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Private Participation and Improved Public Service Delivery

Kamal Shehadi

Conference on "Good Governance for Development in The Arab Countries"

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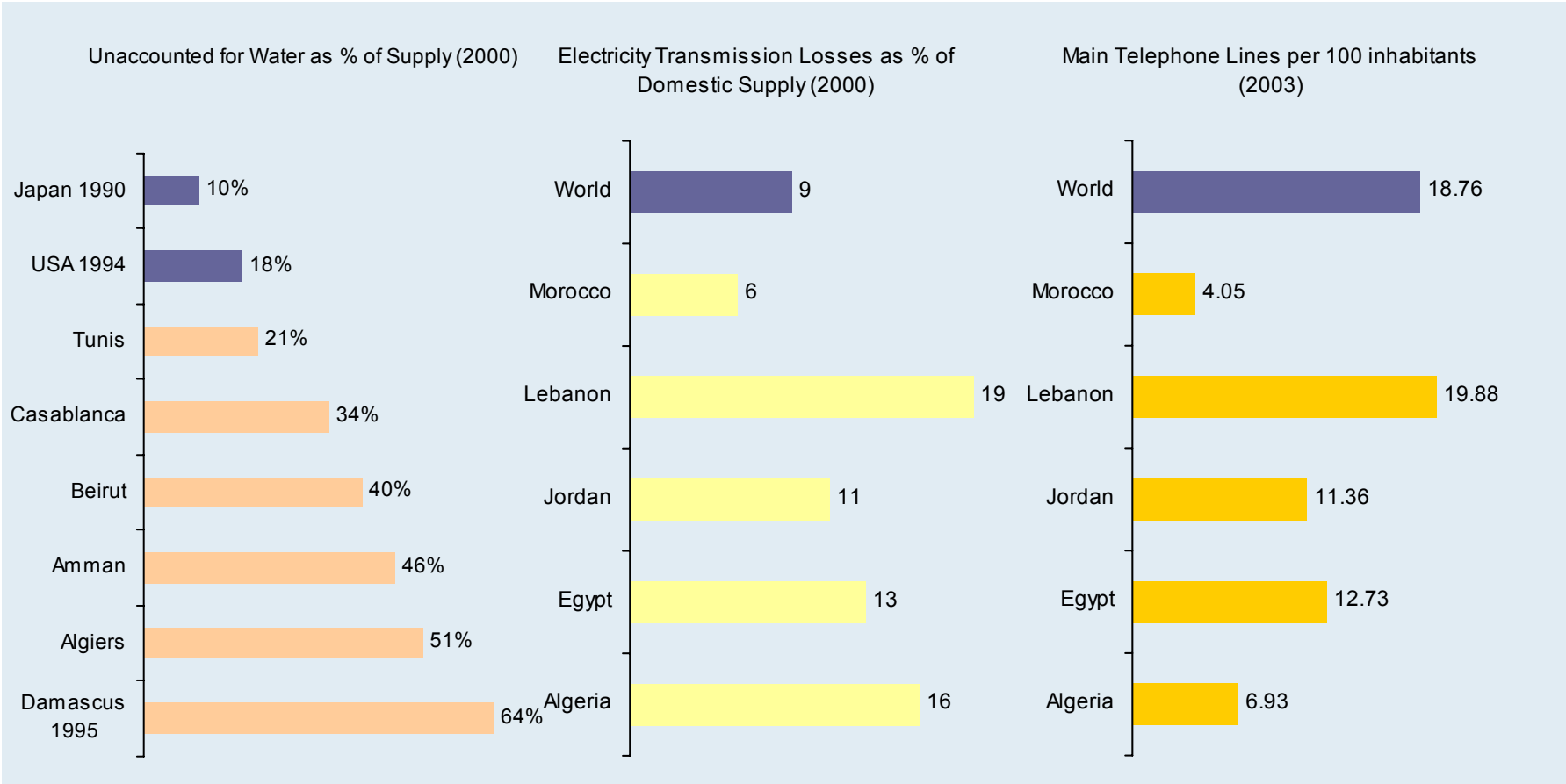
The performance of public services in Arab States has been dismal compared to global averages

Infrastructure Service Indicators in Selected Arab States



Source: The World Bank, ITU

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Private participation in public service delivery is instrumental in improving these services

Private Participation in Public Service Delivery

- Private participation in the delivery of public infrastructure services improves access to these services, their price and quality, as demonstrated by regional and international experience
- Private participation in public service delivery can take one of many forms, and governments should select the form most suitable to deliver the desired results
- The success of public-private partnerships depends primarily on the regulatory framework within which privatized businesses operate
- Private participation in public service delivery can be designed to target poorer population segments and improve services delivered to them
- Some Arab countries have been able to establish sustainable and welfare-enhancing public-private partnerships, primarily in telecommunications

Private sector participation in the delivery of public services raises challenges, but also opportunities, if properly regulated

Impact of Public-Private Partnerships on Service Delivery

	Challenges	Opportunities	Key Factors
Access	▪ Private sector has no incentive to serve poor population segments (communities, areas, social classes…)	▪ Private sector participation fuels expansionary investments ▪ Private sector can obtain low-interest loans for risky investments	▪ Access targets can guarantee that service reaches all population segments ▪ Universal service obligations and tax breaks enhance the feasibility of providing access to unserved or underserved population segments
Price	▪ Private sector participation leads to price increases as the private sector is motivated solely by profits	▪ Private sector participation enhances efficiency and cuts losses ▪ Private sector participation brings in innovative financing methods	▪ Adequate price regulation eliminates abnormal profits and ensures cost recovery, which is the basis for efficiency ▪ Key Performance Indicators can be set for the private operator, inducing efficiency gains and motivating price drops
Quality	▪ Private sector socially irresponsible and has no interest in monitoring quality ▪ Private sector sacrifices service quality to increase profits	▪ Private sector participation introduces technical and managerial expertise ▪ In case of competing private sector players, quality enhancements spurred on to differentiate services	▪ Quality of Service Indicators can be set for the private operator and monitored on a regular basis

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Public provision of services has often failed the poor in terms of access, price and quality, which can be remedied by private sector participation

Shortcomings and Private Sector Role in Public Service Delivery to the Poor

Shortcomings

- Poor incentives for providers to serve the poor
- Substantial shortage in external resources
- Ineffective use of resources
- Non productive resources
- Lack of accountability in service delivery
- Diversion of public services from the poor to non-poor but politically influential groups
- Absence of reward for effective service delivery
- Absence of penalty for ineffective service delivery
- Lack of innovation in service delivery methods
- Underlying public institutions obsolete
- Low wages that fail to attract and motivate qualified staff
- Corruption
- Lack of awareness and demand for services
- Low quality of service
- Association of service delivery with political considerations

Private Sector Role

- Objective private service providers can be financially motivated to provide services to the poor
- Private providers have easier access to external sources, such as funding or technology
- Private providers have incentives to use resources more efficiently
- Private providers have more expertise, and thus bring about productivity gains
- The introduction of a private provider directly makes it accountable to the user of the service
- Public service provision by the private sector reduces the role of political patronage for population segments
- Increased profits are a reward for efficient service delivery by private providers
- Financial losses are a penalty for inefficient service delivery by private providers
- Private sector providers are more innovative
- Privatization is typically accompanied by a modernization of the institutional framework for service delivery
- Private providers have flexible wage structures and can retain qualified staff
- Properly compensated private providers are less likely to be susceptible to corruption
- Private providers have the incentive to spread awareness and broaden demand base
- Private providers are more experienced, and particularly if competition and the incentive to differentiate services is present, provide better quality services
- Private sector may be more immune to political considerations

Source: Adapted from the World Development Report 2004

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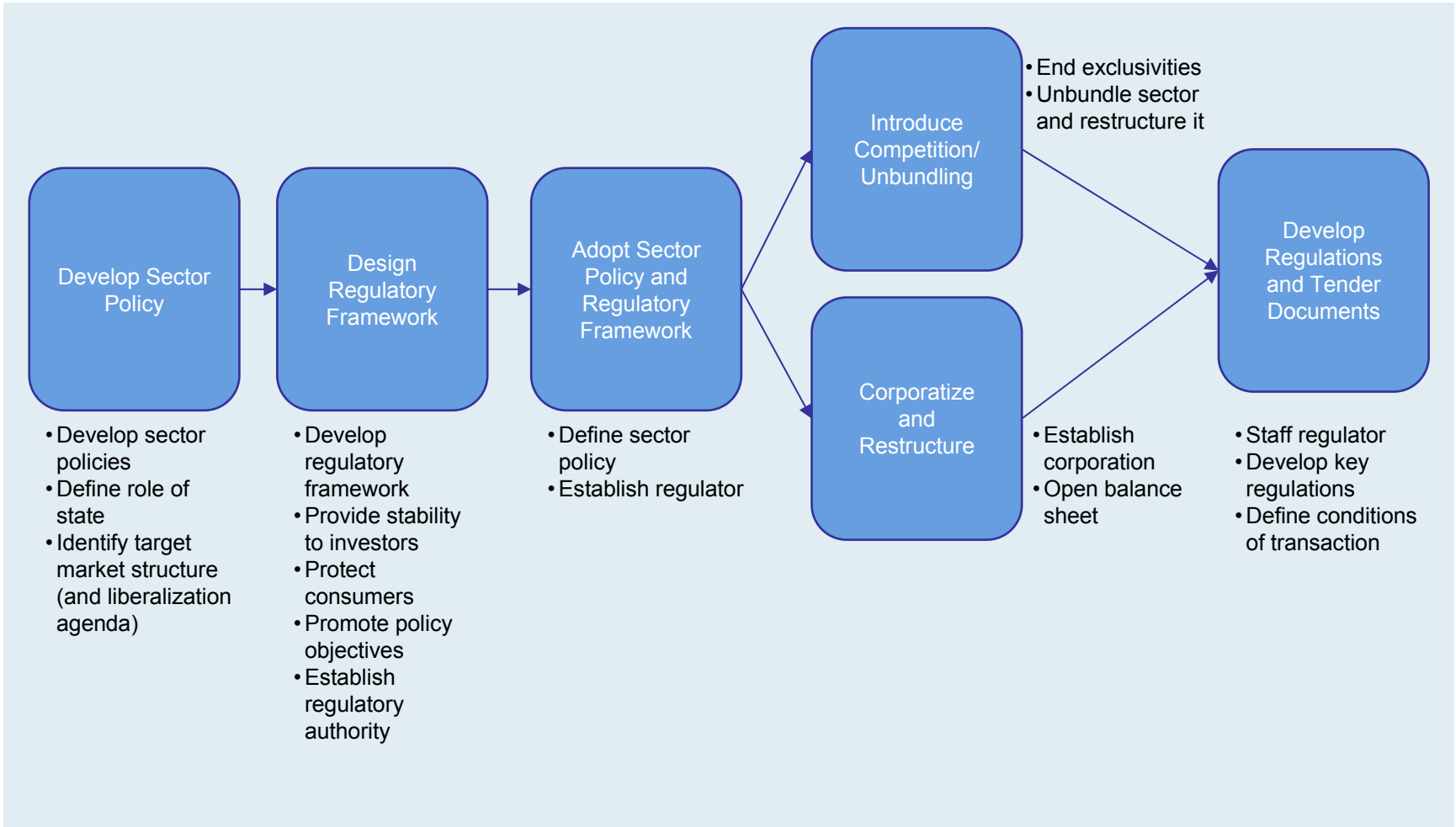
The privatization of public services requires a policy and a regulatory framework to be put in place

Path to Privatization



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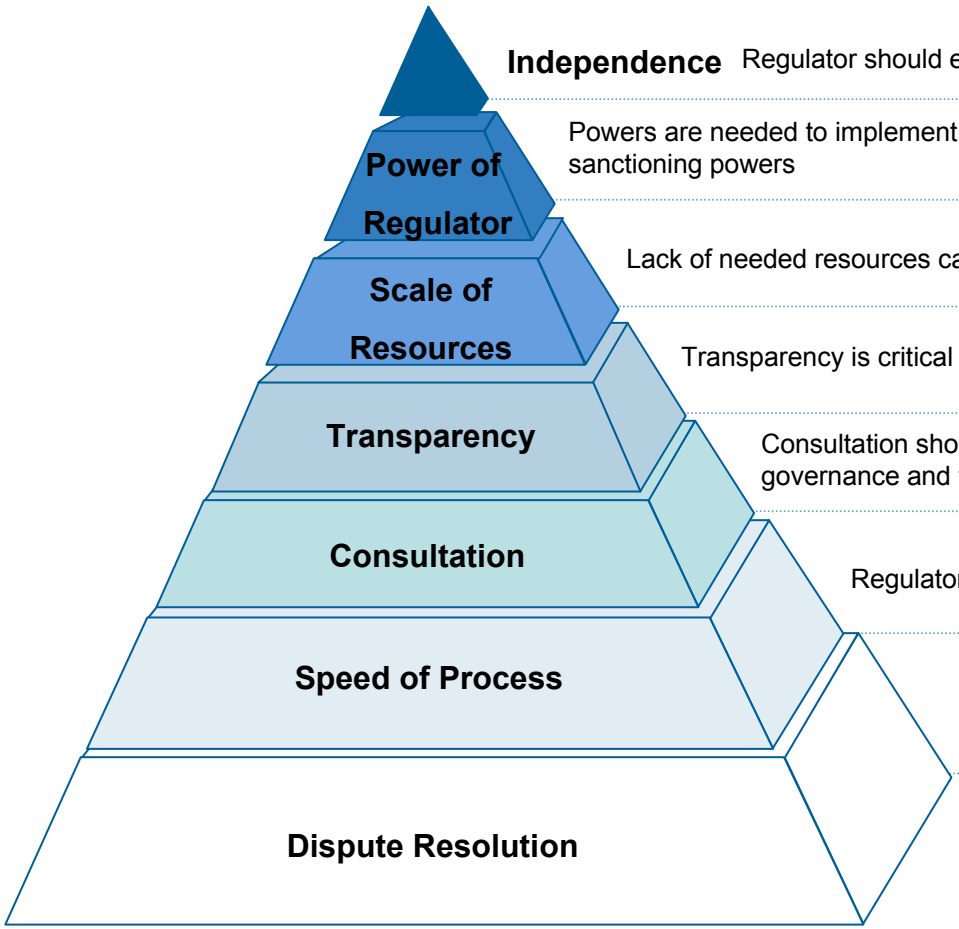
The regulatory framework should be efficient, and governed by an independent and effective regulator

Criteria for Regulatory Efficiency



Independence Regulator should enjoy independence in decision making to ensure neutrality 1

Powers are needed to implement regulatory decisions and will have to include sanctioning powers 2

Lack of needed resources can lead to delays or bad decision making 3

Transparency is critical to ensure accountability of regulator 4

Consultation should be required of regulators and is critical to good governance and to reduce the asymmetry in information 5

Regulator should be efficient enough to avoid delaying development 6

Regulator should be able to intervene to settle disputes between market players 7

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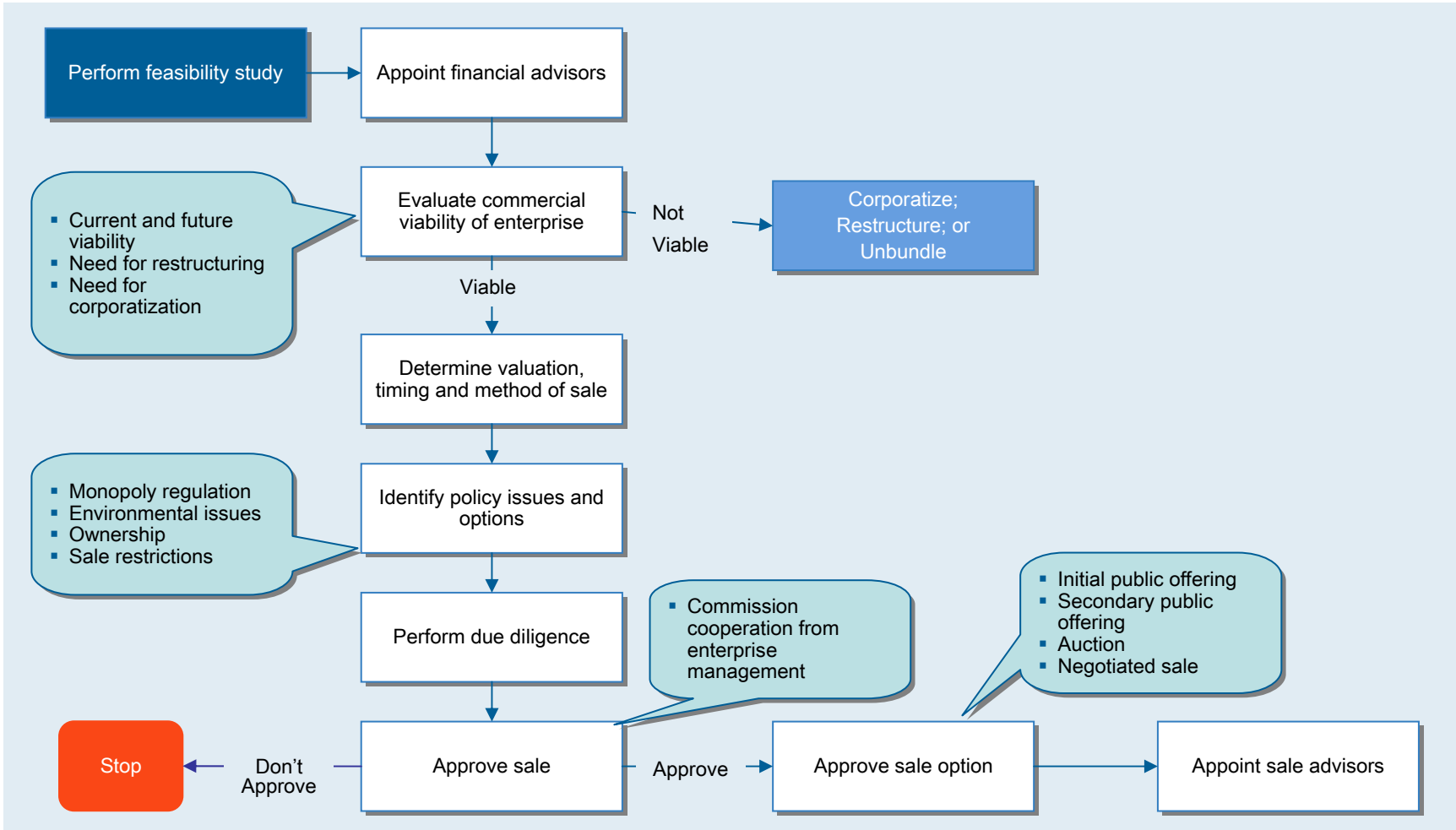
In order to ensure that private sector privatization delivers positive results, the process should be well-prepared…

Getting Ready for Private Sector Involvement



Source: Adapted from Welch and Fremond, 1998

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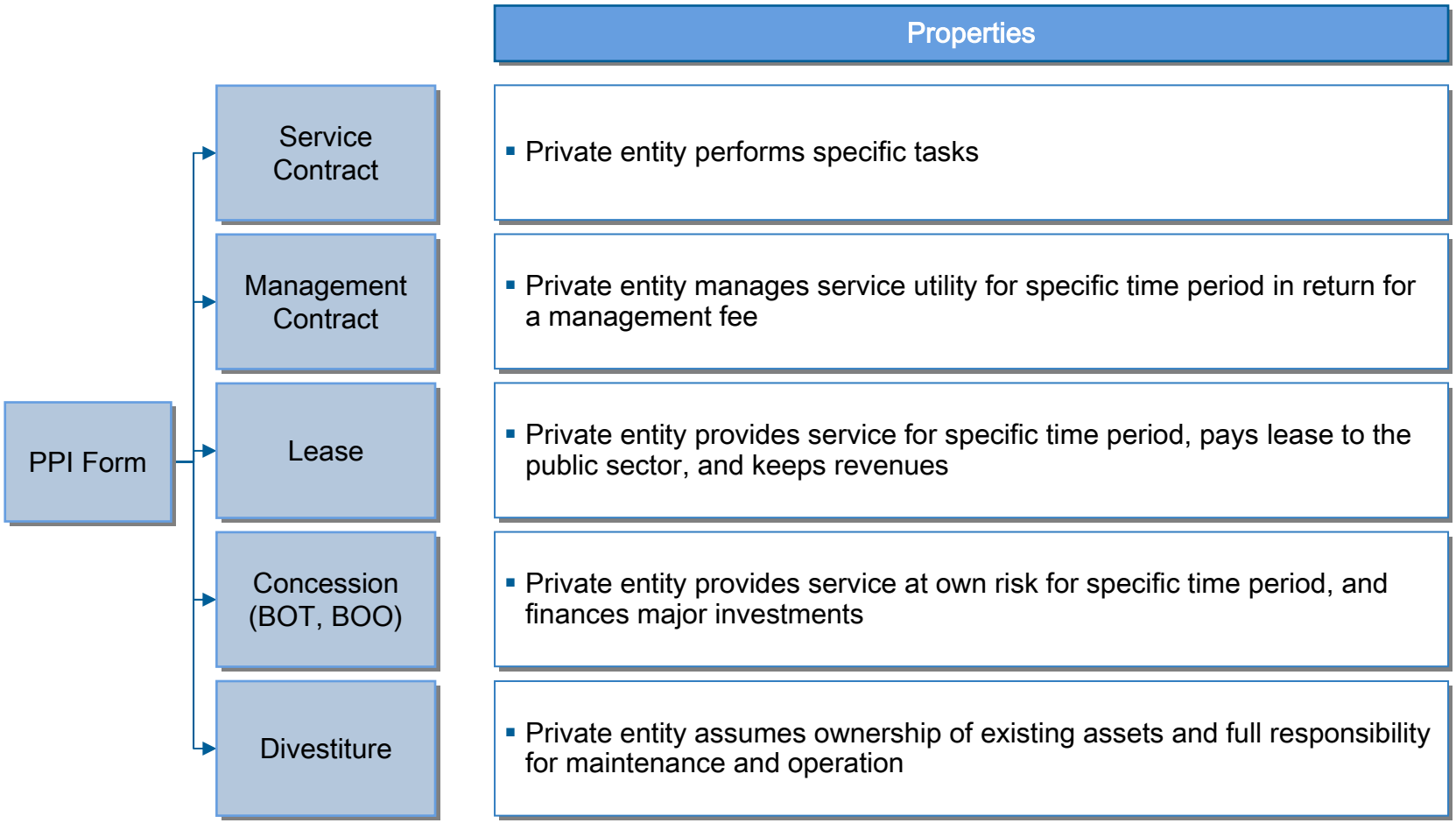
Private participation in the delivery of public infrastructure services can take one of many forms

Arrangements for Private Participation in Infrastructure (PPI)



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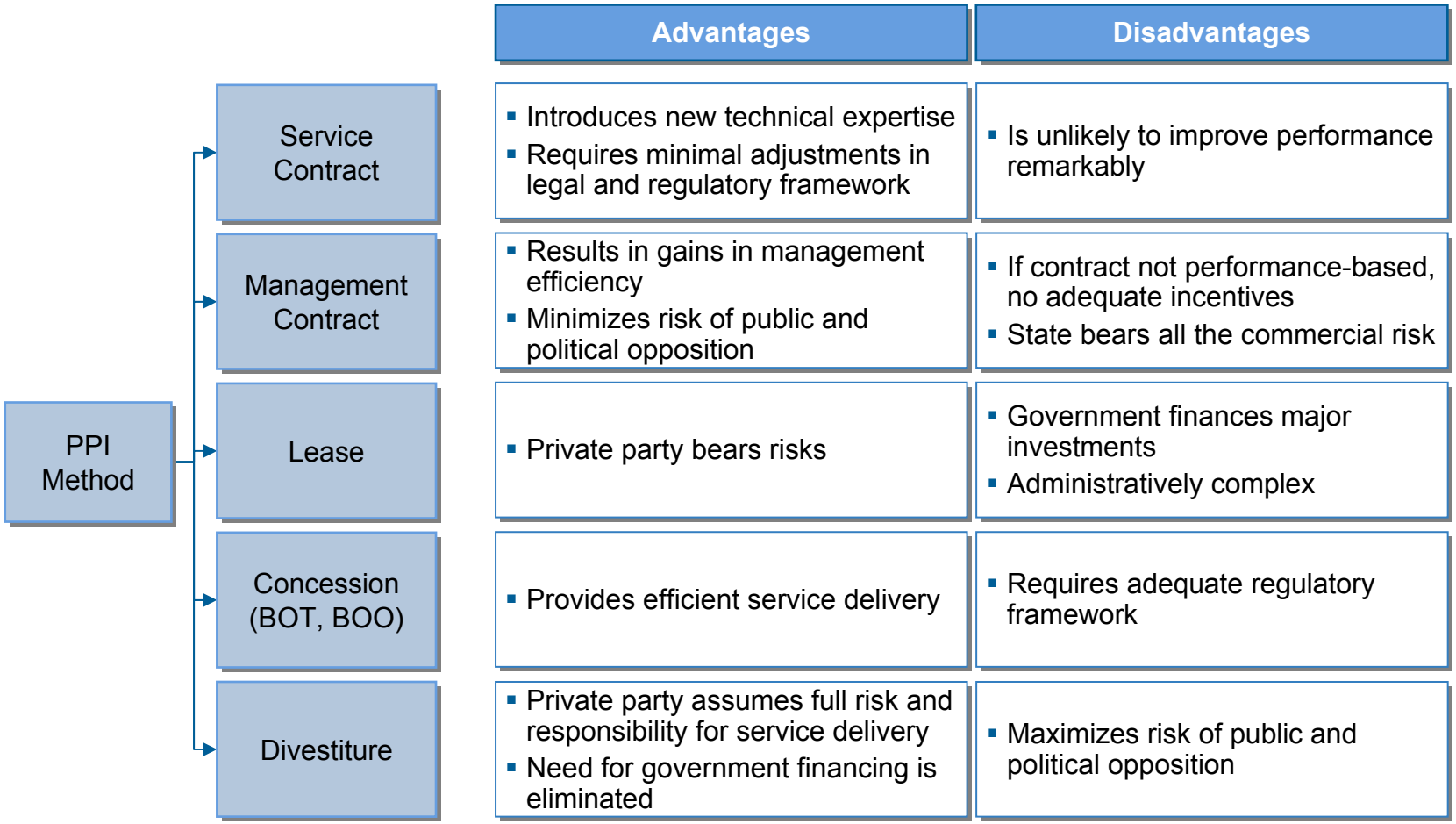
Each method of PPI has its advantages and its disadvantages…

Advantages and Disadvantages of Different PPI Arrangements



	Advantages	Disadvantages
Service Contract	▪ Introduces new technical expertise ▪ Requires minimal adjustments in legal and regulatory framework	▪ Is unlikely to improve performance remarkably
Management Contract	▪ Results in gains in management efficiency ▪ Minimizes risk of public and political opposition	▪ If contract not performance-based, no adequate incentives ▪ State bears all the commercial risk
Lease	▪ Private party bears risks	▪ Government finances major investments ▪ Administratively complex
Concession (BOT, BOO)	▪ Provides efficient service delivery	▪ Requires adequate regulatory framework
Divestiture	▪ Private party assumes full risk and responsibility for service delivery ▪ Need for government financing is eliminated	▪ Maximizes risk of public and political opposition

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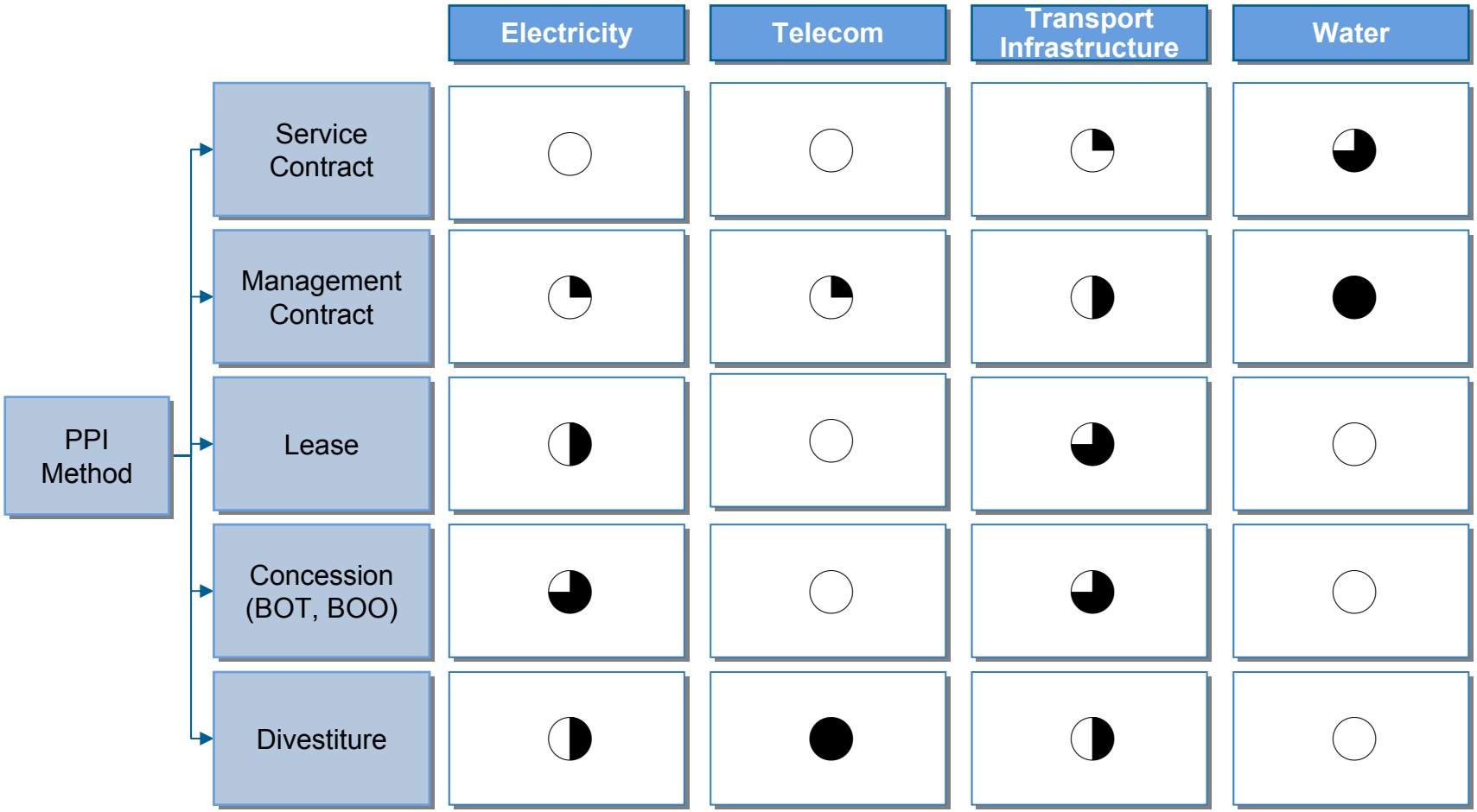
…and is thus more applicable to certain sectors

Applicability of Different PPI Methods



Applicable → *Not Applicable*

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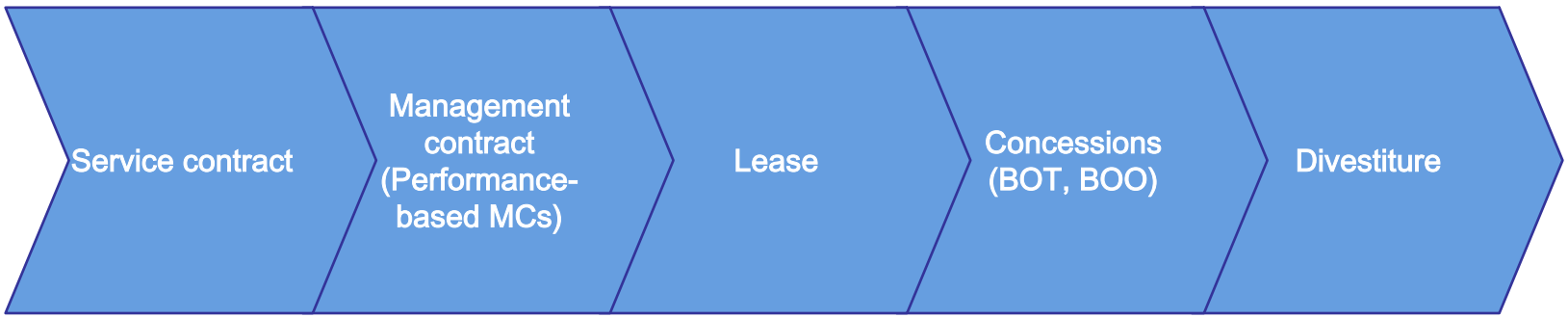
Different methods of PPI allocate risks differently between the public and the private sector and require a different investment duration

Different PPI Methods



Public ← Responsibility for investment and risk allocation → Private

0 ← Duration of private involvement → ∞

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Many Arab states have already proceeded with the privatization of public service delivery, most notably in the telecommunications sector

Private Participation in Infrastructure Projects in Arab States by Sector*

Telecom	Electricity	Water	Transport
❑ Jordan	❑ United Arab Emirates	❑ Jordan	❑ Egypt (airports)
❑ Morocco	❑ Expected:	❑ Morocco	❑ Tunisia (airports)
❑ Algeria	▪ Saudi Arabia	❑ Algeria	❑ Morocco (highways)
❑ Bahrain	▪ Jordan		❑ Oman
❑ Saudi Arabia	▪ Morocco		❑ Expected:
❑ Oman			▪ Saudi Arabia (airports)
❑ Qatar			
❑ Tunisia			
❑ United Arab Emirates			

* *List not comprehensive*

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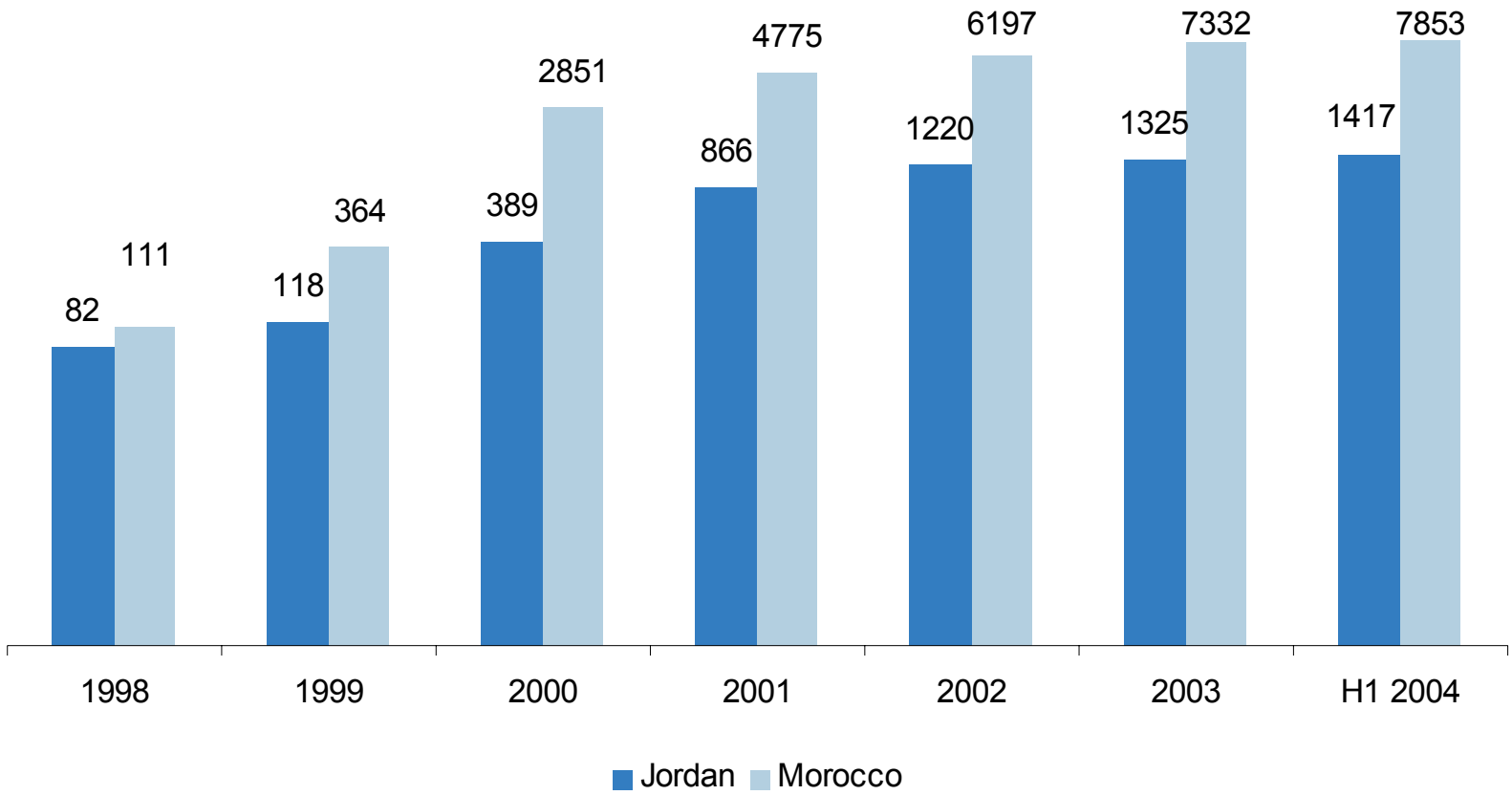
Access to telecommunications services has improved

Growth in Mobile Subscribers (in '000) (1998- H1 2004)



Source: ANRT, TRC

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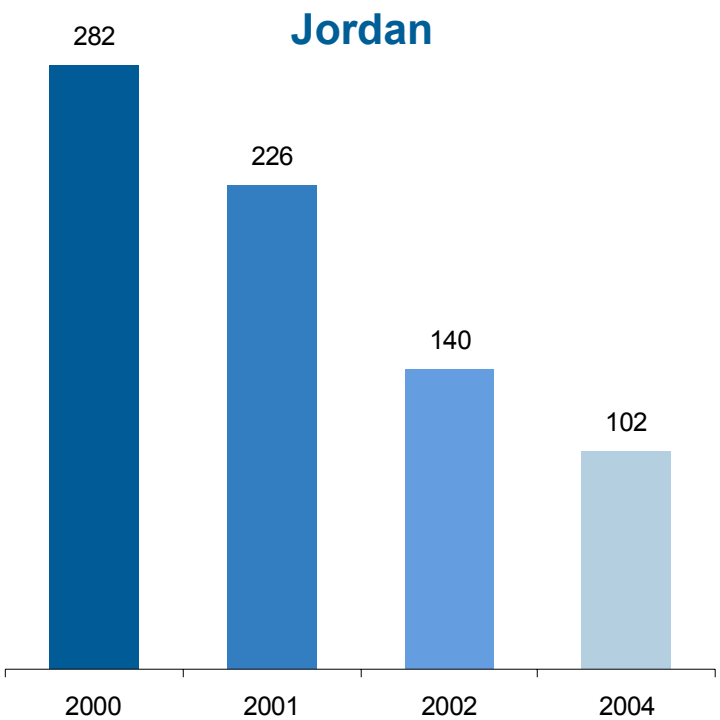
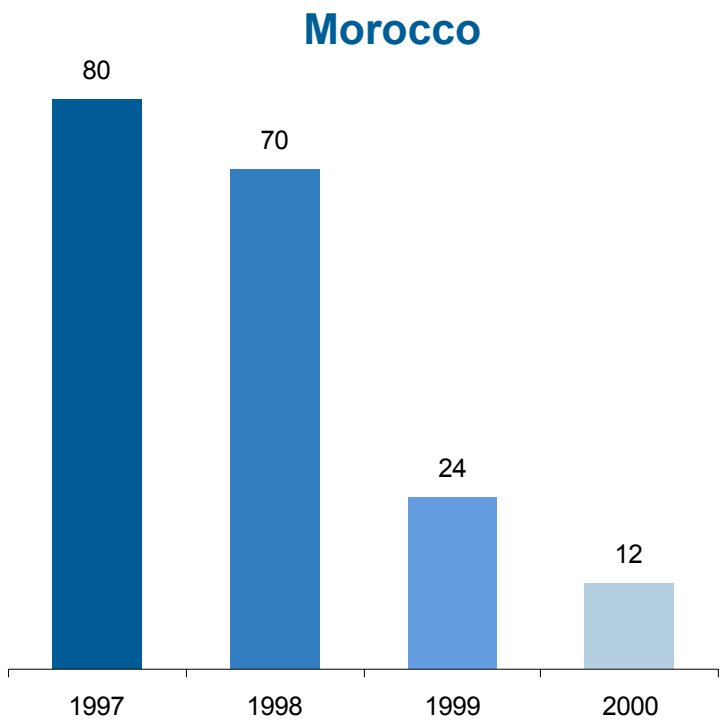
Telecom privatization has led to a fall in connection charges prices…

Reduction in Business Connection (2001-2003) (US$)





Source: ANRT, Tarfica, ITU

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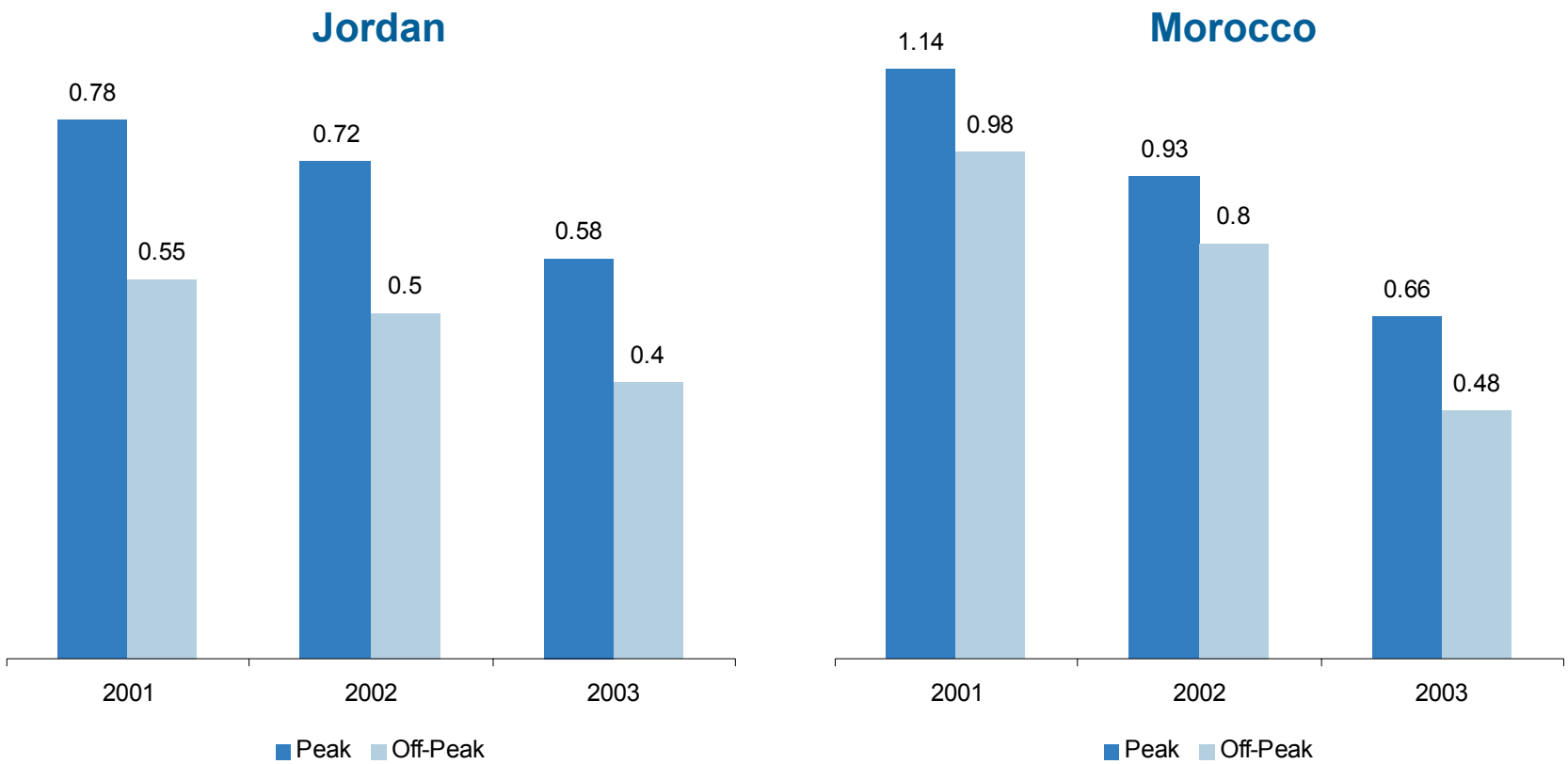
…and competition led to a decrease in international tariffs

Reduction in International Charges (2001-2003 per minute to US and UK) (US$)



Source: Tarfica

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Private participation in public service delivery, if appropriately regulated, is likely to lead to have a positive economic and social benefit

Private Participation in Public Service Delivery

- Access to telecommunications services, including broadband services, as well as electricity, water, and transport services will improve across Arab countries
- The single most important challenge is for Arab states to:
  - Get the policy right
  - Develop the appropriate rules and regulations, which should be tailored to the sector or the business activity
  - Build the institutions and the capacity to regulate where needed
- A related challenge is to be able to conduct the transaction for the selection of the private sector partner in a professional and transparent manner to:
  - Define the service obligations adequately
  - Attract interest from all over the world
  - Define the selection criteria that fit the overall sector policy (e.g., access, revenues to the treasury, etc.)
  - Conduct a transaction that is widely perceived as fair and honest
- Public private partnerships may be designed to benefit the poor and other disadvantaged segments of the population