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State of the Art 6

The state-private interface in public service provision

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These papers survey the literature, with three aims:

- to clarify what is already known about an issue and the policy implications of that research evidence;
- to suggest areas for further investigation by identifying knowledge gaps;
- to guide future DLP research, ensuring that it is problem-focused, useful and innovative.

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About the author

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Executive summary

Political theory sets out a strong case for the state to play a major role in public service provision. Yet services are often provided by a range of state and non-state actors as well as by collaborative partnerships. This paper surveys the literature, seeking to map arrangements in developing countries and to understand the politics of different types of service provision. It finds strong evidence for the view that some level of state capacity and rule of law is important for effective service provision. Even when outsourcing services, it is preferable for government to retain some capability, if only to effectively oversee partners' activities. Another key finding is that the perceived legitimacy of non-state service providers partially determines their success.

The paper also highlights gaps in the evidence, for future research. Many of these gaps relate to the need to better understand the politics of partnerships from the point of view of *both* partners. Much of the literature on service provision considers the provision separately from the provider, or considers one actor as having primary agency while another responds.

Introduction

This paper examines five areas:

- types of state-private interface;
- the state-private balance;
- effective and legitimate partnerships;
- political settlements, informal networks and service provision;
- accountability.

'Private' is used to refer to a range of non-state actors involved in service provision, including NGOs, global listed corporations, small private companies, and international donors.

The paper draws on published and grey literature, particularly material published in the last five years. Efforts were made to include academic, practitioner, policy-maker and Southern perspectives.

Research from a wide range of countries and regions was consulted, including sub-Saharan Africa, where the most substantial body of evidence and analysis exists, and the Asia-Pacific region, where the diversity of security and justice programming offers important lessons. The search strategy focused on the topics of public-private partnerships, outsourcing, corporate responsibility and service provision in international development.

Key findings

- Most services are provided by multiple actors, although the combinations of roles and modes of interaction vary.
- There is strong evidence that public-private partnerships work best where there is a good fit with local norms and expectations – legitimacy – and structured relationships with institutions that can monitor providers and have the independence to do so. This implies that some level of state capacity and rule of law is important.
- The type of interface that works best varies according to sectoral characteristics and the complexity of a particular service. Even where state capacity is weak, public-private partnerships may effectively carry out simple tasks or elements of service provision that need little coordination among different actors, as long as those partnerships have local legitimacy. More complex programmes are, however, likely to flounder.
- When services are outsourced, it is preferable that the state builds and retains expertise in contracting and, ideally, some capability to provide the same services itself.
- Multinationals' ability to provide public services is limited, even where there is significant corporate commitment, if the public does not view them as legitimate providers.

- Outsourcing raises accountability and corruption risks in processes such as the award of tenders, contract management and renegotiation, and the 'revolving door' exchange of staff between the private and public sector. These risks can be addressed through better contracting, monitoring and transparency.
- Informal networks of actors who switch between public and private identities to maximise their own gains may undermine the building of sustainable service provision capacity. On the other hand, locally embedded actors and organisations can sometimes provide extra-legal governance that supports service provision.

Evidence gaps

An emerging consensus in the research suggests that state capacity is often important for the success of service provision even by non-state actors, whether multinationals, small companies or NGOs. However, while some work discusses which kinds of capacity are necessary to support different types of reform, it does not specifically address the kinds of state functions necessary to facilitate or support service provision.

Whether not-for-profits provide better value public services than for-profits is not adequately addressed in the literature. While the evidence to date suggests that both types of provision produce good and bad projects, a more systematic comparison would help to illuminate the relevance of the provider's approach to profit.

Efforts to assess service provision often focus on quality rather than impact. For example, work on education compares the performance of existing providers. It pays less attention to the overall impact on the population, the distribution of costs and benefits, or the impact that the emergence of one group of providers might have on other groups of providers or users.

The literature rarely seeks to gauge which factors influence the way state and non-state actors form perceptions about one another, and how those perceptions shape their strategies.

Little is known about how the state might seek to benefit from service provision by other providers, and whether it can gain legitimacy or reputational benefits by association.

More work is needed to understand how accountability structures can be created where there is weak state capacity and little rule of law. The potential for transparency and civil society to play a role in making service providers more accountable in such circumstances warrants greater exploration.

A significant risk to the success of the PPP model lies in the tension between state-building and non-state service delivery, specifically whether non-state service delivery affects state legitimacy and hence hinders state-building. A stronger evidence base is needed to support the development of initiatives that respond to urgent needs without undermining nascent states.

Informal networks may either undermine donor objectives or state-building efforts by exploiting the public-private divide; or they may be able to make service provision more effective because they have more flexibility than formal organisations. More research is needed on the motives and goals of such networks.

Introduction

This paper surveys the literature on the political dynamics that support or hinder different institutional arrangements for providing public services in developing countries. Public services are defined as:

> "the set of services provided for large numbers of citizens in which there are potentially significant market failures (broadly interpreted to include equity as well as efficiency) that justify government involvement, whether in production, finance or regulation." (Grout and Stevens 2003)

In many western developed countries, both liberal market economies (LMEs) and coordinated market economies (CMEs) (Hall and Soskice 2001), the modern nation state has been associated with a social contract in which the people entrust power – and pay taxes – to the state; in return, the state provides services to the people. In political theory, the state has traditionally been seen as a 'natural' provider of collective goods for three reasons. First, it has a monopoly of the use of force and so is in a good position to extract the resources needed to provide goods and services to the population. Second, its coercive power also allows it to enforce rules that govern the provision of collective goods, and so fill the role of coordinator. Third, the state's ability to generate economies of scale mean it is well placed to deliver services that have high marginal start-up costs, the classic example being infrastructure. Thus, being able to exercise a monopoly of the use of force is typically seen as a necessary condition for providing collective goods to the population (Fukuyama 2004; Rotberg 2004).

However, despite these theoretical predictions, the empirical evidence suggests that a wide variety of non-state actors participate in the provision of public services around the world. The provision of public services is a complex task that typically involves many actors, state and non-state, at different phases (such as design, construction, financing and operation). Only in very few cases does the state take responsibility for *all* aspects of providing a service (OECD 2008), and even where a private company is involved in delivering frontline services, the state often retains a role as a regulator or contracting authority. Public-private partnerships for service delivery may involve agencies of the state, local private companies, foreign investors including multinationals, local or global NGOs, international organisations and international donors. They may be transnational in character or entirely local.

However, the nature of the institutional arrangements for service provision and the variety of interfaces between the state and the private sector can have important implications, not only for how services are delivered and who benefits, but also for the balance of power, the legitimacy of the state, and the exercise of accountability. Understanding how the political environment shapes and is shaped by such partnerships is critical to effective policy implementation. This paper seeks to understand the conditions in which different institutional arrangements for public service provision produce desirable developmental outcomes. It maps the literature on public service provision in developing countries, highlighting debates about which variables have explanatory value and reviewing the empirical research that advances those debates. It also identifies gaps in the literature where aspects of this question remain unresearched.

The term 'state-private interface' is used as shorthand for the range of institutional arrangements in which the state and non-state actors interact. 'Private' does not refer solely to the private sector but to a range of non-state actors involved in service provision, including NGOs, global listed corporations, small private companies, and international donors (which often represent states, but foreign states).[1]

The various parties may interact in different ways: the state can be a buyer of services or simply a regulator; it can make laws or engage in consultation; it might collaborate or compete in the provision of services. This paper assesses research on how state and non-state actors interact in different contexts and how these interactions can facilitate desired development outcomes.

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[1]   For a more detailed examination of the role of local and regional private actors in areas of limited statehood, see Perera, S. (2015), 'Political Engagement with Non-state Actors in Areas of Limited Statehood', State of the Art Paper 5, Birmingham: DLP.

Scope and research questions

Decisions about which public services to provide, to what extent and to whom, and how to provide them, are all fundamentally political. These decisions have implications for different social groups and may trigger political action – whether formal or informal – from those who stand to gain and lose.

To evaluate the range of possibilities for reforming public service provision in development contexts, it is therefore important to understand local political dynamics and to develop tools for understanding which aspects of the context are relevant. However, this is a vast area to explore and it has been necessary to limit the scope of this paper to an examination of what the literature can tell us about five key issues:

1. **Types of state-private interface for service provision.** What types of institutional configurations between state and non-state actors exist in public service provision? This section maps different institutional arrangements and discusses how the literature draws distinctions among them.

2. **Explaining the state-private balance.** Why, and in what circumstances, are public services provided by non-state actors rather than the state? Given the theoretical reasons for expecting the state to play a key role in public services, much of the literature is concerned with explaining why this is often not the case. What does the literature tell us about trends in state-private interfaces for service provision, particularly the shift towards more private involvement?

3. **Effective and legitimate partnerships.** How does the involvement of non-state actors in service provision, whether as substitutes for the state or in partnership with it, affect the role and legitimacy of the state? How does the nature of the partnership affect service delivery and long-term outcomes? Some research suggests that service delivery is an important way in which states build support and legitimacy, and become stronger, particularly in post-conflict or fragile situations. However, states may also benefit if good services are provided by other actors.

4. **Political settlements, informal networks and service provision.** How does the type of political settlement in a country affect the feasibility of and preferences for different interfaces in the provision of services? How do actors – formal and informal – seek to shape or manipulate the interface between state and non-state actors, and with what goals? Different types of political settlement affect the options for service provision and the ability to implement reforms.

5. **Accountability of service provision.** What are the implications of different interfaces for accountability, legitimacy and corruption risks? How can accountability best be exercised over private providers of public services? Different governance arrangements can be used to improve the legitimacy and accountability of service provision.

The main body of the paper explains how the literature addresses these questions, summarises its key findings, illustrates them with examples, and identifies evidence gaps. The structure of the paper follows that of the questions set out above. However, where particular pieces of research address more than one of these questions, the evidence has been collected in one place rather than distributing findings across the different parts of the paper.

Methodology

The paper draws on published and grey literature. Efforts have been made to ensure that a range of perspectives are represented, including academic, practitioner, policy and southern perspectives. A strong preference has been given to material published within the last five years to represent current debates and thinking, but seminal and widely cited publications have also been included. Research from a wide range of countries and regions was consulted, including sub-Saharan Africa, where the most substantial body of evidence and analysis exists, and the Asia-Pacific region, where important lessons can be drawn from the diversity of experiences of security and justice programming.

The search strategy consisted of a thorough search of academic literature on public-private partnerships, outsourcing, corporate responsibility and service provision in international development. The websites of international organisations and think tanks were also consulted for relevant documentation.

A first scoping of the literature revealed a number of core issues for the interface between the state and the private sector. This formed the basis of an initial outline which was reviewed by two senior experts for relevance and clarity. This led to a decision to focus on the provision of public services. A first draft was then submitted to reviewers for further comment. This final draft was updated with a new structure and a more refined search of documentation reflecting the comments of those reviewers, and an assessment of literature that had been published in the meantime.

1.0 State-private interfaces for service provision

What types of institutional configurations between state and non-state actors exist in public service provision?

The state and the private sector engage in a wide range of different institutional arrangements to provide public services. Several terms are used, but the distinctions among them are poorly defined (Mcloughlin 2011). Reports commonly evade the issue by using just one term but failing to define its conceptual boundaries. The chapter on 'Defining the nature and purpose of public-private partnerships' (PPP) in the OECD report 'In Pursuit of Risk Sharing and Value for Money' (2008: 14), suggests there is a spectrum of institutional arrangements that combine public and private in different ways. It argues that these can be viewed along two dimensions:

- degree of private involvement (from fully state-owned to privatised);
- burden of risk (from 100% for government to 100% for a private partner).

The degree of private involvement ranges from complete government production and delivery of services, through traditional public procurement, PPPs and concessions to privatisation. However, this arguably disregards the role that the state plays in privatisation – by designing the terms of the sale, selecting among bidders, and retaining a regulatory role after the sale if not retaining a share in ownership. This mixed pattern is the norm; for instance, although privatisation of utilities has been fairly common in developed countries in the last 20–30 years, in many cases it stops short of full privatisation and is not clearly distinct from long-term contracting out. However, this OECD account does not mention or define outsourcing, leaving the reader to question whether this practice should be considered a PPP, and where it fits on the state-private dimension. The end of the spectrum might perhaps better be defined not as 'privatised' but as 'entirely' private provision, initiated by a company that has always been private, rather than one sold off from the state. Yet even in this case the state almost certainly plays a regulatory role by establishing the legal framework in which companies operate, as well as by monitoring and enforcing compliance, however ineffectively.

In the 2008 report cited above, the OECD defines PPPs as characterised by an arrangement where the state defines the terms of a project and then negotiates with a private provider to share the financing and risk. This does not necessarily differ from outsourcing, in which the state defines the terms of a contract for the provision of a particular service and then engages a company to provide it. In another report, the OECD (2011) notes that governments can outsource in two ways. They can purchase goods and services from the non-state sector to use as inputs into their own functions – 'intermediate consumption' goods – as in the case of using private contractors to provide back-office functions such as audits or human resources. Or they can use private contractors to deliver goods or services directly to users, such as when the state outsources the collection of waste to a private company and pays it for providing this service to the population. There seems to be a good deal of overlap between outsourcing and PPPs, but the term outsourcing may be a historical artefact that reflects the shift in institutional arrangements for service provision in many Anglo-Saxon countries. It implies that services were once provided by the state and certain tasks – already defined by the state – are now contracted out.

Another OECD publication (2010) on contracting out government functions and services in post-conflict and fragile situations distinguishes between three types of contract:

- **Management contracts**, where a non-state actor operates and manages a publicly owned enterprise, organisation or facility, such as a water company or hospital. These are generally used in areas where government is not achieving adequate results.
- **Service contracts**, for a specific technical task that enhances a function otherwise run by the government, such as cleaning a hospital or billing for water.
- **Works/supplies contracts**, where a one-off facility is built or a set of goods supplied. The OECD here suggests that these contracts are simple, although much other literature on public works procurement suggests that such contracts are typically highly complex and difficult to evaluate.

The report includes a table which sets out typical characteristics of different types of contracts. In all of these cases, assets remain owned by the state, but the operation of the system varies. However, once again, the language does not convey clear distinctions among the types. The system operation for works/supplies contracts is defined as "public with private inputs", whereas that for service contracts is described as "private for specific services".

In practice, the term PPP appears to be used more often to refer to *long-term* or *large* contracts where *risk and financing are explicitly shared* between the state and the private provider. The World Bank definition is consistent with this understanding:

> "PPPs are long-term contracts between a private party and a government agency, for providing a public asset or service, in which the private party bears significant risk and management responsibility." (World Bank Group 2013)

The private provider often incurs many of the upfront investment costs, but then sells services to the state – or directly to the public – over the life of the project. For example, the government may wish to build a road, and a company will finance the construction in return for a licence to operate and earn revenues from it for a certain period, before transferring ownership back to the state (a Build-Operate Transfer contract, or BOT). This sharing can, once again, take many contractual forms.

The fact that PPPs offer an opportunity to share the financing burden, or to move some public spending 'off budget', is an important characteristic of such arrangements, since this is often a key motivation for political leaders to involve the private sector in public service provision. This may be particularly the case in developing countries where infrastructure requires major investment but where the ability to raise money from taxes or on capital markets is weak. From a development perspective, private financing of utilities or transport infrastructure can make possible major projects that would not otherwise be feasible (and so promote job creation and economic growth).

However, private financing for public projects raises questions about the appropriate balance of risk and responsibility between partners that stand in quite different relationships to the population. The state, however weak, is ostensibly engaged in some kind of 'social contract' with citizens, while the responsibilities of private companies towards society are much debated (Whetten et al. 2002). Such partnerships also introduce a range of principal-agent problems relating to the potential for manipulation of contract terms to serve partisan or private aims, at the expense of the public purse or public interest (issues addressed here under the third research question).

It has been noted that private provision of public services is rarely entirely private, but typically involves some role for the state in providing a regulatory environment. In addition, private provision is used as a catch-all term for non-state provision, and may in fact take different forms with different implications for the state-private interface. In many developing countries, public services are provided on the market by local – or foreign – independent companies competing with one another. The provision of services by non-state actors – largely individual entrepreneurs, but also sometimes NGOs and faith-based organisations – is common in Africa and South Asia, particularly of water supply and sanitation, healthcare and education (Moran 2006). This happens even in areas of limited statehood (Perera 2015).

Another model of provision arises where multinational corporations (MNCs) operating in developing countries engage in corporate social responsibility (CSR) activities, which can involve the provision of public services to the local population or a specific subset of it. For example, several foreign car manufacturers operating in South Africa provide HIV/AIDS healthcare to workers and their families (Honke and Thauer 2014).

Private providers can also be not-for-profit organisations, either local or international. There are theoretical reasons for thinking that this type of organisation might be better at encouraging 'pro-social' behaviour, being prepared to invest extra resources beyond what is contractually required to ensure good results. The work of Arrow (1963) and more recently Rose-Ackerman (1996) suggests that organisations registered as not-for-profits provide a signal that they can be trusted to provide services of a certain quality, regardless of whether they are contractually bound to do so

There is an extensive and rather technical debate in the literature on the efficiency benefits of different institutional arrangements. Although various forms of PPP are increasingly used in service provision and many claims are made for their superiority over more traditional state provision of such collective goods, the evidence on their performance is mixed. A large study of those PPPs registered with the UN Commission on Sustainable Development found that fewer than one-third produced their intended output, one-third produced an output that was unintended, and the remaining projects produced no output at all (Backstrand et al. 2012; Pattberg et al. 2012). A comparison of 21 transnational PPPs in the areas of environmental, health and social policy reveal wide variation in PPP effectiveness (Beisheim et al. 2014). Around one-third of the partnerships in their study show performance rated as weak or almost entirely ineffective.

Evidence Gap: *The question of whether not-for-profits provide better value public services than for-profits is not adequately addressed in the literature. While the evidence to date suggests that both types of provision produce good and bad projects, a more systematic comparison would help to illuminate the relevance of the provider's approach to profit.*

Debates over efficiency are relevant to the politics of different arrangements. For example, the efficiency benefits of outsourcing are thought to rely largely on healthy competition among a number of possible competent providers. Some scholars build on this line of reasoning to argue that outsourcing is better suited to urban rather than rural areas, since there may be more competition in urban areas (Slack 2007). An analysis of political conditions may account for this. In rural areas, not only is the market opportunity likely to be less appealing and so attract less interest from non-state actors, but there may be fewer capable providers; the potential for collusion with local political leaders may consequently be greater and scrutiny by external actors weaker.

2.0 Explaining the role of the state in service provision

Why, and in what circumstances, are public services provided by non-state actors rather than the state?

Given that there are theoretical reasons to expect states to provide public services, the literature seeks to understand why that is not the case in many contexts. There is a strong assumption in the literature that non-state actors only start providing public services *in response* to some 'deficiency' in the conditions necessary to govern (e.g. monopoly of the use of force). Batley and Rose (2011) describe the history of post-colonial service provision in South Asia as having three phases. In the first, newly independent states had ambitions to provide universal services and sometimes suppressed other providers because they were so certain of their primacy (Narayan 2003). In a second phase, in the 1980s and 1990s, universal public provision had failed and commercial providers emerged; among these non-state actors, NGOs often thrived because they were valued as either politically preferable – perceived as working for the public interest rather than private gain – or as bringing technical knowhow. In a third phase from the mid-1990s, donors began to require NGOs to cooperate with government in service provision, partly as a strategy for building state capacity and legitimacy (Lewis 2008a). Once again, this view assumes that the state has primacy in the provision of public services and that non-state actors emerge only when the state fails to provide.

The tendency for states in the developing world to be weak has often been identified as a barrier to development more generally. This has led to the emergence of 'state-building' as a new paradigm (Marquette and Beswick 2011) and has prompted interest in whether alternative models that favour greater involvement of the private sector might be appropriate for the provision of collective goods. Much of this work involves issues such as how to measure state capacity to establish whether and in what ways the state is deficient, and to identify how the state can be strengthened. However, understanding the mechanisms by which a 'need' caused by the absence of state provision might translate into the 'solution' of private provision also makes it necessary to consider the motivations and interests of non-state actors. Literature that covers this issue is therefore also reviewed. Another strand of the literature examines whether the characteristics of particular services make them suitable for non-state service provision.

The capacity of the state

Bukenya and Yanguas (2013) outline six categories of state capacity: bureaucratic, legal, territorial, fiscal, infrastructural and coercive. They then focus on the one aspect that affects all others – the bureaucratic capacity to manage resources and implement policy. They suggest that bureaucratic capacity has two components, effectiveness and accountability, and two domains, internal and external. The intersection of these elements generates four broad dimensions for reform: organisational rationality, administrative restraint, social embeddedness and political autonomy (Table 1).

Table 1: Dimensions of bureaucratic capacity

	Effectiveness	Accountability
Internal	Rationality	Restraint
External	Embeddedness	Autonomy

Bukenya and Yanguas further argue that each dimension can be subverted by different forms of political contestation from informal power networks:

- Instead of rationality, we might find **patrimonialism**: the organisation, staffing and remuneration of public bureaucracies on the basis of kinship or political clientelism, transforming public office into a privilege or entitlement.

- Instead of restraint, **corruption** might emerge: the use of public office for private gain, either through the appropriation of official resources or through the extraction of rents in exchange for the discharge of official duties.

- Instead of embeddedness, **oligarchy**: the subversion of public policy based on the discretionary preferences of a few actors organised as pressure groups, powerful families, or tycoons.

- Instead of autonomy, **state capture**: informal control of public policy in terms of recruitment, budgetary allocation, or contract management to extract political rents.

This typology helps to identify different types of corruption and how they might pose obstacles to state-building efforts. However, the literature does not explicitly seek to understand how these different patterns might relate to service provision. Is it the case that the more a state is characterised by the four negative features, the smaller the role the state should play in service provision? This question is not answered and reveals an evidence gap. Yet arguably it cannot be answered in general terms, since much will depend on the type of service required and the particular interests of informal power elites regarding that service. It is possible to conceive of different state-private interfaces that might be close to the negative types set out above and yet still represent an optimal interface for service provision in a given context. For example, if provision of a service is highly uneconomic, there will be few potential private providers and they may need to be induced to offer provision by the promise of being able to extract rents or influence the regulatory framework.

> **Evidence Gap:** *In which conditions, and for which services, might the 'negative' forms of political contestation outlined here represent viable channels for service provision?*

This account of how informal actors can influence state capacity highlights the fact that state capacity is not a characteristic solely of the state; it depends on the state's relationships with other institutions and actors. Brinkerhoff describes state capacity as:

> "the aptitude, resources, relationships and facilitating conditions that are necessary to act effectively to achieve some intended purpose" (2007: 4)

This reflects a broader realisation that some societal problems require collaboration across the public, private and voluntary sectors (Brinkerhoff and Brinkerhoff 2011). Such a view shifts the focus from a quest to separate out the different strengths of state and non-state actors in providing services, to an enquiry into how state and non-state actors can best collaborate in specific contexts, and where state capacity is most critical.

Schaferhoff's (2014) work on the provision of healthcare services for tuberculosis, malaria, and HIV/AIDS in three different regions of Somalia suggests that the importance of state capacity varies according to the complexity of the service being provided. Schaferhoff finds that the international Global Fund programmes to combat tuberculosis and malaria, run by World Vision and UNICEF, are very successful, working well in all three regions. He attributes this partly to the relative simplicity of providing healthcare for these diseases. In the case of the tuberculosis programme, success partly reflects the fact that infrastructure for treating the disease already exists. To the extent that infrastructure is a state function, this implies that some state capacity is necessary to support the programme. For the HIV/AIDS programme, success is much greater in the region with higher state capacity. Schaferhoff argues that the complexity of treatment for HIV and AIDS requires engagement from multiple organisations, as well as consistent medical supervision, to administer complicated drugs regimes. For the delivery of complex healthcare services, it is important for the provider to be able to form relationships with a series of other institutions, and for there to be communication and coordination among those institutions.

This is supported by other work suggesting that contracting out and PPPs are more effective in weak states when they are used to fulfil simple one-off tasks rather than to manage risk and uncertainty over the longer term (Batley 2006). Private providers might weigh up these factors when they consider whether to offer services in a given context. Carlson (2007) found that some NGOs were unwilling to take on contracts to deliver healthcare services in Sudan because the contracts were too big and were tightly performance-based. In a situation where the supporting institutions are not reliable or predictable, offering complex services is a high-risk activity for potential providers.

Other work on the provision of healthcare through international programmes has found that particular types of state capacity are sometimes necessary to support programmes provided by non-state actors. For example, improving access to malaria treatment depends not only on providing better treatment to more people, but also on measures that need law enforcement capacity such as banning old ineffective treatments and clamping down on counterfeit drugs (Yamey, Schaferhoff and Montague 2012). However, this governance capacity need not be provided by governments. Schaferhoff also argues that the TB programme in Somalia was facilitated by the presence of informal or 'extra-legal' governance institutions, in the form of sharia courts. Faith-based organisations – including hospitals in Nigeria and madrasas in Pakistan – have also successfully provided services in some contexts (Batley and Mcloughlin 2010; Bano 2008). This partly reflects their ability to provide governance and coordination functions through shared religious norms.

Analysing how provision varies in different service sectors can provide insights into which constellations of actors and institutional arrangements are likely to work best in which circumstances. Batley and Rose (2011) note that in South Asia, in healthcare, education, water and sanitation, small-scale private entrepreneurs are usually "the most abundant but least known category" (231). They are least known partly because they "often operate under the radar of governments, with their main strategy being avoidance of government regulation" (Batley and Rose 2011; Palmer 2006). Community and household providers tend to emerge in water and sanitation (Sansom 2006), but less so in education and healthcare which are more the preserve of NGO operators (Batley 2006).

Other drivers of non-state provision

Not all non-state actors provide services as a response to some 'deficiency' in the state. Other drivers of non-state provision of services may include historical or cultural preferences in society, policy transfer from other contexts, or strong market opportunities or incentives which motivate certain types of actor to engage in provision.

Public expectations vary among societies about the extent to which the state *should* take responsibility for providing collective goods. Batley (2004) conducted surveys of service users of health and water services in Ghana, Zimbabwe, Sri Lanka and India. He found that those "accustomed to public sector provision generally supported its continuation and opposed alternative arrangements. This

seemed to be based on a belief that entitlement to basic services could best be assured by governments, and on experience of privatizations which had left users worse off and with less say in decisions'' (2004: 44).

However, in some service areas, users may regard private provision as preferable. For example, where the state is not fragile, but economies are growing and there is market demand and a supply of semi-trained professionals, as in parts of South Asia and West Africa, private provision is sometimes the preferred option for certain services. In some societies, sub-sets of the population may prefer non-state provision and hence create demand for such services, to which providers will respond if the market conditions are sufficiently favourable.

A recent literature review on the role of private schools in developing countries suggests that education may be one such area if concerns about affordability are met (Day Ashley et al. 2014). The review compares the performance of state and private schools in (primarily South Asian) development contexts, finding strong evidence that teaching is better in private schools and moderate evidence that learning outcomes are better. However, very few studies address the issue of whether the existence of private schools either puts the poor at a disadvantage or improves overall standards, or whether private schools are accountable to users.

> **Evidence Gap**: *What is the impact on the overall provision of education of the existence of some high-quality private providers?*

In some countries, a shift from public provision of services to models that involve much more private-sector involvement reflects ideological motivations. The advent of 'new public management' (NPM) theory in the 1980s, which posits that the introduction of market forces into public service provision should bring efficiency gains, led many countries to increase the role of the private sector where public provision had been the norm (Hood 1991). NPM prompted much of the developed world to introduce competition and market forces into the provision of public services, particularly the United States, United Kingdom, Australia and New Zealand, largely with the aim of improving efficiency (Batley and Larbi 2004). It also offers the hope of a more decentralised system of service delivery, better tailored to varied local needs. The OECD reports that, for the OECD33, over the 2000 to 2009 period, general government expenditure on outsourcing represented around 10% of GDP. The share was far higher in the most developed countries, reaching almost 20% in the Netherlands, and lower in less developed countries within the OECD region such as Turkey and Poland (around 8%) (OECD 2011). The Nordic countries in particular rely on outsourcing to buy in back-office functions, while Belgium, Japan and Germany rely more on the non-state sector to deliver services directly to households. State outsourcing of service provision now accounts for 54% of global outsourcing contracts by value.

The ideological inclination towards NPM is complemented by a clear political economy logic for involving private providers in service provision in developing countries. NPM appeals in a development context because it promises to help overcome obstacles to service provision that are characteristic of developing countries (Sanyal 1994; Plummer 2002). These include a weak fiscal position and limited capacity to borrow, gaps in technical knowhow, and/or a tendency towards short-termist policy-making to please a poverty-stricken electorate. Public-private partnerships promise to boost paltry state revenues with private-sector finance – or, in the case of NGOs, donor funds to which they have access – to facilitate projects that might otherwise be beyond reach.

PPPs can also help to ensure long-term commitment to a project by making it independent of the political dynamics of the election cycle. Governments may be unwilling to invest in a project if the positive benefits will only accrue several years later when today's officeholders may have been succeeded by others. Investment in infrastructure, for example, is often regarded as key to development because it serves as a basis for other types of economic activity. However, it requires major up-front investment which transition countries with scant ability to raise money from taxes or on capital markets are ill placed to finance. The benefits of investing in infrastructure tend to bear fruit only in the long term, whereas the costs must be borne in the short-term and this creates a problem for democratically elected governments under pressure to curb spending and deliver benefits. Economists also argue that contracts for such large and long-term projects are necessarily incomplete, because it is difficult to accurately forecast future demand and costs. This makes them prone to accountability problems, regardless of whether they are public or private projects. Moreover, such projects require considerable specialist expertise. This creates an asymmetric information problem which complicates efforts to supervise such projects. It may be difficult to judge whether a contractor's demands for more resources or more time are legitimate. In such conditions, corruption may also flourish, because of a lack of effective scrutiny; indeed, public investment in infrastructure is also associated with corruption, particularly in developing countries (Tanzi and Davoodi 1997). While PPPs may take some of the politics out of service provision once set up, the set-up phase is likely to be highly influenced by the political environment. PPPs are also sometimes used as a way of compensating for the inadequacies of state-owned enterprises (SOEs), and may be seen as a politically more palatable alternative to privatisation (Tati 2005).

Motivations of non-state providers

Non-state actors may face strong incentives to enter the service provision market, whether as a substitute for the state, a competitor or a collaborator. Some of the literature seeks to understand the motivations of non-state providers and the demand for different providers among the population.

In the business and management literature, corporate social responsibility (CSR) activities – of which service provision is just one type – are set against the profit motive as something that requires explanation. Given that the primary motivation of MNCs is to make profit, research on CSR is largely concerned with understanding what drives these costly and supposedly 'irrational' activities. Much of this literature squares the circle by arguing that CSR does not contradict the profit motive because CSR yields important profit-related benefits for companies (Whetten et al. 2002). One strand of research suggests that MNCs provide some services out of explicit self-interest to boost productivity. Companies have a clear interest in ensuring a healthy workforce so as to reduce costs of sickness leave and recruitment; such arguments

are particularly pertinent where health risks are high, such as in the case of the high HIV infection rates in South Africa. Companies might provide healthcare to their employees to reduce production days lost to sickness and to protect their 'investment' in workers.

Other scholars suggest that companies are compelled to engage in CSR to compensate for governance gaps where states are weak or ineffective, replicating the assumption made frequently elsewhere that the provision of public services by non-state actors is a response to a weak state. However, the 'services' provided may be wide-ranging and extend way beyond welfare-enhancing services for employees; they may reflect norms and rules in the form of voluntary standards and self-regulation of the business environment (Ruggie 2006; Prakash and Potoski 2007; Vogel 2008). The provision of services by companies can raise significant legitimacy problems, spark conflicts with the government, and may be ineffective. The literature on corporate social responsibility and local stakeholder engagement seeks to better understand when and in what conditions these outcomes may occur.

Companies might be motivated by other factors such as market incentives, corporate reputation and public pressure (Borzel, Honke and Thauer 2012). Public pressure in a company's 'home' country, particularly following scandals such as MNCs exploiting labour in 'sweat shops', can persuade them to find ways to demonstrate their contribution to the welfare of a local community (McDonnell and King 2013). Such concerns only motivate companies to provide services if they care about their international reputation.

Castello and Galang (2014), analysing 776 projects from firms located in 22 Asian countries, argue that companies are looking for new forms of legitimacy that cannot be completely explained using traditional management theories. Moral legitimacy in the local community is necessary to maintain and improve relationships with local stakeholders, which is in turn critical to their licence to operate. This constrains the activities of companies in service provision; they can only provide services in ways that support – or at least do not undermine – the state's relationship with the population. If the government regards the CSR activities of a company as a challenge to its authority, it may withdraw necessary support or even retaliate.

External donors also help to provide services, either by supporting governments or through NGOs, in partnership with the government or as a substitute for it. For instance, in Bangladesh NGOs have set up whole systems which parallel the state institutions. Donors sometimes seek to avoid engaging directly with non-state actors because of the risk that national governments might view this as a challenge to state sovereignty or an attempt to intervene in political matters (Carothers and de Gramont 2013). Instead, they prefer to encourage collaboration between state and non-state actors by channelling their funding for NGOs through government (Batley and Rose 2011). However, this practice raises its own governance problems. It might, for instance, reduce the ability of NGOs to scrutinise the activities of the government for fear that criticism would jeopardise the service provision partnership.

Some donors increasingly seek to work with local political conditions rather than to transform or reform them into a western bureaucratic model and this can mean supporting local private providers. For example, Booth (2012) argues that the Africa Governance Initiative seeks to co-opt local elites so that they have a long-term interest in supporting reforms, partly because they earn rents from them. Effectively the strategy amounts to forcing local power networks to do the 'right thing' even if for the 'wrong reason', with the aim that this will build state capacity and have better developmental outcomes in the long term.

3.0

The nature and impact of partnership forms

- *How does the emergence of different institutional arrangements for service provision affect state-building efforts and the legitimacy of the state?*
- *How does the nature of the partnership affect service delivery and longer-term outcomes?*
- *In what conditions are public-private partnerships most likely to yield high-quality stable service delivery?*

State-building

Some scholars argue that private provision of frontline services can disrupt efforts to build trust in the state. This may be particularly true in post-conflict or fragile states where the ability to 'deliver' basic services to populations is a key way in which states might build popular legitimacy (Batley and Mcloughlin 2010; Ndaruhutse 2011). Private provision of security services, in particular, may threaten state legitimacy, given the fundamental importance of security provision to the role of a state (Krahman 2010). Private provision of healthcare raises questions about how to ensure universal access, and how to reduce information asymmetry so that users are able to judge the quality of the service provided.

Non-state provision of education can have implications for the state beyond the quality of the service delivered:

> "Education provided only with regard to individual benefits will fail to realise the wider benefits (positive externalities) associated with a universally educated population, including the nation-building that may result from a common syllabus and identity" (Batley and Mcloughlin 2010: 133).

Srivastava (2010: 551) argues that, in education in India, "the notion of partnerships with the private sector has been uncritically absorbed … with little attention to the implications for service delivery". She suggests that PPPs are sometimes replacing state services instead of being used to compensate for weak state resources or to extend access, and that an opportunity to expand education provision is being missed. She argues that the state should play a greater role in planning and matching service provision to desired outcomes, rather than using PPPs to extricate itself from responsibility for education provision.

Rose (2010) finds that non-state providers are proliferating in the education sector in developing countries, and their growth is driven by concern to achieve Millennium Development Goals. While using non-state providers can have the benefit of extending access to education to groups excluded from state provision, it has in some cases led to "unplanned growth" in both for-profit and not-for-profit provision, leading to fragmentation of service delivery. Although more people may now have access to some education services, this has come at the cost of losing standardisation. International aid agencies are particularly active in supporting NGOs in providing education, leading to some agencies playing a dual role – advocating for improved government provision while supporting service delivery by non-state actors.

Bano (2010) considers attempts by the state in three countries – India, Pakistan and Bangladesh – to involve madrasas in the provision of secular education. She finds that they can become important partners, although this depends on local power structures. Larger madrasas sometimes provide elements of secular education, but greater support from the state for smaller madrasas could be useful as a way of extending access to education to children who might otherwise be excluded from schooling. Although these smaller madrasas are often open to receiving state support, partnerships require the state to have "a strong political will and acceptance of the value of religious teaching" and the necessary financial resources (2010: 564). In Bangladesh, *Aliya* (reformed) madrasas provide secular education with state financial support but the bigger *Qoumi* (unreformed) madrasas do not. In Pakistan, large madrasas prevent the smaller ones collaborating with government.

Rose's work on NGO collaboration with government in the same three countries finds that some NGOs, particularly those that have been working for more than ten years and have established a good reputation, are regarded as trusted partners of the government in the provision of education. The power dynamics vary, however, according to several factors (Rose 2011). Where

NGOs have diverse sources of funding, they are less dependent on relationships with the government, and this means that they prefer to maintain more autonomy and perhaps only enter into informal partnerships rather than formal contracts. Where they are less secure about their funding, they may enter into relationships with government as an insurance strategy so that they can keep operating if other sources of work dry up. The government, meanwhile, may see NGOs as an important source of ideas and innovation or, more simply, funds. Alternatively, governments are sometimes suspicious of NGOs, arguing that they are self-interested and profit-seeking rather than serving the public interest.

Given such suspicions, it can be important for NGOs to build personal relationships with government actors; the OECD (2010) finds that successful contracting is often based on relations of trust or experience of past cooperation. Such trusting relationships are sometimes achieved easily because NGO staff have previously worked in government (Lewis 2008b). This 'revolving door' phenomenon, however, raises risks of conflicts of interest or outright corruption (Transparency International UK 2011). NGOs which cooperate with government over a long period can become trusted partners, with government seeking out their advice over time as part of policy consultations. This echoes other work on government-NGO collaborations which finds that governments begin to see NGO partners as sources of expertise and innovation which can be integrated back into government-provided programmes. This suggests the separation between service delivery and advocacy, often assumed in the NGO literature, is in fact rather blurred in many development contexts (Aikman 2010; Casley-Hayford and Hartwell 2010).

> **Evidence Gap:** *Which factors influence the way state and non-state actors form perceptions about one another? How do their perceptions of the other party's motivations affect their own strategies?*

Building legitimacy

States need legitimacy, in many forms, to sustain themselves and perform their functions. Geographical legitimacy is necessary to maintain the integrity of borders. If the borders of a state are regarded as illegitimate by a large part of the population, then the integrity of borders will be challenged. Similarly, governments need political legitimacy to bolster their coercive power and help them collect taxes, enforce laws and avoid major challenges to their power outside the normal constitutional rules – whether they involve democratic elections or not (Held 1996; Leftwich 2000).

It is often argued that service delivery plays an important role in building political legitimacy:

> "State legitimacy can derive from a range of sources, including the effectiveness of public institutions in their performance of various functions, such as service delivery; and their degree of representation and accountability. Legitimacy does not derive solely from effectively functioning institutions, however. Such institutions must resonate with societies in order for them to be considered legitimate..." (Haider, 2010: 9)

The implication is that weak states should engage in service delivery because it will help them build state capacity. However, this issue is hotly debated and the evidence is inconclusive. A major literature review on this topic found that service delivery could contribute positively or negatively to state-building, and noted that there was a lack of evidence about the conditions in which positive contributions could be assured (Ndaruhutse 2011).

In the realm of service delivery, Beisheim et al. (2014) distinguish between input and output legitimacy (Scharpf 1999). Input legitimacy refers to "the inclusion of affected actors in decision-making processes", while output legitimacy is the extent to which the outputs are valued by the people who benefit from them, and is related to the public's expectations about the goals of the PPP and the extent to which these goals accommodate local needs, habits, discourses and structures. Discussing water and sanitation in urban environments, Beisheim et al. (2014) describe one project in India where there was widespread protest after the service provider partners failed to engage with the local community at the outset. Local and national NGOs successfully raised concerns that the partnership – between private company Thames Water and non-profit Water & Sanitation for the Urban Poor (WSUP) – represented a first step towards privatisation of the water supply, in a context where this topic is highly controversial. As a result, WSUP withdrew from the partnership and spent a year campaigning and networking with local actors to regain trust.

Beisheim et al. (2014) contrast this with similar projects in similar environments where organisations have taken great care to establish input and output legitimacy before starting work. For example, WSUP worked in Bangladesh with a local organisation representing social workers and held focus groups, workshops and meetings with the local community. A local 'Community-Based Organisation' was established to be involved in the governance of the project. This allowed users to discuss their needs and demands with the providers. In other contexts, WSUP has engaged in outreach with local service providers to develop strategies for reducing losses and formalising service delivery. These providers were often informal actors who might otherwise have challenged the legitimacy of a project; the strategy helped buy their support or encouraged them to tolerate the project. However, this approach is controversial since it can also be seen as perpetuating local clientelistic networks.

International support for non-state service provision might undermine state-building activities in weak states because it can mean that the nascent state is not given credit for service delivery improvements, or that services are not built up in a sustainable way. The OECD Principles for Good International Engagement in Fragile States and Situations (2007) suggest that international engagement in service delivery will support the building of effective, legitimate and resilient states. However, if international agencies find it necessary to bypass the state by funding urgent services through international NGOs, this may undermine efforts by the state to build its own legitimacy (Rocha-Menocal 2009). If this practice is perpetuated, then a parallel structure of service delivery can emerge, leaving the state relatively weak and under-resourced compared to NGOs (Zivetz 2006).

An internal review of DFID projects in fragile states notes that

> "… there are 'unintended consequences' of non-state services, including unsustainable operational standards and facilities; lack of upward and downward accountability of service providers; the failure of humanitarian agencies to develop sustainable local capacity; and the tendency for service providers to attract hostility from the state, because of their unintended political role." (DFID 2009: 35)

Ghani et al. (2005) make similar observations for the case of Afghanistan. This "tension between state-building and non-state service delivery" (Batley and Mcloughlin 2010: 131) leaves international agencies in a bind. Insisting on direct provision by the state makes no sense if the state is weak, yet using alternative providers may inadvertently hinder state efforts to become effective. Government officials who fear exposure of their own inadequacy may also oppose donor provision through non-state actors as they defend their 'territory' (Sansom 2006; Batley and Mcloughlin 2010). On the other hand, some research suggests that donor-funded non-state provision of water services can help to build general state legitimacy even if the state is not involved directly in delivery (Eldon and Gunby 2009).

Partnership and 'institutionalisation'

A small but growing literature seeks to understand the importance of partnership itself in the provision of services. Although different studies focus on different types of non-state partner, from MNCs to NGOs, some common thinking is beginning to emerge around the characteristics that make for fruitful cooperation. One finding is that there are inherent tensions in such partnerships that need to be resolved, which arise from a range of differences. These include differences such as organisational culture or motivations (Baruah 2007), competition for resources and related resentments (Farrington and Bebbington 1993), information asymmetry (Maxfield and Schneider 1997), or a legal environment which shapes the terms of engagement in certain ways (Batley and Mcloughlin 2010). On the other hand, some scholars suggest that collaboration leads to non-state actors losing their distinct identity and becoming too close to government (Ramanath 2009).

Mcloughlin (2011) defines three sets of variables that affect the relationship: (i) historical context; (ii) organisational culture; and (iii) the nature of the relationship in terms of both contractual design and daily realities. These themes also arise in literature on state-business relations (Maxfield and Schneider 1997; Leftwich 2008; te Velde 2009). However, Teamey (2010) has emphasised that because relationships between the state and non-state actors change over time and are highly complex, the effort to construct typologies risks oversimplification and reductionism.

Honke and Thauer (2014) note that MNCs are most successful in providing services where there is a high degree of 'institutionalisation' – where all relevant actors are bound into the relationship by explicit or implicit agreement and strong organisational structures provide effective monitoring and incentives for compliance. They find that more institutionalised HIV/AIDS programmes, such as workplace programmes for employees, are more effective than less institutionalised ones which seek to impose external standards, either throughout the supply chain or among the wider public. Thus, MNCs' ability to provide public services may have a rather limited reach.

Mcloughlin (2015) offers a nuanced account of four normative criteria by which citizens judge the services they receive, which then affect the legitimacy of the state. First, she suggests that shifting expectations about what the state should provide colour subjective interpretations of the quality of service delivery. Second, local beliefs about what is appropriate in terms of distributive justice influence perceptions of fairness and impartiality in the allocation of public services among different social groups. Third, how services are organized and managed at the point of delivery, particularly whether locals feel that they are consulted and listened to, affects how service evaluation translates into state legitimacy. Finally, users may be mistaken in their attribution of service delivery, thinking that it is provided by one actor when in fact it is provided by another. This also complicates the ability of the state to build legitimacy by providing services. This research is very valuable in assessing the impact of service provision on state legitimacy, but there is a need for similar research to evaluate whether similar conditions apply for other types of actor, particularly NGOs and MNCs.

Honke and Thauer (2014) consider the provision of HIV-focused healthcare services by car manufacturers in South Africa, and efforts to improve public security by mining companies in the Democratic Republic of Congo. They also argue that the effectiveness of service provision depends on legitimacy and the degree of institutionalisation, but they define legitimacy in this case as congruence with the aims and norms of the *government*. They find that programmes are more effective when they are validated by the state: for example, car manufacturers in South Africa were

> **Evidence Gap:** *What determines whether states support MNC service provision? Do governments seek to gain reputational or legitimacy benefits from being associated with such schemes?*

more effective in providing HIV/AIDS programmes to employees after 2003–04, when the government changed its stance towards the disease in response to international and domestic pressure. This suggests that the effective implementation of CSR programmes may depend on there being a functioning state structure.

Honke and Thauer (2014) conceptualise institutionalisation as comprising three factors: (i) monitoring of outputs and correct use of funds; (ii) ability to adapt the project to local needs; and (iii) economic viability. The first two involve at the very least an understanding of local politics and public administration, if not an ability to influence office-holders. In terms of monitoring, it is important to define tasks and rules for each actor clearly and to monitor compliance. Beisheim et al. (2014) cite a Global Alliance

for Improved Nutrition (GAIN) project to provide fortified food in Andhra Pradesh and Rajasthan, where a lack of monitoring meant that food did not reach the children who were its intended beneficiaries, but was sold or stolen by intermediaries. Another project by GAIN set up institutions for monitoring the delivery of food, preventing misuse and corruption.

Research on NGO-state collaboration yields similar findings, although it does not use the same 'institutionalisation' term. Thus, Bano, in her 2011 study of collaboration on service provision between three sets of state agencies and NGOs in Pakistan, focuses on the need for NGOs to create 'demand' for their services within the state agencies. She finds that this is best achieved if certain conditions are present which can be seen as types of institutionalisation. One is technical expertise, where the NGO offers a particular skill that is technically sound and is needed by the government. This lends support to the argument that non-state actors provide services where the state is deficient in some respect.

4.0

Political settlements, informal networks and the politics of reform

- *How does the type of political settlement in a country affect the feasibility of, and preferences for, different interfaces for service provision?*
- *How do actors – formal and informal – seek to shape or manipulate the interface between state and non-state actors, and with what goals?*

Political settlements and the politics of reform

A recent paper from the Effective States and Inclusive Development Research Centre (ESID) sets out some hypotheses on how the type of political settlement might affect the way that services are provided. It considers the forms of partnership that are preferred and whether they operate in ways that serve the public interest, or are prone to corruption (ESID 2014). The authors map the motivations of different actors:

- Political elites are concerned with developmental outcomes, personal enrichment and political continuity
- Internal stakeholders of service-providing organisations are concerned with organisation-level developmental outcomes and personal gains (monetary or effort-related)
- External stakeholders are interested in development outcomes relevant to themselves or their group, and personal gains.

They then suggest that, in different types of political settlement, different strategies will be most appropriate for inducing improvements in service provision. Five types of political settlement are considered:

- **Dominant developmental.** If the state is dominant, but developmentally oriented, there is great potential to achieve change through technocratic reforms. However, the source of reforms might be important. If the government is concerned about loss of control, it may be unwilling to countenance suggestions from external stakeholders. Cambodia, Rwanda and Uganda are examples.
- **Dominant predatory**. It is very difficult to achieve change where the state is dominant but seeks to extract resources. The main strategy is to empower civil society so as to increase political pressure on regimes. External stakeholders may also be able to identify islands of development action where the government has an interest in reform.
- **Inclusive competitive clientelistic**. Assuming that information flows are good and that different interest groups can mobilise, the power of different groups will fluctuate but some will effect change. Bangladesh and Ghana are examples.
- **Elite competitive clientelistic**. Where the system is competitive but clientelist, with elites distributing goods among themselves, it may be difficult to achieve universal coverage of good services.
- **Competitive programmatic**. Interest groups mobilise to make their own interests known and seek to make them salient to broad coalitions, so as to influence policy-making.

The structure is helpful in thinking about how different institutional arrangements for service provision might perform in different political contexts. ESID calls for empirical research to test these hypotheses.

Political risks in public-private partnerships

Some of the risks in outsourcing clearly reflect the fact that the process is embedded in a political context. Politicians are liable to make contracting decisions that may increase their short-term approval at the expense of imposing high long-term costs on society (Harris 2003; Guasch 2004; Engel et al. 2009). Governments may be motivated to overlook evidence that bidders are under-pricing their offers in the hope that they can renegotiate more favourable terms later. When the award is made, a government can claim that it achieved excellent value for money; when contracts are later renegotiated, there is likely to be less scrutiny, and the contractor can expect to be in a stronger position since there is no longer any competition.

In his study of contract renegotiations in developing countries, Guasch (2004) finds that renegotiations tend to be limited in telecoms and energy but significant in water and transportation, where costs rise on average as a result of renegotiation by 74.4% and 54.7% respectively. Another possibility is that contracts are not renegotiated, but the original terms benefit the government in office at the time the contract is awarded, leaving high future costs for their successor to manage.

The political problems with PPPs in infrastructure outlined earlier are borne out by the empirical research on major projects, which find that cost overruns are the norm. In his study of 258 projects in 20 countries on five continents over a 70-year period, Flyvbjerg (2007) found that nine out of 10 projects had cost overruns to some extent, averaging 45% in rail projects and 20% in road projects. Moreover, cost estimates did not become more accurate over time, despite the supposed benefit of experience and improved forecasting techniques.

The techniques of PPPs have mainly been developed in and for a western context. This is important, given that a considerable literature suggests that governance structures cannot simply be 'imported' from one context to another, and that projects seeking to accommodate and build on local realities are more successful. One key problem with the transfer of NPM techniques to developing and transition countries is that the public sector and private sector are often not clearly distinct from one another in the first place. This is a legacy of communism in Eastern Europe, of the developmental state model in Asia, and of the strength of informal economic elites in almost all transition and development contexts, but it complicates policy transfer and increases the risk of accountability failures.

One case study about water provision in Sierra Leone allows us to analyse how local politics can disrupt efforts to introduce state provision of a basic service – clean water. This is the kind of context where the arguments in favour of state provision are arguably strongest, since there is a significant risk that the market will not provide universal coverage. The research finds that the two state-owned providers, SALWACO and GVWC, are highly ineffective and cover only part of the territory and population (Harris, Kooy and Jalloh 2012). The case study authors argue that, in response to this inadequate state provision, "there is now a large formal and informal private water market selling bulk and/or treated water". However, they do not further explore the causal relationship that they assume. In urban areas outside the capital, more than 95% of the population relies on self-supply from private wells. In Freetown, the study finds, water is only available from private providers, and this allows them to charge very high prices – up to 100 times more per unit volume than the state utilities charge in the areas where they operate, although the price may also reflect higher quality to an extent. The overall impact on welfare is likely to be negative; poor residents of Freetown are unable to pay the high prices and jeopardise their health by relying on self-provision from often-contaminated shallow wells. There is also considerable geographical and seasonal variation in informal water sources.

The case study identifies several weaknesses in the institutions that govern water service delivery. The government's aim is to move towards a system of state provision, where users pay an agreed fee for service at a set tariff; this would enable utility providers to recover their costs. However, currently, moves to introduce such a tariff structure are undermined by the fact that a significant number of users access water free of charge, and are supported in doing so by clientelist systems in local politics. This occurs through informal mechanisms – for example, users are allowed to build up significant payment arrears, or do not face sanctions for non-payment. A number of large institutional users are among those who fail to pay and their arrears are often overlooked by local leaders or 'big men' in return for electoral support. These difficulties present obstacles to service improvement and, specifically, to achieving the goals agreed by the government in consultation with aid agencies providing financial and technical assistance.

Harris, Kooy and Jalloh (2012) therefore argue for the need to recognise these political realities in policy recommendations. They advocate improved monitoring of compliance by appropriators or those accountable to them, including "potential pro-active engagement with local big men or clientelist politicians". They also say the legal framework needs reform to clarify the rules and the sanctions for non-compliance. However, other research finds that private and informal providers connected to local 'big men' in certain districts can also obstruct efforts to reform utilities provision and regulation if they see reform as a threat to their operations (Barraqué, 2011). This suggests that it is important to prevent such informal political-economic alliances becoming entrenched, as they might lead to state capture.

This argument is explored in other work. For example, Leftwich (2009) and Peiffer (2012) distinguish between healthy and unhealthy relationships between the state and business actors. In unhealthy relationships, business interests – however small or informal – collude with politicians to stall reform that would damage their interests. Leftwich points out that a better understanding of this dynamic can also help us to see the conditions in which healthy or pro-reform 'growth coalitions' emerge, where business and political actors share an interest in pursuing reform (although their individual reasons for favouring certain outcomes need not be the same). This builds on earlier work by Batley and Larbi (2004) and Grindle and Thomas (1991) which argued that some reforms were inevitably highly political. This might be because they were highly visible, or public support was needed to implement them, or because they imposed high costs on some sections of the public while the benefits accrued to society more broadly. For example, reforms such as the introduction of user fees for utilities would tend to be highly political because the benefits accrue mostly to the public purse, while consumers bear the costs. However, Batley and Larbi (2004) themselves note that the distinction between reforms that are a matter of public debate and reforms that occur behind closed doors in the bureaucracy is questionable, because the bureaucracy is also highly politicised and bureaucratic policy-making is by no means immune to pressures from different factions.

Harris, Kooy and Jalloh (2012) also cite interview evidence that issues such as public service delivery are becoming more prominent in formal politics, with politicians increasingly under pressure from voters to improve delivery. However, this does not necessarily suggest that accountability will improve. Booth (2011) suggests rather that, in sub-Saharan Africa, election campaigns are characterised by short-termist and populist claims which are not much related to credible policy commitments. Hence, the fact that service delivery is moving onto the political agenda does not necessarily suggest that public pressure will translate into improved services.

Harris, Kooy and Jalloh also note that some free-riding is less overtly political, but is nevertheless supported by social and cultural norms that see nothing wrong with not paying for water services, and indeed may see it as wrong to pay since water is a 'God-given' natural resource and therefore access should be free (2012: 19-20). Their policy recommendations therefore include public education campaigns to demonstrate the health risks of using rivers, streams and wells as water sources, and "the development of socio-culturally legitimate sanction and conflict-resolution mechanisms" (Harris, Kooy and Jalloh 2012: ix).

This is not just a problem for locally based small private providers. MNCs may also find that they are forced to rely on informal connections to political leaders and senior public officials to receive licences to operate, and may then find that they have incurred obligations to members of those networks which constrain their freedom (Handley 2008). De Waal (2009) has developed an argument that patronage systems (even if they involve elements of corruption) should be viewed within the context of a political marketplace.

Informal networks

In weak states, governments and business are often intertwined. This is a legacy of communism in Eastern Europe or of the developmental state model in Asia, but it complicates policy transfer and increases the risk of accountability failures. Wedel's work on post-communist countries details complex patterns of entanglement between the state and the private sector. In the 1990s, Russia and some East European countries saw the emergence of 'flex organisations' that

> "can switch their status – from state to private – according to the situation, strategically manoeuvring to best access state, private and international resources" (Wedel 2004: 217).

Flex organisations were sometimes supported by international donors as a way of circumventing cumbersome bureaucracies to achieve specific tasks which they saw as being in the public interest. However, they inadvertently empowered informal networks that were not always concerned with serving the public interest. Wedel gives an example of an archetypal flex organisation:

> "the Russian Privatisation Centre switched its status situationally. Legally it was non-profit and non-governmental, but it was established by a Russian presidential decree. Though the Centre was an NGO, it helped carry out government policy related to inflation and other macroeconomic issues and also negotiated with and received loans from international financial institutions on behalf of the Russian government, when typically the international financial institutions lend only to governments. Further, the Russian Privatisation Centre received aid from the international financial institutions because it was run by members of the Chubais clan, who also played key roles in the Russian government." (Wedel 2004: 224-25)

Some sectors became dominated by groups of 'institutional nomads' who circulated through a revolving door of various government, agency and private-sector roles. Such flex organisations are inherently unaccountable because, by shifting their agency, they can always achieve deniability.

Such blurred relationships between the state and the private sector are also present in African and Asian developing countries. They may manifest as 'parastatals' or corporations owned or controlled by the government, but similarly with groups of institutional nomads or entrepreneurial informal networks moving in and out of the state. The lesson from Russia and Eastern Europe is that they present a difficult – perhaps wholly inappropriate – context in which to transfer NPM theory (Sutch 1999; Schick 1998). When donors promote PPPs, they should be aware that such techniques may not be effectively transferred if they do not take into account patterns of informal exchange and corruption (World Bank 2000).

Indeed, Leftwich emphasises that the way in which state-business relations are formed at a particular point in history can create enduring patterns. He puts forward the case of Malawi to illustrate this argument.

> "From the time of independence in 1964 to the mid 1990s, the President and leader of the ruling party, Dr Hastings Banda, was profoundly hostile to the idea of an independent private sector. Autonomy of the private sector (small as it was) and positive synergy between it and the state simply did not occur. Banda's own corporation, Press Holdings, came to dominate the economy and the concentration of political and economic power which that generated enabled him to reward politicians, bureaucrats and followers with jobs, loans and tobacco estates. These conditions led one observer to comment that 'The private sector is alive and well and owned by the government'". (Leftwich 2009: 9)

The result was not only that the public and private sectors were indistinguishable, but also that businesses became completely dependent on the state, even long after Banda's removal from power.

5.0 Accountability of service provision

- *How can service providers be held accountable?*
- *What accountability challenges arise in different contexts?*

Sectoral characteristics and accountability

Accountability in service delivery is best analysed from a sector-specific perspective (Mcloughlin and Batley 2012; Batley and Harris 2014; Mcloughlin 2015; Batley and Mcloughlin 2015). Mcloughlin and Batley (2012) suggest that a set of characteristics related to the nature of the good can be used to analyse services with a view to teasing out the accountability issues that arise and targeting possible solutions.

Table 2 : Sectoral characteristics relevant for accountability

Nature of good	Market failure characteristics	Task-related characteristics	Demand characteristics
Rivalry	Monopoly tendency	Measurability and visibility of outputs	Frequency of use
Excludability	Positive or negative externalities	Discretion of frontline staff	Predictability of use
	Information asymmetry	Transaction-intensity	Territoriality
	Merit goods	Variability	Political salience
		Professionalisation	

Source: Mcloughlin and Batley (2012: 3)

The characteristics of the sector influence the role of the state in provision. For example, if there is a major information asymmetry problem, as with education and healthcare, there is likely to be a role for the state in collecting information to facilitate regulation. Where a public service is a merit good – where one individual's consumption of, for instance, a vaccination benefits the wider community – there might be good reasons for the state to intervene and compel consumption, although not necessarily to provide it. Demand for healthcare tends to be episodic, infrequent, unpredictable, and is often required as a matter of urgency; all of these factors create considerable challenges for accountability and coordination (Harris, Batley and Wales 2014). Demand for clean water, by contrast, is constant and relatively predictable. Water consumers also tend to be defined territorially because of the need to have infrastructure in place for delivery; this may make it easier to organize consumers in collective action initiatives to provide water or lobby government (Mcloughlin and Batley 2012).

Sectoral characteristics may also affect the willingness of politicians to become involved. If a particular service output is highly visible, then politicians' electoral success might be more tightly associated with it – allowing them to claim credit for successful service delivery, but also acting as a check on service failure (Mani and Mukand 2007). Khemani (2010) finds that where service delivery is decentralised, local politicians develop preferences towards providing excludable goods rather than public goods so that they can cultivate particular bases of support that are strategically important to electoral success.

One of the elements of 'institutionalisation' already noted as important to successful partnerships is monitoring and enforcement capacity, the ability to ensure that partners stick to the terms of a contract, whether formal or informal. Mcloughlin and Batley (2012) also highlight this factor as one of the important features of 'organisational accountability'. The ease of monitoring once again varies according to the complexity of a particular service sector. For straightforward services like immunisations, contracts with external providers are relatively easy to monitor. For more complex services, it may be simpler for the state to provide the service itself

rather than monitor an external provider. However, in clientelist systems, the state may be reluctant to monitor service providers for fear that they will cease to deliver votes; for instance, Devarajan et al. (2011) find that this inhibits the state from monitoring teachers in South Africa.

An alternative strategy is to force government to open up through transparency initiatives, to allow civil society to exert pressure on government to reform corrupt practices. The Open Government Partnership (OGP) seeks to promote active citizenship in this way (Yu and Robinson 2012). Accountability over providers can also be exercised more closely by end-users through civil society organisations, in what the World Bank calls the 'short route' to accountability. (The 'long route' is where civil society gives feedback about providers to the state, which then regulates the providers: World Bank 2004; ESID 2014). However, users also face information asymmetry and barriers to collective action that may inhibit monitoring (Booth 2012) if the service is complex. However, research suggests that transparency is only effective in improving accountability where other conditions are present, such as an active civil society and freedom of the media (Grimes 2013; Themudo 2013). Collective action is sometimes inspired by a crisis, or by NGO efforts to change perceptions of collective benefits (Kar 2012), but the extent to which users have power depends on their ability to organise. Moreover, where users have the option of exit in addition to voice, they may prefer to opt out by seeking an alternative provider (Golooba-Mutebi 2005).

The revolving door

Some critiques of recent trends towards involving more non-state actors in service provision argue that they increase the risk of corruption. They are said to create "more contacts [of state-sector functionaries] with the private sector, creating new opportunities for bribes" and the possibility of future, direct or indirect, employment in the private sector – the latter being known as the 'revolving door' (Chang 2008; Nield 2002). The same phenomenon occurs with NGO providers. Bano notes that 'strong political and professional networks', specific to the relevant state agencies involved in commissioning or partnering to provide services, are important for success. Such networks sometimes reflect that fact that individuals in the NGO sector have experience in the pertinent departments of the public administration. One of her respondents comments:

> "The private sector person will have no idea of how the government system works; he would have no idea of the government rules. For example, he won't even know how the government budget works or what the inventory rules are. To effectively manoeuvre within the government system, [the NGO] has as a policy recruited public-servants to head the programme at district as well as the head office level." (Bano 2011: 268)

Another of the NGO staff referred to their partners in the government offices as former colleagues or "batch mates", while another reiterated that such networks were the most important factor in securing collaborations:

> "I could have had all the technical knowhow but no-one would have approached me to engage with the government if I was not moving in the right circles and I was not expressive about my views on reform." (Bano 2011: 268)

The literature on the revolving door seeks to understand whether private-sector employers wish to hire former public officials because of their knowhow or their connections (Blanes i Vidal et al. 2012); this evidence suggests that it is more the latter, which in turn suggests a greater risk of corruption.

The revolving door can be beneficial to both governments and companies if it improves their understanding of one another and facilitates the sharing of expertise. Yet it also brings risks that government officials will be influenced in their policy or procurement decisions by the interests of past or prospective employers. Conflicts of interest arise particularly for individuals in government who have responsibilities for business regulation or who are charged with procuring goods or services from the private sector. Business is often keen to employ former public officials largely because of what they know about the outlook for future government policy and spending.

If service providers are able to influence the design of the terms of tenders or policies, they can do so in a way that will favour their company at the subsequent bidding phase. From the point of view of public officials responsible for designing the policies and tenders that set out the framework for private provision of public services, large rents are to be gained from defining the terms in ways that benefit companies to which they have connections.

Conflicts of interest related to the 'revolving door' can take many forms. Transparency International UK (2011) offers the following examples:

- Public officials might allow the agenda of a previous private-sector employer to influence their government work, being overly sympathetic to a sector that they have a responsibility to regulate.
- Public officials might abuse their power while in office to favour a certain company, with a view to ingratiating themselves and gaining future employment.
- Former public officials who accept jobs in business might influence their former government colleagues to make decisions in a way that favours their new employer.
- Former public officials might use confidential information to benefit their new employers.

Such conflicts of interest undermine public confidence in government and potentially subvert the public interest.

It is difficult to measure or police the extent of revolving door conflicts of interest or their impact, notwithstanding a new proxy measure recently published (Brezis and Cariolle 2014), because it is often difficult to prove that improper influence has occurred. However, it is possible to constrain the types of jobs that government employees can take in the private sector for defined 'cooling-off' periods, to reduce the risk of improper influence. Such systems of regulation are often far down the list of anti-corruption reforms, but their importance should not be underestimated in contexts where non-state actors play a major role in service provision.

Contract management and monitoring

Research suggests that the ability to make efficiency gains from outsourcing depends greatly on how contracts are negotiated and what accountability structures are put in place to check the quality of provision (Balabanova et al. 2008; Batley and Mcloughlin 2010; OECD 2010). In their book on strengthening contract management capacity to ensure accountability, Cohen and Eimicke (2008) note the risks that arise because private contractors are outside the system of representative politics and may not be motivated by public service considerations. They write:

> "Accountability is far more than simply doing what their contracts specify. Accountability requires that contractors act as the agents of a representative system where the directions they receive are designed to both respond to public views and ensure that government functions effectively." (Cohen and Eimicke 2008: 86)

Although their work mainly relates to outsourcing service delivery in developed countries, many of their recommendations are relevant to other contexts. They suggest, for example, that governments should retain in-house capacity not only to manage contracts but also to perform services, to increase both their bargaining power and their ability to monitor contract implementation. This will of course be more difficult in contexts where state resources are limited, and risks losing some of the short-term financial benefits of outsourcing. Governments may be less convinced of the rationale for outsourcing if they are required to retain some in-house capacity and the associated costs. Collier (2007) recommends an alternative which may combine the best of both models: the establishment of specialist wholesale contractors of service provision, to ensure specialist expertise in contracting whilst also enabling competition between public, private and NGO suppliers of services. This kind of model is increasingly used in North European local government contexts (OECD 2010).

Moreover, outsourcing is likely to be inappropriate in contexts where the rule of law is weak, since contracts are meaningless without a functioning legal system to enforce them (Batley 2006). Rondinelli (2006) finds that public-private partnerships in Cambodia have been undermined by the lack of transparency and the tendency of government officials to bypass laws and administrative contracts. In their study on water in Sierra Leone, Harris, Kooy and Jalloh (2012) suggest that contracting out parts of water service provision can be effective "provided a performance-based contract provides the right incentives, penalties can be enforced, and both the operators and the Regulatory body retain independence from political institutions." These are stringent conditions that require considerable regulatory capacity.

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