THINKING SERIOUSLY ABOUT PUBLIC-PRIVATE PARTNERSHIPS AS AN MDG TOOL

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Abstract:

There has been much recent interest in the idea of public-private partnerships (PPPs), and a rising faith in their ability to solve many governance problems. But there is also a growing controversy about what exactly constitutes a "partnership" in these terms: It is undeniable that there are now many public-private mixes, but it is important to consider (a) what features they must have before they can properly be called partnerships, and (b) whether they will contribute much to improved governance and the achievement of MDG goals unless they possess those features. This paper will review the relevant debates, and propose certain conditions that must be present before a public-private mix can really establish meaningful and productive partnerships between governments and other stakeholders.

Introduction

In the Prospectus for this Conference, EROPA notes that UN Secretary-General Kofi Anan has identified "good governance" as "perhaps the single most important factor" in achieving the Millennium Development Goals (MDGs). EROPA itself sees building "meaningful and productive partnerships" involving central and local governments, civil society and business" as vital to this cause (EROPA 2005).

The Goals are worded as action imperatives, and Goal 8 mandates action "to develop a global partnership for development" (UN 2005: 4-5). There are subsidiary "targets" that speak of cooperation – with developing countries, with pharmaceutical companies, and with the private sector generally (Targets 16, 17 and 18, from AusAID 2005: 35). Consistently with all this, the Australian Government's 2005 MDG Progress report is titled A Global Partnership for Development, and the Minister for Foreign Affairs declares that "supporting effective governance" is one of Australia's main objectives in its commitment to the MDG process (Downer 2005: v).

So the words "governance" and "partnership" figure prominently in MDG discourse. The focus here is particularly on "partnership", and I have no problem whatever with its often exemplary use as when the Australian report refers to intergovernmental connections, as in:

- "partner governments" (eg p.11, 23),
- "partner countries" or "partner country ownership" (p. 10, 17),
- "genuine partnership between developing and developed countries" (p.33),
- "partners in the Cairns Group" (p.14), or

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specific cases such as the "$1 billion reconstruction partnership with Indonesia" (p.8, 16, 28).

My concern is rather with the type of partnerships that are likely to emerge when private sector associations are invoked, as they will inevitably be when the implementation stage of intergovernmental agreements is reached. It is highly likely that an extension of the partnership term now much-used in domestic contexts – "public-private partnership" (or "PPP") – will be paraded widely as a leading tool of public management and economic development in this international/developmental context.

That term is used with a high degree of imprecision in general discourse in this area, such that serious controversy is now emerging about its meaning and its political and economic applications. It is undeniable that there are now many public-private mixes, but two questions now being seriously asked about them are:

- What features must they have before they can properly be called partnerships?
- Will they contribute much to improved governance unless they possess those features?

My intention in this paper is to review the relevant debates briefly, and to propose certain conditions that must be present before a public-private mix can really establish meaningful and productive partnerships between governments and other stakeholders.

My interest in public-private mixes stems from previous work on public enterprise and privatisation, much of it done as part of the program of a working group of the International Association of Schools and Institutes of Administration (IASIA). The crucial link came with the recognition that actions taken in the name of privatisation often resulted, not in a complete and clear transfer of activity from the public to the private sector, but rather in the development of arrangements involving some sort of mix. The themes of several papers presented at previous EROPA conferences illustrate this progression.

A first lesson here was that there was often a major gap between the symbolic or rhetorical use of major reform-terms and the reality they purported to describe. This was clearly so with the term "privatisation" (Thynne 1995, and for some summary examples Wettenhall 2003b: 67-69), and it was soon obvious that it was equally so with "public-private partnership".

PPP: The Term Emerges

An early inquiry into how the term emerged (Wettenhall 2003a) pointed me in several directions. One landmark book published during the Reagan presidency in the United States explored the possibility of "imaginative partnership between business and government", especially in the context of bi-partisan urging of the need to "save the cities" (Brooks et al 1984). Thereafter much discourse developed around the notion of partnership in urban renewal and local economic development. Then, from The Netherlands, Kouwenhoven sought to construct a model (or set of conditions) likely to lead to the "successful functioning of PPP", as part of Kooiman's important project focusing on the wider notion of governance as a partial conceptual antidote to all the commercialising and marketising activity involved in the processes of corporatising and privatising (Kouwenhoven 1993; Kooiman 1993). In Britain in the mid-1990s, Brazilian scholar Luiz Montanheiro recognised the growing appeal of the partnership idea, and sought to establish an international network to keep it under review. The year 2000 produced other anthologies, one of them claiming rather rashly to be
"the first to offer theoretical perspectives on [PPPs] as well as a range of case studies of their management from around the world" (Osborne 2000: Preface; also Rosenau 2000, followed by Edwards & Langford 2002).5

But these were fairly disjointed (unconnected) scholars' explorations, and mostly they failed to convey the force of what practising politicians and senior administrators were doing. Here a scheme initially described as the Private Finance Initiative introduced by the Conservative government in Britain in 1992 has been highly influential. It envisaged that "a private company would design, build, operate and finance a hospital, school, or prison to public specifications", with the government agreeing to purchase the service over a fixed period of time, at which point it would revert to public ownership. When New Labour came to power in Britain, it adopted the idea, but gave it a new name: in the words of the London Economist, "the friendlier-sounding 'Public-Private Partnerships' (PPPs)" (EIU 2002).

It is likely that this term has appealed particularly because it suggests a new middle way between the divisive earlier causes of nationalisation and privatisation. It is certain that it has had great model value around the world. PPP in this sense is capable of easy definition. For example:

PPPs are deals between government and private business to develop infrastructure projects such as roads, hospitals and schools. PPP deals allow corporations such as investment banks to finance, develop and manage large contracts on behalf of the public (Kirby 2004: 32).6

There are numerous applications of the PPP idea in this sense. To take one example: a senior Portuguese administrator enthusiastically described the adoption of this method for new health projects in his country in a keynote address to the 2004 conference of Montanheiro's PPP network (Simões 2004). In what might be described as a bit of late colonial cultural cringe,7 Australian political leaders, following British developments closely, jumped to include the term PPP in their own vocabulary in the 1990s – this notwithstanding that they had been acting more-or-less similarly for a decade or more under the general description of "private involvement in public infrastructure", using contracting arrangements involving variations of the words build, own, operate and transfer (the so-called BOOT schemes).8 Thus we see again how the rhetorical use of a new slogan-term can blind us to the fact that the ideas on which it is based are far from new. How many in Britain now remembered that the Channel Tunnel was a conspicuous earlier example of this system in use? How many of us in the EROPA network today remember that EROPA itself brought that to our attention in the published report of its October 1991 conference in Beijing (Marcou 1992)?

Such use of the term has had the further effect of suggesting powerfully that a new and exciting way of handling governance service problems has been discovered. Previously we had state (or public) sector activity and private sector activity, with just a few NGOs operating in an intermediate sector. Now, having adopted the new governance paradigm represented by New Public Management (NPM) and New Institutional Economics, we have reduced the significance of the public sector, brought private sector methods into what remains of it, and in the process blurred the old boundaries in a way that many find most satisfying. So: a sea-change in governance arrangements -- or so it has seemed.

As an old student of public enterprise, however, I was educated in an era when, while the distinction between public and private enterprise was clear enough, there was always acknowledgement that there were "mixed enterprises" in which state and private sectors had
sometimes joined for mutual benefit. Anglo-Persian/Anglo-Iranian/BP was usually cited as a classic case; and Musolf (1972) had devoted a whole book to a consideration of the role of such enterprises in development. Weren't these public-private mixes, and perhaps even partnerships? Perhaps there were other examples of earlier mixes/partnerships?

Challenges

At any rate, I felt uncomfortable about two features of the new thinking. First, I wanted to check out all the apparent assumptions about newness. And second, I observed that, even as the new advocacy of the Private Finance Initiative and the related category of PPPs was strengthening, we were quickly being assailed by critiques suggesting the new arrangements were presenting a host of new governance problems. When expressed carefully, the criticisms were directing attention to the immense difficulty in assessing the degree of risk borne by the "partners" and building appropriate protections for both sides into the contracts. Perhaps more extravagantly, there were also frequent claims that the private side was usually exploiting the public side in the deals done. So I wanted also to explore the conditions that needed to apply before we could properly say that "partnerships" were in existence.

Briefly, the History

An historical search uncovered many examples of public-private mixing, going as far back as the ancient civilisations of Egypt and China. It was convenient to present these examples as constituting nine "theatres" of political, economic and social activity:

- Privateer shipping.
- Mercenary armies.
- Trade, commerce and colonial expansion.
- Treasury organisation.
- Public (government-owned) enterprise.
- Mixed enterprise (as discussed above).
- Intersectoral collaboration in agriculture, health and education.
- Private provision of public infrastructure.
- Hallmark events (like Olympic Games and international trade fairs).

Fuller accounts of this search are available in two other papers (Wettenhall 2004; Wettenhall forthcoming). The nine "theatres" are, of course, far from watertight categories, and there are overlaps between some of them. Also they defy ordering in a chronological sense, for their time limits are indistinct and in several the time-line is indeed a long one; and there is no suggestion that all relevant examples of such public-private mixing have been identified.

The examples thus collected all clearly indicate the existence of public-private mixes. In many, however, it would be a long shot indeed to conclude that those mixes added up to real partnerships.

Obviously I am not the only one to have expressed such concerns about the current usage of "PPP". It is apparent, however, that most others who have done so come, like me, from the older public administration paradigm, not the NPM paradigm. Thus, in his account of administration in the old Persian empire, Farazmand (1998; 2001: 1760, italics added) noted how "contracting, partnership building and marketizing" – all involving connections between large government and small business – developed as the state engaged in the provision of roads, bridges, canals, irrigation systems and textile and silk production, and
used private financial firms to collect taxes for it. Thus also, an anonymous referee for one of my two previous publications in this area drew attention helpfully to the so-called French concession model as another pre-NPM example of public-private mixes: the origins of this model can be traced back to the mid-1800s, when the water company Générale des Eaux (which became the modern Vivendi Environment) won contracts to supply water to cities such as Lyons, Paris and Venice. The essential feature is that public authorities retain ownership of a facility or service but grant concessions or leases under which private contractors carry the cost of operation and maintenance, collect all the resulting revenues, and retain the surpluses as profit (Hall 2000; Adam Smith Institute 2002).

Reflections from the historical survey suggested:

a positive connection between the displacing of some of the earlier mixes and the maturing of government systems: in several of the contexts noted, the mixing has been a contributing cause of inefficiency and corruption, so that earlier reforming impulses have pushed towards clearer recognition of the special character and needs of public sector management. In moving away from such recognition, in championing public-private blurring and mixing, the recent reform movement is re-introducing some of those earlier problems. And, if that is indeed so, further governance reform some distance ahead may well produce another bout of public sector purification and turn us away from our current enthusiasms (Wettenhall forthcoming).

**Rising Questions about Terminology**

So much for the history. To come now to my second main question: what conditions are necessary before a public-private mix can be considered a partnership? Here it is first necessary to acknowledge both that the sort of questioning I am engaged in has been emerging in a number of study centres over the last few years, and that this has mostly been happening independently in each such centre. There has been remarkably little cross-fertilisation between them (Wettenhall 2003a: 88; van der Wel 2005).

That word "partnership" proves to be very troublesome! From the Public Services International Research Unit in the University of Greenwich in the UK comes this message:

As privatisation became politically controversial, ... new terms were introduced. 'Public-private partnership", abbreviated as PPP, was created to present the same forms of involvement of the private sector as a collaborative, technical exercise rather than an aggressive transformation of relations. A similar term, 'private sector participation' (PSP) has also been widely used, especially by the World Bank and others in the context of developing countries. In both cases, the term is not a legal or technically exact phrase, but rather a replacement for the old general Thatcherite use of the word 'privatisation'. The vast majority of PPPs, for example, are not partnerships in any legal sense, but simply contractual relationships (Hall et al 2003: 2).

In similar vein, a working paper from the Institute of Social Studies in The Hague – a centre renowned for its work with students from developing countries – surveys many recent uses of the PPP term, arguing

- that many authors and organisations use it "pretending that it is something quite novel, (whereas) it is in fact a form of what previously went under the label 'privatisation'" (van der Wel 2004: 2);
- that, for other authors, partnership is "little more than a jargonistic buzzword", used not for its intrinsic meaning "but as a hurrah-word" (van der Wel 2004: 3, drawing on Beckett 1998);
- that "the broadness of the concept (of PPP) allows the side by side existence of completely different interpretations, different authors using the same term writing about completely different things, or using different terms when writing about exactly
the same thing!" (van der Wel 2004: 4, drawing particularly on Fayard 1999, McQuaid 2000 and Qadeer 2003).

The title of this working paper emphasises the duplicity often involved: *Privatisation by Stealth: The Global Use and Abuse of the Term "Public-Private Partnership".*

For its author, the now most-common use, "to indicate what was previously described as 'contracting-out' or more generally as the 'private provision of public infrastructure and services'", is neither 'a 'partnership' in the general sense of the word, i.e. a relationship based on co-operation, mutual trust and sharing of benefits, nor a 'partnership' in the strictly legal sense of the word" (van der Wel 2004: 5).

It is also appropriate to note here the work of American academic Janine Wedel, who has carefully plotted the course of privatising action in post-communist Russia and Poland. She has shown that what she has described as "flex organisations" have been hugely influential in determining the often-highly-damaging outcomes: these are organisations in which are "powered by competing, tight-knit and closed clans" drawn from both public and private sectors, mostly with the close involvement also of often unwise and/or not-so-scrupulous Western advisers. Obviously they too are public-private mixes, and Wedel shows how they are able to evade all conventional forms of accountability. They "play multiple, sometimes conflicting, and ambiguous roles that overlap both government and business and enable them to bypass the constraints governing either type of activity" (Wedel 2004: 1, 13; also Wedel 2001). It is possible that they are more like real partnerships, but they are not ones we should be boasting about!

**When Does a Mix Become a Partnership?**

Some sort of contract is present in all the types of mix identified here, except perhaps the last. Of course contracting has much wider applications, and it has attracted an extensive descriptive and analytical literature. For present purposes, what is important is that it is increasingly accepted that most forms of contracting involve competition, which is seen increasingly as antithetical to collaboration (see eg Milward and Provan 2003). Contracts have been divided broadly into three classes – spot, classical and relational contracts (on which see Kay 1983: ch.4) – and the proposition that only the relational contracts are likely to produce genuine partnerships is gaining wider acceptance. They are usually long-term, they are mostly implicit, they involve a large measure of trust among the parties, and they have been described elsewhere as "social contracts' (Macneil 1980).

More generally, the case for collaboration as against competition – which was a *sine qua non* of the NPM approach -- gains further supporters. Thus it is proposed that collaborative advantage "presents an attractive alternative to the market, the quasi-market and contractualized relationships that have dominated the public management reform movement internationally in the past decade" (Lowndes & Skelcher 1998: 313; also Huxham 1996). Lowndes and Skelcher (1998: 314) insist that, for an effective partnership to exist," concrete expression" needs to be given to the collaborative relationship "through the creation of an organizational structure (such as) a partnership board or forum". From New Zealand, Robinson (1999: 1) sees a genuine PPP as "a new form of organisation created from the bodies that come together". And in his latest book Kooiman (2003: ch.7), one of the pioneers in introducing the PPP idea, associates the very notion of PPP with collaboration, cooperation, "communicative governance" and "co-management".
Appendix A lists the conditions that I believe must be satisfied before a public-private mix can be considered a genuine partnership.\textsuperscript{11}

**Mixes, Partnerships and Millennium Development Goals**

As indicated, I have no problem with the way the idea of partnership is used in this MDG discourse to project the great value of positive and generous international/intergovernmental collaboration in the pursuit of the various Goals. Long may such collaboration continue, and such partnership is to be extolled as the best hope of a better world governed in the interests, in the words of the UN Secretary-General, of "peace, security, development, human rights and fundamental freedoms" (Annan 2005).

The question is how best to use the connections between governments and the myriads of non-government operators, especially private business organisations both domestic and multinational, who will inevitably become involved as the intergovernmental effort moves towards implementation of its various plans. The argument here is that the term "public-private partnership (PPP)" has become very widely used as a way of describing such connections in mostly national contexts, but that, for many of them, it is

- an inappropriate term, because the elements of genuine partnership are not present, and indeed
- a dangerous term because, by suggesting that they are, it diverts attention from the many problems that arise from insufficiently thought-out contractual connections that
  (a) fail to fully calculate a fair apportionment of the many risks involved, (b) fail to build in sufficient precautions against corrupt diversion of resources, and (c) fail generally to provide sufficient protections for the more diffuse public side of the shared arrangement.

As the era of mass contracting out of governmental activities arrived with NPM and New Institutional Economics thinking,\textsuperscript{12} there were some fairly isolated voices arguing that our public services were massively deficient in the sort of legal expertise required to ensure that contract documents were prepared in a way that provided all the necessary protections for both sides in the arrangements made (eg Wallis 1990: 140-145). Whether we took adequate notice of those warnings remains doubtful. In the US today, where the "shadow workforce" of private consultants, contractors and grant-holders performing public functions is far bigger than the official public workforce, the latter is so depleted that it needs to employ more such consultants and contractors to regulate the others; the task is too big for the official side (Guttman 2003). If the US has this problem, then it is likely that it will extend to the international arena of MDG efforts. Because the public side will be even more diffuse in the international context, I see the dangers to come from any delusory use of the PPP term as we move to achieve the MDGs as even greater. To avoid those dangers, we must think seriously about the deals we do with non-governmental implementation agents.

We need to understand that public-private mixes are ubiquitous and inevitable. But we must not lightly assume that they are all partnerships, and we must recognise that the private side involved in working out the operating arrangements is likely to be more highly focused than the public side, driven by shorter-term financial considerations very different from those that are the main concern of the more policy-oriented public side, and intent on ensuring its own profitability as its top goal.
So we have masses of these mixes, and it is difficult to see that we can avoid them. In the developing country context, they serve the further valuable purpose of aiding in the building-up of a domestic private sector. If we really want them to be partnerships, however, we must ensure that they are constructed around those required elements of trust, collaboration, cooperation and co-management listed in Appendix A. Joint ventures marked by organisational arrangements giving all "partners" a full voice in determining relevant policies and major decisions – such as in the older mixed enterprises – are far more likely to satisfy these conditions than most of the "deals" loosely described as PPPs today.

But perhaps this is often not what we really need. Such arrangements will not be appropriate where states need to retain full sovereignty over the operations involved, where they need to tap into resources available elsewhere but not in such a way that sovereignty is divided between them and the providers of those resources.

In such cases, we should be careful to describe the mixing arrangements in terms that clarify rather than conceal the actual roles of the participants. Here terms like "private provision of public infrastructure" and "private financing initiative" are much safer than "public-private partnership", and "contributor" or "participant" is safer than "partner".

And we need to take great care to evaluate the risks involved for all participants and design contractual arrangements so that costs and benefits are aligned with those risks. If this is not done, my expectation is that the more diffuse public side will mostly be exploited by the more focused private side. Then it may be safer all round to revert to full public financing, with borrowing as required and full public provision of services!

NOTES:

1. "Governance" here in the sense that proposes that the management of society and the economy is effectively spread over three major sectors, the state, the market and civil society, and is interested in exploring their interconnections -- rather than in the sense of "corporate governance" that focuses on the behaviour and relationships of top managing organs of large organisations.

2. See O Nuallain et al 1996 for an account of the "journey" of the group of scholars involved in this program up to the mid-1990s, and Wettenhall 2003a: 81-83 for a brief update.

3. For references, see Appendix B.

4. Located at Sheffield Hallam University, Montanheiro established a network to study "Public and Private Sector Partnerships" that has run annual conferences since 1995, many of them accompanied by published symposiums (eg Montanheiro et al 1995), and an International Journal of Public-Private Partnerships. Unfortunately his effort appears to have faltered recently due to lack of support from the host university.

5. In part, the last reflects strong Canadian interest in PPPs: see also eg Kernaghan 1993.

6. Kirby's article appeared as a lead story, with the cover title "Macquaries' enemies", in Business Review Weekly (BRW), an Australian business journal. It reported growing concern with the major role being played by Australia's Macquarie Bank in such projects, with a property deal with Liverpool (New South Wales) City Council under particular scrutiny. A sub-section titled "Partners in Profit" added:

   In a PPP, a private company such as Macquarie Bank provides debt funding and takes on some of the risk of completing the project. Typically the PPP partner will also manage the construction and maintenance of the facility.
As PPP projects have flourished, ... it is common for a consortium to form behind a single tender. The consortium might include a bank, a superannuation fund and a builder. At the end of the PPP contract – usually 30 years – the government will usually take full ownership of the asset (Kirby 2004: 37).

In this case, a state government inquiry showed that the council had entered into the contract with little or no business knowledge or planning capacity, and that there has been a huge blow-out in costs. The implication was that the private bank had taken full advantage of the council's weakness. See also Skotnicki 2004.

7. Elsewhere I have argued that Australians were much more innovative when they defied 19th-century British norms in establishing both a large network of public enterprises and a set of autonomous agencies to manage them, standing outside the civil services and with accountability mechanisms distancing them from Westminster-style ministerial control: Wettenhall 1990, 1996.

8. BOOT = build, own, operate, transfer: all combinations of these processes are possible. I have described the general Australian context in more detail in Wettenhall (forthcoming). On this experience, see also Neutze 1995, Walker & Walker 2000.

9. Other works from traditional public enterprise scholarship focusing on such mixed enterprises include Daintith 1970, Eckel & Vining 1982 and Musolf 1983.

10. Earlier this year, the Boston Globe recorded one outcome of the operations of the relevant Russian flex organisation: "Harvard University, a Harvard professor, and a former staff member have agreed to pay the US government about $30 million, a year after a federal judge ruled that economist Andrei Skleifer and lawyer Johnathan Hay conspired to defraud the government by making personal investments in Russia while they were under contract to serve as impartial advisers on Russian economic reform in the mid-1990s" (Bombardieri 2005). The same events led to the winding-up of the previously well-regarded Harvard Institute for International Development.

11. This list of conditions was first presented when I was delivering my paper on public-private mixes at the Faro, Portugal, conference of the PPP network (Wettenhall 2004).

12. While the volume of contracting out has increased under the new persuasions, the practice of contracting out, like (and related to) that of public-private mixing, is far from new (see eg McIntosh et al 1997).

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Appendix A: What is necessary for a public-private mix to become a public-private partnership?

The real partnerships will:

- be genuinely collaborative, interacting forms of mixing,
- have horizontal, non-hierarchical relationships,
- involve consensual decision-making,
- have no single "superior" capable of invoking closure,
- have an organisational structure such as a partnership board or forum,
- operate on the basis of complementarity and collaboration,
- achieve synergies between involved persons and organisations,
- exploit respect and trust as forms of social capital.

Market-driven competition is unlikely to satisfy these conditions.

Only "relational contracts" are likely to do so.

The needs of the whole must come before those of the individual parties involved.
Appendix B: My papers from previous EROPA Conferences illustrating the public enterprise/privatisation/public-private mix progression:


