agreement, CYII departed from its traditional mechanism for relations with the municipalities. The common mechanism used by municipalities within the CAM is the covenant: for example, Madrid City Council signed a covenant with the CYII to manage the city of Madrid’s water treatment network, under which CYII has to pay €750 million Euros to Madrid City Council over 3 years, and will in its turn collect the treatment fees that are included in the water tariff for the following 25 years (El País, Monday, September 26, 2005). CYII now also manages the water supply of the city of Cáceres (in the south west of Spain).

The company first entered the international arena for water supply in 2000, and initially expanded into Latin America through a series of technical assistance contracts with the World Bank for work in Cuba, Brazil, Venezuela, Algeria and several other countries. In 2002, the World Bank published a report praising CYII not only for its efficiency in its home territory, but also encouraging its international expansion plans. In 2002 CYII bought a majority of the shares in Inassa, owner of a Colombian water company, AAA (Triple A), which also had water supply concessions in Colombia, the Dominican Republic, Venezuela and Ecuador. The purchase was made in partnership with a private company Tecvasa, through a specially created company, Canal Extensia, in which CYII held 75% and Tecvasa 25%. To pay for this purchase, the CAM government authorized CYII to take out a loan of €58 million Euros.2 In 2004, the management of Triple A claimed the company was performing well, but stated that “The

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2 See Acuerdo de 29 de noviembre de 2001, del Consejo de Gobierno, por el que se autoriza al Canal de Isabel II para la constitución de la Empresa Pública “Canal Extensia, Sociedad Anónima”, y a esta empresa, una vez constituida, para adquirir a título oneroso acciones de “Interamericana de Aguas y Servicios, Sociedad Anónima” (“INASSA”), por un total de 73.000.000 de dólares, aprobando un endeudamiento de 51.100.000 dólares. Boletín Oficial de la Comunidad de Madrid — Núm 285 viernes, 30/11/2001 www.madrid.org.
The Colombian WSS sector is not attractive for investors". In 2005, the private partner, Tecvasa sold its 25% stake to CYII. In 2006, at an emergency meeting of shareholders of Triple A, CYII was forced to invest more equity into Inassa, to repay €22 million in bonds issued by Triple A. Elsewhere in the world, CYII has bid for work in Kosovo, and, according to press reports, CYII has also sought business in China, discussing contracts for water services in the region of Shangdong (see ABC, Monday, January 31, 2005).

4. Discussion

The raison d’être and objective of the CYII is to act as a tool to supply water and sanitation to the citizens of Madrid. The CAM public enterprises (empresas públicas) are public bodies that are responsible for the production of goods and services. These public bodies must be created by law, clearly specifying their specific goals. The current CYII was created by the CAM law that regulated water services and the goals of this public body are therefore linked to the CAM public water services. Nevertheless, as we have described above, the CYII has turned into a holding company with a wide territorial and sectoral diversification.

The first issue to consider is whether the goals currently being pursued by CYII are those which were established in the law by which it was formerly founded. A significant percentage of the targets implemented by the CYII are not covered by the competences that the law allocated to this POE. For example, it is difficult to understand the links between the management of a concession in Colombia, or China, with the Parliament of Madrid’s purposes in the creation of this public enterprise. Rather, in these activities, CYII is trying to achieve similar goals to those sought by private companies or private investors. When the CYII decided, in 2001, to create the company Canal Extensia to acquire 75% of the INASSA shares, the goal of this decision was not to provide water services to the CAM citizens. In principle it seems that the objective pursued by both CYII and Tecvasa in this purchase was to obtain profit. However, it is not coherent with the core function of CYII to try to maximize profit by playing a similar role to private enterprises in a sector that deals with public goods and services.

A related question is whether POEs should compete with other companies. There are some reasons that can justify the participation of POEs in the market, competing with private companies, subject to qualifying the meaning of “competition” in this context. There are two different forms of competition. The first one is related to the covenants that the CYII uses continuously to establish a public–public partnership with the CAM city councils, because in one sense this mechanism is a kind of competition with the private enterprises that could supply water services management, as an alternative way of providing the public services. This can be seen as a competition between the public and private systems of production. The other kind of competition is between POEs and private sector companies for a private concession, as in the case of CYII’s successful bid for the Alcalá de Henares concession, when it created a joint venture with two private enterprises with the objective of winning the tender, just like a pure private company.

Public companies may often have the know how, expertise and capacity to manage with greater efficiency levels than private companies, and so, from an efficiency point of view, the participation of POEs in the production of public services is correct, through municipalities establishing agreements with POEs to manage all or part of the stages of water cycle, as has been done by 86 CAM municipalities which have established agreements directly with the CYII without any kind of invitation to tender (Cámara de Cuentas de la Comunidad de Madrid, 2005a). These agreements may take place across the public sector, and there have been cases in Spain whereby some municipalities carry out the management of the water cycle for other municipalities, by establishing such agreements, without the participation of private operators (for example in the cases of Palma de Mallorca and Cordoba, in the Watertime case studies: Emaya has been providing water to Calvià and Emacsa provides water to the Cardeña municipality). This kind of public sector cooperation can also be observed at international level in cooperation between countries, for example in the European Union twinning projects in the context of the accession process, whereby the know how and expertise of public bodies in EU member states is used to collaborate with states, regions or municipalities in accession countries to help achieve the “acquis communautaire”. The same principle could be applied in international development, where it could be very useful, for achieving the Millennium Development Goals in water, for public water service operators that have demonstrated a high level of efficiency to collaborate with third world water institutions to achieve the goals. This kind of public—public partnership could be implemented as an alternative to the privatization formula that has been unsuccessful in developing countries.

The second kind of competition described above, however, poses a different type of question, and is difficult to justify in terms of the raison d’etre of the CAM public enterprises. This kind of behaviour generates a set of problems linked to control mechanisms, transparency and risks. Although the know how and the expertise of this kind of public enterprise can justify the public—public partnership as an efficient way to produce public services, the same argument does not apply to the creation of companies to operate in other markets. It is true that there are some cases in which water service producers can enjoy comparative advantages in other businesses: taking the electricity market, for example, CYII actually started its activities in electricity in 1913, with the profits seen as a source of revenue for the public service (Martínez, 2001, p. 208).

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4 See Portafolio (Colombia) 28 June 2006 Principal accionista español capitalizará Sociedad de Acueducto de Barranquilla; Compromiso español para capitalizar a Triple A; Public—Synergies for Water Public Service Management — The Experience of Triple A de Barranquilla.
Chart A. Canal de Isabel II: companies and sectors, 2005.
However, diversification into other sectors and other countries can only be linked to the possibility of obtaining profit by also being linked with the associated risks. Thus the liberalization process in energy markets, and the consequent privatization of the Spanish state-owned public enterprises in this sector, is in contradiction to any attempt to develop new regional POEs across sectors. If public sector production of energy goods and services were more efficient, it would be better to create independent and specialized public operators and not to concentrate them in a single multi-utility.

The development of business activities in markets other than water services, and competition in the water market with the same objectives as the private companies, raises the question of why this POE has developed activities beyond what was decided upon by the parliament through the law which created the CYII as a CAM POE. This question is linked to the competence of the Board of Directors of this POE in making decisions about the creation or participation in new companies that operate in other sectors. In the private sector some firms are composed of organizational capabilities that can be profitable in multiple businesses, and diversification is a search process by which firms seek businesses that are good matches for their capabilities (Matsusaka, 2001). In other cases some firms would benefit from cost reductions by evolving into multi-utilities providing similar network services, such as gas, water and electricity (Fraquelli et al., 2004). In either case, the ultimate objective justifying such strategies is profit maximization for the shareholders of the company. But this goal seems not to be valid for a POE: the objective of profit-maximisation is not essential to the public sector. Excluding those kinds of goals, what might have been the reasons to explain the decision to create a holding such as the grupo CYII? It would seem that this organization has developed its own dynamic, independent from the Parliament and the government. But if we take into account the Regional Ministries to which CYII has been linked, we can see that CYII has become a very important source of power. The following table shows the regional ministries to which CYII has been attached: table shows the regional ministries to which CYII has been attached: has been linked to the regional Finance or Presidency ministry for 14 of the last 22 years, but only for 3 years to the regional ministry of the Environment. So we may infer that the rationale for CAM government support for diversification has been not only income-generation but also the enhancement of an important power base in the government (Table 1).

Table 1
CAM ministries to which CYII has been attached

<table>
<thead>
<tr>
<th>Date</th>
<th>Regional Ministry</th>
</tr>
</thead>
<tbody>
<tr>
<td>October 1984</td>
<td>Public Works and Transports</td>
</tr>
<tr>
<td>April 1988</td>
<td>Presidency</td>
</tr>
<tr>
<td>July 1995</td>
<td>Finance</td>
</tr>
<tr>
<td>November 1999</td>
<td>Environment</td>
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<tr>
<td>November 2000</td>
<td>Justice, Public Administration</td>
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<tr>
<td>September 2001</td>
<td>and Municipalities</td>
</tr>
<tr>
<td>November 2003</td>
<td>Environment</td>
</tr>
<tr>
<td></td>
<td>Presidency</td>
</tr>
</tbody>
</table>

Questions also apply to the participation in joint ventures. In the case of Alcalá de Henares, the CYII took a minority share in a joint venture with two other private companies to manage the water concession. It is unclear how CYII justifies its decision, in terms of its objectives as a public service company, to use a private mechanism, the concession, rather than the covenant agreements used with all the Madrid municipalities. It is unclear why CYII chose to form a joint venture rather than bid by itself, especially as CYII benefits from the backing of the CAM, and any partners derive similar benefits in terms of lower costs of capital. This leads to a further question, what criteria did CYII management used to choose its specific private partners, who now benefit from that public authority’s backing of CYII. A similar question applies to CYII’s use of joint ventures in its international ventures, for example the decision to form a joint venture with Tecvasa when buying control of Inassa in Colombia — particularly as CYII bought Tecvasa’s shares 4 years later, when the profitability of the business was looking less attractive to private investors. The manager of the CYII explained to the Parliament that Tecvasa had decided to sell its shares because of its minority participation, but this does not explain why CYII bought them, or why CYII partnered with Tecvasa in the first place.

The complexity of the company, due to the internal relations existing in the group, the changes in its composition and the development of activities in different countries, all undermine the possibility of effective public accountability and transparency in comparison to individual POEs or other types of public bodies. The last public enterprises audit report for Madrid indicated that the foreign subsidiaries should be audited by the CCCM, but the relevant Finance Law is not clear about the duty of these companies to present their accounts to the CCCM. As a result, the accounts of Canal Energía, SL and 11 companies dependent of Canal Extensia were not audited: the CCCM recommended modifying the Finance Law in order to re-establish accountability for these ventures (Cámara de Cuentas de la Comunidad de Madrid, 2005b).

Evaluation of the risks which the CAM is incurring is also very difficult. For example, it is hard to obtain information on the criteria for appointing the Presidents, or the name and salaries of the directors, of the foreign companies. The Madrid water cycle audit indicated in 2005 that: “CYII has turned into an organization whose mission and priorities are not exclusively related to the water cycle in the CAM. Its active diversification... implies that both the risks and strategic decisions may negatively affect its initial function and unique objective, the guarantee of the water public service to the CAM citizens” (Cámara de Cuentas de la Comunidad de Madrid, 2005a, p. 23).

Finally, the impact of these risks on citizens is obscured. CYII is now the owner direct or indirectly of a diversified set of enterprises, some of which may make losses, as happened in the case of Acea, the water operator for the city of Rome: “In fiscal year 2002, Acea recorded net losses of €165 m ... Telecommunications activities contributed €108 m to the aggregate losses” (Lobina, 2005, p. 11). In the case of such a loss, how can the citizens, who pay for the water service, avoid the cost of these “adventures” being reflected in
higher water tariffs — or, if the CAM covers these losses, through higher taxes? On the other hand, if the group makes profits from these activities, there is no guarantee that they would be used to create a reduction in the price of water, rather than reinvested in the diversified service itself, whether a water venture in Ecuador or a mobile telecoms company in Spain. The EU Water Framework Directive indicates that a key criterion in water management must be cost recovery, but these kinds of holdings make the identification of those costs difficult, and in the case of CYII the audit report suggests that the real cost of the services is not accurately calculated (Cámara de Cuentas de la Comunidad de Madrid, 2005b).

5. Conclusion

The performance of CYII, and other POEs, confirms the theoretical arguments set out in the introduction that such companies can be the most efficient and effective system for producing goods and services such as public water supply. Nevertheless CYII, and other POEs, has diversified and taken on unnecessary risks in multiple countries and sectors — other examples are Águas de Portugal and Acea, Roma (Lobina, 2005).

This behaviour can be attributed to principal-agent problems. The first such problem arises because the Board of Directors, or the manager or other executives, have interests different from those of the Parliament or the public in relation to the objectives and the scope of these public companies. In the case of CYII, diversification and territorial expansion could generate great possibilities of new jobs, status, power and income for these executives, which fit the classic agency account where managers have selfish reasons for pursuing goals contrary to those of the principal. In one paper the managing director and economic director of CYII explained that, “CYII is committed to becoming one of the world-class groups in the sectors of water, energy and environment”, an objective that makes no sense for the Madrid parliament, but holds clear benefits for the managers, its agents. The behaviour and objectives of the management of these POEs are very similar to those of private companies, which can also explain their use of PPP mechanism like the concession in Alcala.

The resulting conglomerates often operate inefficiently — strong divisions, for example, may subsidize the weak — leading private investors to punish diversified companies (Kwak, 2002). But in diversified POEs, these risks are assumed by the public sector — either by being formally guaranteed by the public authority, or by being supported by a cross-subsidy from the revenues of the core water service. This is a problem for the public authority, and its citizens, as they incur this risk without any corresponding gain. But it is a benefit to the agents and their commercial partners in other private firms, because their cost of borrowing is reduced by this government “umbrella”.

There is also a principal-agent problem in relation to accountability and transparency and public participation. The strategies of diversified multinational companies demand a high degree of confidentiality, and the capacity of the board to control managers is weakened by the network of company operations far beyond the local network which the board is concerned. The manager gains considerably from this confidentiality and lack of accountability, but it is contrary to the interests of the principal — the public authority and citizens — who require transparency and accountability in order to protect themselves against inefficiencies, incompetence or fraud. This principal-agent problem explains why participation and transparency levels are predictably low in such POEs, as described in the 2005 audit report on CYII and Madrid’s water service: “In the course of the audit a hostile attitude has been observed in relation to transparency and therefore to the possibility of citizen participation. The configuration of grupo CYII as a corporate conglomerate that defines a medium and long term strategy in different markets, makes access to information and participation difficult” (Cámara de Cuentas de la Comunidad de Madrid, 2005a, p. 40).

In summary, the case of CYII allows us to see some principal-agent problems that pervert the public production mechanism of water services, by creating organisations that use the advantages of public sector status to pursue private interest objectives. One way of avoiding this situation is through greater parliamentary control, greater requirements for information, and stronger external control mechanisms. Citizens’ participation in the board of directors of this POE, like in EMACSA (Córdoba), could make it easier to protect public interest objectives in such companies.

Acknowledgements

The authors wish to acknowledge the financial support from the European Commission for the Water Time project (EVK4-2002-0095, http://www.watertime.net). This article is based partly on the work and results of that project.

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