

Private Participation and Improved Public Service Delivery



Kamal Shehadi

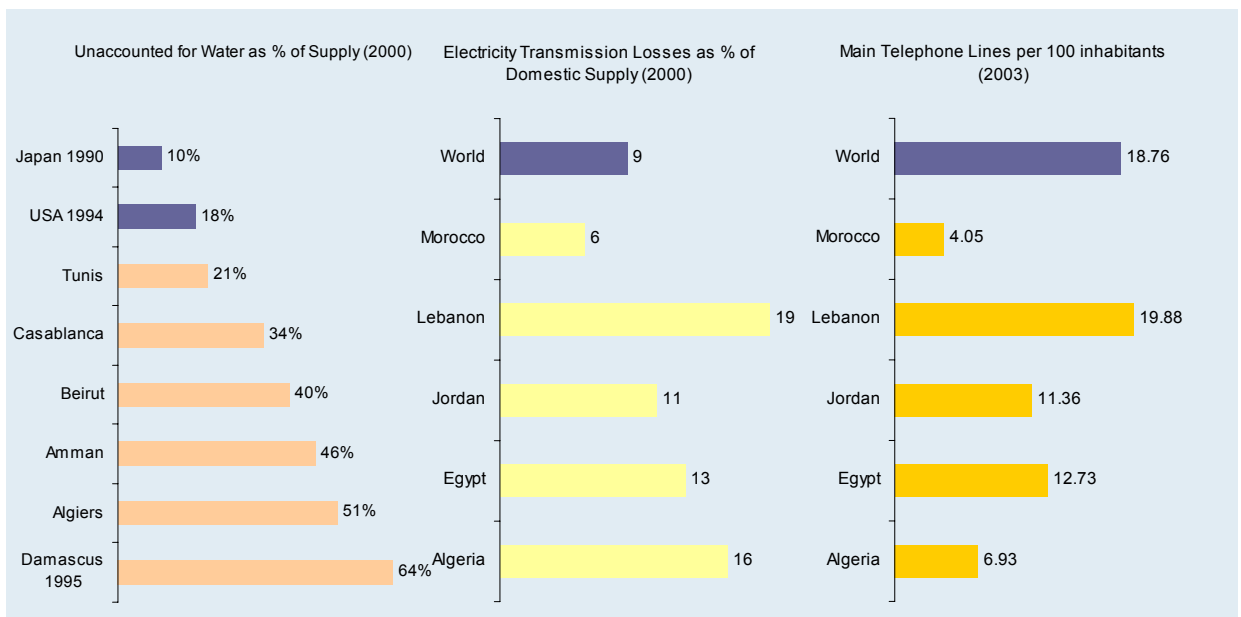
Conference on "Good Governance for Development in The Arab Countries"

1

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



Infrastructure Service Indicators in Selected Arab States



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

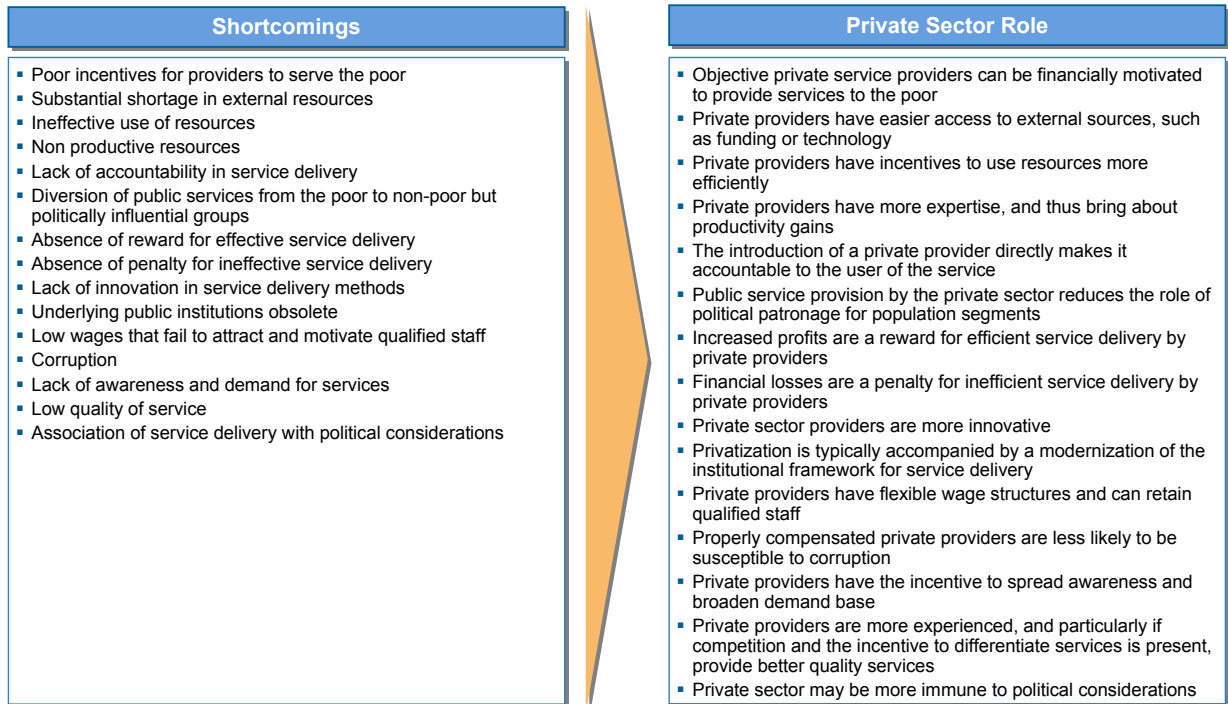


Impact of Public-Private Partnerships on Service Delivery

	Challenges	Opportunities	Key Factors
Access	<ul style="list-style-type: none"> ▪ Private sector has no incentive to serve poor population segments (communities, areas, social classes...) 	<ul style="list-style-type: none"> ▪ Private sector participation fuels expansionary investments ▪ Private sector can obtain low-interest loans for risky investments 	<ul style="list-style-type: none"> ▪ 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	<ul style="list-style-type: none"> ▪ Private sector participation leads to price increases as the private sector is motivated solely by profits 	<ul style="list-style-type: none"> ▪ Private sector participation enhances efficiency and cuts losses ▪ Private sector participation brings in innovative financing methods 	<ul style="list-style-type: none"> ▪ 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	<ul style="list-style-type: none"> ▪ Private sector socially irresponsible and has no interest in monitoring quality ▪ Private sector sacrifices service quality to increase profits 	<ul style="list-style-type: none"> ▪ Private sector participation introduces technical and managerial expertise ▪ In case of competing private sector players, quality enhancements spurred on to differentiate services 	<ul style="list-style-type: none"> ▪ Quality of Service Indicators can be set for the private operator and monitored on a regular basis

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

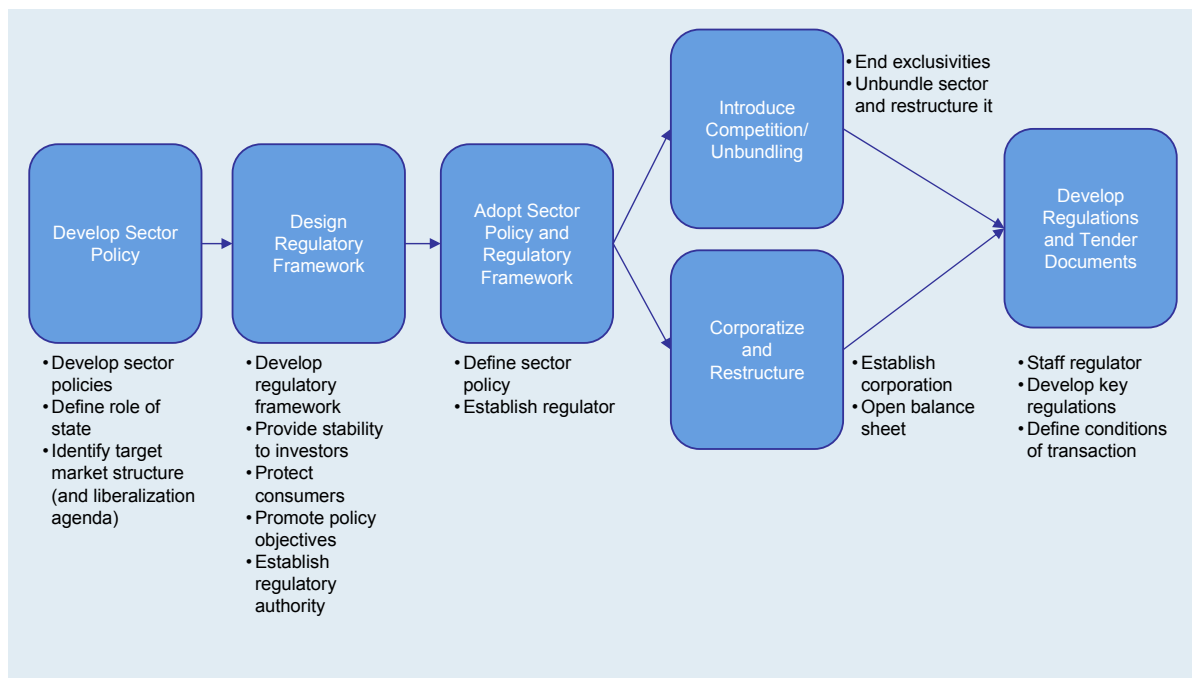


Source: Adapted from the World Development Report 2004

5

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

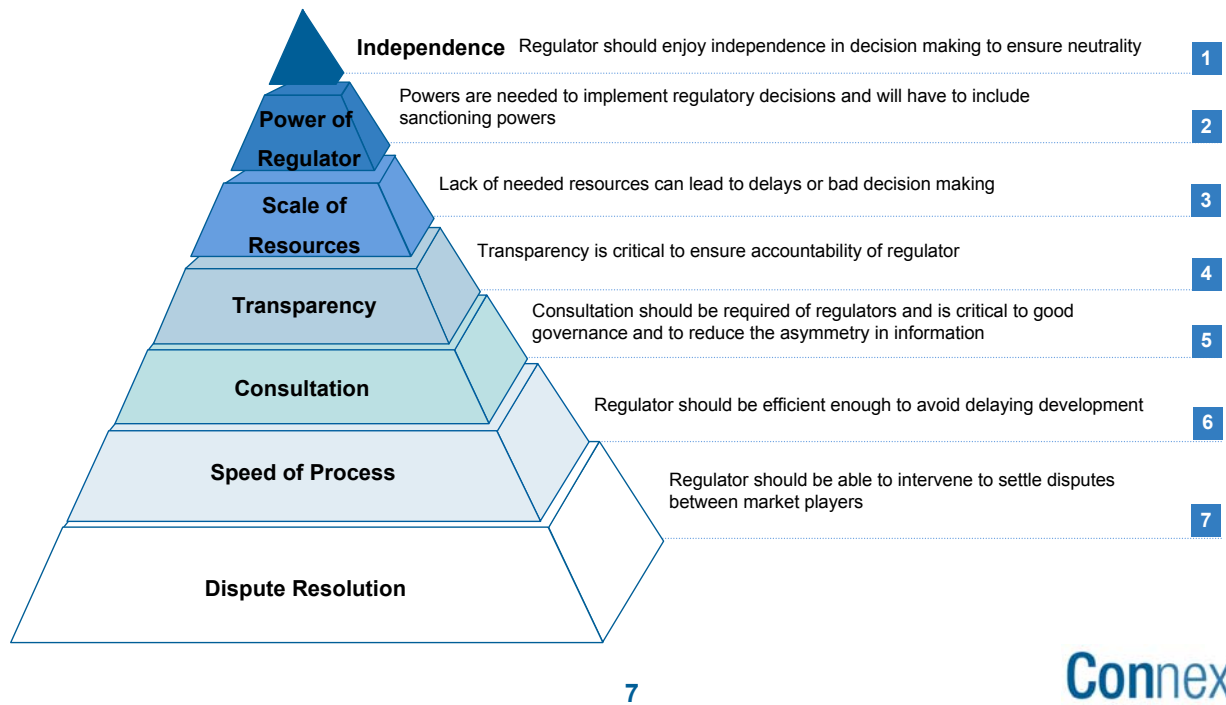
Path to Privatization



6

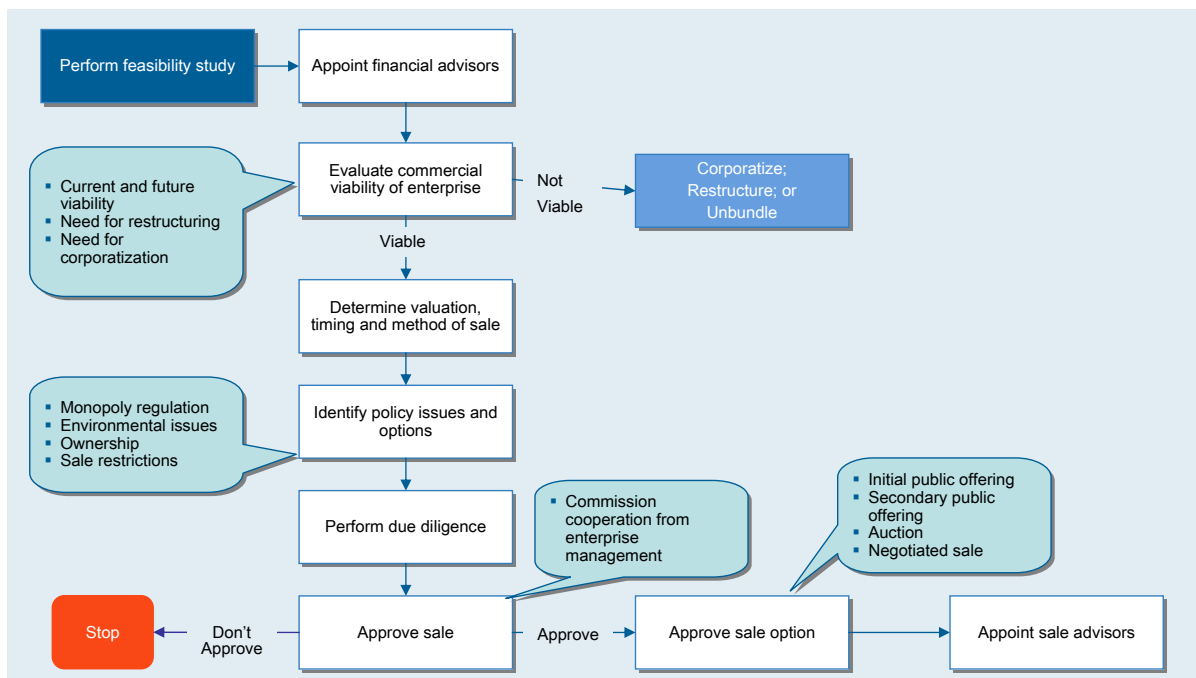
The regulatory framework should be efficient, and governed by an independent and effective regulator

Criteria for Regulatory Efficiency



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

Getting Ready for Private Sector Involvement



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



Arrangements for Private Participation in Infrastructure (PPI)

		Properties
PPI Form	Service Contract	<ul style="list-style-type: none"> Private entity performs specific tasks
	Management Contract	<ul style="list-style-type: none"> Private entity manages service utility for specific time period in return for a management fee
	Lease	<ul style="list-style-type: none"> Private entity provides service for specific time period, pays lease to the public sector, and keeps revenues
	Concession (BOT, BOO)	<ul style="list-style-type: none"> Private entity provides service at own risk for specific time period, and finances major investments
	Divestiture	<ul style="list-style-type: none"> Private entity assumes ownership of existing assets and full responsibility for maintenance and operation

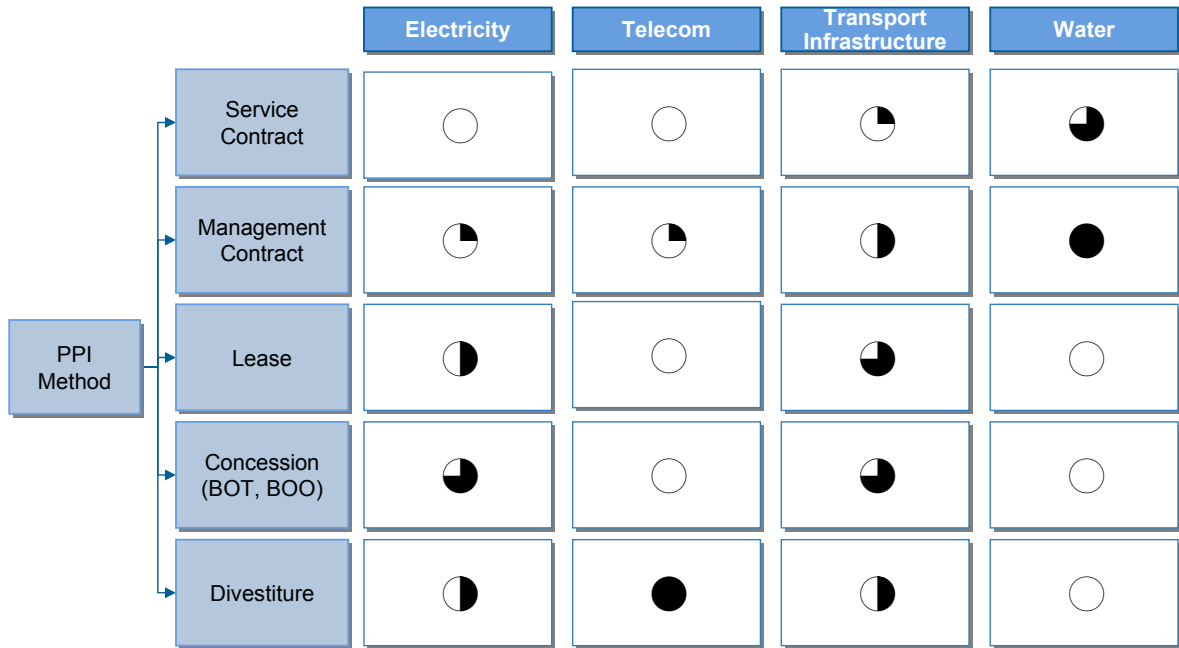
Each method of PPI has its advantages and its disadvantages...



Advantages and Disadvantages of Different PPI Arrangements

		Advantages	Disadvantages
PPI Method	Service Contract	<ul style="list-style-type: none"> Introduces new technical expertise Requires minimal adjustments in legal and regulatory framework 	<ul style="list-style-type: none"> Is unlikely to improve performance remarkably
	Management Contract	<ul style="list-style-type: none"> Results in gains in management efficiency Minimizes risk of public and political opposition 	<ul style="list-style-type: none"> If contract not performance-based, no adequate incentives State bears all the commercial risk
	Lease	<ul style="list-style-type: none"> Private party bears risks 	<ul style="list-style-type: none"> Government finances major investments Administratively complex
	Concession (BOT, BOO)	<ul style="list-style-type: none"> Provides efficient service delivery 	<ul style="list-style-type: none"> Requires adequate regulatory framework
	Divestiture	<ul style="list-style-type: none"> Private party assumes full risk and responsibility for service delivery Need for government financing is eliminated 	<ul style="list-style-type: none"> Maximizes risk of public and political opposition

Applicability of Different PPI Methods

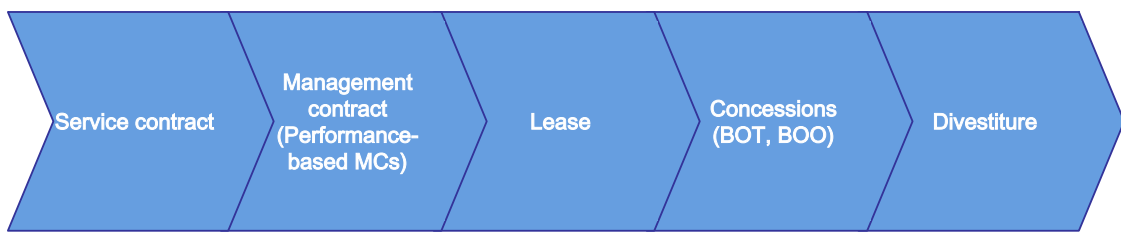


Applicable → Not Applicable

11

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

Different PPI Methods

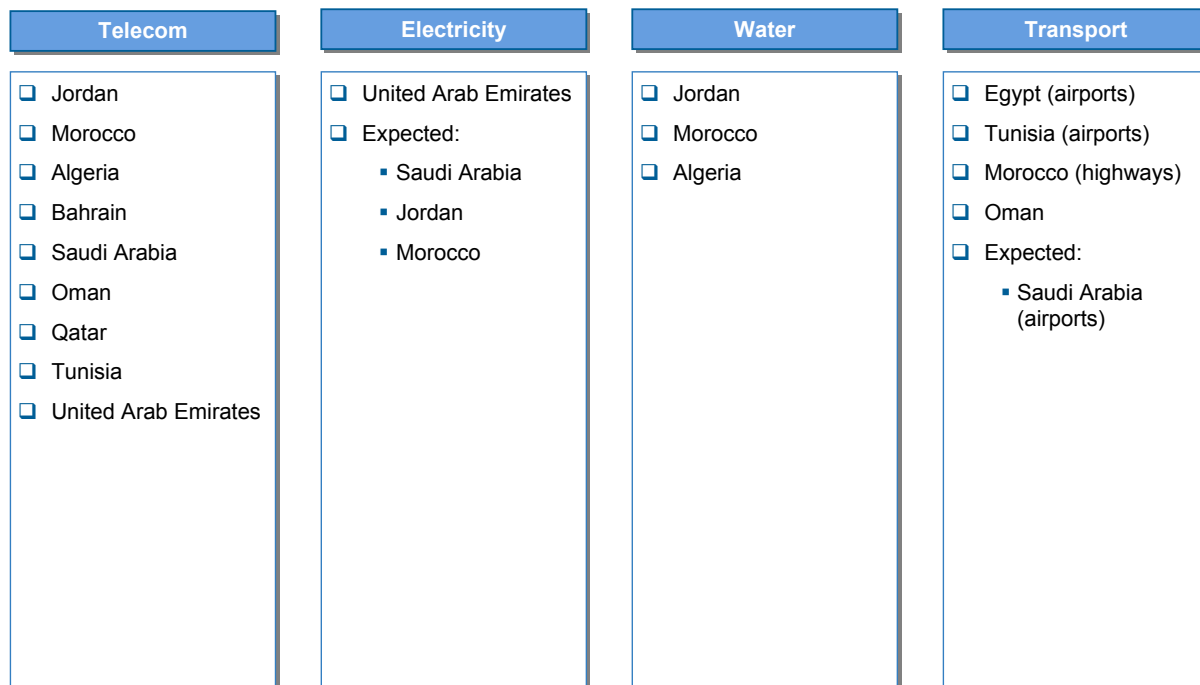


Public ← Responsibility for investment and risk allocation → Private
 0 ← Duration of private involvement → ∞

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*



* List not comprehensive

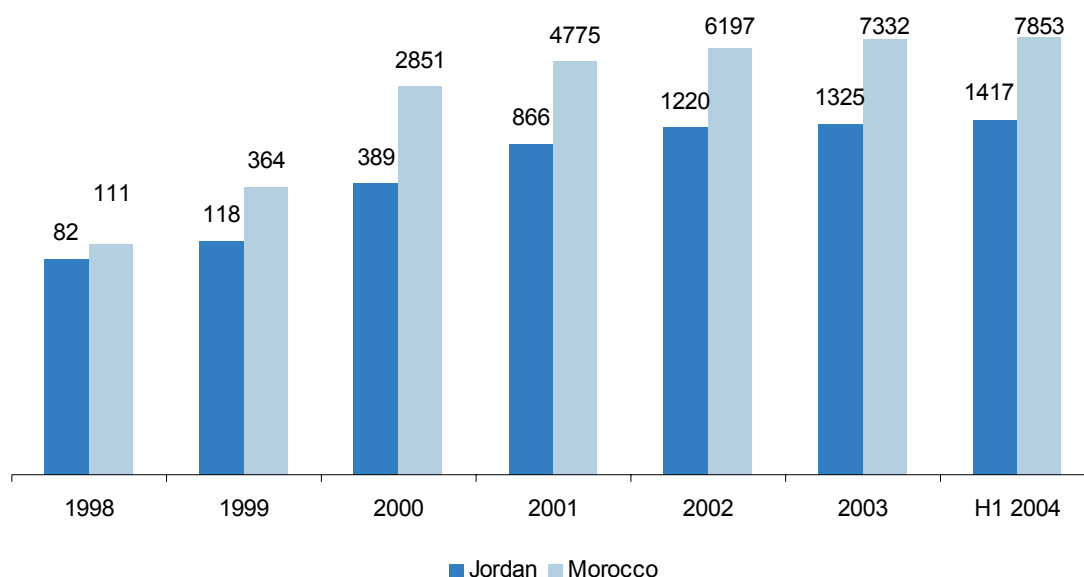
13



Access to telecommunications services has improved



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



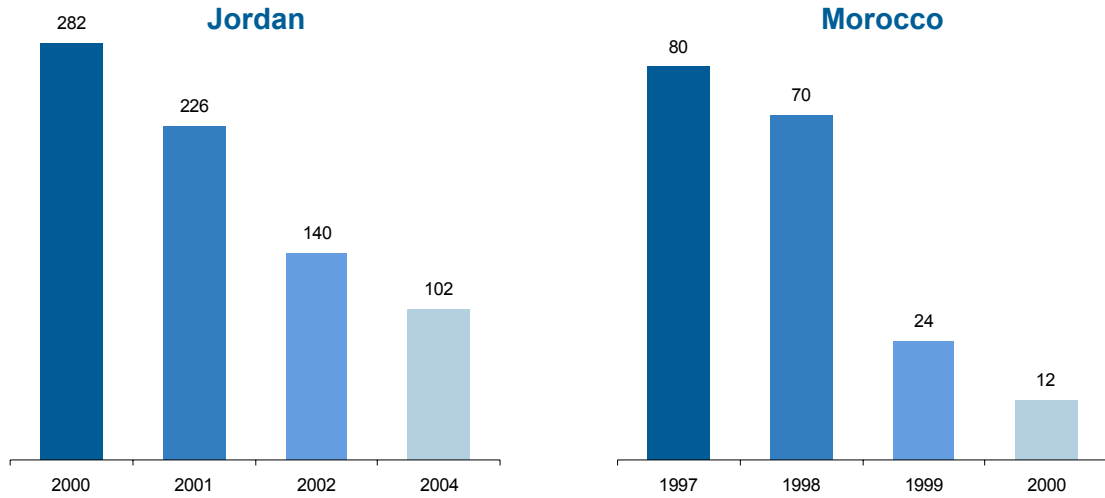
Source: ANRT, TRC

14





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

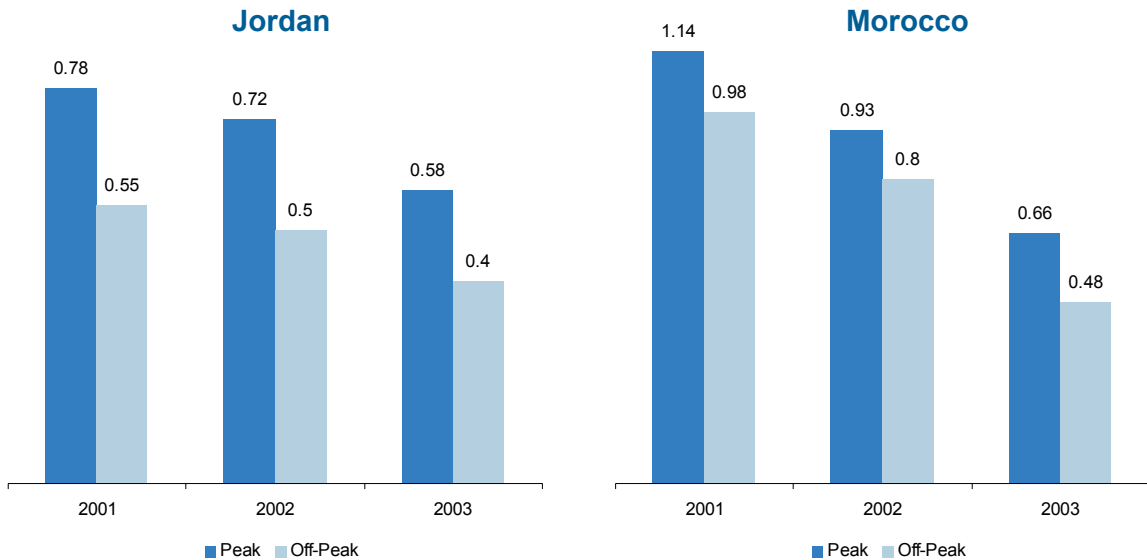


Source: ANRT, Tarfica, ITU

...and competition led to a decrease in international tariffs



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



Source: Tarfica



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