

*7 February 2005*

# Private Participation and Improved Public Service Delivery

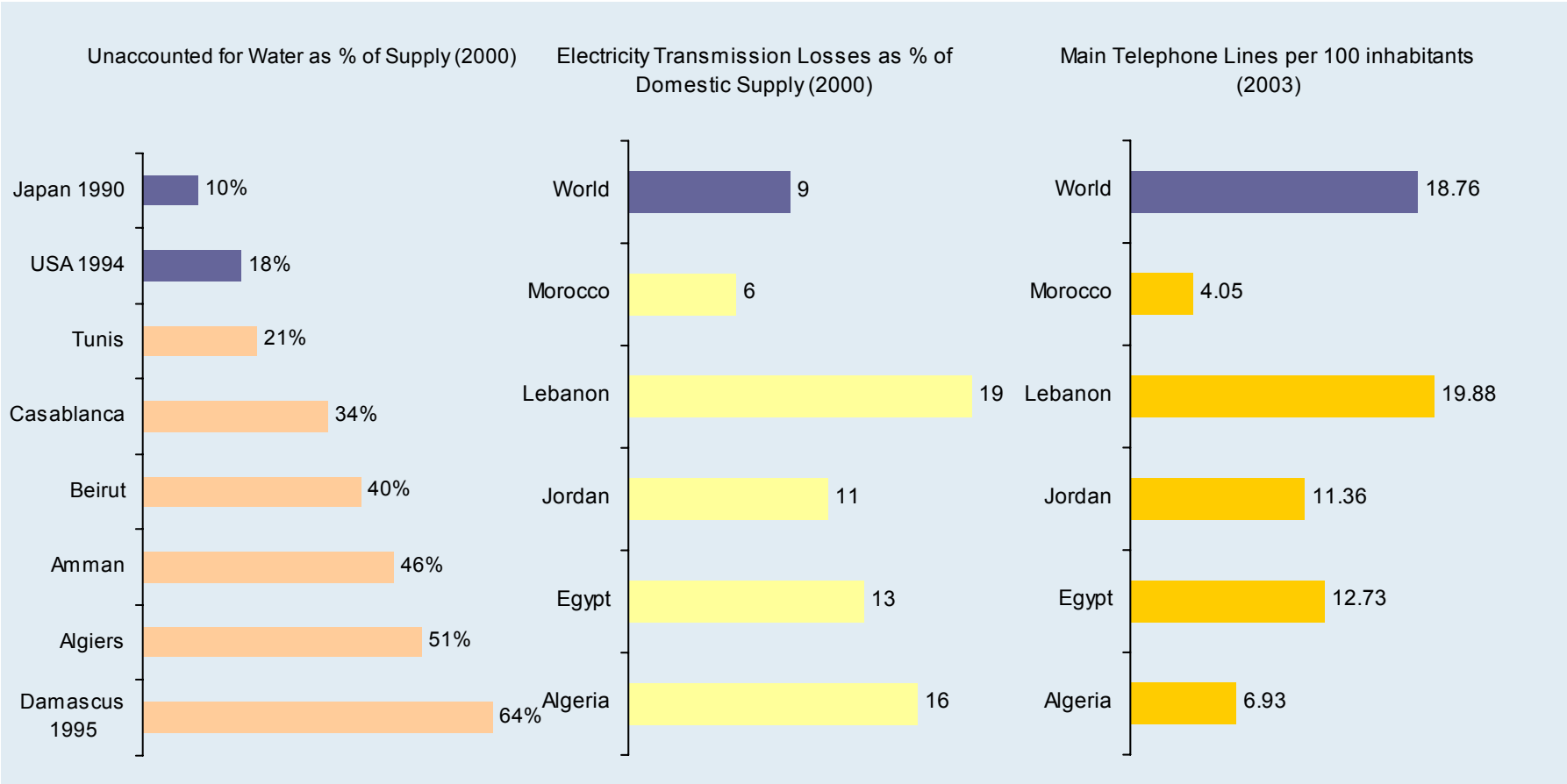


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*Conference on “Good Governance for Development in  
The Arab Countries”*

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

## Infrastructure Service Indicators in Selected Arab States



Source: The World Bank, ITU

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

## Private Participation in Public Service Delivery

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

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

## Impact of Public-Private Partnerships on Service Delivery

|         | Challenges   | Opportunities  | Key Factors  |
|---------|--|--|--|
| Access  | <ul style="list-style-type: none"> <li>Private sector has no incentive to serve poor population segments (communities, areas, social classes...)</li> </ul>  | <ul style="list-style-type: none"> <li>Private sector participation fuels expansionary investments</li> <li>Private sector can obtain low-interest loans for risky investments</li> </ul>  | <ul style="list-style-type: none"> <li>Access targets can guarantee that service reaches all population segments</li> <li>Universal service obligations and tax breaks enhance the feasibility of providing access to unserved or underserved population segments</li> </ul>                       |
| Price   | <ul style="list-style-type: none"> <li>Private sector participation leads to price increases as the private sector is motivated solely by profits</li> </ul>   | <ul style="list-style-type: none"> <li>Private sector participation enhances efficiency and cuts losses</li> <li>Private sector participation brings in innovative financing methods</li> </ul>  | <ul style="list-style-type: none"> <li>Adequate price regulation eliminates abnormal profits and ensures cost recovery, which is the basis for efficiency</li> <li>Key Performance Indicators can be set for the private operator, inducing efficiency gains and motivating price drops</li> </ul> |
| Quality | <ul style="list-style-type: none"> <li>Private sector socially irresponsible and has no interest in monitoring quality</li> <li>Private sector sacrifices service quality to increase profits</li> </ul> | <ul style="list-style-type: none"> <li>Private sector participation introduces technical and managerial expertise</li> <li>In case of competing private sector players, quality enhancements spurred on to differentiate services</li> </ul> | <ul style="list-style-type: none"> <li>Quality of Service Indicators can be set for the private operator and monitored on a regular basis</li> </ul>   |

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

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

### Shortcomings

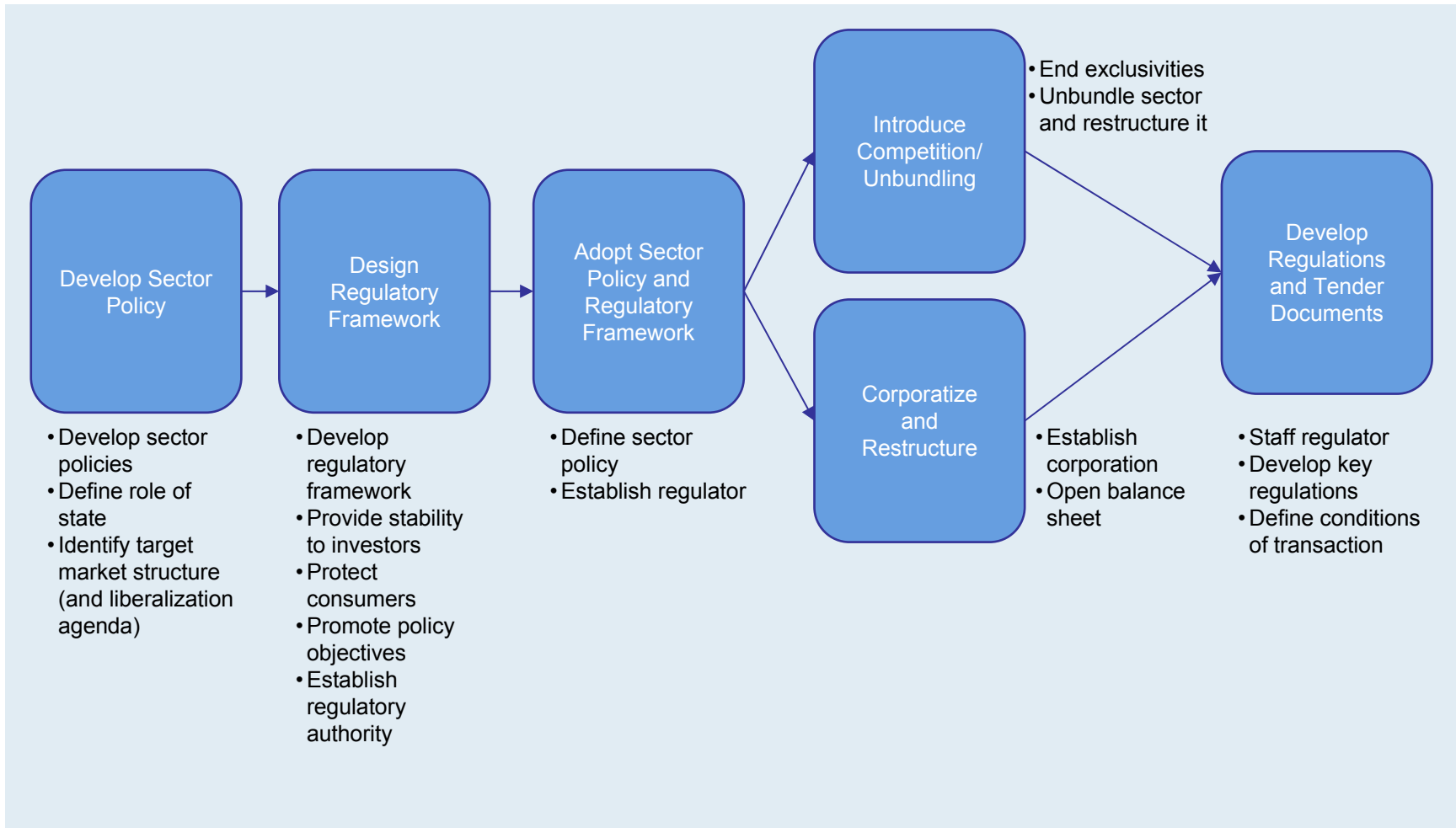
- Poor incentives for providers to serve the poor
- Substantial shortage in external resources
- Ineffective use of resources
- Non productive resources
- Lack of accountability in service delivery
- Diversion of public services from the poor to non-poor but politically influential groups
- Absence of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

### Private Sector Role

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

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

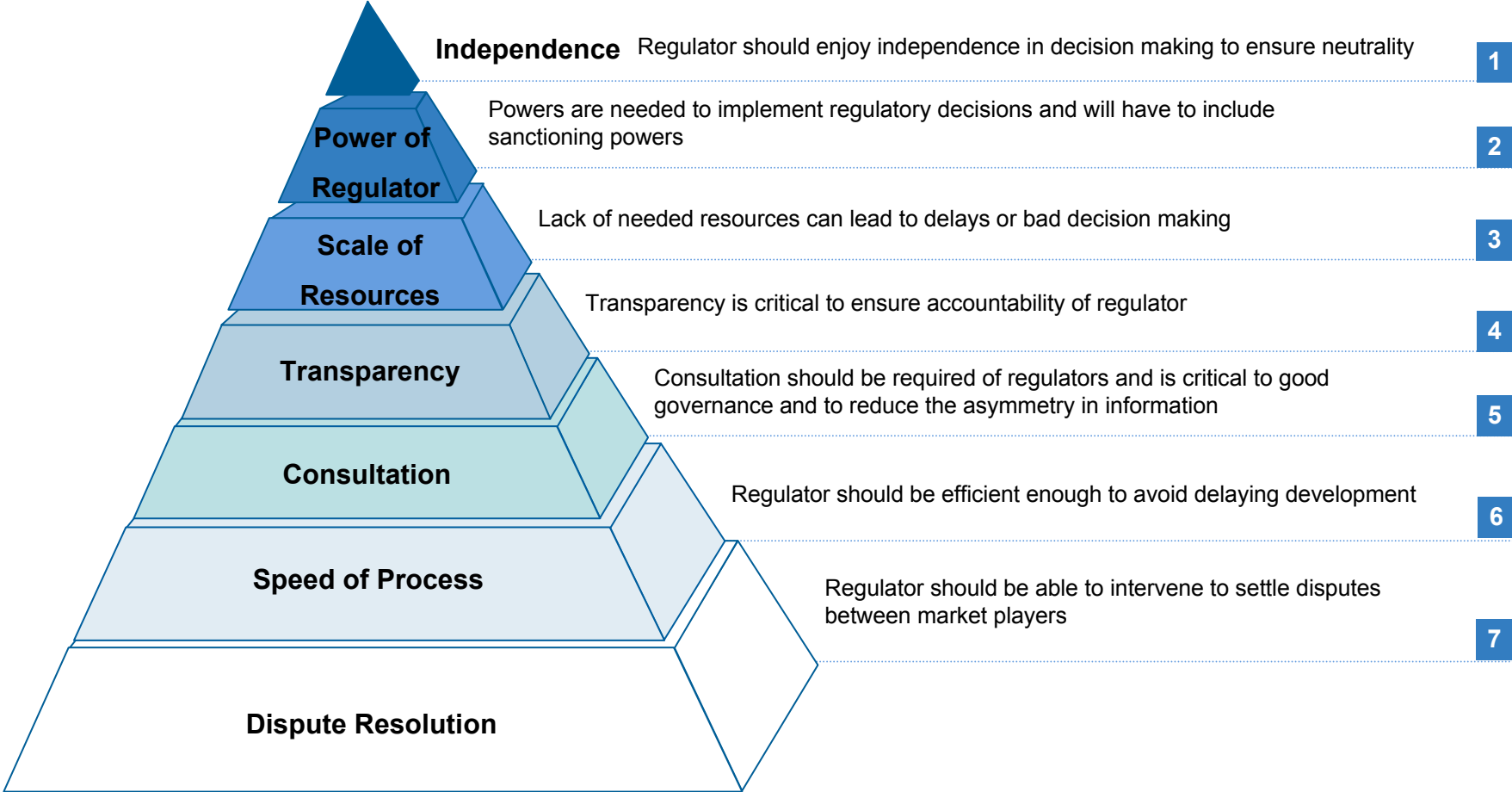
## Path to Privatization



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

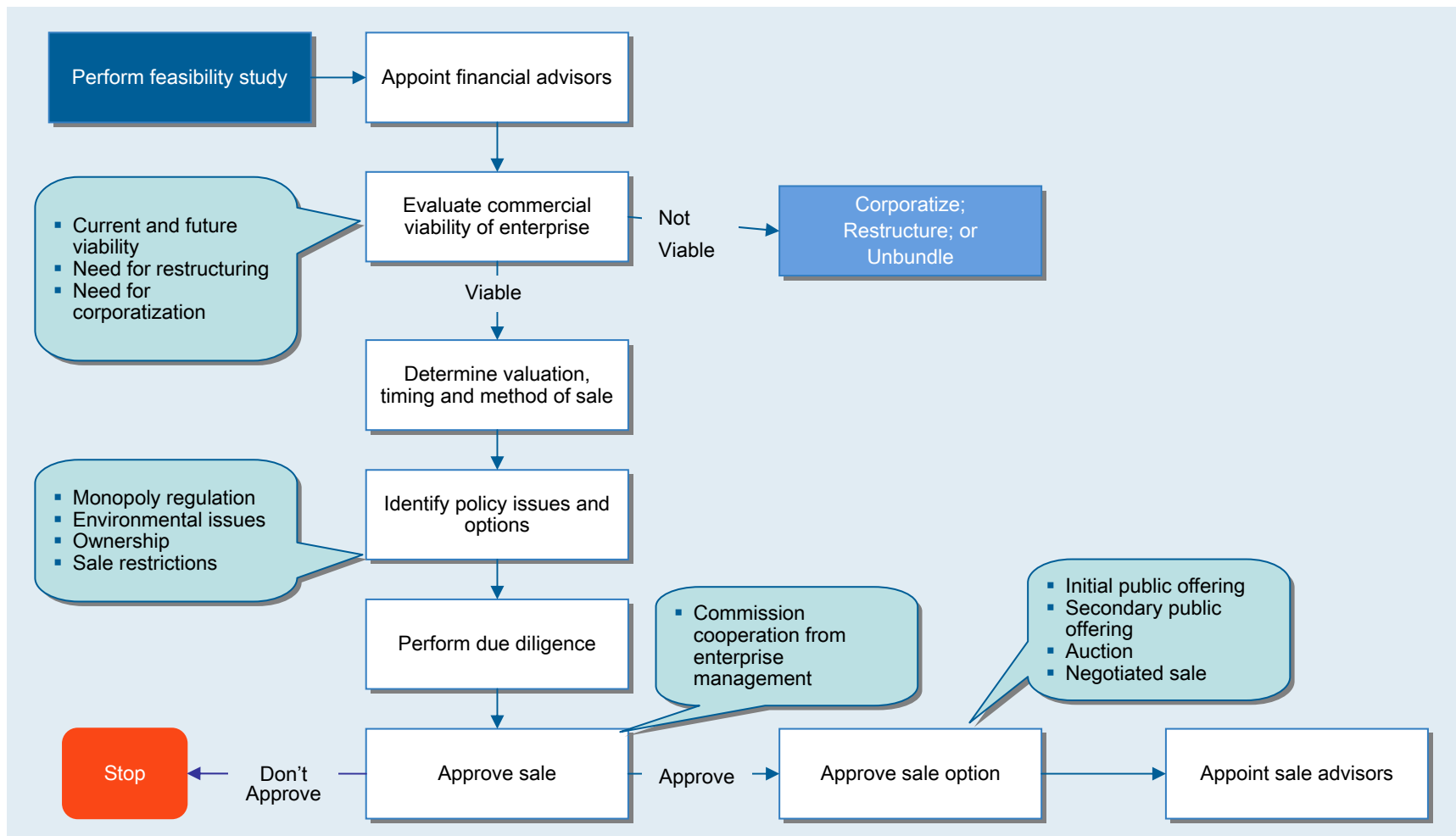


## Criteria for Regulatory Efficiency



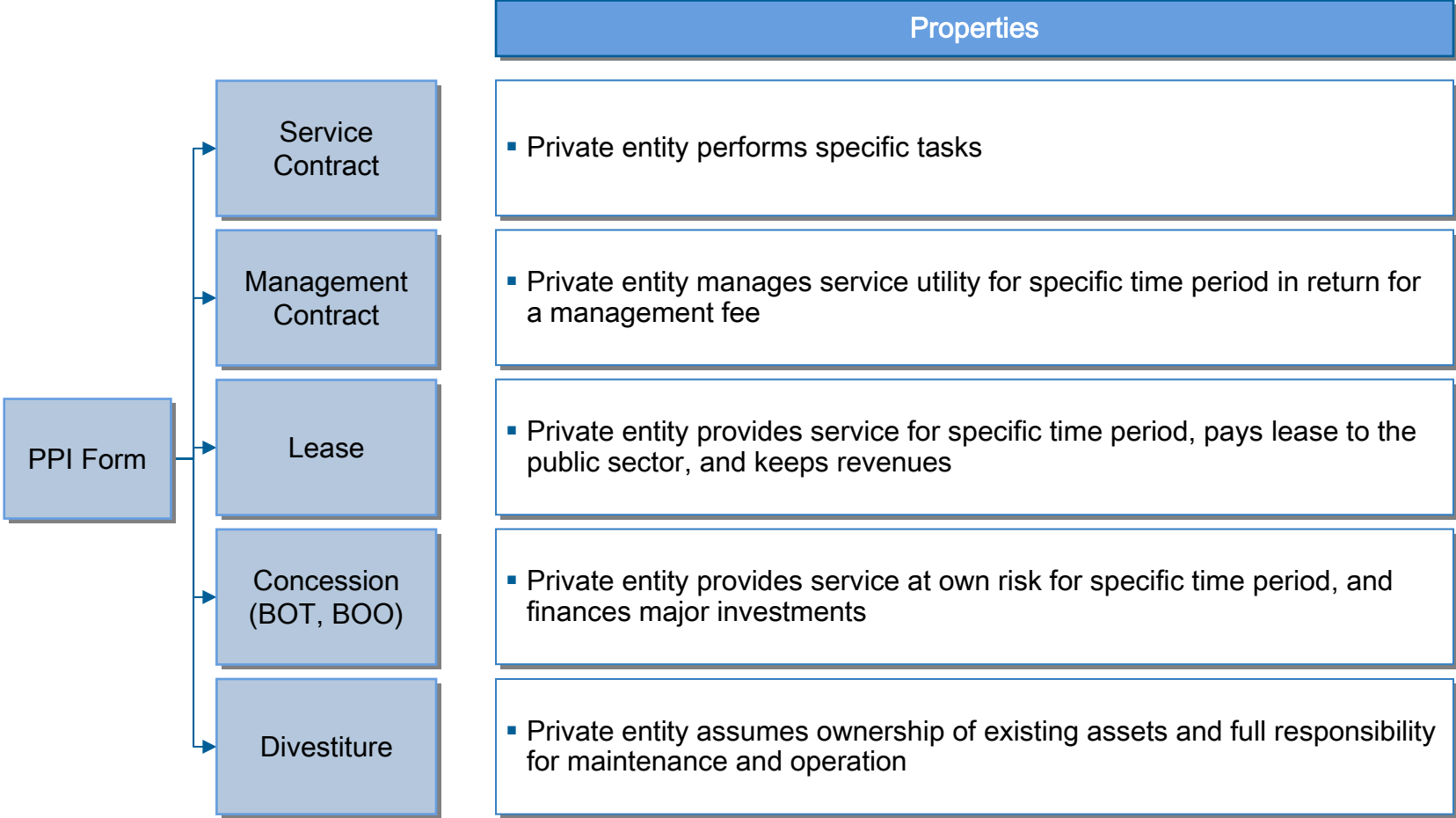
# In order to ensure that private sector privatization delivers positive results, the process should be well-prepared...

## Getting Ready for Private Sector Involvement



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

## Arrangements for Private Participation in Infrastructure (PPI)



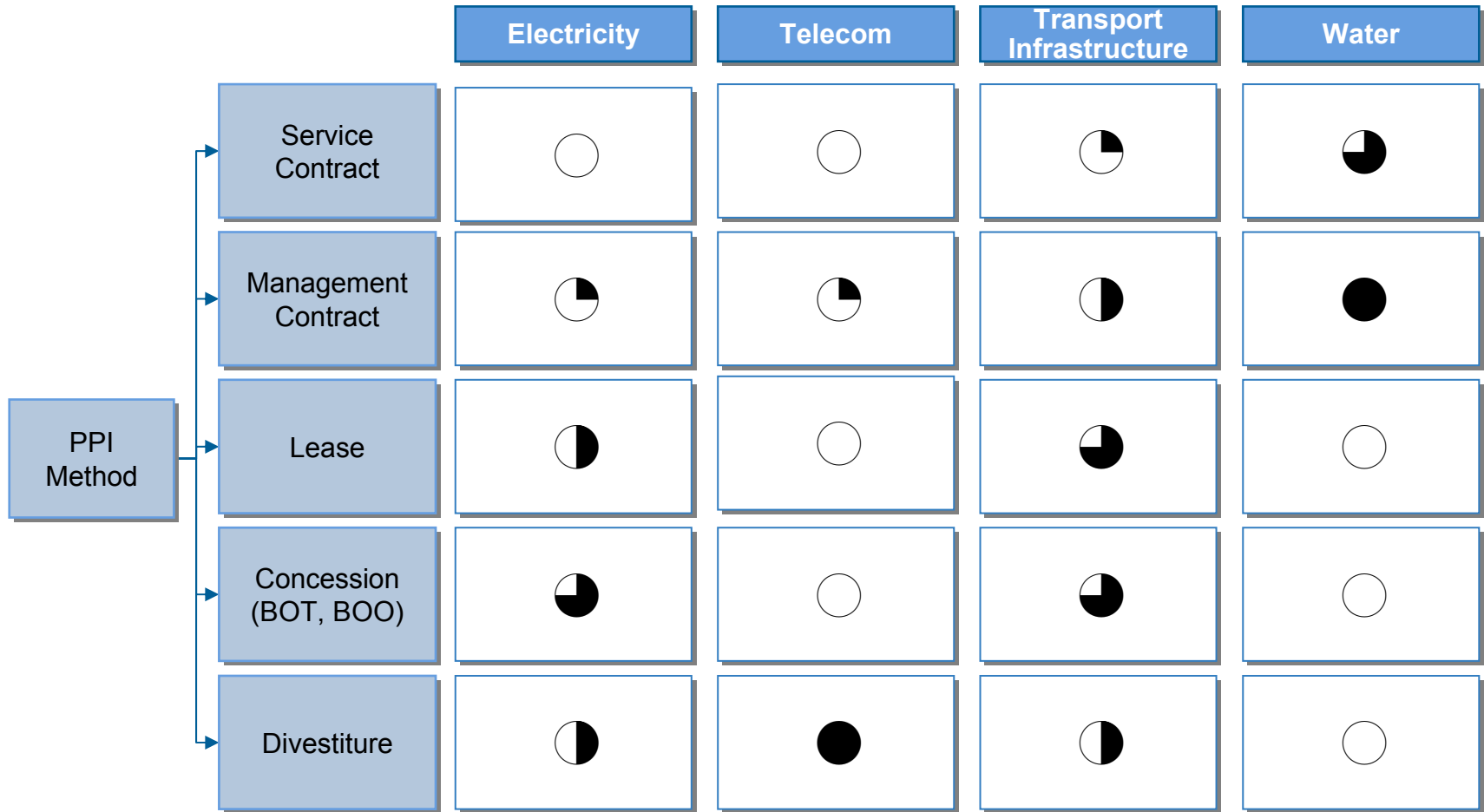
# Each method of PPI has its advantages and its disadvantages...

## Advantages and Disadvantages of Different PPI Arrangements

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

# ...and is thus more applicable to certain sectors

## Applicability of Different PPI Methods

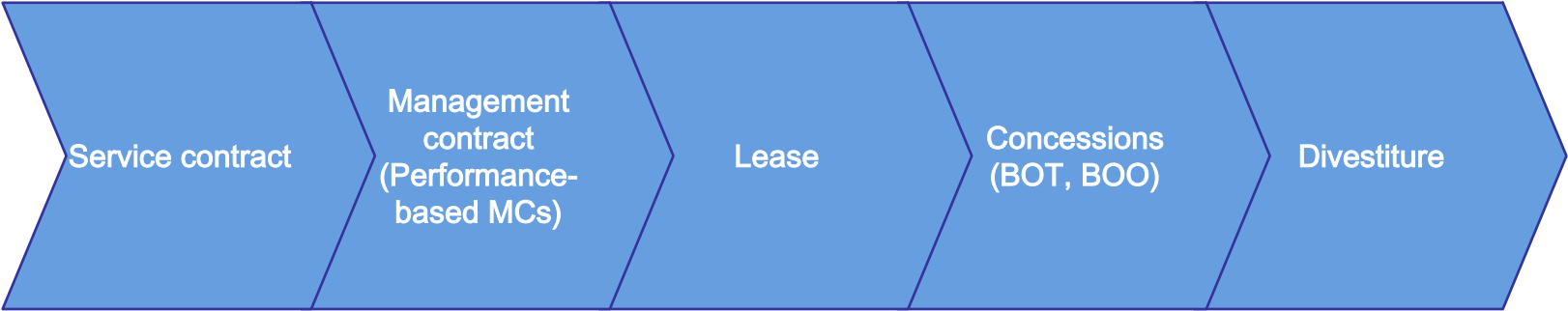


Applicable →  Not Applicable

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



## Different PPI Methods



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

## Private Participation in Infrastructure Projects in Arab States by Sector\*

### Telecom

- Jordan
- Morocco
- Algeria
- Bahrain
- Saudi Arabia
- Oman
- Qatar
- Tunisia
- United Arab Emirates

### Electricity


- United Arab Emirates
- Expected:
  - Saudi Arabia
  - Jordan
  - Morocco

### Water

- Jordan
- Morocco
- Algeria

### Transport

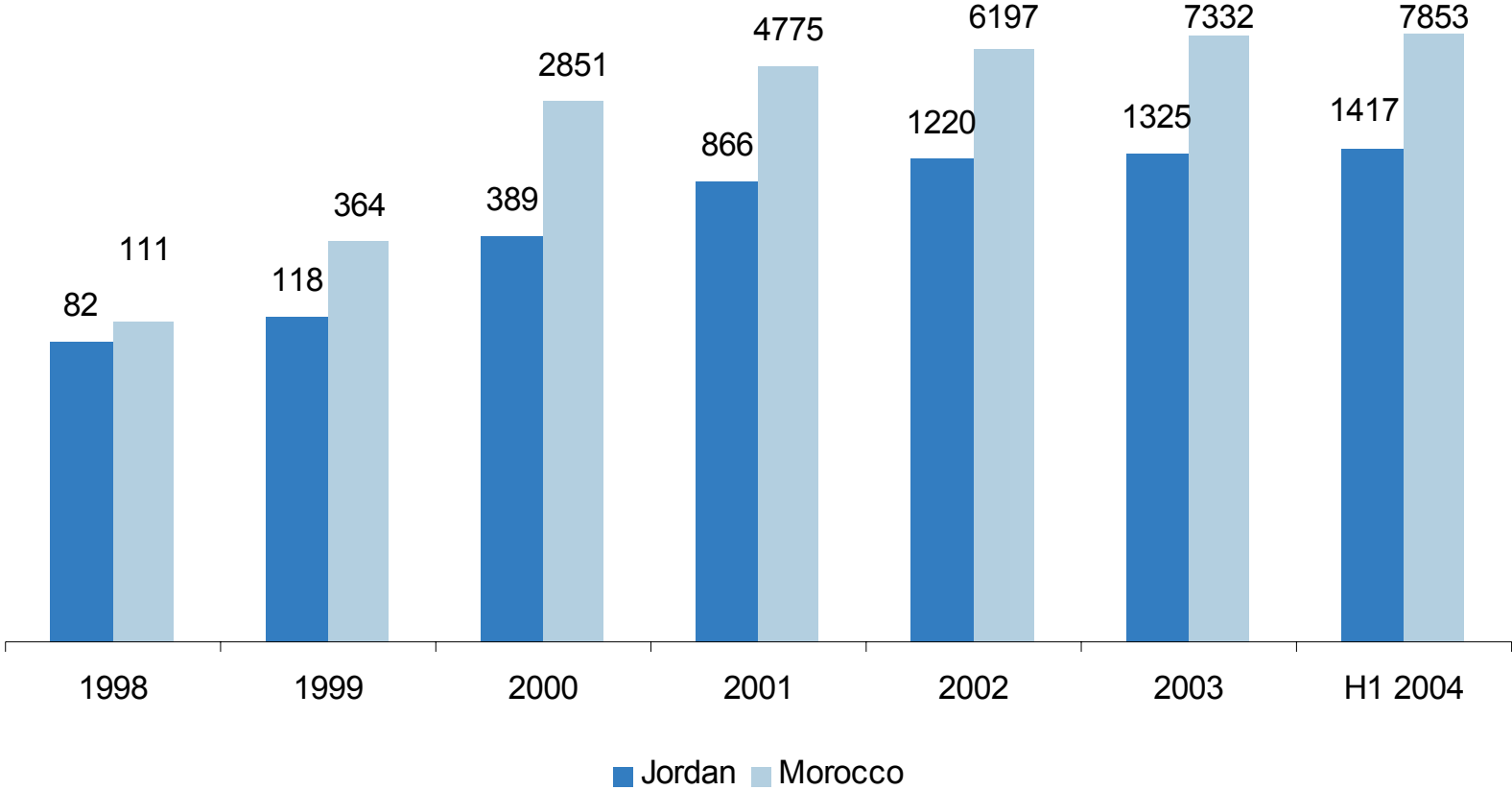
- Egypt (airports)
- Tunisia (airports)
- Morocco (highways)
- Oman
- Expected:
  - Saudi Arabia (airports)

 \*List not comprehensive

# Access to telecommunications services has improved



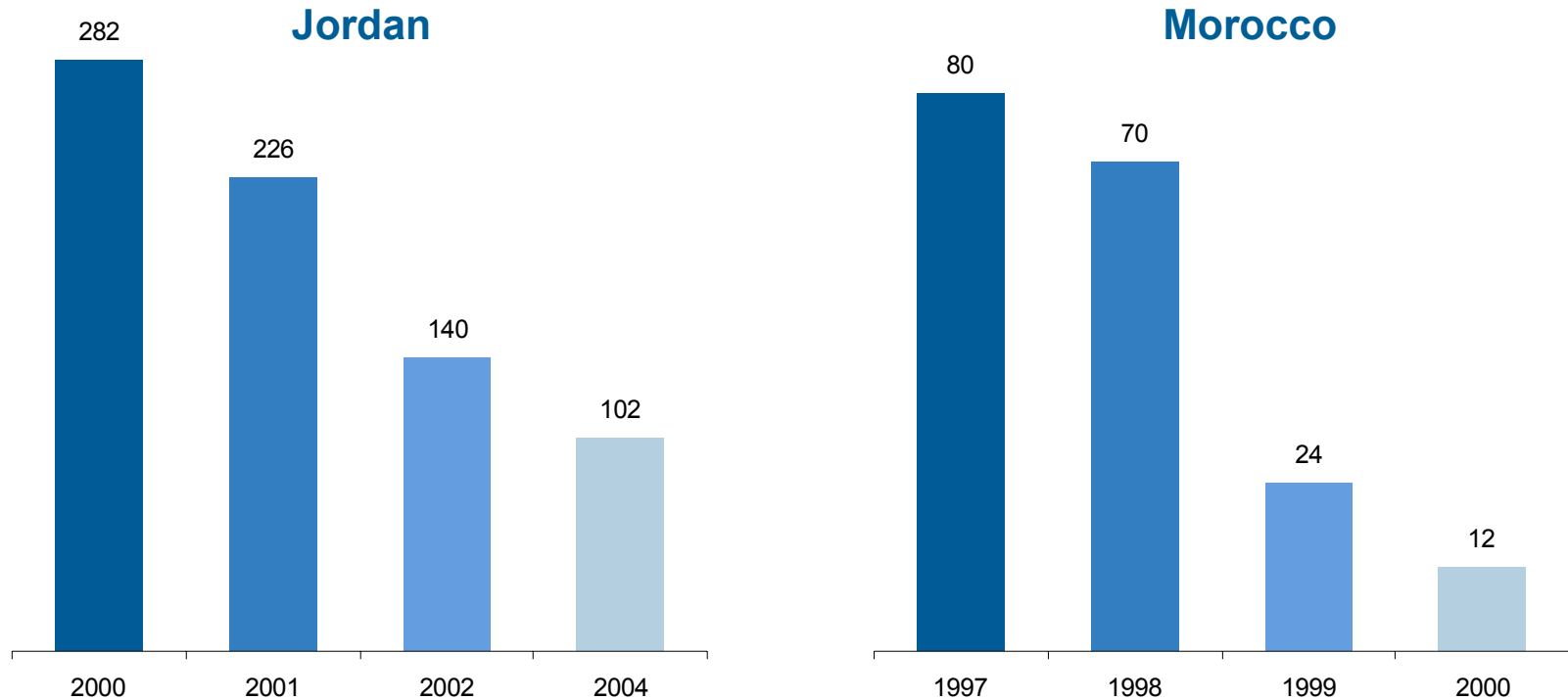
### Growth in Mobile Subscribers (in '000) (1998- H1 2004)



Source: ANRT, TRC

# Telecom privatization has led to a fall in connection charges prices...

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

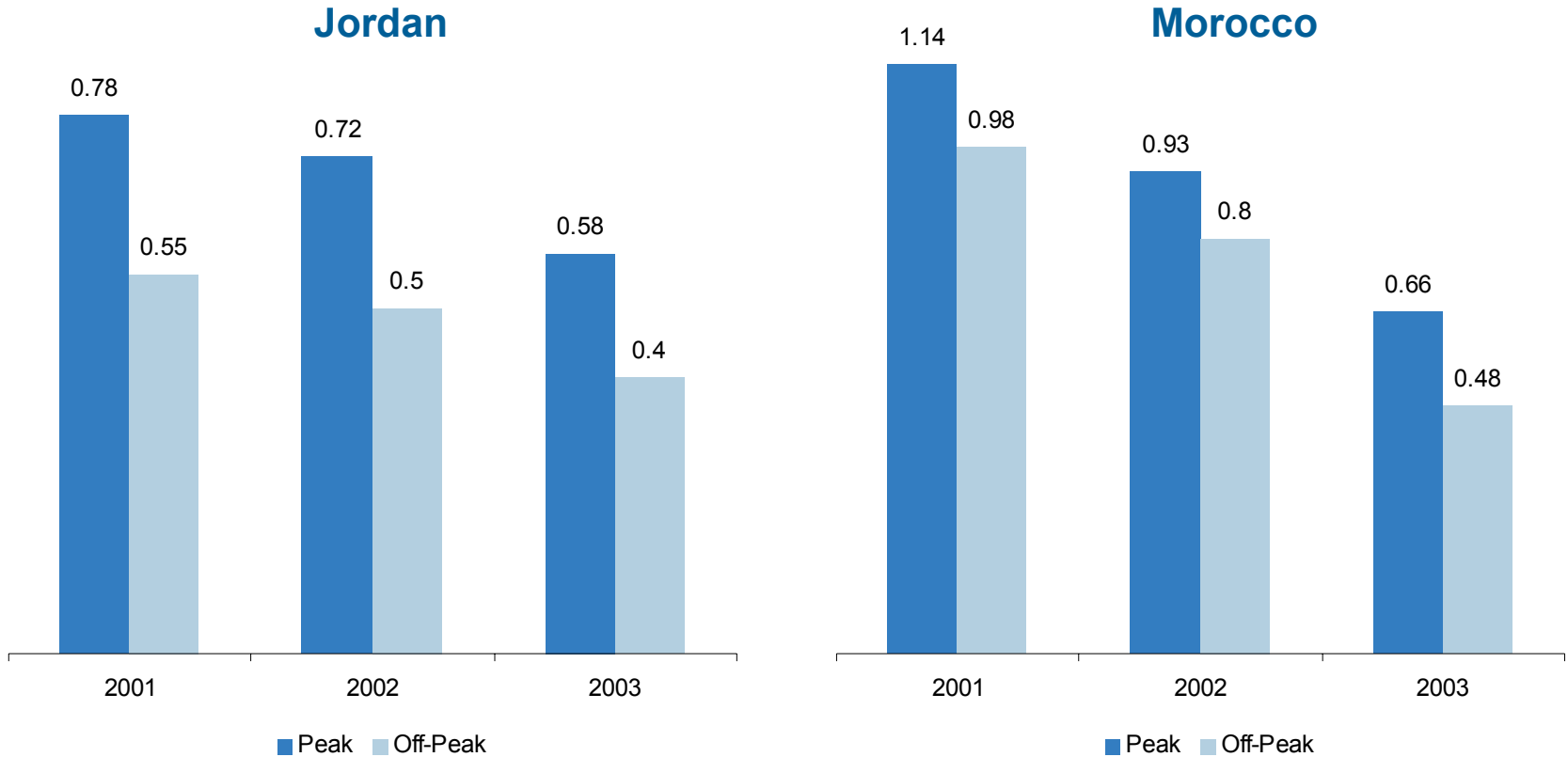


Source: ANRT, Tarfica, ITU

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



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



Source: Tarfica

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

## Private Participation in Public Service Delivery

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