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"Public-Private Partnerships: Lessons from Experiences in Developing Countries"

Contents

EDITORIAL

This edition of the AFD Economists' Letter features Public-Private Partnerships (PPP) in developing countries. The term PPP is understood here to be based on its international definition: a government service or private business venture funded and operated through a partnership of government and one or more private sector companies, rather than a strict partnership contract as in the French sense of the term. The PPP principle of delegating the operation of public services to private parties is not new. France has long-time experience with it, ever since the construction of the Canal du Midi by Colbert in the 17th century, or especially with the creation of the urban water and lighting providers, the Compagnie Générale des Eaux *and the* Société Lyonnaise des Eaux et de l'Éclairage, *in the 19th century.*

The inefficiency of certain public enterprises and the failure in the 1980s of reforms that attempted to introduce a market culture into government services led development professionals to promote private sector involvement in public services in developing countries in the 1990s. Drawing on the strengths of private sector operators, which included operational management experience, technical mastery and financing capabilities, was perceived to be a means to stabilize public finances and achieve public service objectives, in particular such as connecting people to infrastructure networks.

The perceptions and expectations were soon seen to be unrealistic: the first generation of PPP in developing countries was unable to resist external shocks, especially financial and economic crises. It was succeeded by a second generation of contracts in which the private sector assumed a more limited share of risk, offering leases rather than grants, for instance. In addition, effective regulatory tools were put in place so that governments could fully assume their responsibilities, such as setting rates and determining policies regarding network access by underprivileged populations.

Learning about regulation and control is a long and complex process. PPPS are still "contrats d'horlogerie" which exist within social and political contexts that must be taken into account. Examples of promising partnerships today are those that seek to include other stakeholders beyond the private operator and the government, such as municipalities, civil society(1)*, and local businesses in developing countries.*

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AFD Chief Economist

(1) "Civil society" includes individual citizens, as well as organizations such as registered charities, development non-governmental organizations, community groups, women's organizations, faith-based organizations, professional associations, trade unions, self-help groups, social movements, business associations, coalitions and advocacy groups.

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"How to set-up a Public-Private Partnership in a Risky Country and Small Market, and With What Goals? Some Lessons from Experience"

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Is Ready-to-Wear Attractive?

Because of its wide-ranging fields of intervention, AFD has the privilege of participating as a lender and/or an advisor to public authorities when they put together Public-Private Partnership (PPP) contracts for the construction and/or operation of infrastructure and public services such as waterworks, energy, telecommunications and transportation. AFD works in countries that investors consider difficult for both their high level of macroeconomic and political risk, and the small size of their markets and limited profit potential. A PPP is not put together or exploited in the same way in such countries as in those where the governments are stable and the markets vast. This article will illustrate this reality with lessons taken from experience.

What Makes a Country Risky?

Risk is made up of one-part macroeconomic fluctuations, and one-part arbitrary, or "regulatory" risk. Risk is higher in countries where the decisions made by governments who are weak in terms of economic and financial competence and who lack an independent judicial system are unpredictable, especially if it is considered that arbitrariness is an integral part of power.

The local investor perceives risk to be lower than does the foreign investor. Foreign exchange risk is less since the local investor can do other deals in the local currency and does not have to worry about repatriating profits. In addition, the local investor has a better general and cultural understanding of his government's interlocutors, which puts him in a better position during negotiations. Even so, can local, national investors be found who will turn away from easier investment opportunities, such as those in commerce or real estate that donot rely on public authorities except during the investment phase and that are not under public scrutiny for the life of the investment? In short, won't investors prefer opportunities that have lower transaction costs and less regulatory risk than Public-Private Partnerships?

Is Small Beautiful?

A "small market" implies a lack of economies of scale as well as a lack of margin to amortize fixed start-up costs and hazards. "Small market" is a relative term; it is both static and dynamic. In static terms, a small PPP is characterized by an initial investment of tens of millions of euros and sales on the same scale, i.e. 1 to 10 or more, compared to larger PPPs that ordinarily attract foreign investors. In dynamic terms, a small market is a market that has a growth rate of a few percent, which is far less attractive in terms of the speed of return on investment than growth markets such as mobile telephony, at least at the beginning: even though competition between mobile telephony suppliers is fierce, government authorities intervene less than in other sectors, whether in terms of rate policy or investment programs.

The Controversy over the Cost of Capital

The rate of return on capital that is required by investors [2] in these risky countries is sometimes judged to be surprisingly high; shocking even, for a PPP whose objective is to serve the public. The rate is positively correlated with the risk. It also takes into account the difficulty or practical impossibility of recovering residual values at the end of the PPP. Even more so, it takes into account the impossibility of making capital gains upon disposal of assets, unlike in the private sector, which means capital amortization must be taken from current earnings. The proponents of public management counter this requirement with the suggestion that public capital is "free," which means costs could be lowered for the consumer. The comparison is unfair: despite a lower risk

(2) Returns in the range of 15-20% are commonly sought after.

premium, public capital has a cost that is, without doubt, along the same order of magnitude as private capital. But, it's a hidden cost, unlike returns on private capital! Public capital, that is to say current receipts from taxes or future funds from public borrowing, has three cost elements: the cost of collection by tax authorities, customs and the Treasury; an opportunity cost just like private capital, i.e. the cost of not using the money in other ways; and finally, the element that is the most hidden of the three: the cost to the nation for distortions [3] in decisions made by economic agents subject to taxes and customs duties.

The Responsibility for Political Risk

The authorities are partially responsible for the high cost of capital in these risky countries because of their behavior and regulatory weaknesses. It's up to them to suffer the consequences and to find ways to reduce this political risk, and up to institutional lenders to contribute to the effort through their influence.

Everything is not Possible

With the zeal of a true believer, or for tactical reasons, governments who have recently converted to the privatization ideology want the private sector to take care of everything. On the other side, the PPP candidate may use the same tactic and announce that everything is possible, with the secret conviction that once the deal is sealed, he can renegotiate everything that he knows is unrealistic.

In this risky country and small market, the quality of the PPP's management is more important than the size of private investment or the budgetary receipts from privatization. The government and external public lenders will know how to finance or complete the financing of the investment with advantageous terms. What is absolutely critical is to have some autonomy and distance from the risk of interference in management. The PPP limits or rejects mixing those who prescribe public services and those who invest in the PPP.

Structure Institutional Agreements for Risks and Return on Investment

This principle is valid everywhere and even more so in the difficult cases invoked here. Traditional risk-sharing agreements can't be used except in the best cases. Instead one must play, on a case-by-case basis, with the entire range of cost and risk-sharing formulas, e.g. subsidized lease, pure leaser [4] and management mandates, while avoiding providing just simple technical assistance [5].

Table 1.
Types of PPP and Associated Risks

Type of PPP	Investment Risk	Operational Risk	Commercial Risk
• All Risks Concession	• Operator	• Operator	• Operator
• Subsidized Lease	• Government + Operator ("small" investments)	• Operator	• Operator
• Pure Lease	• Government	• Operator	• Operator
• Management Mandate	• Government	• Operator	• Government

Source: O. Ratheaux.

A minimum equity investment by the private partner can be taken as proof of his professionalism and long-term commitment to the PPP, not only for the concession but also for a leasing arrangement.

(3) This distortion comes from the fact that market equilibrium (which is an optimal outcome according to economic theory) is affected by taxes that modify prices and quantities when the consumer's marginal utility and the producer's marginal cost are both equal to the price without the tax.

(4) With its two variations on return of which one, similar to a management free, exonerates the operator from commercial risk and the other is based on sales.

(5) Selling consultancy man-days without any link to performance.

Limit "Splitting Up"

In small markets, one should limit the extent to which activities are split up and parceled out to different managers and operators. This goes against the usual recommendation to limit the market power of a PPP by restricting its natural monopoly and introducing an element of competition. One must accept the need to help the PPP achieve a critical mass that's attractive to its investors, and avoid unreasonable coordination costs or structures where one takes from here to put there. Such parceling out leads to structures where an activity takes place in isolation and therefore requires a higher price point to make it profitable, which is detrimental to a sector's overall equilibrium. For example, one would accept not splitting the management of infrastructure from the operation of a railroad; facilities management would be grouped with landing services at an airport; production of transport networks and the distribution of electricity would not be separated; and a single water distribution company would serve several towns instead of different companies being set up for each town. This "package" approach wouldn't be an obstacle to third party network operators, such as for a railroad, or prevent independent energy producers from participating in increasing electrical production, but it would preclude a dogmatic approach to splitting up services.

Go Feet-first into Brownfields

Public-Private Partnerships in these "risky countries" often take over existing public service companies, in what may be called "brownfield" projects [6], while new "greenfield" infrastructure projects are relatively rare. Governments are tempted to privatize by selling shares. This approach increases the risk, hence the cost of operating a PPP. In countries where governance is weak, the accounts of public enterprises are rarely up to standard. Their auditors don't always have the desired competence or independence. The buyer literally doesn't know where he is stepping because of the lack of sufficient information. He is exposed to latent liabilities [7], while certain assets [8], that were insufficiently analyzed during the due diligence phase of setting up the PPP may prove to be over-estimated. Furthermore, equity share purchases freeze funds that can't then be used for urgent renovations and the expansion of the plant and equipment.

The recommendation for how to set up Public-Private Partnerships that are attractive to private investors is to use "Chinese walls" between the past and the future. In this way, the government would liquidate a public enterprise, and only the useful assets [9] and personnel would be transmitted to the acquirer. Additionally, the government would give a guarantee for all liabilities that could be attributable to events that took place prior to the purchase, or at the very least, all those that were not explicitly and exhaustively brought to the attention of potential acquirers.

Renegotiating contracts is not a dishonorable thing, especially in these types of projects, and should be organized in advance. Saying as much is not contradictory with criticisms about opportunistic behavior on the part of private investors, but rather a way to take into account the unknowns and hazards inherent in a situation that is ill defined at the outset.

PPP Seeks SME Boss

In small markets, PPP agreements are set up with small and medium-sized enterprises. Choosing the right managing director is essential, just like getting the right people in a consultancy contract, and is more important at the outset than is the job description or method of working. Now, the generally recommended method of selecting a partner company doesn't attribute any or enough weight to finding this kind of "good boss."

Tighten the Screws

Managers with practical, hands-on experience are best suited for producing rapid gains in productivity and service quality in a brownfield project where technical and commercial aspects must be taken in hand. Their on going success depends on a tireless attention to everyday management details.

DIY

To set up a PPP that will work in the kinds of situations being discussed here, one must accept the need to step back from an ideal and adapt the level of service to what is possible in the market, limiting investment to those things that will have the highest return. For instance, it will be necessary to fix things rather than entirely replace them, the risk being that the tools, plant and equipment will not last long enough.

(6) "Brownfield" projects are those based on renovating, upgrading or converting an existing industrial asset, as opposed to "Greenfield" projects that start from scratch.
(7) Litigation with creditors, complaint from staff.
(8) Corporeal property, clients' debt.
(9) Fees for use and/or buying back.

Lower Prices or Increase Quality or Quantity?

Except in a few cases, such as a growth market with strong technological progress [10], for an industry based on manual labor and where the acquisition was based on layoffs [11] or higher productivity gains from rationalizing production without large investments [12], the priority will be to increase the size of the area served and to improve service quality more than to lower prices.

Efficiency or National Workshops?

When an existing company is taken over, is best practice to maintain the existing workforce, or is it to start over with a smaller base of only the necessary number of workers? The first approach puts the interests of the PPP workers ahead of those of the consumer. It keeps the peace at the cost of low productivity, along with the additional negative effect that those who are not working bother and de-motivate those who would like to get some work done. Such an approach can't work unless a very big increase in activity will allow the labor excess to be absorbed rapidly, which is a foolhardy bet to make. Rather it is a "surgical" approach that will ensure the company's financial sustainability and longer-term existence. This approach can also allow the average age of the workforce to be lowered while training takes place by new workers learning from older ones, unlike the workforce adjustments that take place through natural attrition.

All Power to Consumers?

The PPP agreement confers a benefit on a third-party, i.e. the consumer or user of a service. The government, rather than the consumer, tells the managing director what is good for them, in terms of service specifications and the price to pay. The consumers are sometimes the "great forgotten ones," even when private sector management pays attention to them commercially in ways that were totally absent when the service was under public management. The Public-Private Partnerships that succeed financially may carry a revenue-sharing agreement between the delegating authority and the delegated manager on the back of the consumer. In other cases, the absence of regulation by consumer representatives increases regulatory risk for the manager, which is inherent in regulation that is performed only by the government. Furthermore, the consumers must be organized, which isn't seen except in cases where a PPP served a limited number of large clients [13], rather than one that served a dispersed clientele [14]; the problem being a lack of legitimate consumer associations.

A Chimerical Horizon

Even though the law allows a private company to have an unlimited lifetime (or in the case of French law, ninety-nine years), the paradox for a PPP is that is has a very short-term life of only five to twenty years. Its time horizon is not in line with the scale of investments that need to be made, the management reforms that need to be undertaken, or the management responsibilities of a public service.

Give Time to Time

Public-Private Partnerships often have contractual deadlines that are too short. A dogmatic concern for market competition – when it's not an insurmountable mistrust of private investors – makes one forget how difficult it is to structure an agreement. Time must be allowed to amortize the transaction costs [15] to furnish and take possession of buildings and spaces. There must be enough time for the investment, even in the case of a lease [16], because in a difficult country raising funds is slow and the task of bringing plants, equipment and operations up to standard can be very onerous. Time must be given to local investors who will not invest in a business that is contractually obligated to cease within a few years. Now, if local investors don't invest, the PPP risks being a wart on the landscape rather than being an integral part of the environment.

Common Ovens, Bakeries and the "Commonalization" of PPP

If, in the Middle Ages, the common bread-baking oven was a public service in European villages, no one can escape the fact that today our daily bread is given, or rather sold, to us by private bakers, without any notion of public service, of an organizing authority or of an independent regulator. Now, is there a service that is more essential than providing bread? (Water, maybe). There is the goal: to make Public-Private

(10) Such as the mobile phone.
(11) Such as certain railroads that are over staffed and that outsource little.
(12) For example, dock work.
(13) Freight railroads, ports, Build-Operate-Transfer contracts for electricity production.
(14) Distribution of water, mass transit, etc.
(15) Proportionally higher for smaller businesses.
(16) Typically, a duration of 10-15 years would be more appropriate than 5-10 years.

A Political and Sociological Approach to Public-Private Partnership Contracts

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Are Public-Private Partnerships a suitable tool to develop access to basic services in developing countries, or are they a product of an ethnocentric, western point-of-view that is ill-suited to the social realities of developing countries? Numerous studies have analyzed the economic and legal aspects of different forms of delegated management such as comparing costs of public versus private management, performance bonus elements in contracts, comparative adaptation of PPPs to French or Anglo-Saxon laws, etc. On the other hand, the socio-anthropological or political questions of this type of structure are rarely addressed, even though the functioning of the PPP is tributary to non-technical factors.

The approaches to PPP governance are generally concentrated along two if not three dimensions: a contractual dimension, such as what performance bonuses to include for the private sector; an institutional dimension, such as what kinds of regulation need to be put in place; and, in the best cases (cf. Breuil, 2004) a participative dimension, such as how to integrate the users of the service in the governance of the partnership. We propose adding a deep analysis of the power plays that underlie the reality of Public-Private Partnerships to these three approaches. We also question the meaning, even, of the terms of a PPP agreement for the different stakeholders who sign it.

Misunderstandings and a Lack of Comprehension about Key Contract Concepts

The failure of the *Énergie du Mali* [17] concession offers a particularly interesting example that illustrates the misunderstandings and lack of comprehension that can occur in a PPP structure in developing countries. The analysis of this failure by Hibou and Vallée (2007) shines a light on the partners' preoccupations and their nearly irreconcilable differences, as well as their differences in comprehension and perception, and their own ambivalence. As it was, during the life of this PPP, the partners adopted different interpretations for certain decisions, such as about dividend distribution, modification of salary hierarchy, compensation payments. They also differed on certain values, such as prices and costs for the enterprise. These differences grew larger over the course of five years, fed by the interventions of funders and the intense use of international experts, up until the breaking of the contract that provided a final resolution to the conflict and the departure of the concession operator SAUR[18]. For example, the decision to distribute dividends in a financially difficult period, illustrated the incompatibility of the objectives and the differences in approach between the partners: for the SAUR, this decision was in line with an investor's logic where soundness is judged by the size of profits generated, while for the Malian authorities, this decision was opposed to the logic of a medium-term investment. Therefore, one side interpreted this decision as a sign of responsibility in terms of international standards of business performance measurement, and by the other side as a strategic error and proof that the business was over-estimating its costs: it was the symbol of the exploitation of the country by a foreign multinational. But, even regarding concepts that were heretofore considered as objective as the price of water and of electricity, the study showed that several visions clash and suggest a different meaning. There is a "political" price that is calculated on a different basis, such as purchasing power and the price in neighboring countries, the desire to achieve the Millennium Development Goals [19] or a desire to promote industrial development by lowering the cost of industrial inputs. There is an "accounting" price, which refers to the actually running costs of the enterprise. There is a "technical" price based on a financial model and a middle-term break-even point. And finally, there is a "market" price, which is calculated in such a way that the enterprise can be profitable during the concession's term. These differences in point of view about the price were at the heart of interminable negotiations. It was just the same with less technical concepts like transparency, which spawned questions such

(17) Mali Energy Company.
(18) SAUR was a subsidiary of the Bouygues Group.
(19) The United Nations Millennium Development Goals (MDGs) are the world's time-bound and quantified targets for addressing extreme poverty in its many dimensions-income poverty, hunger, disease, lack of adequate shelter, and exclusion-while promoting gender equality, education, and environmental sustainability. They are also basic human rights - the rights of each person on the planet to health, education, shelter, and security.

as: what should be included in the accounts, subsidies, equity and redistribution? or, what about respecting the norms of a market economy, of the privatization process, financial arrangements, of the allocation of roles between the public sector and the private sector?

Even within the circle of Malian officials, positions were extremely varied. There were differences between ministers, the regulator, the president's office, and others, and fluid and blurred borders. The key concept in a regulatory PPP was itself compromised in multiple ways: at times, the regulator was perceived as someone who must correct imbalances between developing and developed countries, at other times as the defender of consumers, and still other times as a neutral referee or the guarantor of the government's position, if not the person who could anticipate the President's position. It was the same for the meaning of a "good partnership", which could be understood as a contract based on confidence, a transfer of responsibilities, a tool for liberalization and the recovery of a sector, et c. Finally, the complexity and the imbrications of these meanings were also illustrated by the ambivalence of individuals who, depending on the situation, drew on different aspects of meaning and changed views, such as the *Énergie du Mali* employee who, as a professional, recognized the good work performed by SAUR; who, as a Malian citizen, disapproved of privatization; and who, as an employee, criticized the human resources policies of SAUR while worrying about a possible re-nationalization.

Using Culture as a Specific Means of Interpreting Contract Terms

In the case where a contract is conceived and executed for a developing country by westerners, a cultural dimension is added to the usual misunderstandings that make it difficult for public and private partners with different rationales to come to agreement. By taking care to avoid the culture trap that would tend to caricaturize the people or practices of a given country, an approach to development questions – especially Public-Private Partnerships – that questions the role of culture seems particularly fertile ground. AFD and a network of EUDN economists saw this in debates that took place during the "Culture and Development" conference that was organized in December 2007 [20]. The work on enterprises in developing countries presented by Philippe d'Iribarne showed that fundamental concepts such as cooperation or confidence are rooted in visions of man and society that differ from culture to culture, according to the particular society's history (d'Iribarne, 2003). For instance, the position of the free man and the contract are cloaked in a certain significance in Anglo-Saxon cultures, while the rights and duties tied to social rank fashions how the French think. D'Irbarne maintains that it is possible to construct forms of social order that support performance in the functioning of each enterprise while being compatible with local culture. However, such constructions are not self-evident and depend on a keen understanding of how societies function.

This type of ethnographical approach was also used to analyze examples of Public-Private Partnerships. Hela Yousfi (2007) studied the way in which cultural differences influenced a partnership for the third-party management of a public service in Lebanon. Notably, she shined a light on differences in the way partnership and a "good cooperation" was interpreted in terms of contractual engagements and the separation of roles between the French and the Lebanese. For the French operator, the contract signified a clear separation of roles between the partners and the operator's judgment about the results. He needed to have total autonomy in order to work in this framework, such as when recruiting personnel. Any intervention in management by the Lebanese was seen as a hindrance to his being able to carry out the contract well.

Within this perspective, the operational manager must be moved by his professional duties and not by the interjections of clients he perceives to be incompetent. The Lebanese, on the other hand, held group unity to be more important, with the ideal of "working as one single hand." Therefore, everyone had to be able to explain their point of view about a given problem according to a logic where "everyone's a grown-up" and is contributing to a common goal. In this example, the differences in how the roles were interpreted by each person in the partnership were not simply added to objective obstacles that were encountered, but were grafted onto the obstacles and influenced both the reading of the situation and the kind of solutions that were adopted to overcome the obstacles. The different readings of the situation, even if they served to defend interests, also spoke volumes about the culture of those who used them.

Culture, (or rather, if one wants to avoid over-playing the term, the "sub-culture" associated with specific social group) could therefore be interpreted as that which gives meaning in men's lives and that which is portrayed in their ways of interacting with one another, of judging behavior and such. The sociological and cultural approach questions the presuppositions implicit in a universal sense of concepts and tools, the very constructs on which

(20) See (in French): http://www.afd.fr/jahia/Jahia/home/publications/conferences/EUDN2007/pid/3352...

Public-Private Partnerships are based. Constructs such as: What is a contract? What formal and informal institutions guarantee its execution? What is the true meaning of a 10-year time horizon? How are the concepts of public and private opposed or superimposed?

This approach leads to criticism of certain contracts presented as "best general practice" that have "proven themselves elsewhere" by revealing that we often apply an ethnocentric conceptual prism to our actions and beliefs, which are tied to our own history, culture or heritage. We have a tendency to see things through our own references, which can lead to misunderstandings, discrepancies and failure. In reality, exporting a model PPP contract into a different context than the one in which it was created leads to phenomena such as the rearrangement, hybridization and mixing-up of the original (Coing, 1996).

It is therefore the superposition, or overlapping, of semantic discrepancies that can create difficulties in executing PPP contracts. Such discrepancies exist between "western culture" and "local culture", between "formal" and "informal" logic, between a "bureaucratic culture" and an "entrepreneurial culture", between a "technical culture" and a "political culture", and so forth. These different cultures function a little like peeling the layers of an onion, where each individual alternates from which register and identity he draws from depending on the context. Of course, none of these "cultures" makes up a coherent or unequivocal whole; rather each one is constantly questioned and reinvented throughout the course of history.

It should be noted that a certain "business culture" that is oriented towards results, values initiative in employees and is open to its clients' expectations isn't the prerogative of the private sector. There are government-controlled public services in developing countries with remarkable performance levels, such as the waterworks in Phnom Penh. It provides a stark contrast to the Cambodian bureaucracy, which is riddled with corruption and inefficiency (Blanc and Riès, 2007). In the Phnom Penh case, a spectacular turnaround that took place between 1998 and 2008 wouldn't have been possible with a private partner, nor by setting up formal objectives in a trusteeship: it was possible only through the introduction of a new business culture that was embodied by a charismatic leader every day.

So, despite the difficulty in defining "culture," empiric works show that successful PPPS require a profound study of the societies in which they will operate and attention to the changes they will engender.

Power Games and the Political Dimension

Beyond the contract that materializes it, a PPP is also and above all a game of alliances between stakeholders, alliances that are apt to change over time. The study of practical political details in the exercise of power within a PPP is eminently pertinent in terms of understanding the stakes, even if the technical rhetoric of the PPP tends to hide the issues by presenting a pacified version of them.

If we come back to the example above regarding the third-party management of a public service in Lebanon, it's worth adding the client network that disrupted the contract during its term to the analysis. In fact, locating the subsidiary of the private operator in a building constructed by the brother of a deputy campaigning for the party opposed to that of the Public Officer director's, or the links between the Ministry of Public Works and certain Lebanese notables who made fortunes in real estate, can shed light on the conflict inasmuch as the local economy in the town being studied is based on land and real estate rents.

The choice of a PPP model doesn't guarantee a "win-win" result as some would like us to believe, but, depending on the situation, can even reinforce the dominant position of certain stakeholders over others. In one case, for example, giving the only profitable part of a public water service to a private manager was detrimental to the poorest customers for whom the service was degraded because of market skimming and the loss of the balancing out effect between rich and poor (Auriol and Blanc, 2007). Such situations also illustrate the phenomenon of service capture by urban elites who benefit from being connected to a network and who remember that the pricing question is at the heart of Public-Private Partnerships: in this case, maintaining low rates through subsidies doesn't benefit poor people because poor people have no access to the network in question.

In the case of *Énergie du Mali*, political games were also very apparent. In 2003, the enterprise proposed a rapid increase in rates for water and electricity that didn't really affect poorer customers encountered strong opposition because it hurt the middle class shopkeepers and bureaucrats who were close to the political powers-that-be (Leborgne, 2006). Furthermore, the multiple positions taken by the Malian authorities illustrated the difficulty of decision-making in Malian society, which strongly favors consensus. It also illustrated the overlap between positions of power and accumulation of wealth, as well as the interconnected relationships of political patronage and clientelism, to

paraphrase Jean-François Bayart [21]. Before the arrival of the concession operator, the public enterprise, *Énergie du Mali*, was a source of enrichment for politicians and notables, an opportunity for bestowing privileged jobs on patrons and relatives, a means of controlling a village's access to electricity in return for their allegiance, and so on. Within the Malian government lively internal tensions existed between contradictory goals such as stabilizing public finances and extending basic services to the population. The Public-Private Partnership served as a catalyst for changes in position by one and the other politician and bureaucrat. Which is why the illusion of achieving a unique and clear position from the public partner even though that position was never clearly expressed, advanced in sideways fashion, "like a chameleon," [22] as the public partner forbade himself the role of referee in order to maintain internal cohesion, while also maintaining the façade of being willing to negotiate.

It is not surprising that the study of PPPs in developing countries winds up with the problem of the role of government, since PPP structures always come around to questions of taxation, solidarity, and questions of poverty and inequality because of the social fabric in which they insert themselves. The government, or municipality in the case of decentralized services, must remain responsible for policies regarding access to basic services within the framework of the PPP, even if public action in the developing country involves other actors, such as funders and non-governmental organizations that the analysis must not forget to take into account. Practically speaking, the difficulty certain governments have in accepting its policy responsibilities is a common pitfall in Public-Private Partnerships. In certain cases, the lack of a local welfare policy might bring the private operator to develop socially responsible initiatives within his enterprise, as Sarah Botton (2007) studied in Buenos Aires. In her study, the efforts of the Suez "*Desarollo de la Comunidad*" [23] team to provide water in poor neighborhoods bore fruit only from the moment when the team was able to begin cooperating with all of the stakeholders in the sector, and above all, to consolidate its relationship with local authorities who then played their role.

In this way, the extent of power games and the variety of power struggles that PPPs generate makes their political significance differ greatly from one situation to the next, from one sector to another, from one time to the other. Public-Private Partnerships coexist with a permanent process of redefining the rules of the game. They often seem incompatible with the narrow models that are inscribed in contracts that imply a clear and stable delineation between public and private, as well as in the relationships between stakeholders. PPPs can also present an opportunity to modify the relationship between government and its citizens and of solidarity between social classes, as well as modifying the meaning of public service at the policy level.

To draw on lessons from past experience and propose models that are adapted to a variety of situations, it seems less relevant to reason in terms of absolute success or failure than to try to understand the process, the development of the stakeholders' games and changes in the locus of responsibility.

To learn more:

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"Towards Partnerships at the Local Level: The Provision of Drinking Water by Informal Private Operators and Non-profit Organizations"

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The reluctance of international private operators to enter highly risky and barely creditworthy markets in developing countries, especially when it comes to areas outside of big cities or rural towns, invites thinking about how to extend Public-Private Partnerships to other kinds of partnerships. In these areas where public services are lacking, local, informal private operators have multiplied initiatives to provide services. In other cases, government projects financed by external funders have supported the creation of water user associations to whom water management is entrusted. These two forms of "shared management" bring up questions about regulation, nonetheless.

Taking the Informal Sector into Account in Mozambique

The service provided in Maputo by the local operator, *Aguas de Moçambique* (AdeM), (who signed a leasing contract[24] with the asset management company FIPAG in 1999), is particularly poor. Water is available for only a dozen hours each day, and the outskirts of town often lack network hook-ups. In parallel, independent and informal private providers, known as *Pequeños Operadores Privados* or POPs, have invested in small feeder systems since the end of the 1980s. These systems draw water from local undergrow sources, which is a relatively unique situation in Africa. The POPs water sales market was estimated to be worth $6.5 million in 2006, with 46% of receipts coming from outside urban areas[25]. As of 2008, there are approximately 350 private operators[26] in the Maputo and Matola metropolitan areas. They have constructed 400 stand-pipes and made 25,000 home connections to the water network, compared to approximately 90,000 connections and 300 stand-pipes having been constructed by AdeM in the same period. The POPs are especially active in the fast-growing outskirts of town where they are often the only water provider. What's more, the growth of these operators is very rapid, increasing in number from 192 in 2005 to 335 in 2007, and in market share, with 23% of households. It is estimated that 250,000 people are served by the POPs.

The Maputo authorities ignored the POPs until 2003, when they were mentioned for the first time during a conference on urban Public-Private Partnerships in

(24) Signed in 1999 with SAUR (Who withdrew in 2002), Aguas de Portugal, and local investors.
(25) Source: CRA/SAL: Avaliaçao de satisfaçao dos consumidores : abastecimento de agua na aglomeraçao de Maputo, 2007.
(26) Source: FIFAG/Hydroconseil: MWSP Component 3, Project rationale and methodology, 2007.

Maputo. The first official encounter between the POPs and the authorities took place in 2006; currently, on-going discussions take place through two associations that were created within the POPs. Today, the POPs are at the heart of political concerns about extending access to water services and their influence has increased in a politically charged environment.

The question is how will government authorities be able to help these local private companies develop their business so they can respect public service standards in terms of water quality, rate regulation and other matters, without compromising the POPs' entrepreneurial dynamism? What role will the POPs take on so that the poorest people have access to basic services, not as a side issue but within the framework of a determined public policy?

In particular, is registering and legalizing the activities of the POPs an indispensable precondition to any form of regulation? If the "legalist" logic promoted by certain funders consists in stimulating performance only by promoting a registered formal market, it seems that its limitations become visible in developing countries. It's necessary to envisage more flexible synergies between formal companies and informal companies who would go through supervisory and support mechanisms. They would be subject to incentives rather than sanctions, and adapt standards to local needs. The first, crucial step towards regulation seems to be discussions that would promote POP associations and consumers, and holding on-going informal negotiations, among other things. A plan to distribute information about rates and the quality of service could also be useful for comparison purposes and to promote a minimum standard of quality.

Regulation of the POPs still needs to be invented and set up in social and political terms, as well as in economic and technical terms. One of the fundamental challenges in the evolution of basic services for developing countries in the coming years is the regulation of these providers of a service that does not yet have the characteristics of a public service and that some would consider a sub-standard and temporary solution.

Regulation of User Associations in West Africa

In several West African countries, the current process of decentralization transfers responsibility for water service to towns, but sectorial policies accommodate this change in different ways. For example, in Mali and Benin, towns are obligated to delegate management to a users association or to a private operator.

Another major issue is respecting the obligations of public service, in particular providing the poorest populations access to services. Even if "pro-poor" clauses in contracts are supposed to regulate rates and the cost of hook-ups, or to recreate balances between users, at least in principle, experience shows that communities often lack the tools that allow them to follow-up on contract performance.

That said, in several countries an original means of "regulation" has been instigated through technical and financial audits of public service operations and the publication of the audit results. In Mali, Niger and Chad, this audit mechanism has let communities have more effective control over the operator's performance in terms of respecting agreements and running the operation well. It also helps limit corruption by increasing accounting transparency.

Mali was the first country to put this type of audit mechanism in place, which then served as a model for the sub-region. Originally, the Water Users Associations (WUA) were formed in rural towns of 3,000-10,000 inhabitants and within a framework of programs investing in the water sector. In 1994, following strong growth in the number of towns far from the capital that were equipped with thermal or solar networks, and faced with the difficulties the communities' decentralized government services had in monitoring the equipment given to the WUA, an advisory support team specialized in potable water conveyance systems was set up within the National Hydraulic Directorat (NHD). It was accompanied by a project financed by KfW, the German government-owned development bank. This operation was a success for the WUA operators who appreciated the advice the audit unit provided, as well as for the government and the funders who were interested in the longevity of their investments. The audit function was later privatized and two contracts, one for each part of the country, were signed with the NHD. One contract was signed with the former NHD team, which today is an economic interest group; the other was signed with a research agency. The audit unit is now considered essential. It acts as an intermediary between the operator and the general contractor. It also transfers know-how about waterworks to towns that often lack technical services. It also promotes small private operators for third-party management of new drinking water supply systems. In the future, the audit unit should undertake contracts with the towns themselves, which could increase the distribution of information that is relatively centralized today.

In Niger, in the Maradi region, there is a research agency that ensures operations data collection for 40 systems.

The data are transmitted to the Ministry of Hydraulics and to local government authorities in towns and prefectures. The Office of Advice and Control's report is given back to the towns, users associations, operators and technical services. The 2007 report revealed that the technical functioning of the equipment was satisfactory, except for one center that wasn't able to make repairs because of lack of funds. However, the financial situation of the waterworks provoked concern since only 68% of the operators met their contractual commitments, such as paying a license fee for the renovation and extension of the networks. These technical and financial results are better than the usual results in centers where such follow-up does not take place.

In the southern region of Chad, a similar audit unit has been deployed for two years. It is a local non-governmental organization known as AGIR, which was selected to put a non-profit audit, advice and management support unit in place. The unit follows 33 sites, which doesn't yet allow it to reach break even: a project financed by AFD helps support the non-profit unit. The subsidy to achieve break even will last until the end of 2009, after which time licensing fees paid by the users associations should be sufficient to balance the audit unit's budget.

This model of follow-up and evaluation seems to hold a lot of promise for the construction of local regulatory initiatives that have to be implemented at the community level. It meets the needs of operators with its support and advice function, and meets the needs of general contractors and their funders with its audit function.

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