Under What Conditions Can Public-Private-Partnerships (PPPs) Improve Efficiency, Equity, Security and Sustainable Development in Countries at the Pre-PPP Stage?

Paper prepared for the research project:

CREATING A NEW DYNAMIC FOR PUBLIC-PRIVATE PARTNERSHIPS FOR PEACEFUL AND SUSTAINABLE DEVELOPMENT:
Human Security and Equitable Access to Resources in Countries at the Pre-PPP Stage

Paolo Urio, project coordinator
Paper in progress, comments welcome to Paolo.urio@politic.unige.ch

This paper is a revised and enlarged version of an internal paper prepared to orient the research at its beginning. It develops theoretical as well as practical considerations based on the research project document, and is limited to the research experience and to the references to the literature known to the author in the field of public management and New Public Management – NPM (including contracting out and PPP).

In this paper we will replace PPPs in the framework of some fundamental theoretical and practical considerations concerning the development of countries in transition. In the introduction we will begin by defining PPPs and the major fundamental values at stake in the public domain that PPPs may enhance or hamper, i.e. efficiency, equity, sustainability and security. We deliberately leave aside the definition of the content of transition (towards what type of economic, legal, political, and social system?) for reasons we will clarify in the following paragraphs.

As PPP is clearly one of the reform proposals of New Public Management, the rationale, advantages and difficulties of this institutional arrangement will be better understood by replacing it within the general context of the reforms proposal of the last part of the XX century (section 1.1). This will lead us to introduce, discuss, and justify the choice of the 4 values defined in the introduction, as the yardsticks against which the results of PPP should be evaluated. We will then be sufficiently armed to present and discussing (in section 1.2) our major research goals and hypothesis. As we will consider that domestic conditions and guidelines are of primary importance for viable PPPs, we will discuss them in section 1.3.

In the second part of this paper, we will analyse the role of PPPs in the strategy of countries at a pre-PPP stage. The distinction between soft and hard infrastructures (section 2.1) will serve as an introduction to the analysis of the place of PPP within the development strategy (section 2.2). Then in section 2.3 we will take into consideration the potential private partners, and the domains in which they will be more likely to invest. And finally, we will develop some ideas towards a model for integrating PPPs into the development strategy of countries in a pre-PPP stage (section 2.4). In the conclusion we will raise the question about the direction of the transition process.

Introduction:
1. Definition of PPPs

Let us start with the definition of PPPs. The task is not easy as there is no definition generally accepted by practitioners or academia. Within the vast and diverse literature, let us take as our starting point the general definition given by a paper prepared by the Fiscal Affairs Department of the IMF that leaves space for a great variety of organisational arrangements: “Public-Private partnerships (PPPs) refer to arrangements where private sector supplies infrastructure assets and services that traditionally have been provided by the government”.[1] It is true that the IMF recognizes that this definition does not help to come to an agreement on what does and what does not constitute a PPP. From its own perspective, the IMF further limits the scope of this definition by considering that “a typical PPP takes the form of a design-build-finance-operate (DBFO) scheme. Under such scheme, the government specifies the services it wants the private sector to deliver, and then the private partner designs and builds a dedicated asset for that purpose, finances its construction, and subsequently operates the asset and provides the services deriving from it. This contrasts with traditional public investment where the government contracts with the private sector to build an asset but the design and financing is provided by the government. In most cases, the government then operates the asset once it is built. The difference between the two approaches reflects a belief that giving the private sector combined responsibilities for designing, building, financing, and operating an asset is a source of the increased efficiency in service delivery that justifies PPPs”.[2] But the IMF also recognizes that other forms of cooperation between the public and the private sector may come under the general category of PPP. The typology of such arrangements is presented in the following box:

Box 1. PPP Schemes and Modalities

Schemes	Modalities
Build-own-operate (BOO) Build-develop-operate (BDO) Design-construct-manage-finance (DCMF)	The private sector designs, builds, owns, develops, operates and manages an asset with no obligation to transfer ownership to the government. These are variants of design-build-finance-operate (DBFO) schemes.
Buy-build-operate (BBO) Lease-develop-operate (LDO) Wrap-around addition (WAA)	The private sector buys or leases an existing asset from the government, renovates, modernizes, and/or expands it, and then operates the asset, again with no obligation to transfer ownership back to the government.
Build-operate-transfer (BOT) Build-own-operate-transfer (BOOT) Build-rent-own-transfer (BROT) Build-lease-operate-transfer (BLOT) Build-transfer-operate (BTO)	The private sector designs and builds an asset, operates it, and then transfers it to the government when the operating contract ends, or at some other prespecified time. The private partner may subsequently rent or lease the asset from the government.

From: IMF, Public-Private Partnerships, prepared by the Fiscal Affairs Department (in consultation with other departments, the World Bank, and the Inter-American Development Bank), March 12, 2004, p. 8

[1] IMF, Public-Private Partnerships, prepared by the Fiscal Affairs Department (in consultation with other departments, the World Bank, and the Inter-American Development Bank), March 12, 2004, p. 4.
[2] Ibidem, p.7. For the appreciation by IMF of the real gain in efficiency of PPPS see note 23 below.

David Hall, Director of the Public Services International Research Unit (PSIRU), proposes another approach that is interesting as it shows the different situations regarding operation, finance, construction and ownership for different types of PPPs, namely: outsourcing, the British Private Finance Initiative, concessions, lease, and BOT.[3] This approach considers that no matter what the situation is, in the end the public sector retains or recuperates ownership on the infrastructure concerned by the PPP, and that the capital invested is recuperated either by user charges or by contract from the municipality.[4]

		Out-sourcing	**PFI**	**Conces-sion**	**Lease**	**BOT**
Operation	Operation of service	X	X	X	X	X
Finance	Capital investment financed by private operator		X	X		X
	Recouped by user charges			X	X	
	Recouped by contract from municipality	X	X			X
Construction	Construction of asset by private company		X	X		X
Ownership	public during and after contract	X	X	X	X	
	private during contract, public after			X		X
	Private indefinitely					

The Federal Highway Administration of the US Department of Transportation, which has a long experience in PPPs, defines 6 different types of PPPs[5]: Design Bid Build, Private Contract Fee Services, Design Build, Build Operate Transfer (BOT), Long Term Lease Agreements, Design Build Finance Operate (DBFO), and Build Own Operate (BOO). We remark that the American experience with PPPs is wider than the European one, and consequently the US interpretation is broader "and covers a variety of instruments through which government involves business and not-for-profits in the realization of public policy goals." [6]

Finally, the Oxford Handbook of Public management further expands the concept by adding Public leverage to Contracting-out, Franchising, Joint ventures, and Strategic partnering.[7]

---

[3] David Hall, « PPPs: a critique of the Green Paper », available on the website of the Public Services International Research Unit (PSIRU), Univ. of Greenwich, London, 2006

[4] We remark that in some cases the capital is recuperated by both means; this happens when the municipality subsidizes the service concerned with the purpose of reducing the selling price to the customers-citizens.

[5] For the definition see their site http://www.fhwa.dot.gov/PPP/options.htm, consulted 28.03.07. They even add a general category "Other Innovative PPPs".

[6] Chris Skelcher, "Public-Private Partnerships and Hybridity", in Ewan Ferlie et al., The Oxford Handbook of Public Management, Oxford, Oxford Univ. Press, 2005, p. 348.

[7] Chris Skelcher, "Public-Private Partnerships and Hybridity", ibidem.

Confronted with such a diversity, we totally agree with E. Dommen, who rightly complains about the lack of coherence (both internal and external) of these various typologies and definitions, and points to the "catch word" status of the expression "PPP", whose objective is not to give the concept an analytical function, but to emotionally attract as many supporters as possible; if one tries to give the concept an analytical content, it will inevitably lose its emotional attraction power and will lose many friends.[8] And because this has been the case in recent years, Dommen can conclude that the life of the catch word "PPP" is coming to its terminal phase.[9]

Dommen's prophesy might be right, but we have to admit that many initiatives in favour of PPPs are still supported today by powerful actors both in the private sector and within the major international organizations.[10] Instead of discussing the many definitions and typologies of PPP, our research will have the general purpose of discovering the very essence of PPPs, by testing the validity of the case in favour of PPPs. This will be done at 2 levels: first by taking into consideration the conditions which will favour the adoption and implementations of PPPs. These can be administrative, technical, legal, political, and cultural, and will be very much dependant on the national and local situation of the countries who will implement PPPs. Second, by evaluating the results of PPPs on the basis of several fundamental values we will define hereafter. But before we deal with these definitions we propose to start with the following "reasonable" definition, which is sufficiently clear for the purpose of our research:

> *Under the term PPP we will take into consideration all arrangements between the public and the private sector (both domestic and foreign) based upon a contract that may improve all or some of the four basic operations: design, construction, finance and operation of public services, no matter the mix of them. We further consider PPP for both physical capital infrastructure (like power plants, roads, etc.) and human capital infrastructure (like health and education); and we will comprise within the private sector both private-for-profit and private-not-for-profit organisations, including all kinds of stakeholders (including community organisations)[11].*

We will further consider that PPPs may have an impact on 4 fundamental values, that are at stake in the public domain, and that the contribution of PPPs should be evaluated against these values: efficiency, equity, sustainability, and security.

---

[8] Edouard Dommen, " La taxinomie des partenariats public-privé, une première approximation", manuscript kindly provided by the author, pp. 1-3 : « Le PPP relève du mot déclic. Ces mots ne sont pas censés exprimer de concept analytique ; le leur reprocher, c'est se méprendre sur leur fonction, qui est d'éveiller une réaction et d'orienter une attitude. Ils sont censés rassembler et mobiliser. (…) Les associations émotionnelles et culturelles des mots déclic sont ainsi plus importantes que leur contenu sémantique. (…) les spécialistes ressentent le besoin de donner un sens technique précis au mot déclic afin d'en faire un outils de travail. (…) Or, plus on dompte le concep0t de la sorte, moins il titille l'imagination et plus il perd de son attrait émotionnel. (…) plus on précise le contenu du mot moins il compte d'amis.»

[9] Ibidem, loc. cit, p. 3: « Le cycle de vie du mot « partenariat public-privé semble s'annoncer courte : répandue à partir du début des années 1990, elle semble déjà s'approcher de sa phase terminale. »

[10] See more particularly the websites of the United Nations, The World Bank, The International Monetary Fund, The Asian Development Bank, The European Bank for Reconstruction and Development, The European Union.

[11] The inclusion of non-for-profit organizations is today generally accepted, as they may contribute to the realization of public goals. In this sense: Chris Skelcher, "Public-Private Partnerships and Hybridity", in Ewan Ferlie et al., The Oxford Handbook of Public Management, Oxford, Oxford Univ. Press, 2005, p. 347.

2. Definition of efficiency, equity, sustainability, and security[12]

We will define hereafter the fundamental values we have chosen for evaluating the impact of PPPs, and will justify their choice hereafter in section 1.1.

“Efficiency” is used in the sense of a relationship between resources and results, as it has been defined in the well-established mainstream of cost-effectiveness (or cost-benefits) analysis. It may assume two orientations: either one fixes the level of cost and then maximizes benefit, or fixes a level of benefit, and minimizes cost. Both are considered rational, and the choice will depend on considerations that can be political, financial, administrative, social, ideological, national or international.[13]

"Equity" is used here with reference to the fair distribution of goods and services, in particular access to vital resources and infrastructure. The word links the expression "human security" and "sustainable development" by referring to the needs of the recipients of goods or services to which a government can respond. The objective of equitable development is to reduce either economic marginalisation or political discrimination of vulnerable groups such as minorities or women, and to prevent future socio-political tensions or grievances expressed in communal or political conflict.

"Sustainability" of economic development refers to the human, social, political, economic and technological development that meets the needs of the present without compromising the ability of future generations to meet their own needs. Sustainable development is intimately linked to human security; without security, development is impossible. However, sustainability also includes another element, namely the fair distribution of economic and social development to all members of a community or country – hence the emphasis here on equitable access to resources and infrastructure. In addition, sustainable development can also be taken to mean the protection of existing assets as well as future assets still to be developed, such as infrastructure that is vital for economic and social development and for the preservation of the natural environment.[14]

"Security" is taken here as one of the most important values contributing to sustainable development. For the purpose of our research, the expression applies to all security considerations (community-level public safety, national security and international security) that are potentially influenced by, or can influence

---

[12] It is necessary to remark once and for all that the definition of the concepts of efficiency, security, equity, and sustainability is an extremely complex and difficult task, as there is not a sufficient level of consensus among academics, politicians, and more generally, all the major stakeholders. Moreover this diversity is certainly due to differences in historical experience and culture. We will come back to this problem in paragraph 2.5 below.

[13] The theoretical rational foundations of cost-benefit analysis have been established for example by DOWNS, Anthony, *Inside Bureaucracy*, Boston, Little, Brown & Co., 1967, SIMON, Herbert A., *Administrative Behavior. A Study of Decision-Making Processes in Administration Organization*, New York, The Free Press, 1997 (4th ed.), and Aaron Wildavsky. "The Political Economy of Efficiency: Cost-Benefit Analysis, Systems Analysis and Program Budgeting", *Public Administration Review*, December 1966, pp. 292-310. Nas, Tevfik F., Cost-Benefit Analysis. Theory and Application, London, Sage, 1996. A bibliography referring to practical application can be found in Gauthier, Gilles and Huppé François, Cost-Benefit Analysis, An Extensive Bibliography, Boucheville (Québec, Canada), Morin, 1991

[14] The basis for this definition is taken from: World Commission on Environment and Development. Our Common Future, Oxford University Press, 1987, p.43.

infrastructure and the preservation of vital assets for sustainable development.[15] So defined, security is clearly also linked to equity and efficiency, and has in fact a double face: on one side security requires a set of domestic policies aiming at establishing and maintaining a safe institutional, political, social, and physical environment favourable to the development of PPP initiatives, with both domestic and international investors, and this will be the role of domestic authorities which should be evaluated[16]; but on the other side, PPPs should also be evaluated in terms of their contribution to the security on the country, and more generally to the overall security of the neighbouring region, eventually of the whole international system. To further define the content of security, let us enumerate the requirements for both domestic authorities and private investors.

The responsibility of the domestic public authorities in matters of security can be briefly enumerated along the following components[17]:

- First, the countries concerned must be able to reduce to a minimum all sorts of criminal activities, and to keep the remaining ones under control.[18]
- Second, there should be no serious threats of conflict with neighbouring countries, and the government at all levels (central and local) should adopt measures to guarantee a sufficient level of prevention against possible threats of terrorist activities.
- Third, there should be a sufficient level of security for the implementation of laws and regulations, more particularly regarding economic activities, especially as far as property and intellectual rights are concerned; moreover, the government should not be able to change the existing legal rules without going through a well established and transparent procedure.[19]
- Fourth, there should be clear regulations favouring the development of sound economic and business activities, especially those defining the legal forms of private companies, their governance, competition, taxation, bookkeeping, and labour relations. The same should be done for financial markets and insurance companies.
- Fifth, there should be appropriate procedures for ensuring accountability, monitoring and transparency of both governmental and private activities, including PPPs.
- Sixth, security is also linked to the existence of a fair (even if minimal) safety net and a fair policy of income (re)distribution, as these are the best

[15] Questions of critical infrastructure built specifically for military/national defence purposes are not considered in this study.
[16] This of course is necessary for attracting private investment both for PPPs and fully foreign funded enterprises.
[17] Several of these dimensions are clearly linked to the Rule of Law (or to the « Etat de droit »). For the importance of this dimension, and to the related concept of accountability for soft infrastructure: World Bank, Making Services Work for Poor People, op. cit. Let us remark that all the concepts of the enumeration (their definition and exact practical content) are subject to debate, and more particularly the protection of property right, and even more the protection of intellectual property, that can be used (and is often used) by Western countries to maintain a dominant position in the market of certain goods. In this sense: Joseph Stiglitz, Fair Trade for All, op. cit.
[18] We refer here to all sorts of crimes, including economic criminality and of course terrorists' activities.
[19] The exact content of the protection of property right is of course one that is open to discussion. Even more for the concept of intellectual property that can be used (and is often used) by Western countries to maintain a dominant position on the market of certain goods. In this sense: Joseph Stiglitz, Fair Trade for All, op. cit., Chapters 3 and 4, especially pp. 32, 51, 61-62, and 73; Richard Waters, "Intellectual Property. Invention shop or troll factory?, Financial Times, April 26, 2006, p. 7.

guarantees against social and political unrest, that will inevitably jeopardize stability and security, and as a consequence will discourage private investment in general, and more especially for PPPs.

But security should also be a concern for the private investors. They should in particular:

- First: contribute to economic development within the framework of the Government's development strategy
- Second: contribute to the improvement of the infrastructure
- Third: transfer to the public authority technology and expertise for building & managing infrastructure
- Fourth: transfer to the recipient public authority knowledge for assuring security of infrastructure
- Fifth: transfer to the recipient public authority knowledge for protecting the environment
- Sixth: introduce and comply with legal practices according to international standards, especially in contract law, and promote the rule of law

Having defined PPPs and the fundamental values at stake in the public domain, we are now in a position to discuss the status of PPP within the reform process of the last part of the XX century, and to justify the choice of the 4 fundamental values.

1. Some basic arguments: Public - Private Partnership and development strategy

1.1. PPPs, contracting out, New Public Management, and the "Washington Consensus"

Two remarks: first, PPP appears to be another expression for referring to the policy of contracting out State activities.[20] In this sense PPP corresponds to one of the major dimensions of New Public Management (NPM), and for some experts, even to the essence of NPM.[21] Seen in historical perspective, contracting out is not, and by far, something new. Examples of contracting out can be found in the XVIII and XIX century.[22] It is nevertheless true that, after the huge development of State intervention in economy and society (approximately between the end of the XIX century and the late 1970s) contracting out has become, since the beginning of the 1980s, part of the vast NPM programme and of its major explicit goal, i.e. the reform

[20] In this sense: Edouard Dommen, loc. cit.

[21] In this sense see Jan-Erik Lane, New Public Management, London Routledge, 2000.

[22] See for ex. Simon Domberger, The Contracting Organization. A Strategic Guide to Outsourcing, Oxford, Oxford Univ. Press, 1998, pp. 8-9. "Contracting was commonplace (…) in eighteenth- and nineteenth-century England. Services provided by the private sector under contract included prison management, road maintenance, the collection of public revenue, and refuse collection. (…) Similarly in nineteenth-century France, the rights to build and operate railways and water storage and distribution facilities were auctioned by competitive tender." (p. 9.).

of the State and the improvement of its efficiency.[23] This would in turn improve the efficiency of market economy, thanks to the elimination of part of the State regulations, the privatisation or the contacting out of State activities, the decrease of the level of taxation, and the adoption by the State bureaucracy of the managerial tools of the private sector.[24] Although NPM is generally meant for reforming the States in developed countries, there is no doubt that it is part of a broader policy programme in which the so-called “Washington Consensus” constitutes its counterpart for developing and in transition countries.[25] Or, if you prefer, the general set of coherent policies aimed at improving the efficiency of the State has two ideological, theoretical and methodological similar components: one addressed to developed States (the NPM) and another meant for developing and in transition countries (the “Washington Consensus”).[26]

Second, and more interesting, we believe that contracting out, and the larger set of reforms under NPM, should be evaluated taking into consideration not only their advantages in strict economic terms (like saving on the public budget, sustaining the development of the market economy, increasing the GDP, etc.) but also in terms of its impact on society as a whole[27], and on the physical environment.[28] In other words, any institutional arrangement (including PPPs) aimed at improving the provision of resources and services to the population concerned should be evaluated taking into consideration three sets of interrelated phenomena linked to 3 basic structures: economy, society and environment.[29] Moreover we believe that PPPs should also be part of a general development strategy defined by

[23] In the first phase of NPM priority has been put on privatising State’s activities; but since the second part of the ‘90s contracting out has become the preferred device, either because in some countries there was not much left to be privatised or because privatisations had lost their initial appeal to decision-makers.

[24] See our articles on NPM and contracting out: Paolo Urio, "La gestion publique au service du marché", in Marc Hufty (sous la direction de), La pensée comptable. Etat, néolibéralisme, nouvelle gestion publique, Paris, Presses Universitaires de France, Cahier de l'IUED, Genève, pp. 91-124, and « L’avenir des contrats de prestations », in Bellanger, François, and Tanquerel, Thierry (eds.), Les contrats de prestation, Genève et Bâle, Helbing & Lichtenhahn, 2002, pp. 109-130.

[25] For the definition of the « Washington Consensus » see John, Williamson, Latin American Adjustment: How Much Has Happened, Washington D.C, Institute for International Economics, 1990, and “Democracy and the Washington Consensus”, World Development, 1993, Vol. 21, No 8, p. 1331; for a critique see Joseph E., Stiglitz, Post Washington Consensus, published on the Website of the Initiative for Policy Dialogue, Columbia University, and Yujiro Hayami, “From the Washington Consensus to the Post-Washington Consensus: Retrospect and prospect”, Asian Development Review, 2003, Vol. 20, No. 2, pp. 40-65.

[26] In this framework the State is conceived as an institution whose main goal is to serve the market, and as a consequence, the economic development and the improvement of the well-being of the entire society. In this sense, see for ex., World Bank, China 2020, Washington D.C, 1997, 7 vol.: Vol. 1: Development Challenges in the New Century, p. ix. According to this view, and in the perspective of NPM and the “Washington Consensus”, economic development will necessarily improve the well-being of the populations concerned, eliminate extreme poverty, substantially reduce poverty, and drive the countries towards liberal democracy. For the thesis of a causal link between freedom in the market economy and freedom in the political arena see Friedman, Milton, Capitalism and Freedom, Chicago, Univ. of Chicago Press, 1962 (1982 with a new Preface by the author), Ch 1: “The relation between economic freedom and political freedom”, pp. 7-21, et Ch. 2 “The role of government in a free society”, pp. 22-36.

[27] See for ex. P. Urio, "La gestion publique au service du marché", loc. cit.

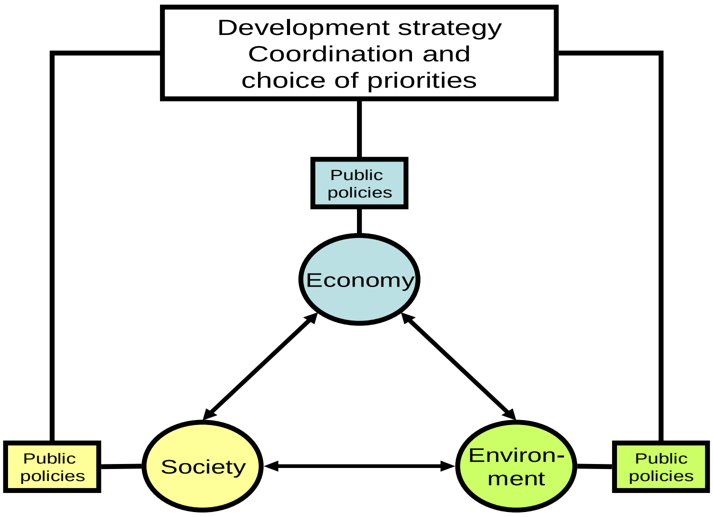
[28] We use this qualifying adjective to make the distinction between human and physical environments.

[29] See for ex. Beat, Bürgenmeier, Economie du développement durable, De Boeck, 2005; OECD, Réconcilier l’économique et le social. Vers une économie plurielle, Paris, OECD, 1996, and Gabrielle Antille, Beat Bürgenmeier, Yves Flückiger, L'économie suisse au futur : une réforme en trois piliers, Lausanne : Réalités sociales, 1997. It is significant that the World Bank has published its world development report of 2006 with the title: Equity and Development, The World Bank and Oxford Univ. Press, 2005. The World Bank has presented its new orientations towards development in its 2004 world development report, Making Services Work for Poor People, World Bank and Oxford Univ. Press, 2003.

the countries that benefit from PPPs. We will develop this last point in paragraph 2.5 below. Figure 1 summarizes these ideas.

Figure 1

General model of a sustainable and equitable economic development 1



The three structures of Figure 1 (Economy, Society, and Environment) are based upon some fundamental values that are not necessarily in harmony. Both theory and experience show that the underlying values cannot be maximized simultaneously[30]. Starting from the seminal work of Deborah Stone, and simplifying her approach, I have proposed to take into consideration four values that are at stake when a policy is set up and implemented: economic efficiency, equity, freedom and security.[31] By studying the process of adopting and implementing public policies, and by following the suggestions of D. Stone, I came to the following conclusions: first, that these values are coupled by pairs, and that there are clearly several trade-offs between the 2 couples of these values, i.e. between efficiency and equity, and between security and freedom;[32] and second that economic efficiency and freedom are better developed in the market, whereas security and equity are better safeguarded by the State. Theoretically one can then formulate the hypothesis that, if a society gives too much space to the State in order to maximize security and equity, it will lose in efficiency and freedom, and vice-versa if it leaves too much space to the market. Although quite interesting, stimulating and efficient in the research process on public policies, this approach presents nevertheless at least four difficulties which must be addressed before we proceed any further.

First, it is not easy to discover in practice what values are typical of each of the three structures of figure 1. And this is certainly even more difficult for in-transition countries that very likely have historical experiences and cultural patterns different from that of Western countries in the framework of which our approach has been

---

[30] Deborah Stone, Policy Paradox. The Art of Political Decision Making, New York, Norton, 1997 (2nd edition),
[31] Paolo Urio, "La gestion publique au service du marché", loc.cit.
[32] Whereas there is a large consensus on the first trade-off, the second is rather controversial, as the concept of freedom is not universally defined in the same way.

developed. For example, efficiency and equity are certainly present in both economy and society; but which one is the dominant one, i.e. the typical one, in the 2 structures? Nevertheless, by examining the development of Western countries since the industrial revolution, and more recently the impact of globalization on both developed and developing countries, one can, with a sufficient amount of confidence, identify **efficiency** as the typical value (in the weberian sense of the word) of the economic structure.

The second difficulty is linked to the opposition between security and freedom and to the rather narrow definition of the concept of freedom, implicit in the typology of the 4 values, as it is clearly linked predominantly to the market.[33] Whereas it is true that access to the market gives people the money which allows them to be more or less free in society, money gained in the market is by no means the only factor giving freedom to individuals. Moreover, we are aware of the fact that the concept of freedom may have very different meanings in different cultures.[34]

Given these problems, we prefer to leave out freedom, as it is not a value directly at stake in this research. In fact the major goal of the proponents of PPPs is to provide services in a more efficient and timely way compared to the provision by the State. Of course freedom can be a by-product of this provision, but not its primary goal. This will not forbid us, at the end of this research, and if the information collected is adequate, from eventually trying to determine whether PPPs have in fact improved the freedom of the people concerned, thanks to the services provided.[35] In doing this, we will not forget, as we said before, that freedom can have different meanings in different cultures.

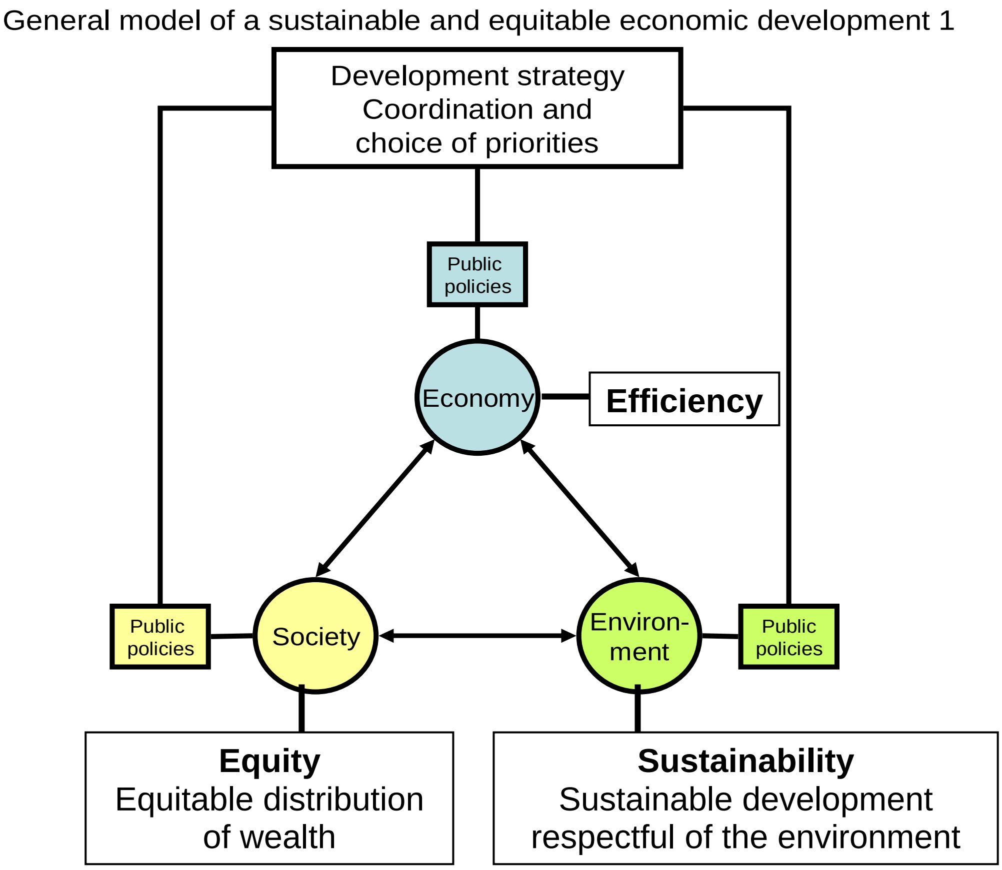
The third difficulty is linked to the fact that the approach based upon efficiency, equity, security and freedom leaves out the fundamental concept of sustainable development. We will introduce this concept in conjunction with equity. If one can consider that the major function of the State is to safeguard the cohesion of society as a whole, by integrating the human and the physical environments, and not only to set up and implement the legal and institutional environment favourable to the functioning of the economy, one can assume that **equity** (of the distribution of wealth) is the typical value linked to the social structure, and **sustainability** (of the economic development) the one linked to the environment. The role of the State will be therefore to find a level of efficiency, equity and sustainability acceptable to all (or the majority) of stakeholders within a given society (see Figure 2).

The experience of NPM in developed countries is quite interesting in this respect. NPM proposals have been based upon the empirical evidence that Western States who had intervened "too much" in economy and society, have considerably

[33] For a stimulating treatment of the concept of freedom see Christian Bay, The Structure of Freedom, New York, Atheneum, 1965 (second ed., with a new preface).
[34] In this context it suffices to mention the statement of former Chinese Premier Li Peng, who in August 1997 attacked ‘the Western world order’, supported a call from Indonesia for a review of the UN Human Rights Charter to place less stress on individual rights …”, quoted by Colin Mason, A Short History of Asia, New York, Palgrave, 2000, p. 2
[35] In this context it is interesting to note that Milton Friedman considers that free of charge services provided by the government in fact limit (or even destroy) the freedom of people, making them totally dependent from the State (Capitalism and Freedom, . Capitalism and Freedom, op. cit.)

reduced the fundamental value of a market economy, i.e. efficiency both for market and State.[36] But on the other hand, in the NPM era that started around 1980, the

Figure 2
Typical values of economy, society and environment



implementation of the NPM policies, while it has improved efficiency of both enterprises and governments, has considerably reduced equity, i.e. a “fair” distribution of wealth. Not only income distribution has become more unequal, but, at its lower end the number of poor people has increased.[37] Needless to mention the negative consequences of the development of the Western economy on the environment that nowadays is being addressed with considerable difficulty by the international community.[38] Hence, the development of the concept of sustainable development, i.e. a strategy of economic development that preserves nature (especially non-renewable resources) and safeguard the interests of future generations. Another interesting consequence is that this situation has created a

---

[36] The general pattern is the following: generous welfare policies, too numerous regulations of all kinds (including those protecting the environment), relatively non-efficient heavy investments in hard and soft infrastructure, and consequently heavy taxation, and high compulsory contributions by the private sector to the safety nets set up by governments.

[37] Not to mention the appearance of the social category of the working poor. Among the vast literature in this domain, the working papers available on the Website of the Luxemburg Income Study are worth reading.

[38] Needless to say that these problems have arisen well before the NPM. But NPM has not reversed the trend.

significative level of social unrest, or at least of opposition to the official policies of some of the Governments concerned, both nationally and internationally.[39]

In this respect China (one of the countries of our research) presents an interesting experience, that points in the same direction. Whereas during the Mao era, the planned economy maximised equity (the Gini index being around .22) efficiency was very low, with huge numbers of poor people. The development strategy that followed that era (based upon the introduction of some market mechanisms) eliminated almost completely extreme poverty, produced spectacular results with an increase of GDP around 10% for 2 consecutive decades, but resulted in a huge increase of inequality (Gini around .45), in new forms of poverty (as the traditional forms of solidarity were not replaced by a modern safety net) and in considerable damages to the environment and to the health of millions of people.[40]

The two examples briefly presented above show that society, economy and environment are closely interrelated, and that the management of the problems related to them necessitates the implementation of policies that will have to manage a complex set of interrelated trade-offs between Efficiency, Equity, and Environmental protection. An important effort of coordination is therefore necessary, and, as resources are limited even in the event of private (foreign and domestic) investment, priorities will have to be established. It is our opinion that coordination will have to take place within the framework of a development strategy, in which the introduction of PPPs will take place and within which they should be evaluated. Of course, the relevant decisions will have a heavy political (and even ideological) character.[41] The examination of these phenomena is clearly outside the scope of our research. But we certainly cannot totally ignore that the feasibility of our practical proposals for PPPs will depend on these kinds of considerations.

The fourth and last difficulty concerns the concept of **security**, which even more than the other values, is not clearly linked to any of the three structures, but is a typical trans-structural value, as it can be assured or hampered by the economy (for example if the market excludes some people), the environment (if pollution threatens the health of the population), and by society (if its structure is unfair for some people).[42] In the introduction to this paper we have tried to overcome this difficulty by apprehending this value both in relation to the investors (domestic and foreigners)

---

[39] It is enough to mention the negative vote of the French and Dutch citizens on the European Constitution, and the social protest movements in France, Italy, Germany, etc., and the opposition to the WTO negotiations.

[40] It is true that since the mid nineties the Government has adopted several policies to fight against these negative consequences. The new eleventh 5-year plan has clearly defined the policies to be adopted to further address these problems.

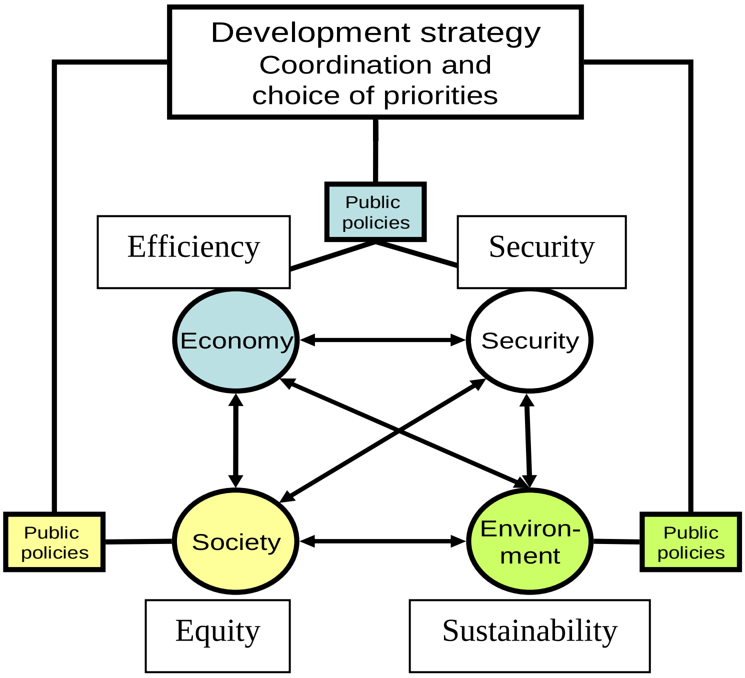
[41] For example the policies towards capital liberalisation, property rights, privatisation, etc.

[42] We are very well aware that efficiency, equity, and sustainability are linked not only to a single structure. But this is the inevitable problem of every approach that analytically separates in theory what is not separated in reality. See on this point the stimulating work of the French anthropologist Maurice Godelier, Rationalité et irrationalité en économie, Paris, Maspero 1974, 2 tomes, tome 2, especially pp.134- 140. Godelier considers two strategies for apprehending social phenomena: on the one hand, that of the open system consists in regarding a social phenomenon as a particular aspect of all the human activities, and on the other hand, the strategy of the closed system, which consists in regarding this same phenomenon as a particular field of activity linked predominantly (or even exclusively) to a single structure, which is generally the strategy used by analytical approaches. Nevertheless we are confident that the privileged (i.e. predominant) link of efficiency with economy, equity with society, and sustainability with environment corresponds to reality. More ubiquitous is the value of security, which is not predominantly linked to any structure. Moreover, it is also connected, but in our opinion not predominantly, with the legal structure.

and in relation to the recipient country. We can now complete figures 2 by adding security to efficiency, equity and sustainability (see Figure 3).

Figure 3

General model of a sustainable and equitable economic development 2



The content of the public policies suggested by Figure 3, related to the four components of the development strategy, will be briefly described in section 2.4. below. We are now ready to discuss our major research goals and hypothesis.

1.2. Our major research goals and hypotheses

Based upon the ideas discussed so far, our research project has given the following definition to our major hypothesis and goals:

> *"Public Private Partnerships (PPPs) enable governments to provide citizens with costly Infrastructure and public services that they might not otherwise have been able to afford. The international community has recognized this and now encourages the establishment of PPPs, but not of any kind. Rather, these partnerships need to take sustainable development, including the reduction of poverty, human security, social equality, and good governance into consideration.*
>
> *However, there are currently no benchmarks, guidelines or selection criteria that governments and the private sector can use to measure to extent to which they contribute to peace, security and sustainable development.*
>
> *The general aim of this project is therefore to bridge the gap between the current reality of PPPs and the vision of PPPs that contribute to sustainable development. The project's objective is, on the one hand, to analyse and evaluate the potential for public-private*

partnerships to contribute to sustainable development and human security, and, on the other hand, to establish guidelines and benchmarks to help such partnerships preserve existing assets and provide equitable access to resources for the communities affected."[43]

Our research is clearly based upon two fundamental hypotheses. The first one is that PPPs may contribute to the economic development of the countries concerned by attracting actors from the private sector to finance, or at least to provide their expertise to some activities considered to be of "public" importance. We will not discuss here the related problems of defining "public goods", private "goods" and the mixed category of "merit goods".[44] But this distinction should be kept in mind, as many PPPs will concern the controversial category of "merit goods": The latter possess a part of "public good" that cannot be entirely based upon scientific evidence, as it is the case for purely public or private goods, and therefore must be approved through political decision-making procedures.

Second, if the partnership between public and private actors is to deliver interesting results, PPPs should maximize the respective strengths of public and private sectors and minimize their weaknesses. In the literature on PPPs it is further said that an effective and efficient PPP should be based upon some common goals, and that the private partner should acquire a sense of "social responsibility" and the public actor a sense of "managerial culture". This sounds quite reasonable, and we agree that these questions are at the heart of the design of PPPs. The problem is that the two partners (especially if the partner on the private side is a private company)[45] have quite specific and different operating strategies, philosophies, and institutional environments that monitor and control their activities, and give them the necessary legitimacy: the public actor will be more oriented by equity and effectiveness, the private partner by efficiency, especially if it is a private company, and for the proponents or PPPs they usually are.[46] It follows that one of the difficulties of our research will be to discover the conditions that will allow to balance and integrate the behaviour of the two partners.

Very often the rationale in favour of PPPs is based upon postulates, i.e. on self evident truths not to be submitted to empirical tests. This is clearly not the perspective of our research, whose goal is to discover the conditions (which could vary from one domain and from one country to another) under which PPPs can

[43] From our research project document: Creating a New Dynamic for Public-Private-Partnership for Peaceful, and Sustainable Development: Human Security and Equitable Access to Resources in Countries at the Pre-PPP Stage, p. vii

[44] Nor will we discuss the theory of market and government failures. The concept of "merit goods" has been developed by Richard A. Musgrave.

[45] We will discuss later the different types of partners that can intervene on the private side. For the moment let us remind the reader that we will consider both for-profit and not-for-profit private partners.

[46] Yidan Wang defines these roles in the following manner (for health and education): « Generally, the public sector or the government attempts to provide health and education services to all at a minimum cost or free. The government develops policies to try to provide equity of access to such services. Non-profit institutions and local communities in many cases have special concerns for reaching the poor and the disadvantaged that are often neglected by the government. These differences in service areas provide a basis for complementing the roles of each other. Business corporations, on the other hand, are concerned with making profit. Unlike the government, for-profit organisations are less concerned with issues such as equal access. They have a tendency to maximize profit in their activities. »,Yidan Wang (ed.), Public-Private Partnerships in the Social Sector. Issues and Country Experiences in Asia and the Pacific, Asian Development Bank Institute, 2000 (available on their Website), pp. 5-6.

deliver interesting results in practice and not only in theory.[47] By "interesting results" we mean results that enhance at least one of the 4 values (equity, efficiency, sustainability and security, without at the same time worsening the 3 others.

Given the difficulties mentioned above, a more realistic hypothesis could be that an efficient and equitable PPP, favourable to sustainable economic development and contributing to the country's security should be based not on common goals, but on fundamentally non-contradicting interests, bounded in a legal document that should contain the following necessary and minimal elements that will be further developed as one of the results of our research. This document should:

(a) specify the characteristics of the service or goods to be delivered in terms of quantity and quality, and the time framework,

(b) clearly identify the beneficiaries, and the condition of access,

(c) define the organisational setting, including the respective responsibilities and roles of both partners (financial, decisional), and the procedures for settling disputes and for assuring transparency, monitoring, and accountability for both partners.

The difficulties we have just mentioned have already been recognized by the academic literature[48], and even the IMF recognizes that « Much of the case for PPPs rests on the relative efficiency of the private sector. While there is an extensive literature on this subject, the theory is ambiguous and the empirical evidence is mixed.»[49] It further recognizes that "the case for PPPs is weaker where the government cannot write complete contracts because service quality is noncontractible".[50]

We are convinced that our hypothesis and goals, as well as the results of our research will make sense only if placed in the framework of the general model of Figure 3. It follows that the most difficult task of our research will be to define what conditions the implementation of PPPs in countries in a pre-PPP stage must comply with, in order to sustain economic development, equitable access to the services

---

[47] For example the statement that provision of public services through PPPs will inevitably be more efficient than the provision by public authorities. Even the first sentence of our goals and hypothesis mentioned above, as stated in our research project document, did not avoid this bias: *"Public Private Partnerships (PPPs) enable governments to provide citizens with costly Infrastructure and public services that they might not otherwise have been able to afford. The international community has recognized this and now encourages the establishment of PPPs, but not of any kind.", (*underlined by me). The use of the present tense *("PPPs enable")* may suggest that PPPs actually enable governments, etc. But this is clearly not the perspective of our research, even if we further say that *"the international community has recognized this"*, which, form a scientific point of view, is certainly not a proof of the validity of the assertion. And moreover immediately after we add *"but not of any kind"*.

[48] See: Pauline Vaillancourt Rosenau (ed.), Public-Private Policy Partnership, Cambridge, mass, The MIT Press, 2000. For a positive assessment of PPPs within the UN structure see Tesner, Sandrine, The United Nations and Business. A Partnership Recovered, New York, St. Martin's Press, 2000, and for a critical assessment: Zammit, Ann, Rethinking UN-Business Partnerships, Geneva, South Centre & UNRISD (United Nations Research Institute for Social Research), 2003. For a general, critical, and documented approach to PPPs, contracting out, and privatization, see the working papers of the PSIRU, Business School, University of Greenwich (www.psiru.org).

[49] IMF, Public-Private Partnerships, prepared by the Fiscal Affairs Department (in consultation with other departments, the World Bank, and the Inter-American Development Bank), March 12, 2004, p. 14.

[50] Ibidem, p.11.

provided, and the preservation of the environment, while safeguarding security, both for local populations and foreigners who are considering to invest and work in these countries.

1.3. Conditions and guidelines favourable to viable PPPs, and the importance of domestic characteristics

The identification and definition of these conditions will depend upon three different sources of information:

1. the analysis of the already existing evidence from the experience of developed and in-transition countries with PPPs experience;

2. information collected in countries in a pre-PPP stage[51] through documentary sources, as well as interviews with the major stakeholders[52];

3. the analysis of the general conditions existing in the latter countries.

The difference between the second and the third source of information is the following: the second is based upon the analysis of opinions, attitudes, values, and strategies of the main actors (micro-analysis); the third on the analysis of structural characteristics, namely (1) the social and political culture, (2) the economic, legal, political, administrative and environmental structures, (3) the geo-political situation of the countries concerned (macro-analysis).

Evidence from previous research shows[53] that it would be foolish to simply transfer to countries at the pre-PPP stage the so-called “best practices” that have proved to deliver “satisfactory” results in developed countries, without considering whether the domestic conditions are favourable or not to such a transfer.[54] But it would also be foolish not to learn from the experience and knowledge acquired by developed and in transition countries with PPP experience. It follows that the problem is: how to take advantage of this experience so that it will be useful for designing and implementing PPPs in the countries at a pre-PPP stage.

---

[51] The countries chosen are: Russia, Ukraine, Poland, and China. Other countries may be added later.

[52] According to the project document, the major stakeholders are: On the governmental side: Ministries and agencies responsible for finance, transportation, communication, economic development, labour and energy, as well as government offices that concern themselves with public security. On the private business side: International and domestic companies that are either already engaged in PPPs or are likely to engage in such partnerships when governments make them available. These companies may be active in the following sectors: Construction and civil engineering, Resource extraction, Shipping and distribution, Communications and information technology, Utility operation and maintenance, etc. On the civil society side: Non-governmental organisations, Non-profit organisations, and local community leaders concerned with access to vital infrastructure, education and health services, as well as the preservation of the natural environment.

[53] See for ex. Joseph E. Stiglitz, Globalization and its Discontent, New York, W.W. Norton, 2002; Stiglitz, Joseph E. and Charlton, Andrew, Fair Trade for All. How Trade Can Promote Development, Oxford, Oxford Univ. Press, 2005; Chang, Ha-Joon (ed.), Rethinking Development Economics, London, Antrhem Press, 2003; Chang, Ha-Joon, Globalization, Economic Development and the Role of the State, New York, Zed Books, 2003; Chang, Ha-Joon, and Grabel, Ilene, Reclaiming Development. An Alternative Economic Policy Manual, New York, Zed Books, 2004

[54] We use on purpose the rather vague concept of «satisfactory », because the definition of what is « satisfactory» depends on the theoretical concepts and on the empirical indicators used to define it (it could be economic efficiency, equity, sustainability, security; or more likely, in the perspective of our research, a combination of all of these indicators.

Therefore, for achieving this research goal, and in order to provide useful and practical guidelines, we should have a very clear idea about the impact that domestic characteristics may have on the success or failure of the implementation of PPPs in the countries concerned.[55] Clearly it is not enough to look only for technical conditions which should be implemented for a successful PPP.[56] Whereas the latter can be easily discovered from the experience of developed countries, it is very likely that their best practices will have to be adapted to the local situation, and this may turn out to be a more difficult task. Moreover, it may even be necessary to change some of the domestic conditions ***before*** PPPs can be introduced in these countries with a reasonable chance of producing the expected positive results.

The last remark should be qualified by the following: if we really wish PPPs in transition countries to become a means for finding their own way, or, in other words, if we wish PPPs to enable these countries (in conjunction with a variety of other organisational arrangements) to cease to be indefinitely dependant on the "support" of developed countries or of international organisations, and to become effective and equal partners in the global system, it is important not to impose on them institutional arrangements that (at least for the time-being) may not only be unfitted to their culture, but also not necessarily favourable to their medium and long term national interest.[57] And this leads us to the analysis of the relation between PPPs and the national development strategy.

2. The role of PPP in the strategy of the countries at a pre-PPP stage

2.1. Hard and soft infrastructure[58]

Before we go any further, it must be stressed that it is important to bear in mind, for the countries concerned, the distinction between soft and hard infrastructure, the two vast domains where PPPs may provide an alternative to services entirely produced and distributed by the State. The first one, "hard infrastructure", refers to physical resources and services (like roads, railways, energy, housing, etc.). Although hard infrastructure is not aimed at directly developing the human capital, it contributes nevertheless in a decisive manner to its improvement, provided people are in a position to have an equitable access to these resources. In order to enable people to take advantage of physical infrastructure it is necessary to develop the second type of infrastructure: "soft infrastructure", whose

---

[55] These may be ideological, social, cultural, economic, financial, geographical, environmental, political, as well as legal.

[56] Technical conditions may be based upon economic, legal, managerial, financial theory and practice of Western countries.

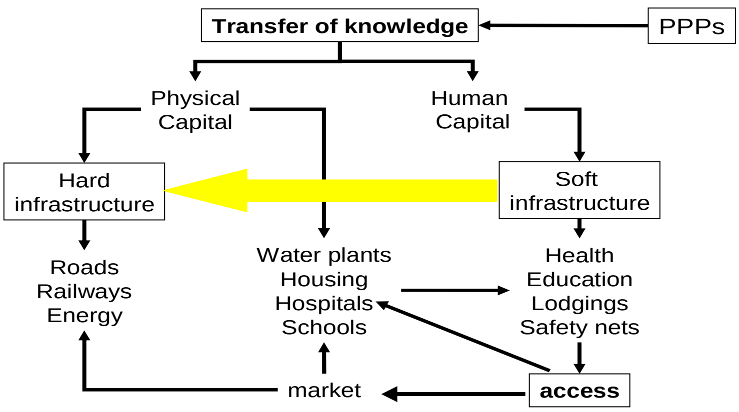
[57] Of course PPP cannot alone solve this problem, but it will be necessary to fundamentally revise the rules of the game of the global economy. See for ex. Stiglitz, Joseph E. and Charlton, Andrew, Fair Trade for All. How Trade Can Promote Development, op. cit., and Stiglitz, Joseph E., Making Globalization Work. The Next Steps to Global Justice, London, Penguin, 2006

[58] The importance of this distinction for developing and in-transition countries has been suggested to us during several discussions with Prof. Hu Angang of Tsinghua University, Beijing. The World Bank has recognised the importance of soft infrastructure in its 2004 world development report, Making Services Work for Poor People, World Bank and Oxford Univ. Press, 2003.

aim is not to develop anything physical, but to directly improve human capital, namely attitudes, knowledge, skills, as well as physical and mental health. It is the domain of education, science and technology (including the dissemination of innovation and best practices) health, and more generally, the development of safety nets.[59]

It is clear that this distinction, as in the case for almost all distinctions in the social domain, has its limits. For example, the provision of health care while clearly being in the category of soft infrastructure as it affords people the good health necessary to accede to the resources produced by other infrastructures both hard and soft, necessitates some kind of hard infrastructure in the form of hospitals, diagnostic centres, laboratories, etc. Nevertheless, the distinction maintains its validity insofar as it points to the different nature of the services provided: human capital resources vs. physical ones: human capital resources (especially education, health, and adequate lodgings) directly improve the capacities of the people to have access to the labour market, and this will in turn allow them to earn the money necessary to acquire the other resources vital for a (at least) a decent way of living. If people are excluded from the market for one reason or another, or if work does not provide sufficient financial means (as is the case for the working poor) some sort of redistributive policies will be necessary to enable these people to have access to resources, either by subsidizing the production of these services, or by directly subsidizing the people concerned. In this perspective, safety nets are to be considered as soft infrastructure insofar as they are in fact a substitute for human capacities allowing people excluded from the market (because of illness, accidents, unemployment, or old age) to have access to resources, thanks to the insurances covering these situations. Figure 4 below summarizes this discussion.

Figure 4
Hard and soft infrastructure



[59] Safety nets are necessary for helping people experiencing financial difficulties, that would otherwise exclude them from the social and economic systems: during childhood, when living in poor families, for acquiring the knowledge and skills necessary for entering the economic system; during active life for helping them to recover from illness or unemployment and for re-entering the economy; when retired, for helping them to have a decent life when not working any more in the economy.

Of course, these two interrelated types of infrastructure are essential for the harmonious development of any society, including developed countries. But in countries in transition it would be useless to develop hard infrastructure (especially if it is wholly funded and provided by foreign organisations) without previously (or at least simultaneously) developing soft infrastructure. Moreover, hard infrastructure PPPs should be designed to favour the transfer of knowledge and technology to the local workforce and elites. Otherwise, they would simply provide services and yield returns to investors (foreign and domestic), without improving the human capital, thus perpetuating the dependence of the countries concerned not only on foreign investment (which is not necessarily negative)[60], but also on foreign knowledge and technology. This transfer is fundamental for building an institutional system in all domains (polity, economy, and society) capable of developing and sustaining the (relative) independence of the countries concerned that will permit them to be integrated as equal and effective partners into the world system.

2.2. PPPs and the development strategy

The considerations developed so far are clearly in favour of a comprehensive approach in which PPPs is part of the strategy these countries have to set up (or have already set up) for managing their transition process.[61] The main purpose of this strategy is twofold (see Figures 1, 2 and 3 above). First, it has to coordinate, both synchronically and diachronically, the various policies driving the transition process. Second, as resources are limited, it also has to set up priorities. The analysis of these processes (given their highly sensitive political and ideological content) is clearly outside the scope of our research. But we certainly cannot ignore that the implementation of PPPs may not deliver the expected results, or may even produce an inefficient allocation of resources, unless they are part of a comprehensive strategy of development, integrating investment in hard and soft infrastructures.

The final, strategic decision in favour of PPPs needs to be preceded by 4 prior decisions: the “time decision”, the “efficiency decision”, the “management decision”, and the “who will pay? decision”. The “time decision” refers to the fact that providing a new service (or improving an existing one) will depend on the urgency of the matter. If there is no urgency, the government could first implement a set of policies aimed at improving the economy, which will eventually enhance its fiscal capacity. It will then be able to finance the provision of the service concerned by the State. The urgency will depend on several domestic factors, such as the demand from the citizens and their intermediate organizations. But one external factor will play a determinant role, and this is globalization. Not the globalization of the economy, but

[60] Foreign investment can help create jobs and wealth, and accelerate the rate of GDP increase. Nevertheless, its potential for developing a mature economy is limited, unless 2 conditions are met: (1) foreign capital is not the only source of investment in sectors requiring high technology and knowledge, or, if in case of joint ventures, the transfer of technology and knowledge should be possible and encouraged; and (2) foreign investments are not mainly concentrated in low added-value production processes, whose products are exported abroad. In this case foreign capital will simply take advantage of cheap labour and will not contribute (at least in a significant way) to human capital development.

[61] The importance of the role of the State for the development of in-transition countries has been recognised by authors like J.E. Stiglitz and H.-J. Chang: see Stiglitz, Joseph E. and Charlton, Andrew, Fair Trade for All. How Trade Can Promote Development, op. cit.; and Chang, Ha-Joon, Globalization, Economic Development and the Role of the State, op. cit.

globalization of information, and above all the access, even for population living in remote areas, to the image of the living conditions of developed countries. This is very likely the most powerful factor determining the urgency of financing services permitting the population to adopt the way of life of developed countries, and, if public money is not sufficient, to resort to private money, either domestic or foreign, invested either in fully foreign-funded companies or in PPPs.

The second prior decision is the efficiency one. If the government comes to the conclusion that private provision of services is more efficient than State provision (and/or if quality is better) then it would favour private investment. But we have already seen that the evidence in favour of private efficiency is mixed. Moreover, financing through the market is generally more costly than through government borrowing, and management of important infrastructures like hospitals, prisons, and schools by private bodies may be more expensive.[62] Consequently, decision in favour of private provision might be heavily oriented by ideological considerations.

The “management decision” concerns some of the advantages for public management put forward by proponents of PPPs, deriving from sharing tasks between the public and private partners. In particular the government must evaluate what are the benefits of transferring to the private partner the construction and the management of the infrastructure or service concerned, as well as the advantages of postponing the payment to the future. Finally, do PPPs permit to transfer the risk to the private partner, or at least to sharing it? These decisions are not simple as the evidence in favour of PPP is at best controversial.[63]

Dealing with the fourth prior decision, the government must chose who in the end will pay the service provided. The previous discussion suggests a truism that is perhaps worth mentioning: money must come from somewhere. If private companies are the only investor in a PPP, money will have to come from consumers, and as this will have to cover production costs (including profits) this may pose some problems for equitable access. If on the contrary, the money comes from the government (either for PPPs totally or partially funded by public money)[64] this may pose problems of high taxation (that may be supported by companies and/or tax-payers), increasing public debt, reduced efficiency and quality of the service provided.

The final decision in favour of private provision will be based upon a delicate balance between the evaluations of the dilemmas posed by the 4 prior decisions, to which the government will certainly add some strategic considerations, which may exclude from private provision sectors considered of political and economic strategic importance. These considerations will certainly orient the government decisions in this domain.

---

[62] See for health care the case of the results of the British Private Finance Initiative: Allyson Pollock, NHS plc. The Privatisation of our Health Care, London Verso, 2004. Of course the evaluation of the performance of PFI is not an easy task, and evidence in favour or against it is subject to debate. For a general evaluation of PFI see Norman Flynn, Public Sector Management, London, Sage, 2007 (5th ed.)

[63] Ibidem, pp. 252-269. For the argument in favour of postponing payment, Flynn says that: ”The advantage to the Treasury was that they would not have to borrow the money and that the capital spending would not appear as public expenditure, thus keeping borrowing and spending low in the year in which the deal was done. (…) What PFI does to the public accounts is to accumulate future liabilities: once long term contracts are entered, there is no cheap way of exiting.” , pp. 252 and 254.

[64] This is because we cannot exclude intermediate situations where the government subsidizes a service (that could be provided either by a SOE or by a private company) in order to reduce its selling price.

Moreover, in case the government decides in favour of private capital it must be able to attract private investors.[65] In this context, a reasonable hypothesis is that investors, both local and foreigners, will be willing to enter PPPs in sectors where return is attractive and safe.[66] Most of the time, this will be the case for hard infrastructure and much less (or not at all) for soft infrastructure.[67] Three options are open to the government:

(a) the government decides to invest alone, because it considers that the sector concerned is very important from a social and/or political (i.e. strategic) point of view[68];
(b) the government is ready to invest in a PPP, either assuming alone, or sharing the financial responsibility with a private partner;
(c) the government is ready to set up a PPP, but is not willing to invest, and simply wants to set up rules for the private contracting partner.

Under these circumstances it is possible that the government may be inclined to heavily invest “its own” money in hard infrastructure, alone or in PPPs [69]. In this case there will be little public money left for investing simultaneously in soft infrastructure, both for entirely State-provided services and for PPPs. But we have already made the hypothesis that for soft infrastructure it will be difficult to attract private money, because returns are less attractive for private investors, especially from abroad. Therefore, in these sectors, the government will most of the time be left alone to bear the burden of investing.[70] Now, soft infrastructure constitutes one of the major pillars for sustaining the economic development; and it needs a huge amount of money, as it comprises education (at all levels), health, and safety nets. Without investment in these sectors a long-term strategy of development allowing these countries to become effective and equal partners in the global economy is likely to

[65] This discussion also suggests once again that decisions about the opportunity and the organisational form of PPPs should be considered within the framework of the government’s development strategy.

[66] We are not considering here situations of serious and violent instability, e.g. permanent threats of civil war and/or terrorism, which will in any case prevent investment (especially from abroad), but cases of “relative” instability which often characterize the situation of the countries concerned. Instability may have different dimensions, not necessarily exclusives of one another: political (both national and international), social, economical, and legal.

[67] Nevertheless, there is a tendency to envisage PPPs in practically all domains of State activity. For example, this has been the case of the international Conference organized in Israel at the beginning of June 2007 by the UN Economic Commission for Europe (UNECE). The objectives and scope of the conference are defined as follows: “PPPs refer to contractual agreement formed between a public sector agency and a private sector entity that allows for greater private sector participation in the delivery of pubic services. PPPs are becoming increasingly commonplace for building new and upgrading existing facilities such as **schools, hospitals, roads, waste and water treatment**, as well as power plants and **telecommunication networks**. They can be a useful tool as part of **regional policy**, for **urban regeneration** and **sustainable development**. (…) … the conference provides an opportunity for government and business to meet and discuss project ideas in sectors as: **transport**, **water, energy, and social services**.”, in International Conference “knowledge sharing and capacity building on promoting successful public-private partnerships in the UNECE region”, UNECE document ECE/CECI/PPP/2007/INF.1, 19 March 2007, p. 2. The parenthood with one of the more radical versions of NPM is therefore evident

[68] This might be a utility (like water), or sectors that are considered as strategic like armament industries.

[69] In addition to the unquestionable utility of hard infrastructure, there are other reasons that may push the government to invest too heavily in hard infrastructure to the detriment of soft infrastructure: the most evident, and documented, is that it gives, at least in the short run, more visibility to the government’s policies, and it can boost national pride.

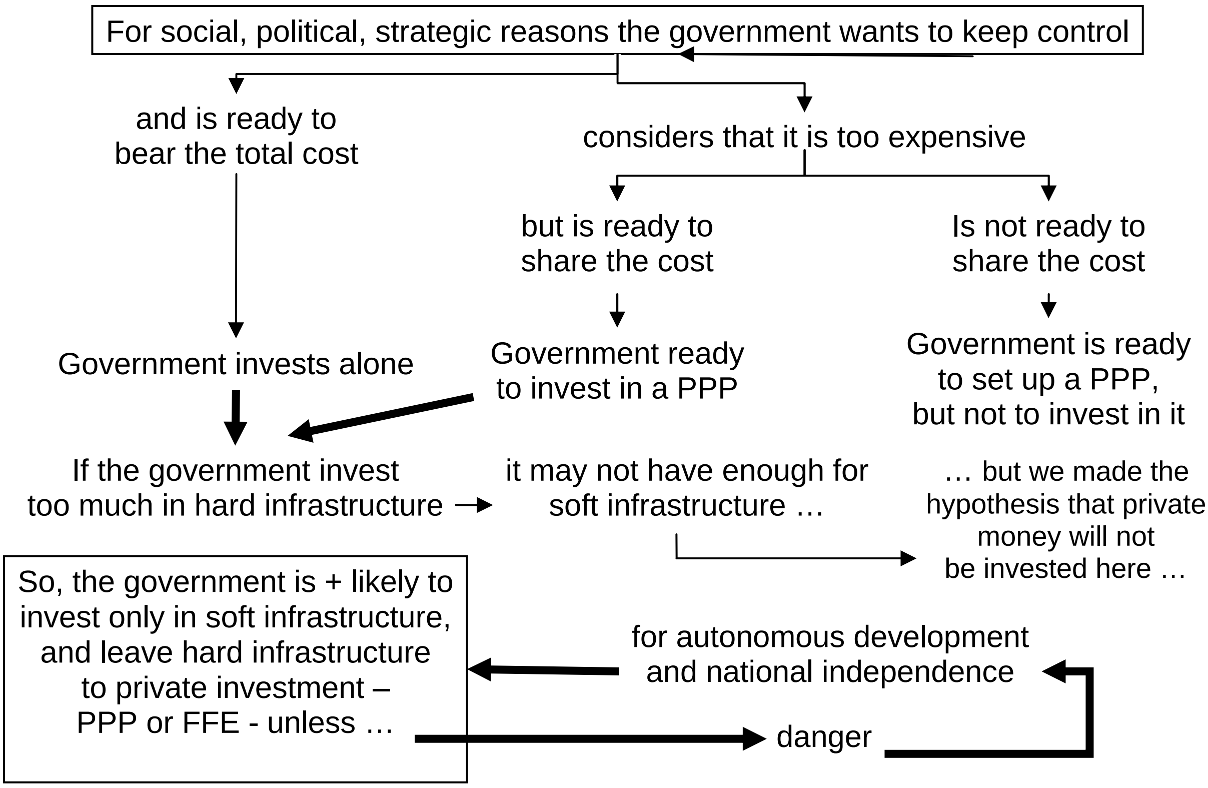
[70] Unless of course if it finds private partners who are willing to share the financial burden; this means that the government is ready to subsidise these PPPs with the purpose of reducing the selling price to customers.

fail. This situation places the government before several dilemmas. If the government were to invest very heavily in hard infrastructure and leave soft infrastructure to private investors (domestic and/or foreign, either in PPPs in fully foreign-funded companies), private investors might be tempted to invest if there is a sufficiently large middle-upper class ready to cover the cost of providing the service concerned. But this will inevitably exclude from the service the lower income classes, unless the government comes in with a minimal service to satisfy at least their basic needs. But as it has invested heavily in hard infrastructure, will it have enough money left?

On the contrary, the government could (as it is often suggested in the West) leave hard infrastructure totally open to wholly foreign-funded companies and concentrate its meagre monies in soft infrastructures. The problem is that by making this choice, it will run the risk of making access to hard infrastructures difficult for marginal and disadvantaged groups. In order to avoid this consequence, the government may then consider investing in both hard and soft infrastructures through PPPs. In this case the problem is that the investment in soft infrastructure (for the purpose of reducing the selling price and thus safeguarding equity of access) will diminish the government's capacity of investing in hard infrastructure.

Of course the final decision will depend on the relative importance that the government will attribute to the different types of hard and soft infrastructure. But there is one problem that will remain open: in any case the financial burden will be very heavy and some trade-offs will have to be made. Figure 5 summarizes this discussion.

Figure 5
The government's options and dilemmas



Moreover, even if private money is abundant for hard infrastructure, it is not at all certain that private investors will join PPPs in sectors that are in harmony with the priorities set by the development strategy; and they may even prefer to invest in fully foreign funded companies.[71] In both cases this may be another source of an inefficient allocation of resources.

Finally, the considerations developed so far suggest that the development strategy of the countries concerned cannot ignore the fundamental distinction between domestic and foreign private investors. Even if this is (once again) clearly outside the scope of our research, we cannot ignore this important element of the development strategy, as for many potential PPPs it would be a mistake to count only on foreign investors, especially on multinational companies. Domestic private investors may be interesting in sectors where foreign investment is not likely or in sectors that the government considers as strategic, and for this reason it does not want to open the market to foreign companies.[72] Moreover, PPPs with private local partners may be more suitable not only for providing resources and services, but also for safeguarding the environment and guaranteeing an equitable access to them. Nevertheless, for this last situation to be true, several conditions must be met: (1) the central government has passed an effective legislation and is capable of monitoring its implementation at the local level; (2) there is not a "corruption propensity" among local officials, (3) there are clear rules for determining access to services, (4) the legal system is sufficiently developed and reliable at the local level for settling disputes. If these conditions are not fully met, a first step in the right direction could be to associate NGOs (Non Governmental Organizations) and/or NPOs (Non Profit Organisations) in the provision and monitoring of these services.[73]

2.3. Who will be the "private" partners" and in what sectors are they more likely to invest, and to realize at least one of the 4 values?

The last paragraphs brings us to consider what partners will be most likely to intervene on the side of the "private" term of the partnership. It is without doubt that all viable partnerships should be taken into consideration. That is, partnerships that improve simultaneously efficiency, security, equity and environmental protection, or at least, one of these without damaging the others. Nevertheless, it is reasonable to forecast, as we have already suggested, that there are domains for which some partners will be more likely and/or suitable than others.

All domains in which PPPs could be introduced may pose problems for at least one of the 4 fundamental values defined in Figure 3 (Efficiency, Equity, Security and Sustainability):

[71] This is also outside the scope of our research, but once again, we cannot ignore it, as it will depend on the level of openness of the domestic market to foreign investments.

[72] It suffices to mention the recent decision of the Chinese government concerning the strategic domains: in December 2006 the State Assets Supervision and Administration Commission (SASAC) published a list of seven sectors critical to the national economy and in which public ownership is considered essential: armaments, electrical power and distribution, oil and chemicals, telecommunications, coal, aviation, shipping (Xinhua, Updated: 2006-12-18 21:00).

[73] We will always quote simultaneously NGOs and NPOs to stress the non-profit character of these organisations.

- from the point of view of security related to wars (both civil and international) or to terrorism, and to sustainability and environmental protection, the most sensitive ones are hard infrastructure like power plants, chemical and pharmaceutical industries, roads, railways, and water;
- from the point of view of equity the most sensitive ones are clearly those in the category of soft infrastructure: education, health, safety nets, to which we propose to add two hard infrastructures clearly more closely linked to soft infrastructure and human capital, i.e. water and housing;
- from the point of view of economic efficiency, all domains may be sensitive, especially when they need to draw from the economy resources which, if left there, would be used to further boost the economic development and the increase of GDP (instead of financing "bureaucratic" activities), or when the State passes regulations that increase the cost of production.[74]

The contradictions that appear in the enumeration above, once again point to the complexity of the development and transition process, and strongly suggest considering PPPs in the framework of an overall development strategy that will consider different types of private actors according to the needs of the policy concerned. The private sector is basically composed of 2 types of actors: private-for-profit and private-not-for-profit organisations. The first category comprises commercial enterprises (including for-profit private hospitals, schools and universities). The second category comprises all kinds of non-profit organisations, including hospitals, schools and universities, NGOs and NPOs, such as voluntary institutions, religious groups and community-based organisations.[75] As noted before, we will always quote simultaneously NGOs and NPOs to stress the non-profit character of these organisations. There is sufficient empirical evidence that these private actors are more likely to join PPPs in some domains than in others. And moreover their contribution will be more effective and efficient in some sectors than in others.

We will now briefly comment on some special cases, i.e. water, housing, education, health, and safety nets. This is necessary because implementation of PPPs in these domains may be more difficult and problematic than in others, especially regarding equitable access.

Water

The provision of clean water is generally considered as a hard infrastructure, but as it provides a resource for human survival more vital than electricity, gas or transportation (and is moreover a natural monopoly) its link with "soft infrastructure" is so close that it certainly needs special attention. PPPs in water provision should therefore comply with very strict requirements for making it accessible at a cost

[74] Numerous regulations have this effect, e.g. regulations for environmental protection related to the process of production and to the management of industrial or agricultural waste; the regulations in the domain of industrial relations, of public health; safety nets, etc.
[75] Adapted from Yidan Wang (ed.), op. cit., p. 5.

affordable for the entire population.[76] The difficulty for attracting private money is the following: apart from problems of security, the main obstacle will be the level of expected return. If this is rather low, the only possibility open to the government for attracting private investment would be to subsidise the provision of this service. Moreover, some strict measures should be taken for limiting the use of drinkable water, and for recycling used waters. Also it is essential to set up strict rules defining the quality of water and assuring the investment needed for the constant maintenance and update of the infrastructure. In this context, the British experience of privatisation of water supply strongly suggests the creation of an agency (the regulator) for supervising compliance with the above mentioned rules. [77] Last but not least, if compliance with such measures could not be reasonably assured by PPPs with private investment, the government should consider the possibility of managing this natural monopoly as a legal one, i.e. as a State monopoly, totally financed by public money. Here again, our mission is not to interfere with the government's choice and will. But, given the very special characteristic of this resource, we certainly cannot leave these considerations completely outside the scope of our research.

Housing

Housing is less problematic than water, but as it is also a basic resource, along with a decent income, access to clean water, education, health, and a decent safety net. Moreover, given its importance in transition countries for improving the living conditions of a large part of their population, it also needs special attention. Nevertheless, the difference with water provision is that housing allows more opportunities for private investments. The most important difference is that it is not a natural monopoly, and this has not pushed the governments to create a legal monopoly. Experience in Western countries allows to envisage many different possibilities for providing this resource: the most interesting one in the perspective of PPPs consists in segmenting the market into a "free market" where competition among private investors provides different types of lodgings at market prices for those who can afford them, and a regulated market where government intervenes for providing housing to those who cannot afford market prices. The possibilities go from the provision of lodgings by the government (generally local governments, eventually with the support of central government) financed totally with public money, to measures for encouraging private investments (e.g. preferential fiscal treatment, provision of public land at a preferential rate) or even the establishment of a PPP funded by a mix of public and private money.

It must be said, as we have already suggested, that as far as the "free market" is concerned, and depending on government's regulations, foreign private investment may even not need nor want to join a PPP. On the contrary, PPPs may be envisaged in the regulated part of the market, where we will find the same problems as for water: government subsidies would be necessary for providing sufficient return for private investors and equitable access for low income households, generally at prices lower than market prices). Here again, as for water, some strict rules are necessary:

---

[76] We mention *in passim* the possibility of making this resource accessible to people at a different price, depending on their financial situation. This could also apply to other resources, especially soft infrastructure (education, health, safety nets), but also transportation.
[77] In fact there are 3 bodies regulating the provision of water: one for the price level, one for the quality of water, and one for environmental protection.

first, for deciding who is entitled to enter and exit the “regulated market”, second for the construction of this type of lodgings. The latter concerns: type and quality of construction materials, sanitary and kitchen facilities, size of rooms, and last but not least construction standards for diminishing the use of energy (namely heating and air conditioning).

Education, health, and safety nets

Each of the “soft infrastructure” sectors (education, health and safety nets) would require a long treatment. Here we will limit ourselves to the some fundamental considerations.[78]

First, these sectors are less likely to attract private (domestic and foreign) investments, for reasons similar to those already mentioned for water and low rent lodgings, unless the government comes in with enough money to attract private investors in PPPs, or if it leaves part or the entire sector to the market and if, in this case, at least part of the population is willing to purchase these services at market prices. And we run the risk of coming across the same problems mentioned above: (a) an overspending of public money not necessarily in tune with the development strategy, and/or (b) an inadequate government financing, that will result in a selling price high enough to prevent access for vulnerable groups of citizens (e.g. in the case of higher education)[79] or in a dual system (e.g. for health and safety nets) one for the lower incomes and another (more generous) for medium and upper bracket incomes.[80] In all these cases a satisfactory level of equity would not be attained, or at least it would be debatable.[81]

It is in these domains that on the side of the ”private” end of the partnership it would be advisable to look not only for private companies, but also for NGOs and NPOs. Although these organisations are in principle more suitable for realising equitable access for vulnerable groups to the services concerned, they will have more difficulties in providing enough money for PPPs. Nevertheless, the government should consider (as in the case of housing mentioned above) the possibility of “segmenting the market”, by setting up PPPs with private investors for the middle and upper classes of households (or leaving it to the free market), and try to cooperate with NGOs and NPOs for providing these services to the lower classes. In the latter case the government may also consider the possibility of providing these services through public agencies, and evaluate whether a hierarchical organisation is preferable or not to a contracting out strategy.

---

[78] An interesting analysis of contracting out in Health Systems has been presented by Jean Perrot, Le rôle de la contractualisation dans l’amélioration de la performance des systèmes de santé, Discussion paper n. 1, 2004, Department « Health System Financing, Expenditure and Resource Allocation », World Health Organisation, Geneva, 2004.

[79] This may also be true for all levels of the education system if families are required to pay tuition fees at all levels.

[80] For insurances the result would be that the lower income households will benefit from the State’s insurance (that may not have a sufficient coverage from the point of view of equity), and medium and upper income families will widen the coverage by subscribing private insurances.

[81] The danger of harming equity would be even greater if the government were ready to leave the provision of these services entirely to private companies.

2.4. Towards a model for the integration of PPPs into the development strategy of countries in a pre-PPP stage

Starting from the considerations developed so far, we propose to summarize them in a model presented in Figure 6. We have completed figure 2 and 3, that presents the 4 dimensions of our research (Economy, Security, Society and Environment) and we have added the major relevant policies that will realize the values we have discussed in the previous paragraphs, as being of fundamental importance for implementing PPPs in countries in a pre-PPP stage.

The coordinated and integrated goal of these policies (represented in Figure 6 in the middle of the quadrangle: Economy-Security-Society-Environment) is to build a society that improves the attainment of the 4 values (efficiency, equity, sustainability and security) and that should present the following characteristics:

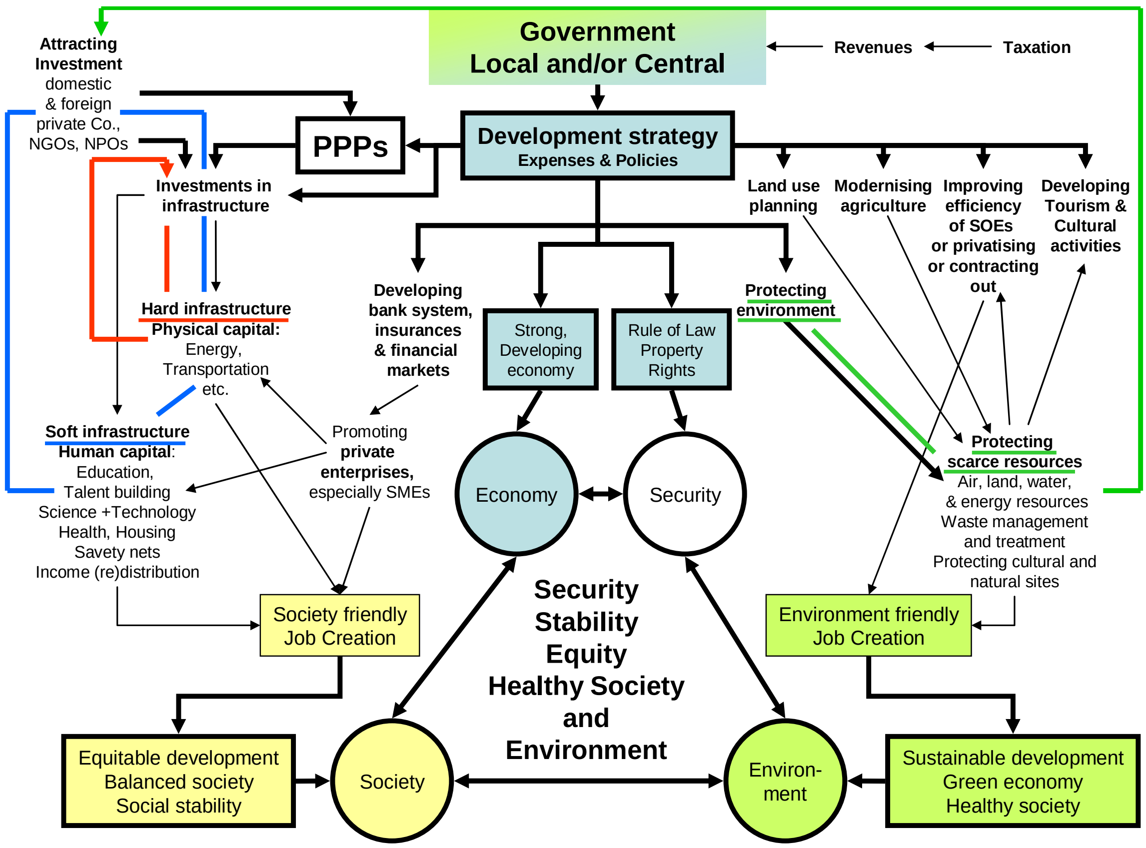
- an economy developing with a level of <u>efficiency</u> compatible with a <u>sustainable</u> pace,
- human activities (both private and public) organised and coordinated in a way that <u>preserves the environment</u>, and more particularly scarce and non-renewable natural resources,
- human activities (both private and public) organised in a way that realizes a balanced society with a reasonable, acceptable, and improving level of <u>equity</u>, and <u>security</u>.

It is moreover generally accepted that social, economic and political stability will favour the attainment of this integrated goal, which can be realized by different means, among which PPPs may be an interesting alternative. Valuable PPPs will have to satisfy this integrated goal at least on one of its values without harming the others. The main purpose of our research is to discover what are the conditions necessary for realizing this goal.

Let us now briefly comment on Figure 6. The figure is divided into 4 parts: in the upper middle part we have placed the government (central and/or local) with its development strategy, comprising the coordination of different types of public policies aimed at developing the economy, assuring security, safeguarding social cohesion, and protecting the environment. In the lower middle part, we have reproduced the quadrangle of our 4 basic components of figure 3: Economy, Security, Society, and Environment, to which these policies are addressed. In each of these domains, PPPs may provide an interesting alternative to infrastructures and services provided entirely by the government.

The left part of figure 6 presents the choice open to the government to organise alone or through PPPs the provision of hard and soft infrastructures; the policy of developing an efficient and reliable banking and insurance system, and financial markets; the related policy of sustaining and promoting the private sector (especially SMEs, as the major source of jobs creation). These policies should contribute to a **"society friendly job creation"**, i.e. a situation where the development of an efficient and competitive economy (source of jobs and revenues) is balanced by a set of policies aimed at the development and support of the human capital. This is done by developing education at all levels (including adult education) and providing a reasonable but efficient safety net, including health care and insurance, old age pensions schemes, and unemployment insurance that will result in equitable development, a balanced society, and social stability.

Figure 6



For practical reasons not all the policies aimed at the realisation of economic development, in which PPPs could be a possible choice, could be represented in the left part of figure 6. For this reason, in the right part of the figure we have added other policies that could benefit from a PPP strategy, and first of all land use planning (including urbanisation and urban regeneration). This is a transversal policy aimed primarily at defining what type of economic activities can be developed on what part of the national territory. Not only it provides the economic actors with the legal security they need when planning their activities, but it also sustains several policies, namely economic development and the modernization of agriculture. This is interesting not only for improving the efficiency of this sector (for satisfying national strategic goals of assuring a relative autonomy in food production, and for favouring the exportation of some agricultural products), but also, in the general framework of the strategy of economic development, for a policy of transfer of manpower to the other sectors. The reform of SOEs is another important domain, not only for improving the efficiency of these enterprises on both the domestic and the global market, but also for environmental protection. In some countries (and China is a good example, as the size of this sector is still quite big) SOEs are a domain where PPPs could be a viable alternative to governmental provision. Finally, we have introduced the development of tourism (especially eco-tourism) and cultural activities that can contribute to both environmental protection and job creation. These policies will contribute to an **"environment friendly job creation"** that will result in a sustainable economic development, a "green" economy, and a healthy society.

Let us now summarize the dynamic suggested by Figure 6: the government collects its revenues from taxation,[82] and invests this money in policies that should be coordinated so that they realize the integrated goal defined above. This can be achieved in many ways:

- by investing in the 2 types of **infrastructure**, alone or in partnership with private enterprises (local, national or foreign) or with NGOs and NPOs; the choice will be based upon the motives and considerations explained above, and the competitive advantage of the country in the short, medium and the long term;[83]
- it must set up an efficient **banking and insurance system**, and a robust **financial market**;
- this will help sustaining the development of **enterprises** (both public, private and mixed) especially **SMEs**, as they are the main source of job creation;
- it must modernise **SOEs**, or privatise them in different ways[84]: by fully privatising them (with or without a regulator) or by contracting out their activities (with or without a competitive tendering procedure); and in the case of a shareholder company the government should decide whether it wants to keep part of the shares, a golden share, or none);
- it must define a clear and reliable land use planning (including urbanization);
- it must set up a policy of **environmental protection**, including waste management;
- it must modernise the **agriculture** in order to increase productivity; this will enable the transfer of rural manpower to the second and third sectors. At the same time modernisation will introduce production techniques respectful to the environment;
- it must develop **tourism**, and more particularly eco-tourism (this being linked to the modernisation of agriculture), source of jobs and revenues;
- it must develop **cultural activities**, source of jobs and revenues;
- linked to the 2 previous items, it should **protect cultural and natural sites**;
- it should develop several strategies for assuring **security**, according to the general scheme described in point 2 of the introduction;

[82] Local authorities collect money from taxation (if they are allowed to do so by central government) and through transfers from central government. The management of fiscal policy is an important part of the government task: a too heavy taxation (on enterprises and/or on households) may harm the development by increasing the cost of production for enterprises and depressing the internal demand.
[83] On the importance of evaluating the comparative advantage in the long term see Joseph Stiglitz, Fair Trade for All, op. cit, Ch. 2.
[84] The choice will depend on considerations based upon economics, as well as on social and political considerations. Needless to say, the legal forms of the organisational arrangements may be very different and numerous.

- in order to reinforce the above-mentioned policies,
    - it should set up a modern (even if limited) **safety net**, that will help to provide equitable access to resources and services, will help to sustain internal demand, and will avoid the appearance of social and political unrest, and
    - a **legal and regulatory framework** in the perspective of introducing practices assuring transparency, evaluation, accountability and **good governance**.

The model shows several virtuous circles that will sustain the strategy of economic development, and more specifically thanks to the attraction of domestic and foreign investments towards both fully privately funded companies and PPPs:

(a) the development of soft infrastructure will put at the disposal of private companies a well-trained local manpower, and this will further increase their willingness to join PPPs, joint ventures, or to set up entirely privately funded companies
(in blue in Figure 6);

(b) the same is true for hard infrastructure: a good communication network (roads, railways, telecommunications, housing) will attract investment, especially from abroad and these activities will attract new investors
(in red in Figure 6);

(c) the development of an efficient banking system, of insurances, and robust financial markets will favour the development of both domestic and foreign companies, including SMEs; moreover, an effective regulatory framework implemented by competent supervisory bodies in these domains, will encourage foreign investors to join domestic companies in joint ventures, public bodies in PPPs, or even to create private companies;

(d) the policies of environmental protection, land use planning, and modernization of agriculture will contribute to the creation of an attractive environment for both domestic and foreign investment
(in green in Figure 6);

(e) similarly, a policy of protecting scarce resources will not only help SOEs to achieve their reforms by adopting production processes respectful of the environment, but will also help developing tourism and cultural activities, which in turn will contribute to the development of a pleasant environment capable of further attracting private investment.

The coordination and harmonisation of these policies pursue the integrated goal of sustaining the process of change,[85] leading to a balanced, secure and stable society, giving equitable access to resources and services to all citizens of the present and future generations, thanks to the organisation of a sustainable economic development, whose production processes will create wealth and jobs in a manner that is friendly to both society and environment.

---

[85] In a prior version of this paper we used the term "modernization". We are grateful to Marco Giugni for having pointed to the ambiguous character of this concept. Change seems to be a more neutral term. Of course it points to the rejection of existing practices, rules, habits, and institutional arrangements. But this is what is actually going on in the countries concerned by this research. And we have already taken the position that this change may not drive these countries towards ways of organizing their society similar in all aspects to the Western model. We will further develop this point in the conclusion.

Conclusion: *Transition towards what?*

We would like to conclude this paper by discussing a hypothesis (for some a postulate) that is often presented in the discussion about countries in transition. Most of the time, it is assumed that the countries concerned “will inevitably” (or “should necessarily”) evolve towards forms of political, legal, administrative, and management organisation similar to those of Western countries. This is in particularly the case when these countries begin to introduce into their society some of the features of Western culture,[86] like market mechanisms, legal arrangements especially in the form of contract law, etc. The hypothesis (or the postulate) is that these innovations will inevitably lead to a mechanical transposition of the whole set of institutions, values, and rules of behaviour typical of Western countries. If the in-transition countries fail to do so, the inevitable judgment is that they have not yet attained the high standard of development established by Western countries. PPPs are just a special case of this context. The problem is that this attitude does not take into consideration the characteristics of the countries concerned at their present stage of development. This is certainly one of the reasons why many in-transition countries have found themselves worse off after having implemented some of the prescriptions of Western countries and/or of Western dominated international organisations.[87] The same may be true for PPPs. We should therefore be very careful when defining the guidelines for a successful PPP. Three fundamental concepts should be treated with great care in this context.[88]

First, the market economy and its laws and practices are too often presented today in a simplified form that ignores the long historical process, and different forms that a market economy can present at different stages of its development. Imposing to the rest of the world the present organisation of the market economy as it exists in the West (i.e. in the US and EU) would not be of much help neither for the development strategy nor for the implementation of PPPs in the countries concerned by our research.[89] Second, the legal system upon which liberal States are founded may also present substantial differences, and third, the same is true for the related concept of democracy.

---

[86] The list of innovations introduced first by the West is generally over-estimated. For example, Colin Mason, A Short History of Asia, New York, Palgrave, 2000, p. 5, reminds us that “eleventh century Sung society used credit banking and cheques, and could inoculate against smallpox”. For an evaluation of Chinese contribution to science and technology see the monumental work of Joseph Needham, Science and Civilisation in China, 7 volumes, Cambridge, Cambridge Univ. Press, different dates; for a shorter but complete account: Robert Temple, The Genius of China. 3’000 Years of Science, Discovery and Invention, London, Prion, 1998 (Introduced by Joseph Needham); for a general evaluation of the Eastern innovation transposed into Western countries see John M. Hobson, The Eastern Origins of Western Civilisation, Cambridge, Cambridge Univ. Press, 2004.

[87] Here we refer again to the references of note 53 above.

[88] It goes without saying that the following consideration would need a much wider development. Nevertheless we have opted for presenting them, even under a very short and therefore incomplete form, as they are, in our opinion, essential for a successful implementation of PPPs in the countries concerned.

[89] See the fundamental works of Fernand Braudel, La dynamique du capitalisme, Paris, Flammarion, 1985; Civilisation matérielle, économie et capitalisme (XVe – XVIIIe siècle), Paris, A Colin, 1979, Vol 1: Les structures du quotidien; Vol 2: Les jeux du l’échange; Vol 3: Le temps du monde. For a brief analysis of different ways of analysing capitalism: Tom Bottomore, Theories of Modern Capitalism, London, Allen & Unwin, 1985. For the analysis of the variation of the institutions of capitalism: Hall, Peter A., and Soskice, David (eds.), Varieties of Capitalism. The Institutional Foundations of Comparative Advantage, Oxford, Oxford Univ. Press, 2001. For different types of welfare systems within capitalist societies: Esping-Andersen, Gosta, The Three Worlds of Welfare Capitalism, Princeton, Princeton Univ. Press, 1990.

In would be unfair, and unrealistic, to expect that in-transition countries immediately and simultaneously adopt the same organisation and rules of behaviour as Western countries.[90] And it is not at all certain that they will evolve towards the same type of organisation. And even if they do, this will take at least several years or decades before they attain the same level of formal rules, practical experience, and maybe more fundamentally, the same cultural values, and the personality necessary for the functioning of an economic system "Western style". Therefore, it seems to me more realistic, at least at the beginning of the introduction of PPPs, to look for "functional equivalents" to the organisational arrangements that we consider in the West as more suitable to the development of a healthy society, i.e. arrangements suitable for developing the economy, assuring security, equitable access to the wealth so created, and respectful of natural and not-renewable resources.[91]

This does not mean that we do not believe in the existence of universal values, but these must be fundamental values of the human species, and not the values of a parochial, even if successful, culture.[92] The content of these universal values may be better discovered and understood if we place them under the general value of freedom from any physical and psychological manifestation of violence.[93] The realization of this fundamental value implies that individuals be empowered, i.e. be entrusted with the resources that will enable them to take part in the common activities of producing and distributing resources (i.e. wealth) within society, and to receive in return an equitable access to these same resources. These can be briefly defined as any kind of assets capable of empowering the individual, and making him capable of freeing him from physical and psychological violence. These resources cannot be limited to the economic and financial ones, but belong to a wider category: social and legal rules, goods and services, information, knowledge, skills, ideas, and values.[94] Only if the linkage between the participation in the creation of wealth and

[90] The case for the conditions necessary for becoming member of the European Community is of course very different from the perspective of our research. For countries wanting to join as full members the EC, it is not only a question of adopting measures necessary for attracting foreign investment "from outside"; it is a question of working "inside the Community" by necessarily respecting the same principles, rules and values upon which the EU is founded, i.e. those of a Western democracy and of a market (capitalist) economy "European style". Let's remark that countries in a pre-PPP stage may be in quite very different economic, political, legal, and social situation. This is the case for the countries chosen for our research where we have two countries that are clearly not candidates to the EU (Russia and China, and there are huge differences between them), Ukraine (that could become a candidate), and Poland who has recently become a member.

[91] An interesting, even if not entirely convincing, analysis in this direction has been done for the Peoples Republic of China by Yi-min Lin, Between Politics and Markets, Firms, Competition, and Institutional Change in Post-Mao China, Cambridge, Cambridge Univ. Press, 2001

[92] For the impact of Western culture on PPPs see Glen Paoletto, « Public-Private Sector Partnership: An Overview of Cause and Effect », in Yidan Wang, op. cit. pp. 30-47. Furthermore, we are convinced that the successful transposition of institutional arrangements (like PPP) to other cultures will also depend to the "good behaviour" of the actors concerned. In this respects it is evident that corporate scandals (of which the Enron one, though not an isolated case, is considered by many as the most representative) have done a considerable harm to the image of market economy in developing countries.

[93] We exclude in this context the use of "legitimate violence", We are aware that the definition of this concept is open to debate, although a good starting point may be the typology of legitimate domination developed by Max Weber.

[94] We have developed elsewhere the analysis of the role of resources within the context of power relations and structure: Paolo Urio, Le role politique de l'administration publique, Lausanne, L.E.P. 1984, Ch.V. The resources are produced ands distributed through several interactive processes, namely, decision-making by State authorities, socialization, information, social control, organisation, production, distribution, and legitimation.

the return from it is realised, everyone will benefit from an equitable access to basic resources.

The realisation of this goal may take some time, a few decades for countries that have already developed some of the conditions favourable to development, but some other countries may need much more time. It may also need an incremental approach and process, through which factors of physical and psychological violence are removed one after the other, rather than through a sudden, comprehensive "revolutionary" change. In the West we have too often forgotten how long it has taken for us to set up an open, participatory society[95], where the values of efficiency and solidarity are equally considered as important.[96] We know how difficult it is to maintain an acceptable equilibrium between these two values, and that the equilibrium we have arrived at today (both within national states and internationally) is considered by many as basically unsatisfactory.[97]

The conclusion is that we should favour all kinds of institutional arrangements (including PPPs) that allow the countries concerned to manage their transition process towards more freedom from any physical and psychological manifestation of violence. Freedom here is taken as a consequence not only of better formal rules protecting individual rights, but also as a more equitable distribution of resources, and a better preservation of the environment for both present and future generations. This may not correspond "at once" to our idea of an open and participatory society as we know it in the West today. But it would help the countries concerned to start the journey we have started more than 2 thousand years ago with a reasonable chance of succeeding.[98] And we cannot exclude that they will choose to follow another way, which at the end of the journey may improve their society to such an extent that it will become the standard for the rest of the world.

Geneva, August 2007

Paper in progress: comments welcome!

---

[95] In this context, I use this concept as an alternative to "democratic society" (I should add "as we know it in the West"), as it contains the 2 basic prerequisites for a democratic society: openness and participation. Without which it would be impossible to build a democratic society.

[96] Among Western countries there is a considerable variation as to the mix of economic efficiency and social solidarity, some of them being more close to the « equal treatment » than others. But it is undisputable that all of them have taken into consideration both of them though democratic decision-making, thus allowing the majority of their citizens to approve the existing mix of efficiency and solidarity.

[97] World Bank, World Development Report 2006. Equity and Development, Washington, World Bank and Oxford Univ. Press, 2005

[98] We can trace back to ancient Greece and Rome the first intellectual and institutional dimensions of present-time Western countries. And we know all the regressions we had to go through, the last one being the dreadful period going roughly from 1914 to 1945.