PARTNERING FOR DEVELOPMENT: GOVERNMENT-PRIVATE SECTOR COOPERATION IN SERVICE PROVISION

by

Dennis A. Rondinelli

The private sector is playing increasingly important roles in producing goods and providing services that were once considered "public" and therefore exclusively the responsibility of governments.[1] Public-private partnerships (PPPs) and other forms of cooperation between the private sector and local and national governments are used frequently around the world to develop and expand energy and utility networks and services, extend telecommunications and transportation systems, construct and operate water, sewer, and waste treatment facilities, and provide health, education and other services.[2] In many developing countries, governments are also using PPPs to finance and manage toll expressways, airports, shipping ports, and railroads and to reduce environmental pollution, build low-cost housing, and develop ecotourism.[3]

Governments and the private sector are cooperating in the provision of services and infrastructure through a variety of mechanisms including contracts and concessions, build-operate-and-transfer (BOTs) arrangements, public-private joint ventures, and informal and voluntary cooperation.[4] Governments are also deregulating many industries and allowing the private sector to compete with public agencies and state enterprises. They are "corporatizing" state-owned enterprises (SOEs) that are not privatized requiring them to compete with private firms and to cover their costs and manage their operations more efficiently. They are allowing or encouraging businesses, community groups, cooperatives, private voluntary associations, small enterprises, and other non-governmental organizations (NGOs) to offer social services. In some countries they use

PPPs as an intermediate phase in the process of privatizing SOEs or as an alternative to full-scale privatization.

Why are Governments and the Private Sector Cooperating?

Interest in PPPs and other forms of government-private sector cooperation has emerged in countries around the world for a variety of reasons. Neither national nor local governments in most countries have sufficient budgetary resources to extend services and infrastructure or to subsidize inefficient state enterprises or agencies. The United Nations Development Programme points out that in developing countries "the current and projected revenue base of most municipalities is inadequate to finance capital improvements and associated operating costs … [and] many municipalities have large debt obligations, leaving little room for major new loans."[5]

Public dissatisfaction with the quality and coverage of government-provided services and the slowness with which national and local governments extend infrastructure often pressure them to seek more private sector participation. Prior to the reform of and introduction of private sector participation in the telecommunications sector in Jordan, for example, the country had a telephone service penetration rate of only about 7 lines per 100 population and about 72 percent of those lines were concentrated in Amman. More than 120,000 people were on the waiting list to obtain service and the waiting time for a telephone line was nearly nine years.[6] The state-owned telephone monopoly could not meet growing demand for telecommunications services from businesses seeking to become competitive in regional and global markets or provide data communications, cellular mobile and satellite based services that were in great demand. Before Thailand began inviting private firms to help expand its telecommunications systems, the Telephone Organization of Thailand, a state-owned enterprise had a waiting list of nearly one million and a nearly 10 year waiting time for responding to customer demand.[7]

Experience suggests that many goods and services for which people can pay -- transportation, telecommunications, electric power, piped water, or housing -- can be delivered more efficiently by involving the private sector.[8] Involving the private sector often brings stronger managerial capacity, access to new technology, and specialized skills that governments cannot afford to develop on their own.

Economic globalization is also creating strong pressures on private firms to respond more flexibly to rapidly changing world markets and to gain access to modern transportation and telecommunications systems that facilitate international trade and investment. They can fill avoid in countries where governments are slow to respond to demands for the technologically sophisticated infrastructure and services on which improvements in economic competitiveness depend.[9] Moreover, international assistance organizations such as the World Bank and the International Finance Corporation often require as a precondition for infrastructure loans to developing countries that governments mobilize private investment and improve public service delivery. Privatization of SOEs is usually a basic component of economic reform programs and PPPs can help privatize commercially viable services.

What are the Potential Advantages of Public-Private Cooperation?

Forming public-private partnerships to assume functions that were formerly public sector responsibilities has potential benefits for both citizens and governments. PPPs can increase competition and efficiency in service provision, expand coverage, and reduce delivery costs. As the

British government points out, PPPs allow optimal overall risk allocation between the public and private sectors, facilitating the distribution of risk to the organizations that can most effectively manage it.[10] Involvement of the private sector ensures that projects and programs are subject to commercial discipline and sound financial due diligence. Moreover, the private sector can often manage more efficiently the entire supply chain needed to provide and distribute goods and services more effectively than can government agencies. Public-private partnerships can bring new ideas for designing programs and projects, and greater synergy between design and operation of facilities. Through public-private partnerships, governments can avoid expensive over-specification and design of public assets and focus on the life-of-project costs of initiating new activities or building new facilities.

By outsourcing or working in partnership with the private sector, governments can benefit from the strong incentives for private firms to keep costs down. Often, private firms can avoid the bureaucratic problems that plague national and municipal governments, and they can experiment with new technology and procedures. PPPs allow government to extend services without increasing the number of public employees and without making large capital investments in facilities and equipment. Private firms can often obtain a higher level of productivity from their work forces than can civil service systems, they can use part-time labor where appropriate, and they can use less labor-intensive methods of service delivery. Partnering with the private sector gives local governments the ability to take advantage of economies of scale. By contracting with several suppliers, governments can assure continuity of service. By contracting competitively for services, they can determine the true costs of production and thereby eliminate waste.

Cooperating with the private sector also allows governments to adjust the size of programs incrementally as demand or needs change. Partnerships that partially or completely displace inefficient SOEs can help reduce government subsidies or losses and relieve fiscal pressures on the national treasury. PPPs can usually respond more flexibly to "market signals," more easily procure modern technology, and develop stronger capacity to maintain infrastructure than can public agencies. Public-private sector cooperation can also generate jobs and income while meeting demand for public goods and services.

At a time when private transfers far outpace the flow of official development assistance, partnerships are often the most effective way for governments in developing countries to mobilize private and foreign investment capital for infrastructure expansion or improvement. And to the extent that PPPs achieve their objectives they can contribute to increasing national productivity and economic output, assuring a more efficient allocation of scarce capital resources, accelerating the transition to a market economy, and developing the private sector.

How Do Governments and the Private Sector Cooperate?

The ways in which governments and the private sector cooperate most frequently include contracting for services and facilities management, co-ownership or co-financing of projects, build-operate-transfer arrangements, informal and voluntary cooperation between government and the private sector, and passive government financing of the private provision of services.[11]

Contracting with Private Companies

Governments in countries with both advanced and developing economies are increasingly outsourcing the provision of services and infrastructure to private sector firms. Contracting is the method most frequently used by governments to elicit stronger private sector participation in providing public services and infrastructure. Contracting for infrastructure and services allows governments to arrange with private companies to provide services or facilities that meet government specifications. Generally, governments contract with private organizations to provide a service through three mechanisms: service, management and leasing arrangements.

1. **Service contracts**. Under this arrangement a government agency contracts with a private firm to provide a specific service for a specified period of time. The United Kingdom's Private Finance Initiative extends services and provides infrastructure by purchasing services with defined outputs on a long-term basis from the private sector. The government uses public-private partnerships to modernize government housing projects, obtain defense equipment, and expand schools, prisons and hospitals.

In the United States, federal, state and local governments contract with private organizations to help provide infrastructure and services that public agencies cannot offer efficiently or effectively on their own. In the United States municipalities contract out more than 25 per cent of their services to the private sector.[12] Among the services local governments in the United States most frequently contract out to private companies are street light maintenance, solid waste collection, street repairs, hospital management, mental health facilities, day care programs, ambulance services, bus operations, and drug and alcohol treatment programs. Canada and most European countries also use private companies as "public service" providers, and an increasing number of developing countries are turning to private sector service contracts as well.

Contracting has become one of the most important methods of privatizing water and wastewater treatment services in many countries. In South America, the governments of Chile and Guatemala offered territorial concessions in large cities to companies that procure, purify, distribute, meter, and charge for water. In both countries, tariffs were approved by the national government, which also monitored water quality. In Peru, the government contracted out to private companies many of the activities involved in water supply, such as meter reading, computer services and billing and collection.[13]

2. **Management Contracts**. Governments are also using management contracts to provide services more efficiently while maintaining ownership control. Governments have contracted with international firms to privatize state-owned hotels in Africa and Asia, agro-industries in Senegal, Cote d'Ivoire and Cameroon, and mining operations in Latin America and Africa. But management contracts have been used more extensively in Europe, North America, and many developing countries to provide a variety of services and infrastructure. In this form of PPP, a contractor takes over responsibility for operation and maintenance of a service facility for a specified period of time with the freedom to make routine management decisions.

In Bahia, Brazil, the state government has contracted with private firms to manage new public hospitals that the government constructed and financed.[14] The state government sought management contracts with the private sector in order to transfer operational risk, improve the quality of medical care, and increase service efficiency. Through annual funding contracts that can be extended for five-year periods, the private companies recruit staff, manage facilities, and provide medical services for all public patients coming to the hospitals. The government pays for medical services based on a target volume of patients and the operators receive reimbursement by achieving at least 80 percent of the target. In the United States and Canada, private companies also take contracts to manage municipal or public hospitals; several states and local governments have let private contracts to operate correctional facilities; and some local governments contract with private companies to manage public utilities.

The Persian Gulf state of Abu Dhabi sought to bring commercial discipline and efficient management of its utilities by contracting with the private sector to manage electricity generation. It competitively tendered long-term management contracts with a private firm while maintaining its majority stake in the partnership.[15] Several francophone African countries began in the 1980s using the "affermage system" through which the municipality constructs a facility and contracts with a private firm to operate and maintain it. In Cote d'Ivoire, the government joined with SODECI (Societe de distribution d'eau de la Cote d'Ivoire), a private corporation, to supply piped water to households and to public fountains with coin-operated pumps. The government established rules for price-setting and surcharges on water fees were paid to the municipality to amortize the construction costs of the water system.[16]

In Poland, the government used management contracts to privatize state-owned enterprises during the 1990s.[17] Under the business contract arrangement groups of Polish or foreign managers could obtain the right to restructure and develop a state enterprise by submitting a business reorganization plan and making a down payment equivalent to about 5 per cent of the value for which they estimate the enterprise can be sold after restructuring. The managers received shares in the SOE and could realize capital gains after the company was privatized. If the restructured SOE could not be privatized, the managers might lose all or part of their collateral. Managerial contracts have also been used to restructure SOEs that could not be immediately privatized and for which there was no prospect for capital gains. The managerial and business contracts shifted the responsibility and part of the cost of restructuring SOEs from the government to entrepreneurial managers and decentralized the privatization process to the enterprise level.

3. **Lease Contracts**. Lease contracts are also used extensively for both public services and commercial operations. In Latin America and Africa state-owned industries are leased to private companies for long-term operation. The government has leased electricity and water supply enterprises in Cote d'Ivoire; steel mills and refineries in Togo; and hotels and farm holdings in Jamaica. Companies leasing facilities assume responsibility for operation, maintenance and replacement of non-fixed capital assets.

In the United States and some other countries, governments lease to private investors the development rights to land, water or air space in order to provide services or infrastructure. The State of California, for example, leases air space above public highways and freeways to develop commercial buildings, hotels, and other infrastructure. The Washington D.C. Metropolitan Transit Authority leases land and development rights to private investors to build stations with commercial and office space along the Metrorail System. The government can use the revenues from the leases to extend and maintain transportation infrastructure.[18]

Lease contracts are popular in other countries as well. In Sri Lanka, for example, local governments have for a long time rented municipal markets to private merchants. In Malaysia, the Municipal Council of Petaling Jaya, turned to the private sector during the 1980s when it experienced declining revenues, mismanagement, and rising costs in the collection of parking fees.

The Council leased parking areas to private management firms and was thus able to retain control over parking services while relieving itself of management and financial responsibilities and earning monthly rental income.[19] The State Railway Authority of Thailand (SRT) successfully experimented during the 1980s and 1990s with contracts with private firms to provide service on three intercity rail routes that were incurring substantial losses. The private companies leased passenger rail-cars and railway lines from SRT and paid it a fee every 15 days. The private contractors covered the costs of rail-car maintenance and cleaning and optional concession services. SRT provided the use of railway stations and the personnel to manage them, as well as train drivers and guards.[20]

All three forms of contracting -- service, management and lease arrangements -- allow the government to maintain ownership of public facilities and control over public services but also to benefit from private sector management and operation and derive an income from leases, management fees, or service concessions. Contracting with the private sector has increased efficiency, decreased vulnerability to employee actions and contractor failures, ensured protection against monopolistic behavior of contractors or government agencies, provided dual yardsticks for measuring and comparing performance, and provided more substantive knowledge and understanding of service delivery.[21]

Public-Private Joint Ventures

Privatization policies in many countries either require or allow the government to retain some share of the stock in profitable or politically strategic companies making them, in effect, joint ventures. In Oman, the government developed a joint venture between Omani public and private companies and Maersk Sealand to expand and maintain its Salalah container shipping port.[22] In

2002, the municipality of Ajman in the United Arab Emirates formed a 50-50 joint venture -- the Ajman Sewerage Company--with a consortium of Black & Veatch, Thames Water, and other companies, to invest $100 million in a wastewater network that will deliver services to 300,000 people in the emirate. The government granted the joint venture a 27- year concession in which the company will recover its costs by levying tariffs for service to be paid by customers.

In other countries, national, regional and local governments seek joint ventures with the private sector to overcome problems that they cannot solve on their own. In Colombia, for example, the government of the Department of Caldas developed a joint venture with Aqua Pura S.A. to bring together five regional public sector groups and two regional private enterprises to manage coffee waste in several municipalities in the State. The joint venture partners helped coffee producers adopt new coffee washing technology to reduce water consumption and waste water from coffee processing. The partnership also developed a comprehensive waste management plan for 21 towns in the region to reduce coffee processing waste pollution of rivers and streams.[23]

China has used joint ventures between foreign investors and state enterprises to obtain foreign technology and capital, learn foreign management and marketing techniques, increase foreign exchange-generating capacity, and promote joint research and development projects.[24] The Chinese government also used joint ventures between SOEs and private foreign companies to make new investments in infrastructure and manufacturing facilities. The expansion of telecommunications equipment facilities in the Shanghai area, for example, was financed through joint ventures. Shanghai Bell Telephone Equipment and Manufacturing Company was taken over by a joint venture among China's Ministry of Posts and Telecommunications, Alcatel Bell, and the Belgian government to produces switches for telephone companies in China.[25]

In order to upgrade and expand container-shipping terminals at the port of Shanghai, the state-run Shanghai Port Authority formed a new joint venture company, Shanghai Container Terminals Ltd., with the multinational company Hutchinson Wampoa. The joint venture company, in which each side held a 50 per cent share, was formed to upgrade and operate the container terminals under a contract providing for 5 years of tax-free operation, an additional 5 years with a 50 per cent tax reduction, and special tax privilege.

Build-Operate-Transfer Agreements

Governments around the world use turnkey projects with consortia of private companies to build telecommunications, transport, shipping, airport, utility, and water and sewerage infrastructure. Governments in countries with both advanced and developing economies use build-operate-transfer (BOT) agreements in which they buy or lease completed facilities constructed by private investors after the companies have recouped their investment and a reasonable return by operating the facilities for an agreed-upon period of time. In 2001, the Netherlands developed a BOT with a consortium led by Siemens Corporation to design, build, finance and maintain the superstructure of a high-speed rail system that will run from Amsterdam into Belgium. Financing for the project comes from the sponsors and from a 28-year load from the European Investment Bank. The government is also using a BOT to finance and extend highways that will become toll roads generating revenues to repay the capital and operating costs of the private consortia that will build and operate them.[26]

In the United States private companies sometimes provide the financing, design, construction, operation, and maintenance of water treatment or wastewater treatment facilities with a contract from one or more local governments. The companies provide services until they recover their investment and a fair profit, and then turn ownership over to the government. Cities extend their water supply systems through BOT contracts with private corporations that make the capital investments in developing or expanding water supplies. Typically, the private company obtains private financing to expand the system, with the city government contracting to purchase water from the company for an agreed upon number of years on a per-gallon fee basis. At the end of the contract, the city can take ownership for an agreed-upon transfer fee or extend the contract for water supply.[27]

The government of South Korea is using the BOT arrangement to develop and operate the Seoul Beltway and Daegu-Pusan highway as toll roads. It has given the Pusan NewPort Company sponsored by the Samsung corporation, CSX World Terminals, and local Korean contracting companies a 50-year secured concession to develop a $900 million Pusan port expansion project using the PPP approach.[28] The Private Infrastructure Investment of Korea (PICKO) organization seeks financing and participation from private firms around the world in constructing, financing and operating infrastructure in Korea.

BOT or Build-Operate-Own (BOO) arrangements have also been used extensively in Malaysia and Turkey to build telecommunications systems, highways, utilities, and water supply systems, and operate them under a concession from the government. Debt financing is usually highly leveraged and the private consortium takes a small equity position. It also seeks loans from international financing agencies and commercial banks using future revenues from the projects to repay them. BOTs or BOOs have been used in Malaysia to privatize the Labuan Water Supply System, the Ipoh Water System and the Larut-Matang Water Supply System as well as the Kuala

Lumpur Interchange and the North-South Highway.[29]

In Australia, the federal and state governments have used BOOs to expand public hospitals. Private firms build, own and operate a public hospital under government supervision for about 15 year periods. The operators provide fully accredited clinical services to all patients without charge and are reimbursed by the government based on a forecasted mix of patients. They also receive block grants for teaching.[30]

Another approach, a build-operate-own-transfer (BOOT) arrangement, has been used to construct and operate independent power plants in China (Shajiao project) and Pakistan (Hab River project) as well as in the Dominican Republic and Costa Rica. These projects usually involve limited recourse financing in which capital is raised on the basis of cash flows and not on the collateral of project owners.

Passive Public Investment

Governments use passive public investment when they make grants, equity investments, loans or guarantees to induce private sector organizations to participate in offering goods and services or construct infrastructures that are deemed to be in the public interest. Government agencies may offer guarantees or fiscal incentives to induce private organizations to provide infrastructure and services that contribute to economic development or provide loans or subsidies to individuals or groups to purchase services, equipment, or housing from the private sector.

The government of Barbados, for example, created a Housing Credit Fund (HCF) in the Ministry of Housing and Lands during the 1980s, through a loan from the U.S. Agency for International Development, to provide capital at below-market interest rates to private banks, trust companies, the Barbados Mortgage Finance Company, and other financial institutions to make loans -- using regular commercial procedures -- for low-cost housing in urban areas. The HCF, a revolving fund, expanded substantially the role of private commercial lenders in extending credit for housing to low-income households. Moreover, the HCF worked with private builders and local officials who were responsible for building and land use regulations to plan and obtain approval for the construction of housing units that low-income families could afford.[31]

In India, various federal and state government agencies have long encouraged private companies to become more heavily involved in land development and low-cost housing construction. In Ahmedabad, for example, a private construction and housing finance company played an active role in providing low-cost housing with support from local regulatory authorities. This private corporation assembled land for housing projects, obtained approvals from the Ahmedebad Urban Development Authority, helped organize cooperative societies that held title to land and performed maintenance functions after the project were completed, and obtained mortgage financing for beneficiaries from the Housing and Urban Development Corporation (HUDCO), a public agency. With government assistance and encouragement, the company was able to construct thousands of low-cost housing units in and around the city of Ahmedabad.[32]

State guarantees and incentives reduce private companies' costs or increase the potential for profits in activities that would, in their absence, seem too risky or unprofitable. These incentives may ultimately be less costly for government than providing services directly. Guarantees and incentives can mobilize private sector financial resources that would otherwise not be available to the government and assure that services are provided more flexibly and efficiently than by government agencies. However, both government officials and the private sector can abuse the guarantees and incentives unless they are carefully monitored and supervised.

Delegating Responsibility for Services or Infrastructure to the Private Sector

Governments in some countries are increasing the participation of the private sector by delegating responsibility for some services and infrastructure to non-government organizations or simply leaving them to private enterprise. This is done through publicly mandated- or regulatory-requirements; by using merchant facilities; and by requiring developers to provide or financially support the services and infrastructure associated with residential, commercial or industrial construction projects.

In the United States federal and state governments have often used regulations to shift responsibility to the private sector for providing services and infrastructure if their operations lead to health, safety, or security hazards for the public. Private sector organizations are required to invest in infrastructure and equipment that reduce or eliminate air and water pollution and to dispose of potentially toxic or hazardous wastes. More stringent environmental laws have spawned a strong private industry to supply environmental protection technology, equipment and services to both the public and the private sectors. The Clean Air Act, the Resource Conservation and Recovery Act, and the Comprehensive Environmental Response Compensation and Liability Act, and state and local environmental regulations, have all stimulated more investments in environmental infrastructure in the United States. Clearly, investments by private companies in environmental protection technology and equipment relieve the public sector of cleanup costs and of increased public investment in the infrastructure required to cope with higher levels of air and water pollution.

Increasingly local governments in the United States and in other countries are requiring private developers of residential areas, commercial facilities, or industrial sites to provide the infrastructure and services required to treat waste water and dispose of solid and hazardous wastes, and to provide access roads, utilities, and other types of facilities. The requirements for developers to finance infrastructure improvements directly may be a part of a local government's subdivision or building permit requirements or may be imposed through development fees, impact fees, purchase of sewer access rights, capacity credits, or other forms of exaction. Most state governments that have experienced rapid population growth and large-scale residential, commercial, and industrial development have given municipal governments the authority to impose development and impact fees to cover the costs of infrastructure construction or extension[33]

Voluntary or Informal Public-Private Cooperation

Globalization and the widespread expansion of the operations of transnational corporations has led to increasing voluntary cooperation among private corporations, corporate foundations, international organizations, and national and local governments in addressing important social issues and in providing public services. For example, in 2002, the Conrad N. Hilton Foundation pledged nearly $41 million to a public-private partnership with the U.S. Agency for International Development and the governments of Ghana, Mali, and Niger to provide potable water and sanitation to rural villages in those countries. Participants in PPP include UNICEF, World Vision, WaterAid, the Lions Clubs International Foundation, the Desert Research Institute, Winrock International, the World Chlorine Council, and Cornell University's International Institute for Food, Agriculture and Development.[34] The PPP will be responsible for drilling new water boreholes, developing alternative water sources, and providing safe hygiene and sanitation facilities and practices to more than 500,000 people in the four countries.

Through its partnership with Rotary International Coca-Cola helps the government of India immunize its population against polio. Coca-Cola uses its extensive distribution network in India to provide resources and expertise in marketing and community mobilization, and makes employee volunteers available to support Rotary International's immunization drive. The Finnish telecommunications corporation, Nokia, launched a three-year $11 million campaign with the International Youth Foundation and its own employee volunteers to help children with learning difficulties in public schools in South Africa, China, Mexico, Brazil, the United Kingdom and Germany.[35]

The Bill and Melinda Gates Foundation contributed $50 million and the Merck Corporation matched the contribution with antiretroviral medicines and by developing and managing a program to assist the government of Botswana in addressing HIV and other health problems. The project focuses on improving existing healthcare capabilities for people with HIV infection, developing awareness, education and voluntary testing and counseling programs, and expanding healthcare infrastructure for treatment of tuberculosis, HIV-related infections, and HIV infection. The partners work with global health and development agencies, private sector supporters, private foundations and other potential sponsors to prevent and treat HIV infection. Gates Foundation and Merck participation also helped persuade Boehringer-Ingelheim and Unilever to provide additional financial resources.

Several other pharmaceutical companies have also volunteered to assist governments in overcoming tropical diseases, especially in Africa. The World Health Organization (WHO) and national governments in Africa work together through a partnership with Merck & Co and the African Programme for Onchocerciasis Control and the Task Force for Child Survival and Development at the Carter Center on elimination of onchocerciasis; Pfizer works with WHO and the Edna McConnell Clark Foundation, and African governments on elimination of blinding trachoma; GlaxoSmithKlein, WHO, and government health agencies have partnered to eliminate lymphatic filariasis and control of drug-resistant malaria.[36]

The Open Society Institute Network, funded by international financier George Soros, developed a partnership with the World Health Organization to establish a worldwide information database to link scientists in developing and developed countries and to leading scientific journals and databases, discussion groups, and funding sources.[37] The Open Society Institute in Hungary funded an extensive local government and public service reform project because it could provide information and assistance faster than governments or international aid agencies when the opportunities for reform appeared.

By working together, international organizations, national governments, public interest groups, private foundations and transnational corporations are also experimenting with new methods of corporate self-regulation. As part of the United Nations "Global Compact," TNCs and business organizations such as the Conference Board, International Chamber of Commerce, International Federation of Consulting Engineers, the International Petroleum Industry Environmental Conservation Agency, Enterprises pour l'Environnement, World Business Council on Sustainable Development, and European Business Network for Social Cohesion agreed to develop and support appropriate policies and practices on human rights, labor, and the environment. The participating corporations adhere to nine major principles, including the commitment to support and respect the protection of international human rights within their sphere of influence and make sure their own organizations are not complicit in human rights abuses. They develop standards and pledge to uphold freedom of association and the effective recognition of the right to collective bargaining; the elimination of employment discrimination and all forms of forced and compulsory labor; and the effective abolition of child labor. They also support pollution prevention measures; undertake initiatives to promote environmental protection; and encourage the development and diffusion of environmentally friendly technologies.

In many developing countries, governments leave some services entirely to non-government organizations (NGOs) or allow them to provide services of a higher quality or more comprehensive coverage than those provided by the public sector. For decades, cooperative organizations, trade unions, women's and youth clubs, and religious groups in Asia have all been involved in some aspects of public service provision.[38] Non-government and religious organizations provide health, education, and training programs that supplement those offered by government.[39]

In the Philippines, for example, religious organizations have played an important role in supplementing the public education system by operating elementary and secondary schools, as well as colleges and universities. They run hospitals and health clinics and provide other social services that are either not available from the government or that are considered inadequate. In Viet Nam, individual physicians or groups of medical personnel have been allowed to open private health clinics, especially in crowded urban neighborhoods, in order to improve access to health services and relieve pressures on state hospitals that lack sufficient beds, equipment and medicines to provide adequate health care.[40] In India, the government registers and assists housing cooperative societies that buy land and obtain financing for the construction of low-cost housing for their members. Housing cooperatives account for a substantial portion of all private formal housing production in urban areas in India.

What Conditions Are Necessary for Effective Public-Private Cooperation?

Although they offer governments in developing countries important means of expanding services and infrastructure and the private sector commercial opportunities to expand their businesses, PPPs are complex arrangements and can create potential problems for both the public and the private sectors if they are not properly designed and administered. They often displace public workers, thereby generating political opposition among public officials, labor unions, and public employee associations. If PPPs are not well designed and supervised their services can become more expensive than those provided by government. Poorly designed and inadequately analyzed projects have failed in both rich and poor countries. Corruption can undermine public trust in PPPs if the contracting process is not transparent and carefully supervised. Lack of sufficient competition can turn PPPs into private monopolies that operate no more efficiently than SOEs. Overly restricting concessions or creating too many can deprive PPPs of economies of scale. If government regulation is too stringent it can lead to deficiencies in service provision and if it is too lax it may not hold private service providers sufficiently accountable.[41]

The cost of contract management can be substantial. In all cases, governments must compare carefully the costs of contracting out with the costs of providing services directly. The involvement of the private sector in providing services that were formerly free or that were subsidized by the government can increase their price and place poor segments of the population at a significant disadvantage. Governments of jurisdictions with large numbers of poor people must make adequate provision to serve those who may not be able to afford them under PPPs.

Experience suggests that if PPPs are to succeed, governments must: 1) enact adequate legal reforms to allow the private sector to operate efficiently and effectively; 2) develop and enforce regulations that are clear and transparent to private investors; 3) remove unnecessary restrictions on the ability of private enterprises to compete in the market; 4) allow for liquidation or bankruptcy of existing state enterprises that cannot be commercialized or privatized; 5) expand opportunities for local private enterprises to develop management capabilities; 6) create incentives and assurances to protect current state employees after PPPs take over service provision; and 7) redefine the role of government from producing and delivering services directly to facilitating and regulating private sector service provision.[42]

The experience in the United Kingdom led the government to conclude that for PPPs to work effectively, it must retain responsibility and accountability for deciding among competing objectives; define chosen objectives for services provision; set standards, criteria, and output targets; and safeguard the broader public interest.[43] National or local government agencies must have the capacity to decide on the level of services needed and the financial resources available to pay for them, set and monitor safety, quality, and performance standards, and enforce those standards and the output targets. As a director of the government organization Partnerships UK points out, "for the public sector, reforms would typically include a move from input-to output-based contracting, which may require significant investment in developing skills and guidance based on best practices; enactment of enabling legislation—for example, to overcome issues of public sector *vires* (legal authority) and taxation of PPP contracts; and institutional reform to assist in prioritizing, providing resources for, and approving transactions."[44]

From its extensive experience with PPPs, the United Nations Development Programme concludes that in order to succeed national and local government officials must be receptive to finding alternative mechanisms to traditional public service provision and be willing to accept private-sector participation. They must choose appropriate projects that are conducive to private sector management, and properly package the projects in order to avoid disproportionate transaction costs. Because PPP projects often take a long time, strong public sector leadership and political commitment are essential to their success. PPP projects work best when both the public and private sector partners have project "champions" as catalysts and sustainers. Such projects are only sustainable if they are mutually beneficial to both government and private sector partners and if each can overcome adversarial posturing to build mutual trust.[45]

The UNDP points out that the tendering, procurement and contracting procedures must be financially and operationally sound, open, transparent, and fair. "Any departure from the sealed-bid tender and contracting method will open the government to accusations of partiality or corruption."[46] In addition, the procurement process should 1) state the desired end goal or output targets of the agreement and minimize overly specific requirements, so that the private sector can innovate and manage flexibly; 2) ensure that the potential private sector partners can be adequately compensated for or retain their intellectual property; 3) include monitoring provisions of performance measures by a third party or autonomous government agency; and 4) make provisions for renegotiating the terms of the agreement over time.

Ultimately, the success of PPPs depends not only on developing mutual trust between government officials and private sector executives, but on building and maintaining public confidence in the integrity of the partnerships. Trust and confidence can be undermined when the goals of the partners are ambiguous or when their objectives are unrealistic or in conflict. Incompatible organizational systems and management practices can also weaken PPPs, as can reluctance on the part of governments or the public to allow private companies to obtain a fair return on investment.[47]

Conclusion

As the foregoing descriptions clearly illustrate, governments around the world have experimented with many approaches to public-private sector cooperation. In most countries the size and impact of the private sector is growing. Private businesses, private voluntary organizations, and even informal sector enterprises are providing more of those goods and services for which user charges can be levied and from which private companies can derive a reasonable profit. Experience suggests, however, that no single approach to public-private sector cooperation is suitable for all countries or for all types of services and infrastructure. Public-private partnerships are not panaceas for all of the ills confronting governments in providing services and infrastructure.

Despite potential problems and complexities, public-private partnerships that are carefully planned and implemented can help governments to improve the quality, reduce the price, and extend the coverage of services and they can accelerate the construction of infrastructure and facilities that are crucial for economic development and social progress. PPPs and other forms of public-private cooperation can be valuable instruments for leveraging the resources of both the public and the private sectors and of enhancing the capabilities of national and local governments to achieve their development goals.

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