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**Public-Private Partnerships: Benefits and Burdens of Cooperation**

**A Critical Look at Private Sector Involvement in The Public Realm and What It Could Mean For  
The UN**

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## **Introduction.**

Seeking Public-Private Partnerships (PPPs) for the provision of essential infrastructure and services is, for many countries, not a new phenomenon (Bull, Bøås, McNeil 2004, pp. 481-482). In some parts of the world, contracting-out previously public responsibilities to private companies has indeed long become the norm (De Bettignies, Ross 2004, p.138). While a contractual arrangement combining the technical expertise of influential private sector actors with the social responsibility and local awareness of government structures can have important benefits for the advancement of basic services, PPPs do not come without potential burdens. Difficulties of coordinating and harmonizing the interests of public and private stakeholders are not only faced at the national level. An increased presence of the private sector in the United Nations (UN) confronts international institutions with new, potentially damaging challenges. Although no partnership between public and private sector is exactly identical, and thus case-by-case assessments of risks and benefits of cooperation must be made, looking more closely at the effects of private sector funding on the dynamics of the UN gives interesting insights into the usefulness and desirability of encouraging PPPs. Before turning to the effects that increased private sector participation can have on the operation of multilateral institutions like the UN, the potential benefits and risks of PPPs at the national level are explored.

## **PPPs Today.**

PPPs represent a contractual arrangement in which private firms and government bodies together share the responsibilities and risks of a provision of services (UN Economic and Social Council 2005, p.6). Not to be mistaken for mere privatization, PPPs seek to incorporate private practices, skills and funds into the realm of the public sector. Unlike with the public-private delivery of infrastructure, the rendition of public-private service contracts entails the public body maintaining its role of ensuring the quality of operation and management standards (UN Economic and Social Council 2005). According to the Secretariat of the UN (1997, pp.5-6), "Services by government agencies which are widely contracted out include the collection and disposal of solid waste, street leaning and lighting, road maintenance and almost all infrastructure construction. Less frequently contracted are the "preventive" services, such as prison detention and corrective services (which are contracted out in Australia, the United Kingdom and some states of the United States of America), environmental monitoring (e.g. water standards in Chile) and tax collection (Chad, Indonesia)." Establishing PPPs for the provision of essential infrastructure and services is, for many parts of the globe, not a new phenomenon but has in certain regions long become the norm (Bull, Bøås, McNeil 2004, pp. 481-482; De Bettignies, Ross 2004, p.138). While the decision whether or not to contract out previously public services is made on a case-by-case basis, many PPPs are motivated by a concern for cost efficiency. (De Bettignies, Ross 2004, pp.138-139).

Publicly funded and managed projects have in the past been known for being cost intensive (De Bettignies, Ross 2004, p.138). As a way to lower costs, governments may decide to give a service or infrastructure contract to an outside, privately owned company. While ultimately only one company will be awarded the service contract, the bidding process, in theory, will trigger competition among firms in the market (De Bettignies, Ross 2004; UN Secretariat 1997, pp.6-7). Only the overall most competitive rates will have a chance at being chosen, thus lowering costs for the government. In the case of insufficient competitive

bidding due to a lack of capable firms or government monopoly, the public body may decide to deregulate and disperse the work among various external and internal sources (UN Secretariat 1997, p.7). If the in-house provision cost of a service is higher than the external provider's rates and contract administration costs, a government may well decide to contract out. Because suppliers' prices and contract administration costs vary, the decision to contract out a service has to be made on a case-by-case basis, even if there is general support in the government for utilizing private providers, like in the U.S or the U.K (UN Secretariat 1997, p.6). As pointed out by De Bettignies and Ross (2004), the public sector can punish the private contractor if it is dissatisfied with the provision of the service: The cooperation can be discontinued, the government body can sue for breach of contract and cause damage to the credibility of the company, seriously affecting chances at future business opportunities. This incentive to deliver what was promised appears to be much weaker with public sector service provisions when the given department possesses a monopoly of power within its area of influence (De Bettignies, Ross 2004, p. 139). Although private companies may be encouraged to offer competitive prices and have incentives not to breach a contract, certain difficulties persist for the public body in awarding contracts to external, private firms. One of the major advantages of deciding to contract-out public services to private providers, cost efficiency, may in fact encourage one of the potential disadvantages.

#### **Safeguarding Quality.**

The concern has been raised that private service providers, with their nature of having to be competitive and efficient, are more likely to provide a lower quality service than a public authority that needs not compete in the open market (Hart, Schleifer and Vishny 1997). This assumes a correlation between costs and quality of service. The argument goes, that the only rational thing to do for a private company wanting to successfully compete in the marketplace is to be as cost and resource efficient as they possibly can, so much so that it comes at the expense of quality. Although, on the contrary, it has been suggested that there is in fact evidence that encouraging private participation in providing public services does not diminish but can even raise the quality of a service (UN Secretariat 1997, p.6), the issue of quality standards raises important issues and potential obstacles of promoting PPPs.

It is vital that in order for PPPs to be executed effectively and truly in the public will, adequate governance of the partnerships be in place (UN Economic and Social Council 2005, p.6; UN Secretariat 1997, p.7; De Bettignies, Ross 2004, pp. 144-145). That is to say, that the monitoring and supervision of previously clearly defined and agreed upon goals is working to ensure the highest quality of service. Sufficient administrative capacities must be mobilized to provide transparent and non-corrupt scrutiny so as to ensure sustainable, socially responsible outcomes of PPPs. Clearly, the government has to play a critical part in safeguarding accountability and allowing for a satisfactory implementation of such partnerships. A lack of sufficient expertise or capacity on the part of the public body needed to guarantee adequate monitoring, establish dispute settlement mechanisms and define realistic expectations and optimal risk allocation based on reliable data, can drive a government to decide against creating PPPs. While costs may be saved, PPPs can only be successful when adequate public resources for governance and scrutiny are deployed. It will become apparent that similar difficulties of accountability afflict PPPs in multilateral institutions. In what follows, the discussion of the desirability of PPPs focuses primarily on the realm of the multilateral.

### **Motivations for PPPs in the UN.**

Public-Private collaboration in multilateral institutions, too, has long been a frequently called upon practice (Bull, Bøås, McNeil 2004). While some institutions have historically been more open to cooperation with the private sector than others, there has recently been a remarkable increase not only in sheer quantity, but also in qualitatively more far-reaching forms of PPPs (Bull, Bøås, McNeil 2004, p. 482). Multilateral Institutions now attract a vast amount and range of private actors. The creation of the United Nations Foundation (UNF), an independent not-for-profit advocate for the UN, was the direct result of a 1\$ Billion donation from former AOL Time Warner vice-president Ted Turner to the UN (Bull, Bøås, McNeil 2004, p.482; UNF 2010). The foundation was able to spend 900\$ Million in a period of 4 years for UN Charta-motivated objectives (Merz, Raff 2005). UNAIDS and the Coca-Cola Africa Foundation combined forces to together pursue AIDS education, prevention and treatment programs (Coca Cola Company, 2001). Though the reasons for encouraging private sector participation in multilateral institutions are numerous, some appear to stand out more than others.

It has been argued that increased private sector involvement in the UN and other multilateral institutions comes as a direct result of the insufficient funding provided by the institutions' member states (Bull, Bøås, McNeil 2004, p. 484). The internal 'financial crisis' experienced by the UN is said to have forced the organization to seek new ways of acquiring the much-needed financing for its ambitious undertakings. On top of a lack of funds, the UN has in recent years been confronted by a change in ideology both within and outside the institution. As Bull, Bøås and McNeil (2004) point out, private companies used to view the UN as a place hostile to business despite many of the longstanding partnerships between the private sector and organizations like the World Health Organization (WHO) or the Food And Agricultural Organization of the United Nations (FAO). With the emergence of neoliberalism as a dominant ideology both within and around the UN, PPPs in the different bodies of the UN gained momentum. This was furthermore aided by a pro-business leadership in the UN, embodied in the arrival of former Secretary-General Kofi Annan (Bull, Bøås, McNeil 2004). Coming from a business background, he saw the immense opportunities of involving private actors in the funding much-needed for driving forward the various projects of the UN. Though there are arguably many reasons for increased private sector participation in the UN, the remainder of this paper focuses on the possible implications PPPs pose for the dynamics of a multilateral institution.

### **Driving Fragmentation and Distortion?**

Today, much of the desperately needed funding to support multilateral, previously public projects comes from the private sector. The Bill and Melinda Gates Foundation in January 2012 renewed its commitment to assist the battle against diseases via a 750\$ donation to the Global Fund to Fight AIDS, Tuberculosis and Malaria (Bill and Melinda Gates Foundation 2012). While, without a doubt, generous philanthropic donations have the potential to support saving many lives, how does relying on private actors for the funding and management of social projects affect the internal dynamics of multilateral organization? Some have pointed to internal fragmentation and a distortion of objectives. While private sector involvement in multilateral institutions may lead to increased flexibility of the institutions, it puts itself at risk of internal fragmentation. It has been suggested that certain UN agencies receive far more funding than others due to the

focus of their work. Areas in which private companies hold large stakes, e.g. health, are considerably better funded than areas in which the private sector has fewer interests in, like education (Bull, Bøås, McNeil 2004, p. 486). This may lead to an imbalance of strength between agencies, with some agencies that are not interesting to the private sector lagging behind. A similar distortion has been said to occur geographically, where, with some exceptions, private philanthropic projects are primarily geared to areas where the private actor already is commercially active (Bull, Bøås, McNeil 2004, p.488). With the creation of new, privately funded, highly specialized, single-issue subunits, steering efforts towards private actors can reduce a multilateral organization's overall coordination of tasks (Bull, Bøås, McNeil 2004, p. 486). Further potential problems arise when considering the fragmentation of development efforts at the operational level.

'Best-practices' concerning non-public driven development efforts appear to prioritize short-term results rather than aiming at long-term commitments as is the case at the national level (Save the Children UK 2012; Bull, Bøås, McNeil 2004, pp.486-487). With regards to this, the Bill and Melinda Gates Foundation has faced critique for their involvement with the Global Alliance for Vaccines and Immunization (GAVI). GAVI is an independent organization working with governments, non-state actors and multilateral institutions to improve world health. It has been criticized for focusing too narrowly on merely increasing the amount of vaccinated children, a short-term result, while ignoring and leaving long-term goals like general support for health systems, personnel training and waste management up to underfunded local public authorities (Save the Children UK 2002, pp.3-4; Bull, Bøås, McNeil 2004, p.487). Though an integrated, long-term health approach would be needed to sustainably improve health, focusing on quick fix, short-term solutions and results is favored by some PPPs (Save the Children UK 2002). Adequate planning and governance of projects must therefore be demanded. While mobilizing private funds to support social projects can have beneficial impacts, all parties involved in the design of the projects must be able to be held accountable for their decisions. Governance and accountability, much like at the national level, are vital for ensuring socially responsible partnerships with the private sector. However, it seems as though multilateral UN efforts to scrutinize big businesses' behavior has come without much success.

#### **Risks of Voluntary Corporate Responsibility.**

One PPP that does not seek to gather funds but instead aims to hold business accountable to certain human rights, labor, environment and anti-corruption standards is the UN Global Compact. According to the Compact, "with over 8700 corporate participants and other stakeholders from over 130 countries, it is the largest voluntary corporate responsibility initiative in the world" (UN Global Compact 2012). While wanting to pressure the private sector to conduct business in ways that "benefit economies and societies everywhere", the UN Global Compact, like the 1991 Business Charter, does not command a formal monitoring process or enforcement of its principles (UN Global Compact 2012, EarthRights International 2002). A company's commitment to the Compact does not require a vow on part of the company to follow all of the Compact's 10 Principles regarding human rights, labor, environment and anti-corruption standards (EarthRights International 2002). Therefore, the private sector is able to claim progress in cooperation with UN demands and principles, even if a business does not improve its socially responsible behavior. Through the Global Compact, the UN's reputation is thus at risk of being tarnished by irresponsible corporate participants while at the same time

allowing these corporate actors to “bluewash” their image, which the New York Times described as “allowing some of the largest and richest corporations to wrap themselves in the United Nations' blue flag without requiring them to do anything new” (EarthRights International 2004, Kahn 2000). While at the national level governments face the task of having to have extensive resources available in order to ensure a high-quality, sustainable service provision in partnership with the private sector, attempts at global monitoring of business practices through PPPs appear to be highly problematic. Engaging in PPPs not only for social project funding purposes, but also for encouraging social responsibility raises serious issues for multilateral institutions like the UN.

### **Conclusions.**

PPPs, in their various forms, at least potentially provide positive effects for the public body. Deciding to share the risks and assume co-responsibility with a private company allows the public authority draw on previously absent technological knowledge and management efficiency. Through sufficient competition in the bidding process of contracting-out, a government may be able to save costs while providing a high quality service to its people. While private sector participation in service and infrastructure provisions can mean a higher quality service at a lower cost, this can only be the case if extensive resources are made available to guarantee the adequate governance and thus satisfactory implementation of the partnership. Because contract costs vary and extensive additional resources must be deployed to ensure a scrutiny in the public's interest of the private outside provider, PPPs may not be for everyone and their usefulness and affordability must be carefully calculated on a case-by-case basis. In the multilateral system, attracting private sector participation too comes not only with benefits. While desperately needed funds may be made available, institutions like the UN risk becoming internally fragmented. Social objectives may be distorted due to an emphasis by the private sector on short-term results. In order to scrutinize private business and encourage it to act truly socially responsible, more serious and far-reaching public-private monitoring arrangements need to be created. Otherwise the accountability and credibility of both the private and non-private actor is at risk.

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