

## **Pricing and contracting-out in Spanish urbanwater sector: Theoretical foundations and evidence**

María A. García Valiñas  
(University of Oviedo)

Francisco González Gómez  
(University of Granada)

Nicolás Melissas  
(Instituto Tecnológico Autónomo de México (ITAM))

Javier Suárez Pandiello  
(University of Oviedo)

### **Abstract**

Water is a merit good that has important implications in economic, social and environmental dimensions (OECD, 2003). Moreover, urban water supply is considered a service of general interest in the European Union (EU, 2001). As a consequence, local water services management has become a key issue during the last decades.

Additionally, it has been observed an increasing of private operators into the water sector. Thus, public-private partnerships (PPP) have emerged as a usual way of collaboration in the management of local water services (World Bank, 2006).

Several studies have investigated the process and consequences of PPP schemes in water sector. According to Menard (2012), PPP is primarily a contractual approach to the delivery of infrastructures, goods and services traditionally provided by the public sector or by private operators subject to

tight command-and-control regulation, such as public utilities. Thus, some papers have analysed the consequences of PPP on prices (Hall and Lobina, 2004; Lobina, 2005; García et al., 2005; Chong et al., 2006; Carpentier et al., 2006; Martínez-Espiñeira et al., 2009; Ruesterand Zschille, 2010; Picazo-Tadeo et al., 2012), quality (Shaoul, 1997; Lobina and Hall, 2000), or efficiency, (González-Gómez and García-Rubio, 2008; Picazo-Tadeo et al. 2009a and b) with different conclusions. Andrés et al. (2008) and Gassner et al. (2008) also address the debate of private versus public water utilities in developing and transition economies.

In this research in progress we analyse both theoretically and empirically PPPs in the water sector. So, we will describe the institutional water sector framework in Spain. After that, we will develop a theoretical model to explain PPP and auctioning in the water sector, assuming profit maximization in the case of private operator, and the presence of a vote-maximizing local government. Moreover, based on a database of Spanish municipalities recently privatized, we will test the effects of PPP on several key variables.

Findings support that, in a context of limited resources, local governments are using public-private partnerships in order to get additional fundings to reduce their indebtedness levels. Moreover, the fact of setting a high reservation price as a way to guarantee a minimum amount of resources has had consequences in terms of water price increases after water services privatization.

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