

Chapter 5

Institutional Arrangements in Public Utilities and Public Management: Case of Russia Water Utilities

Anna V. Ermishina
Southern Federal University, Russia

ABSTRACT

Since the early 2000s a policy of attracting private operators to public utilities, which should help to increase productivity, reduce costs, and as a result, reduce utility prices, has taken place in Russia. The aim of the chapter is to identify the relationship between institutional arrangements and efficiency of water and sewer services. Statistical and cluster analysis was applied to empirical data on water utilities in the 13 largest cities in Russia. There were the differences in the level and dynamics of prices and other indicators for water supply and sewer services in the group of public utilities and public-private water utilities.

INTRODUCTION

Around the world a search for the alternatives to the institutional arrangements of the municipal economy, which are allowing to provide accessibility and affordability of public utilities services for the majority of the population and the economic efficiency of the utilities, remains relevant.

Water supply and sanitation sector is one of the largest of Russia's public utility industries. At the end of XX - the beginning of XXI centuries the reform of the water supply was inspired by the world practices. The experience of the developed European countries in the sphere of production, financing and water provision services was used to form the basic tenets of the reform. The most famous models among Russian scientists and industry professionals are conventionally called "English", "German" and "French" models. They got the titles in accordance with the names of the countries in which these models were widely disseminated.

DOI: 10.4018/978-1-5225-4165-3.ch005

The “English” model of water supply, developed in the UK, involves the complete privatization of municipal infrastructure in combination with the state regulation of prices for water and sanitation services. The “German” model is characterized by a high participation degree of the local authorities as in the price control, so in the production and provision of these services. Municipalities create joint ventures with operators in the form of open joint stock companies (OJSCs). The water supply infrastructure is included in the authorized capital stock as a contribution of the municipality that controls the majority of shares. The “French model” has spread in France. It involves the transfer of the municipal property, owned by the municipality, from the local authorities to the management of a private company based on the long-term (30-35 years) concession agreement. Investor’s ownership of property and newly created objects are terminated upon the expiration of the concession (*Varnavskiy et al., 2010*).

The ideologists of the Russia’s water supply reform concluded that the most effective model would be the “French” one in Russia. This water supply organization attracts private business and private investment to the municipal economy and, at the same time, allows controlling the production of socially significant services through the infrastructure, which remains in municipal ownership (*Ermishina, 2010*).

Each of the institutional alternative arrangements has its advantages and disadvantages. An indirect measure of economic and social efficiency is the cost of public resources and its dynamics. Many services of municipal economy (including water and wastewater services) are produced in conditions of a natural monopoly. The unregulated natural monopoly is a situation of the market inefficiency which overestimates optimal prices and reduces the socio-effective production. Governments usually regulate such monopolies to ensure that they do not abuse their market power by setting prices too high. These measures should, in general, improve the economic efficiency of the municipal economy. In addition, the regulated prices for communal services are the most important indicators which shows service’s affordability for the most people and ensures the effectiveness of the public sector.

In the last decade, the regulated prices for housing and communal services are growing rapidly, many times ahead of inflation in Russia. At the same time, the deterioration of networks remains high that increases the risk of accidents and reduces the quality of service. To improve service quality and to attract investments a policy of attracting private operators to the industry is held in Russia from the beginning of the 2000s. More efficient operations in terms of public-private partnership should cause an increase in productivity in the industry, costs reduction and therefore reduction of prices for water and wastewater services.

BACKGROUND

The operation results of the various institutional alternative arrangements of the municipal economy are actively studied in the foreign literature. However, only a small number of empirical studies are devoted to the study of the relationship between institutional options for municipal economy and water prices.

S. Garcia et al. (*Garcia et al., 2005*) examined the influence of technical factors, competition and company’s strategy on the water prices in France. Their studies show that the strategy of the utility operator companies has a significant effect on the price level. D. Hall and E. Lobina (*Hall and Lobina, 200, Lobina, 2005*) empirically show that the privatization of the water supply companies sometimes leads to the unjustified price increases. E. Chong et al. (*Chong et al., 2006*) have also shown the example of the water supply in France where the choice of any form of public-private partnerships instead of the direct state / municipal government is likely to lead to the increase in the cost of the urban water supply services.

14 more pages are available in the full version of this document, which may be purchased using the "Add to Cart" button on the publisher's webpage:
www.igi-global.com/chapter/institutional-arrangements-in-public-utilities-and-public-management/204737

Related Content

Imagining APNA Punjab in Cyberspace

Anjali Gera Roy (2005). *Encyclopedia of Developing Regional Communities with Information and Communication Technology* (pp. 405-411).

www.irma-international.org/chapter/imagining-apna-punjab-cyberspace/11413

Coaching as a Grass Roots Effort for Building Leadership Capacity

Karin J. Keith, LaShay Jenningsand Renee Moran (2017). *Literacy Program Evaluation and Development Initiatives for P-12 Teaching* (pp. 207-223).

www.irma-international.org/chapter/coaching-as-a-grass-roots-effort-for-building-leadership-capacity/164855

Digitally Capturing Student Thinking for Self-Assessment: Mathcasts as a Window on Student Thinking during Mathematical Problem Solving

Sheri Vasindaand Julie McLeod (2012). *Cases on Educational Technology Integration in Urban Schools* (pp. 127-144).

www.irma-international.org/chapter/digitally-capturing-student-thinking-self/61719

Design Review Process: Can New Technology Improve the Art of Participatory Communication?

Rojin S. Vishkaieand Richard M. Levy (2014). *International Journal of E-Planning Research* (pp. 23-39).

www.irma-international.org/article/design-review-process/122426

Smart City, Integrated Planning, and Multilevel Governance: A Conceptual Framework for e-Planning in Europe

Lukasz Damurski (2016). *International Journal of E-Planning Research* (pp. 41-53).

www.irma-international.org/article/smart-city-integrated-planning-and-multilevel-governance/164424