

# Designing Partnerships Between Government And The Private Sector: Cross-Disciplinary Perspectives

**An ESF Exploratory Workshop**

**Bristol, 22-24 June 2006**

***Scientific Report***

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# 1. Executive summary

## Context

In the last twenty years there has been a major international wave of privatisation, which has shifted service provision from the public to the private sector. However, more recent attempts at privatisation have often found the arms' length model inappropriate and so for the delivery of many services, governments choose to maintain a far more intimate, complex, ongoing, and subtle relationship with privatised providers. There has therefore been a growing emphasis on Public-Private Partnerships (PPPs) in a range of sectors, including health, education, and infrastructure provision. Partnership arrangements now abound throughout the world and Europe has played a significant role in their development. Indeed, recently the IMF went as far as to describe PPPs as 'a wave that is sweeping the world'. However, partnerships have, to date, received far less analysis than standard privatisation and the aim of the workshop is to consider the core conceptual issues and identify experience of the developing and transition countries.

## Scientific content

Partnerships between the public and private sector throws up many questions, both conceptual and empirical, and, amongst others, the workshop focused on three central concerns. First, what are the core benefits of the partnership approach and when is partnership likely to be most beneficial? Second, as well as asymmetries of information, there are specific cultural norms and ethos surrounding many of the services involved in the public-private relationship. How do these norms work and how might public service motivation be damaged or compromised by private partnership? Finally, empirically, what has been the experience and is this different in developing to developed countries?

## Outcomes

Compared to the enormous knowledge of and literature on privatisation, there is very little analysis of partnership between the public and private sectors. The workshop contributed to the development of the debate and identified what is known and where future effort should focus. The workshop identified a core of European-based academics interested in developing these themes, and will spawn a series of further workshops on this topic. A particular unexpected outcome is that the workshop served to identify that the experience of developed and developing countries is not as dissimilar as initially appeared. Consequently, a group of the researchers have initiated a research project to further investigate this particular theme.

# 2. Scientific content of the event

In the last twenty years there has been a major international wave of privatisation, which has shifted service provision from the public to the private sector. Although Europe has played key role in this process, privatisation in Europe is as part of a broader worldwide move away from systems of direct government control to private provision, which is thought to stimulate efficiency and innovation by introducing competitive pressures, where quality and price can be regulated by the government when necessary, and where consumers are able to meet directly most of the cost of delivery. This 'traditional' privatisation framework, where the government privatises and establishes an "arms length" relationship with the privatized provider is, however, only one model of privatisation and there are many circumstances where it is inappropriate. For the delivery of many services, governments must maintain a far more intimate, complex, ongoing, and subtle relationship with privatised providers.

Here the nature of the services, the values surrounding public services and their delivery, the political climate, the perception of the equality-efficiency trade-off, the institutions and the stakeholders will all affect the relationship between government and privatisation, the privatisation process, its success and failure. This has provided a growing emphasis on partnership, either as Public-Private Partnerships (PPPs) or other partnering arrangements. Partnerships between the public and private sector throw up many questions, both conceptual and empirical. A fundamental question is what are the critical benefits of partnership of other mechanisms of delivery? Another fundamental concern is that, as well as asymmetries of information, there are specific cultural norms and ethos surrounding many of the services involved in the public-private relationship, and public service motivation may be damaged or compromised by private partnership. Empirically, what has been the experience and is this different in developing to developed countries.

These questions were addressed and discussed in detail in the workshop, and, amongst other factors, the following were the focus of debate.

Delivery of public services involves both (i) development and investment and (ii) ongoing delivery. Examples include building and then maintaining roads, building and then running prisons, etc. Partnership involves the public sector entering into a long-term relationship with a private provider to bundle development and delivery together. In non-partnership arrangements (where builders and service providers are separate) the consequences of poor build quality emerge over long periods and are hard to tie down in a contract. Where better build leads to lower costs and better quality of service delivery there are advantages to adopting a partnership arrangement. A private partner has an incentive to develop a high quality asset since the partner will suffer the consequences of poor quality later in the relationship rather than pass the problem on to a separate provider. This creates strong incentives for better quality public services. A single partner has ability to capture rents so it is important to have good competition bidding arrangements between alternative private partners. The workshop considered collusion amongst bidders as a major concern.

The issue of public service ethos, social norms and accountability for partnership arrangements was the theme of many papers in the workshop. The general conclusion is that these limit but do not displace the merits of partnership. Long contracts limit the ability of arrangements to respond to demand changes. This has immediate costs but may also affect the willingness of the public to mobilise and become engaged with policy. The consequence may be that the accountability of politicians is affected which is thought to be detrimental. The importance of social norms in incentives and interactions played a central role in several papers and there was a view that this needs further research and empirical validation.

Empirical evidence on partnership arrangements is a central issue but inevitably the theoretical considerations are likely to develop at a faster rate. Relevant empirical evidence concerning pricing, wages, and developing countries experience was presented and discussed at the conference. Analysis of partnership versus public prices shows that competition is less important than termination effects (as sector incumbents work to ensure a continued partnership). Differences in the employment remuneration between public and private sector employees was shown to be much smaller than thought once one carefully addresses the questions of lifetime earnings and therefore less likely to matter than potential differences in impact of employee's 'ethos and public service motivation'. Partnership has been significant in developing countries. Here the regulatory structure, scope for renegotiation and corruption were shown to be significant determinants success and quality.

### **3. Assessment of the results, contribution to the future direction of the filed, outcome**

#### **Assessment**

The workshop gathered together an excellent group of researchers with international reputations. The workshop provided a vibrant mix of applied and theoretical analysis, and considered the evidence and conceptual problems of developed and developing countries. In addition to contributors from a wide range of European countries the workshop was successful in bringing researchers from India, the World Bank and Canada, which ensured excellent analysis of the comparison of the developed versus developing countries experience.

#### **Contribution to the future direction of the field**

The researchers identified a core of theoretical insights that provide the basis for a good understanding of the partnership process between public and private sectors. This lays the foundations for development of this analysis, which now seems well underway. In contrast, the workshop highlighted that there is limited empirical work in the area. There was excellent applied work presented and the workshop has been extremely useful in bringing together the theoretical and applied researchers. A particular unexpected outcome is that, with regard to the public-private partnerships, the workshop served to identify that the experience of and conceptual problems faced by developed and developing countries is not as dissimilar as initially appeared.

#### **Outcomes**

Compared to the enormous knowledge of and literature on privatisation, there is very little analysis of partnership between the public and private sectors. The workshop contributed to the development of the debate and identified what is known and where future effort should focus. The workshop identified a core of European-based academics interested in developing the analysis of partnerships between public and private sectors, and will spawn a series of further workshops on this topic. In the light of the discussions of the experience of developing and developed countries a group of the researchers have initiated a research project to further investigate this particular theme.

## 4. Final programme

### Final PROGRAMME

#### Thursday 22 June 2006

Evening                      *Arrival*

#### Friday 23 June 2006

- 10:45                      **Presentation of the European Science Foundation (ESF)**  
**Zdenka Mansfeldova** (Standing Committee for the Social Sciences)  
  
Chair: **Maitreesh Ghatak** (LSE and CEPR)
- 11:00                      **Stephane Saussier** (Université de Paris I)  
*"Auctions, Ex Post Competition and Prices – The Efficiency of Public-Private Partnerships"*  
  
Discussant: **Lubomir Lizal** (CERGE-EI)
- 11:45                      **Paul Grout** (University of Bristol)  
*"Are More Experienced Experts Tougher? Evidence from Competition Law"*  
  
Discussant: **Matthew Ellman** (Oxford University)
- 12.30 - 13:30              *Lunch*  
  
Chair: **Mathias Dewatripont** (ECARES and CEPR)
- 13:30                      **Patrick Francois** (University of British Columbia and CEPR)  
*"Social Norms and Institutional Change"*  
  
Discussant: **Maitreesh Ghatak** (LSE and CEPR)
- 14:20                      **Maitreesh Ghatak** (LSE and CEPR)  
*"Mission Integrity in Public Organizations"*  
  
Discussant: **Mathias Dewatripont** (ECARES and CEPR)
- 15:10 - 15:30              *Coffee*
- 15:30 - 18:15              **Multi Disciplinary Round Table Discussion**  
  
Chair: **Paul Grout** (University of Bristol)  
  
**Tony Prosser** (University of Bristol)  
*"Public Services and the Limits of Competition Law"*  
  
**Mathias Dewatripont** (ECARES and CEPR)  
*"tba"*  
  
**Colin Scott** (University College Dublin)  
*"Gatekeepers in Regulatory Regimes: Conceptual and Normative Dimensions"*

**Antonio Estache** (World Bank)  
*"The developing Economy Perspective"*

## Saturday 24 June 2006

- Chair: **Ian Jewitt** (Oxford University and CEPR)
- 09:00 **Philippe de Donder** (IDEI, GREMAQ and CEPR)  
*"Mixed Oligopoly Equilibria with Endogenous Firms' Objectives"*
- Discussant: **Ian Jewitt** (Oxford University and CEPR)
- 09:45 **Kai Konrad** (Wissenschaftszentrum Berlin and CEPR)  
*"Time Consistency and Bureaucratic Competition"*
- Discussant: **Daniel Ferreira** (SITE)
- 10:30 **Matthew Eilman** (Universitat Pompeu Fabra)  
*"Does Privatisation of Public Services Reduce Government Accountability?"*
- Discussant: **Wendelin Schnedler** (University of Heidelberg)
- 11:15 - 11:40 *Coffee*
- Chair: **Antonio Estache** (World Bank)
- 11:40 **Giacomo Calzolari** (University of Bologna)  
*"Collusion in Procurement with Non Contractible Quality"*
- Discussant: **Sebastien Mitraille** (University of Toulouse)
- 12:25 **Fabien Postel-Vinay** (University of Bristol)  
*"The Public Pay Gap in Britain: Small Differences That (Don't?) Matter"*
- Discussant: **Kai Konrad** (Wissenschaftszentrum Berlin and CEPR)
- 13:10 - 14:10 *Lunch*
- Chair: **Patrick Francois** (University of British Columbia and CEPR)
- 14:10 **Chenggang Xu** (LSE and CEPR)  
*"Federalism, Regional Competition and Financial Market Regulation in China"*
- Discussant: **Ania Zalewska** (University of Bath)
- 14:55 **Wendelin Schnedler** (University of Heidelberg)  
*"Team Governance: Empowerment or Hierarchical Control"*
- Discussant: **Patrick Francois** (University of British Columbia and CEPR)
- 15:40 **Pierre Picard** (Ecole Polytechnique, Palaiseau)  
*"Government Outsourcing: Public Contracting with Private Monopoly"*
- Discussant: **Clare Leaver** (Oxford and CEPR)
- 16:25 *Closing Remarks*

16:30

*Close*

*Departure*



## 5. Final list of participants

### **ESF Exploratory Workshop on Designing Partnerships Between Government And The Private Sector: Cross-Disciplinary Perspectives**

**University of Bristol, UK**

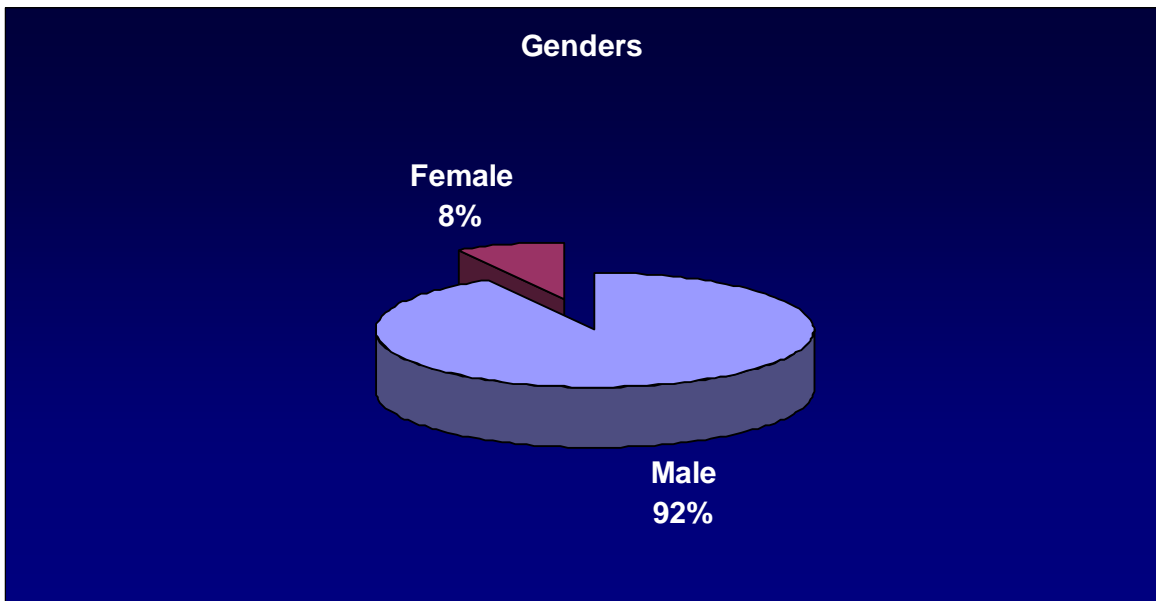
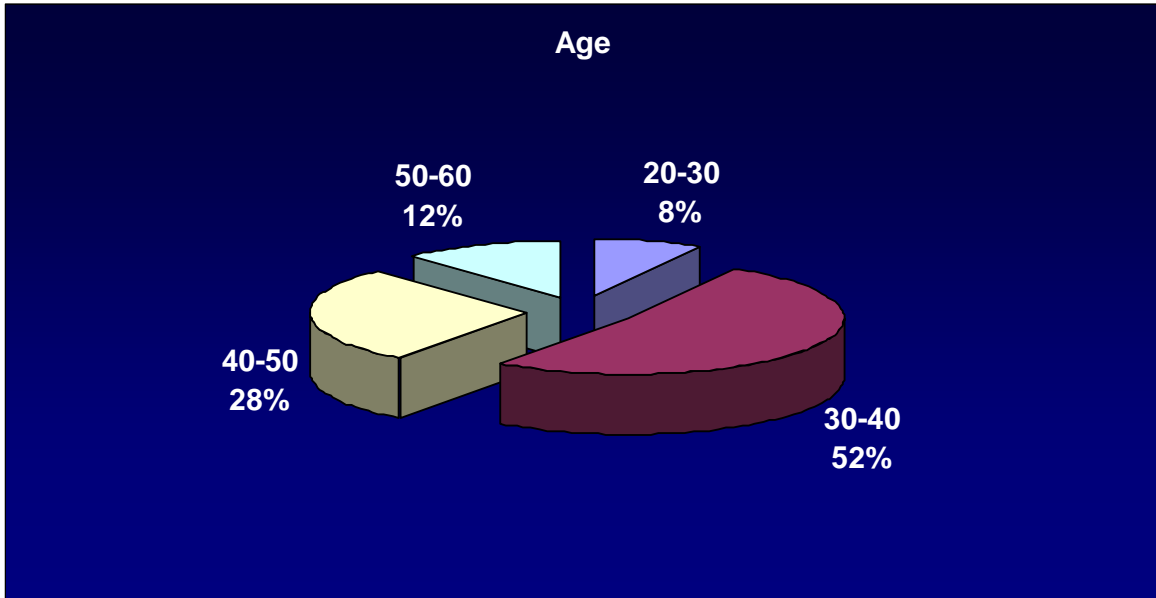
**23-24 June, 2006**

Sponsored by the European Science Foundation ESF  
Coordinated by the Centre for Economic Policy Research CEPR and the Centre for Market  
and Public Organisation CMPO

#### **PARTICIPANTS**

**Giacomo Calzolari**, Università degli Studi di Bologna  
**Philippe De Donder**, GREMAQ and IDEI, Toulouse and CEPR  
**Mathias Dewatripont**, ECARES and CEPR  
**Matthew Ellman**, Universitat Pompeu Fabra  
**Antonio Estache**, The World Bank  
**Daniel Ferreira**, SITE, Stockholm School of Economics and Universidade Nova de Lisboa  
**Patrick Francois**, CentER, Tilburg University and University of British Columbia and CEPR  
**Maitreesh Ghatak**, London School of Economics (LSE), The Suntory and Toyota International Centres for Economics and Related Disciplines (STICERD) and CEPR  
**Paul A Grout**, University of Bristol  
**Ian Jewitt**, Nuffield College, University of Oxford and CEPR  
**Kai A Konrad**, Wissenschaftszentrum Berlin für Sozialforschung and CEPR  
**Clare Leaver**, University of Oxford and CEPR  
**Lubomir Lizal**, CERGE-EI, Prague and CEPR  
**Zdenka Mansfeldová**, European Science Foundation  
**Sebastien Mitraille**, Toulouse Business School  
**Pierre M Picard**, Ecole Polytechnique, Palaiseau, Cedex  
**Sanjib Pohit**, National Council of Applied Economic Research (NCAER)  
**Fabien Postel-Vinay**, INRA, Laboratoire d'Economie Appliquée, Paris and CEPR  
**Anthony Prosser**, University of Bristol  
**Sambasiva Rao**, National Council of Applied Economic Research (NCAER)  
**Stephane Saussier**, Université de Paris I  
**Wendelin Schnedler**, University of Bonn  
**Colin Scott**, University College Dublin  
**Chenggang Xu**, London School of Economics (LSE) and CEPR  
**Ania Zalewska**, University of Bristol

## 6. Statistical information on participants



### Country of origin

