

**REINVENTING GOVERNMENT:
THE IMPERATIVES OF INNOVATION AND QUALITY**

by

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Innovation and quality are concepts not frequently associated in people's minds with government. Too often, government is seen by citizens, the media, and sometimes by public servants and political leaders themselves, as plodding, inefficient, bureaucratic, change-resistant, incompetent, unresponsive, or corrupt. Citizens often complain that governments provide services that are inadequate, inappropriate, inferior, or too costly of their hard-earned tax payments. Frequently, people see government officials to be acting in their own interests rather than responding to the needs of citizens. In many countries, the claim that "we are from the Government and are here to help you" is met with popular derision.

Yet one only needs to look at the recent United Nations Public Service Awards to see that many governments are innovating and attempting to achieve higher quality performance.¹ The government of Zambia was recognized for increasing the efficiency and effectiveness of service delivery by commercializing the protection of industrial property and registration of enterprises. Singapore's Infocomm Development Authority (IDA) launched a program to help businesses and consumers increase trust and confidence in e-commerce, developed and promoted the TrustSG Programme, and formulated a Risk Management Framework to protect against violations of information security in e-commerce transactions. The Ministry of Interior in Greece created an

Obudsman Office that established a call center through which citizens could obtain 53 certificates and other administrative documents, thereby reducing bureaucratic delays and red-tape, and extending services to those living in rural areas or remote islands, the elderly and disabled, who could not easily visit government offices.

The United Nations recognized the Ministry of State for Administrative Development in Egypt for developing new technologies that facilitate and simplify the processes through which its citizens obtain government services. The Egyptian Government developed administrative agency strategies for improving standards of public service performance in central or local level government agencies, rationalizing the work force, and improving the training and policies of civil servants to enhance their efficiency. Similarly, the Government of Italy transformed its Public Administration Department for Efficiency in the Administrations into a facilitator of cooperation and coordination among central and local government units; a coordination center for innovation in administration; and an initiator that helps public and private organizations create networks among themselves to find innovative ways of improving service delivery. In South Korea, the government converted its procurement operations into an electronic system and developed innovative ways of reducing corruption and irregularities and of becoming more customer-oriented. Bolivia's National Customs Service fundamentally reformed human resources, technology, tariffs, and interaction with customers to improve the efficiency of its collections, reduce contraband, and facilitate external trade.

Over the past two decades, in the wake of pressures of globalization and technological innovation and more widespread access to telecommunications systems, citizens in many countries began demanding more of their governments. In its review of

government reinvention experiences in nine countries, the Organization for Economic Cooperation and Development (OECD) noted that “a growing disenchantment with government performance” increased pressures for reform in Europe.² Globalization will continue to be a driving force for change in government in the 21st century. Globalization is the movement toward greater interaction, integration, and interdependence among people and organizations across national borders. The strongest manifestation of globalization has been the increasing economic interactions among countries in trade and investment and in the international flows of capital, people, technology, and information.³ But globalization is also evident in the increasing levels of international political interaction and widespread social and cultural interchange that have occurred over the past quarter of a century.⁴

Globalization has brought both benefits and challenges to countries around the world.⁵ Globalization offers new economic opportunities but also imposes new political, social, technological, and institutional complexities, especially on poorer countries, that governments must address in order to stimulate more equitable economic and social development. In order to benefit from more open and widespread economic interaction governments must support an economic system that promotes and facilitates the ability of business enterprises to compete effectively in international markets and of people at all economic levels to earn a decent livelihood.

Because the pressures of globalization and technological progress will continue to create stronger challenges for governments in the 21st century, this report describes and analyzes the imperatives of government reinvention through innovation and quality. Part I discusses the concepts of innovation and quality in government reinvention and the

processes of and obstacles to innovation. Part II identifies the key issues of government reinvention and the essential dimensions of capacity building in public administration. Part III focuses on the crucial role of partnerships between government, the private sector, and organizations of civil society in finding innovative ways of delivering high quality services to citizens that enable them to enhance their own resources and to benefit from economic and social development.

PART I: INNOVATION AND QUALITY IN GOVERNMENT

REINVENTION

Many political leaders and government officials know that doing things the “old way” no longer meets the demands of a more complex and interconnected international economy or the needs of a more globally-linked and politically-aware citizenry. Globalization has brought stronger competition among businesses and pressures on governments to create economic, political, and social conditions within which the private sector can compete more effectively and in which people can develop their human resources to benefit from participation in productive activities.

In their book *Reinventing Government*, which influenced reform in the United States and other countries during the 1980s and 1990s, David Osborne and Ted Gaebler offered another view of innovation and quality in government.⁶ They described ten characteristics of what effective governments should be:

1. *Catalytic* -- governments should “steer rather than row” and see that services are provided rather than always delivering them directly;

2. ***Community-empowering*** in ways that encourage local groups to solve their own problems rather than dictating bureaucratic solutions;

3. ***Competitive rather than monopolistic*** by deregulating and privatizing those activities that could be carried out by the private sector or non-government organizations more efficiently or effectively than public agencies;

4. ***Mission-driven*** rather than rule-bound, setting goals and allowing employees to find the best ways of meeting objectives;

5. ***Results-oriented*** by funding effective outcomes rather than inputs;

6. ***Customer-driven*** in meeting the needs of citizens rather than those of the bureaucracy;

7. ***Enterprising*** in earning revenues rather than just spending tax resources;

8. ***Anticipatory*** by investing in the prevention of problems rather than spending to solve problems after they occur;

9. ***Decentralized*** -- working through participation and teamwork among government agencies at different levels and with groups outside of government; and

10. ***Market-oriented*** in solving problems through market forces rather than larger government programs.

These ten characteristics, or ones similar to them, became the principles for government reinvention for many federal agencies and state and local governments in the United States, and in the United Kingdom, Canada, Australia, New Zealand, Portugal and other countries during the 1990s. The Government of Mexico, in pursuing an “Agenda for Good Government,” focuses on six objectives that clearly reflect these principles of reinventing government. In Mexico, the government is seeking ways of “doing more with

less,” of applying new technologies to make government tasks more efficient, and of combating corruption through education, prevention, and penalties. As a part of its reform agenda, Mexico is seeking to create a government of quality under internationally accepted regulations; professionalizing the public service through career development programs and training; and pursuing deregulation so that government does not hinder its citizens from participating effectively in the world economy and from expanding their horizons.⁷

If governments must reinvent themselves in order to satisfy citizens’ demands and meet the challenges of globalization through innovation and quality, what do these concepts mean and how are they applied in the public sector?⁸ Quality improvements involve delivering better services or extending their reach and coverage more effectively and efficiently or improving the capacity of government agencies to deliver more and better services at lower cost. Innovations are fundamental changes in the course of action of governments or other institutions in society in more than an incremental way. Innovations introduce new ideas or ways of doing things that strongly depart from convention or that require new or unfamiliar forms of behavior and interaction.⁹ Few innovations in government are pure invention; they are more often discoveries combining ideas that have been tried elsewhere that are recast to meet new circumstances.¹⁰ Changes bringing about higher quality services or improvements in government agency performance are one form of innovation.

Where do innovations in government come from? Most often, innovations are motivated by dissatisfaction with existing conditions or conventions. They are sometimes demanded by groups outside of government – special interest groups, political parties,

organized groups of citizens, or international organizations -- or by dissatisfied factions in government bureaucracies, legislatures, or the executive branch of government, or mandated by the judiciary. Often, innovations result from performance gaps—that is, from disjunctions between public expectations and institutional performance. The recognition that conventional policies or programs no longer achieve their objectives can inspire innovative changes that set them on new paths. Other innovations are advocated by political or nongovernmental leaders with “strategic notions.” Strategic notions are strongly held beliefs by influential people about how situations can be improved through drastic changes in policy. Innovations sometimes emerge from the strategic vision of political leaders that set a whole new direction and agenda for government. Changes in external economic, political, social, or technological conditions often generate ideas that become innovations. Crises, emergencies, or threats to the survival of a government or other important social or economic institution sometimes force leaders to seek new ways of dealing with problems or opportunities.

Some innovations emerge only after fundamental shifts in concepts and assumptions allow new ways of doing things to become "thinkable." A paradigm shift changes the conceptual framework that allows large numbers of people to perceive problems and opportunities in very different ways than in the past or to conceive of responses to problems and opportunities in a new context. The management scholar, Peter Drucker, contends that innovation also emerges from "process needs," that is, from the realization that an organization must change what it does in order to conform more realistically to the needs and characteristics of its clientele or to broader and more encompassing processes in which it must operate.¹¹ The most common types of

innovations are technological, value-oriented, organizational, legal, procedural, political, or economic.

How are innovations adopted by governments? Whatever the sources of innovations, they require both the introduction of new ideas and their translation into specific courses of action. Innovation is a process. It begins with the transformation of new ideas into plans for action. This usually requires wider recognition in society of the problems and opportunities that inspired the initial advocates of change. The transformation of ideas into action defines the characteristics of an innovation. Some degree of "social learning" must take place in order for innovations to be widely accepted.¹² Some degree of consensus must develop in society that new problems or opportunities are important, that old ways are no longer effective, or that conventional approaches are too costly in economic, political, or social terms.

Once significant problems and opportunities are identified and recognized among a large enough segment of society to stimulate action, innovative ideas must be transformed into specific courses of action and new policies and programs must be proposed to undertake them.¹³ In nearly all political systems, innovations must be legitimized before they can be implemented. A large enough portion of society must approve -- or at least not strongly oppose -- the changes in order for them to be adopted formally and implemented effectively. Policies must be "enacted" by a unit of governance within society -- usually a government institution -- with the authority to impose changes on society. Innovations are usually made acceptable through any of a number of means, including persuasion, bargaining and negotiation, coalition building, authoritative command, or force.¹⁴ Innovations are legitimized and implemented through

one or more of six major methods: enactment into law; administrative decrees; creation of new bureaucratic structures; reorganization of social, political, or economic institutions; procedural or regulatory changes; or the imposition of new norms or conventions that govern behavior.

Finally, the assessment of innovations must take into account their results, outcomes, and disposition. Some strategic innovations are applied successfully and largely achieve their objectives. Others undergo substantial adjustment through experimentation or are revised and reformulated during implementation. They may achieve some but not all of their goals and generate unexpected or unintended consequences that either displace original problems with new ones or alter the original intent of policies. Still others are unsuccessful; they are either terminated after they have been tried or simply disappear after unsuccessful attempts have made to implement them. Whatever their disposition, innovations may also set in motion fundamental and profound changes that were never intended.

At each stage of the process of innovation, key actors play crucial roles in identifying problems and opportunities, disseminating knowledge, building awareness among relevant segments of the public, and translating ideas into policy proposals. Other actors must take part in mobilizing support for alternative courses of action, legitimizing the policies that are adopted, implementing new courses of action, and assessing their outcomes and results. The processes seem to be similar in both democratic and authoritarian political systems although there are substantial differences in the ways in which the process is organized and decisions are made. Differences may arise from: 1) variations in how open and participatory the process is, 2) the institutional structures

through which decisions are made, 3) whether politics, the market, or authoritarian controls are used to allocate resources and resolve conflicts among interests in society, and 4) the degree to which decision making is visible to the public. Most frequently the key actors are formal and informal political leaders or bureaucratic officials. But sometimes, depending on the characteristics of the political system, they are leaders of nongovernment organizations (NGOs), representatives of special interest groups, the media, private business leaders, personnel in international organizations, technical experts, and others. Usually different sets and combinations of actors enter and leave the decision-making process at different stages.

Reinventing government through innovation and quality improvement is never an easy process. Experience has shown that government reinvention through innovation and quality improvement face strong obstacles and opposition from those benefiting from the *status quo*.¹⁵ Innovations and quality improvements often fail when there is not strong support for them by political leaders and heads of government; when those advocating change within government either are not rewarded for their efforts or are punished or penalized; and when governments withhold sufficient resources to implement the changes effectively. Innovations or quality improvements often fail because civil service systems are inflexible in allowing government agencies to hire the types of people who are needed to implement them or because of strong opposition within government agencies to changing traditional ways of doing things. The unwillingness of bureaucracies to cooperate with or support each other, and “turf battles” or inter-governmental conflicts over resource allocations also undermines the success of innovations.

Political and government leaders, or groups within or outside of government, seeking to promote quality improvements and other innovations in the public sector must plan not only for the implementation of substantive changes but also for averting the obstacles that can delay, weaken or subvert them. Reinventing government is often a long, complicated, and contentious process, but one that will be essential to meet the challenges of a globalizing society.

PART II: REINVENTING GOVERNMENT—KEY ISSUES

The 21st century will be an era of increasing globalization, bringing greater complexity and uncertainty for people and their governments. In a more complex and uncertain world, governments will have to play new and different roles than they had in the past. The world economy will go through cycles of growth and retrenchment, but political, economic, and social interaction is likely to continue to increase. People, businesses, and non-government organizations (NGOs) will all make new demands on governments to respond to changing conditions and needs faster, more effectively, and with greater concern for the quality of their performance.

The Pressures of Globalization for Innovation and Quality in Government

Debates over whether or not the nation-state will survive in a global society have largely been resolved. Even the most ardent critics of big government now recognize that the state will continue to be an important political institution that can, for good or ill, influence the welfare of billions of people. The challenge for political and administrative leaders in all countries is to redefine the roles of government and to build the capacity of public and private institutions to play beneficial roles in helping citizens to cope with the uncertainties, and benefit from the opportunities, of globalization.¹⁶

The need to improve governance and public administration and to enhance the state's capacity to carry out new functions and roles is now widely recognized. The United Nations Millennium Declaration calls for respect for human rights and the promotion of democracy and good governance (including efficient and effective public administration). Good governance is a necessary condition to achieve each of the Millennium Development Goals (MDGs) - eradicating extreme poverty and hunger, achieving universal primary education, promoting gender equality, reducing child mortality, improving maternal health, combating HIV/AIDS and other diseases, ensuring environmental sustainability, and promoting global partnership for development. Governments in developing countries and their international development partners have significantly increased their financial support to strengthen governance and enhance the efficiency and effectiveness of public administration.

But rapid globalization over the past two decades assured that governments could no longer carry on as usual, at least in terms of the functions and roles many of them played in the 1960s and 1970s. As the OECD has pointed out, by the 1980s governments were widely "criticized for their lack of capacity to respond quickly and effectively to strategic issues and for failing to leverage off opportunities in emerging markets offered by, among others, new technologies. Conflicts inherent in combining multiple roles (for instance, policymaker, regulator, monitor, competing service provider, funder), often with conflicting objectives, became obvious."¹⁷ Globalization and technological advances have been and will continue changing the "rules of the game" for government. The roles of the government as a central planner and controller of the national economy, as the primary provider of goods and services, and as the engine of economic growth, have

largely been discredited as effective functions in countries seeking to promote national competitiveness. Indeed, even the ability of states to exercise sovereign control over internal economic activities and transactions across their borders is changing in the face of relentless globalization.¹⁸

As the world economy becomes more deeply integrated, the economies of most industrialized and many developing countries have shifted from mass-production manufacturing to technology-and knowledge-based systems of production and services. Technology embedded in new production techniques, products, and communication, transportation, and energy systems has driven the growth of global markets and the economies of competitive countries. The United Nations Development Programme's *Human Development Report* points out that the world's economy is shifting from the Industrial Age to the Network Age.¹⁹ It notes that while the industrial age was "structured around vertically integrated organizations with high costs of communications, information and transportation...the network age is structured along horizontal networks, with each organization focusing on competitive niches. These new networks cross continents, with hubs from Silicon Valley (United States) to Sao Paulo to Gauteng (South Africa) to Bangalore."

For the private sector, new technologies both enhance factor mobility and create new varieties of products and services. New technologies change the relative costs of production and distribution and the comparative advantages of enterprises. Technological innovation also accelerates global economic integration.²⁰ Rapid advances in information technology and electronic commerce are fundamentally changing the demands on businesses and revolutionizing the way they conduct transactions across national borders.

Advances in digital communications technologies are driving down the costs and increasing capacity for exchanging information. The costs of computing (millions of instructions per second) fell by nearly 99 percent between 1991 and 1997.²¹ E-commerce will continue generating new business opportunities for manufacturers, suppliers, and service providers. In the computing, electronics, shipping, warehousing, and utilities industries, especially, more than 70 percent of trade is expected eventually to go through e-marketplaces, restructuring existing supply chains and increasing the number of new industry connections.

Both broader international economic interaction and rapidly advancing technology also require governments in countries seeking to participate effectively in a globalizing economy to assume new roles -- as catalysts for market development, enablers of productivity and efficiency, regulators ensuring that markets remain open and equitable, promoters of private sector expansion, and stimulators of human and capital resource development. Innovative governments are using their resources to provide services and infrastructure that make productive activities competitive nationally and internationally. In a globalizing society, responsive governments are working cooperatively with the private sector, civil society organizations, international financial institutions, and public interest groups to develop institutions and policies that support and sustain market systems through which enterprises of all sizes engage in regional and global trade and investment.²²

Although governments in many countries with developing and transitional economies are transforming their roles, not all have embraced change. Experience over the past 50 years clearly shows that that what is needed is not large and all-powerful

governments that plan for and control all aspects of economies and societies. Innovative governments seek new ways to guide and facilitate economic growth, enhance human capacity, mobilize financial and human resources for development, promote and encourage private enterprise, protect economically and socially vulnerable groups, combat poverty, and protect the natural environment and physical resources through democratic, participative, honest, efficient, effective, and accountable political and administrative systems.²³

Globalization — A Driving Force of Government Reinvention

Economic globalization has, more than any driving force, been increasing pressures on government to respond in innovative ways to the needs of their citizens. In a global market individuals, households, and businesses trade with each other within and across national borders. Although a globalizing economy is subject to cyclical spurts of growth and periodic downturns, much like the cycles of domestic economies, the world economy has grown rapidly since the 1960s. Although regional recessions in Latin America in the early 1980s, in Africa in the 1980s and 1990s, and in Asia in the late 1990s, and worldwide recession in the early 2000s, temporarily dampened the pace of economic globalization, they did not reverse it. Despite cyclical downturns, globalization drove world economic growth by 140 percent (in real US dollars) between 1970 and 1998 to nearly \$40 trillion in annual output of goods and services.²⁴

The most recent surge of economic globalization, beginning at the end of World War II and accelerating in the early 1980s, was driven first by trade (exporting and importing), then by foreign direct investment (inward and outward purchases of productive assets), and now by both widespread trade and investment accelerated by

technological advances in communications and transportation. International trade grew substantially during the last half of the 20th century. The value of world merchandise exports doubled from a little more than \$2 trillion in 1980 to a little more than \$4 trillion in 1994, and then increased to \$6 trillion in 2001.²⁵ The ratios of merchandise exports to GDP grew from about 8 percent in 1960, to 13 percent in 1990, and to nearly 18 percent in 1998. In addition, the value of world exports of commercial services increased from \$402 billion in 1980 to more than \$1.4 trillion in 2001. (See Table 1.)

Table 1. Value of exports and imports of goods in 2001 (millions of dollars)

COUNTRY GROUPS	Exports (fob)	Imports (cif)
World	6,112,052	6,298,652
Developed countries	3,919,236	4,202,859
Developing countries and territories	1,922,706	1,835,647
Major petroleum exporters	368,243	220,649
Major exporters of manufactures	1,324,143	1,300,222
Least developed countries	35,246	43,881
Countries in Eastern Europe	270,110	260,146
EUROPE		
Baltic countries	9,858	14,138
European Free Trade Association	138,655	110,170
European Union	2,248,595	2,197,714
Euro Zone of the European Union	1,858,774	1,769,463
European Union and Accession countries	2,428,104	2,429,374
AMERICA		
Andean Group	52,185	46,498
Central American Common Market	10,613	20,743
Caribbean Community	9,195	11,711
Free Trade Area of the Americas	1,328,433	1,773,487
Latin American Integration Association	317,656	325,674
Southern Common Market	87,864	83,852
North American Free Trade Agreement	1,149,208	1,581,357
Organization of Eastern Caribbean States	252	1,406
AFRICA		
Economic Community of the Great Lakes Countries	540	765
Common Market for Eastern and Southern Africa	23,663	34,148
Economic Community of Central African States	16,610	8,887

Economic Community of West African States	30,474	22,867
Mano River Union	1,490	1,387
Southern African Development Community	47,394	45,696
Economic and Monetary Community of Central Africa	9,453	4,758
West African Economic and Monetary Union	7,114	7,050
Arab Maghreb Union	46,180	39,147
ASIA		
Association of South-East Asian Nations	386,534	342,038
Bangkok Agreement	470,322	449,199
Economic Cooperation Organization	82,195	85,916
Gulf Cooperation Council	159,492	90,864
Melanesian Spearhead Group	2,965	3,094
South Asian Association for Regional Cooperation	63,987	77,088
INTERREGIONAL		
Asia-Pacific Economic Cooperation	2,870,663	3,123,199
Black Sea Economic Cooperation	179,887	175,358
Commonwealth of Independent States	149,097	102,579

Source: UNCTAD Handbook of Statistics, 2002.

These trends generally held for both developing countries and advanced market economies. Between 1990 and 2000, trade in goods as a percentage of world GDP increased from 32 percent to 40 percent. Countries at all levels of income, on average, increased their participation in international trade and foreign direct investment (FDI). Gross FDI also increased as a percentage of GDP worldwide from 2.7 percent to 8.8 percent.²⁶ The economic growth of many developing countries has been closely associated with the shift from inward-looking protectionist development strategies to outward-looking export-oriented liberal trade strategies. Those countries that have diversified their exports and opened their economies to imports and investment have grown faster than countries that maintained protectionist policies or that continued to export only basic commodities and raw materials.²⁷

Although developing countries engaged in a smaller volume of trade than did richer countries, the value of their exports more than doubled from 1980 to 1994. The manufacturing export shares of developing countries increased from about 5 percent in 1913 to nearly 25 percent in 1994. By 2000, developing countries accounted for 30 percent of merchandise exports.²⁸ And all regions of the world saw growth in manufactured exports, although countries within regions differed drastically in their rates of growth.

By the 1990s, economic globalization was being driven more by foreign direct investment (FDI) than by trade. Total world inward and outward FDI grew from 10 percent of world GDP in 1980 to 31 percent in 1999. The accumulated stocks of inward FDI increased from about \$14 billion in 1914 to about \$2.5 trillion in 1995, and to more than \$6.8 trillion in 2001.²⁹ As Table 2 shows, total world FDI inflows grew from \$694 billion in 1998 to more than \$1.4 trillion in 2000, and fell substantially in 2001 because of the worldwide economic downturn. Although more developed countries were the primary beneficiaries of foreign direct investment, developing countries saw substantial increases in FDI over the past two decades. Table 3 shows that countries such as China, Mexico, Brazil, Bermuda, Poland, Singapore, South Africa, Chile, and the Czech Republic have been able to attract substantial amounts of foreign direct investment.

Both trade and investment were driven by the expansion of transnational corporations (TNCs). Between 1996 and 2001 the number of parent TNCs grew from 44,000 to more than 65,000 and their number of foreign affiliates (enterprises in which they had a 10 percent or more investment) increased from 280,000 to 850,000. The sales of foreign affiliates doubled during the same period from \$6.4 trillion to \$18.5 trillion,

growing to twice the size of world exports. The total assets of TNC's foreign affiliates grew from \$8.3 trillion in 1996 to nearly \$25 trillion in 2000. The gross product (value of output) of TNC parents and affiliates grew to \$8 trillion in 1999, accounting for about 25 percent of world GDP. Foreign affiliates of TNCs now employ more than 53 million people.

Table 2. Foreign Direct Investment inflows, in country groups (millions of dollars)

GROUP	1998	1999	2000	2001
TOTAL WORLD	694,457.3	1,088,263.0	1,491,934.0	735,145.7
Developed countries	484,239.0	837,760.7	1,227,476.0	503,144.0
Western Europe	274,738.8	507,221.7	832,067.4	336,210.0
European Union	262,215.9	487,897.5	808,518.8	322,954.2
Other Western Europe	12,522.9	19,324.2	23,548.6	13,255.8
North America	197,243.3	307,811.3	367,529.3	151,899.9
Other developed countries	12,256.8	22,727.7	27,879.7	15,034.1
Least developed countries (LDCs)	3,947.6	5,428.3	3,704.3	3,837.6
Oil-exporting countries	14,441.9	5,461.4	3,510.0	6,557.1
Developing countries	187,610.6	225,140.0	237,894.4	204,801.3
Africa	9,020.9	12,821.2	8,694.0	17,164.5
North Africa	2,788.1	4,896.3	2,903.7	5,323.4
Other Africa	6,232.8	7,924.9	5,790.3	11,841.1
Latin America and the Caribbean	82,203.3	109,310.8	95,405.4	85,372.6
South America	51,885.6	70,879.6	56,837.1	40,111.4
Other Latin America & Caribbean	30,317.7	38,431.2	38,568.4	45,261.2
Asia and the Pacific	96,386.5	103,008.0	133,795.0	102,264.2
Asia	96,109.2	102,779.4	133,706.6	102,066.1
West Asia	6,704.6	323.6	688.3	4,132.8
Central Asia	3,152.2	2,466.3	1,895.1	3,568.8
South, East and S.E. Asia	86,252.4	99,989.5	131,123.2	94,364.6
The Pacific	277.3	228.5	88.4	198.1
Central and Eastern Europe	22,607.7	25,362.8	26,563.1	27,200.4
Multinational	-	-	-	-
Unspecified	-	-	-	-
All developing countries minus China	143,859.6	184,821.0	197,122.4	157,955.3

Source: UNCTAD World Investment Report 2002

Table 3. Top ten Foreign Direct Investment host developing countries in 2001 (millions of dollars:

Developing countries	1997	1998	1999	2000	2001
China	44,237	43,751	40,319	40,772	46,846
Mexico	14,044	11,933	12,534	14,706	24,731
Hong Kong, China	11,368	14,770	24,596	61,938	22,834
Brazil	18,993	28,856	28,578	32,779	22,457
Bermuda	2,928	5,399	9,470	10,980	9,859
Poland	4,908	6,365	7,270	9,342	8,830
Singapore	10,746	6,389	11,803	5,407	8,609
South Africa	3,817	561	1,502	888	6,653
Chile	5,219	4,638	9,221	3,674	5,508
Czech Republic	1,300	3,718	6,324	4,986	4,916

Source: UNCTAD World Investment Report 2002.

Reinventing Government: The Essential Dimensions in a Global Society

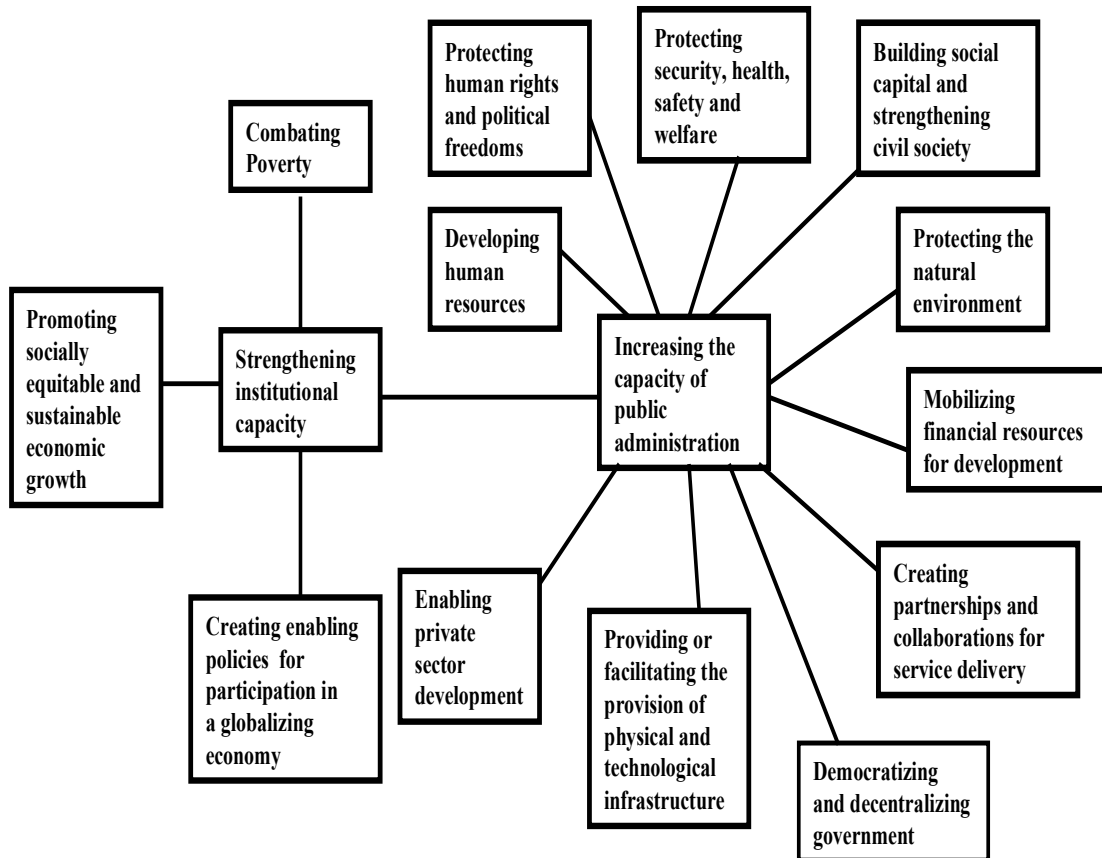
In an interrelated global society, governments must take on new roles in creating and sustaining viable economies, reducing poverty, and raising standards of living. Over the past decade, an increasing body of knowledge has emerged to describe a set of fundamental roles or functions that innovative governments perform effectively in a globalizing society. These roles and functions can all contribute to achieving equitable, sustainable, and participative economic and social development that are reflected in the United Nations' Millennium Development Goals and in other international declarations of human aspirations. The Millennium Development Goals define the fundamental role of

the governments as achieving sustainable economic and social progress that leads to higher standards of living for all people. In doing so, the United Nations Millennium Declaration called for states and international organizations to promote freedom, equality, solidarity, tolerance, respect for nature, and shared responsibility.

Although governments have a crucial role in achieving sustainable human development and reducing poverty, they cannot achieve these goals alone. Effective governance in a global society implies cooperation or partnerships, in which national governments work collaboratively with lower levels of public administration, the private sector, organizations of civil society, other states, and international organizations through democratic, transparent, and participative processes. The major roles and functions of governments in which innovation and quality must be enhanced are depicted in Figure 1.

In the 21st century, four important roles for government can contribute to achieving sustainable economic and social development. The most crucial of these roles is developing institutional capacity because it creates the context and the foundation for all of the others. Without strong institutions neither government nor the private sector can stimulate economic growth or social progress. A second important role is enacting and implementing policies that create an enabling environment for effective participation in a globalizing economy. The inability of some countries or population groups to benefit from international economic interaction virtually assures their inability to achieve economic or social progress. Third in order to achieve socially equitable economic growth, especially in the poorest developing countries, the government must focus on

FIGURE 1: DIMENSIONS OF GOVERNMENT REINVENTION



pro-poor policies that combat poverty and enhance the capacities of people who are normally by-passed in the distribution of the benefits of economic growth to participate more effectively in productive activities on which their livelihoods depend. Fourth, government has a crucial role in strengthening the capacity of public administration to

promote socially equitable economic growth, enable participation in the global economy, and combat poverty.

1. Strengthening Institutional Capacity

Perhaps the single most important challenge facing governments in the 21st century will be how to strengthen the institutional capacity of public, private, and civic sectors to meet the needs of citizens and the requirements of an international economy. Institutional capacity-building is the process through which individuals and organizations in any country strengthen their abilities to mobilize the resources needed to overcome economic and social problems and to achieve a better standard of living as generally defined in that society. Institutions include both sustainable organizations and widely accepted rules of behavior in both the public and private sectors.

Recent studies emphasize the pivotal role that institutions play in economic and social development. Examining experience with economic growth and social development in 140 countries over the past century, economists Dani Rodrik, Arvind Subramanian and Francesco Trebbi contend that the primacy of institutions becomes clear in distinguishing countries that progressed economically and those that did not.³⁰ Strong institutions can overcome geographical disadvantages, promote integration into the world economy and the capacity to trade, and increase income levels of the population. In explaining economic development, they conclude that “the quality of institutions trumps everything else.”

Establishing and enforcing a “rule of law” -- that is, providing a reliable set of legal institutions -- gives participants in market economies the guidelines to operate efficiently and effectively. Without transparent legal institutions, owners and managers

of enterprises waste time and money negotiating each transaction with government officials – a process that opens the way for bribery and corruption. Legal institutions provide rules for structuring and organizing corporations, identifying the activities in which they can engage, defining the nature and characteristics of legitimate business practices, and clarifying corporations’ rights and obligations. Either by national law or by international agreement, legal institutions should set the standards for treatment of foreign-owned or multinational corporations.³¹ They should determine allowable levels of foreign ownership of joint ventures and identify conditions of business entry and exit, including visa restrictions on non-citizens for doing business in the country, business registration, liquidation and bankruptcy, and import and export requirements.

In addition, markets depend on legal institutions to establish and enforce product and pricing standards, anti-trust laws and regulations on restrictive business practices, securities and exchange regulations, rights of access to credit and capital, regulation of bank operations, and guidelines for viable contracts and adjudication of disputes are all essential market institutions. Labor laws establishing legal working conditions, hours, and minimum wages, and obligations of workers and employers are essential to reduce complaints by governments in other countries of “social dumping” or exploitation of women and children.

An institutional structure for business support should include regulations of product and pricing standards; access to credit and capital; and ownership requirements including allowable levels of foreign ownership of joint ventures. Effective legal institutions also include contract laws and regulations concerning commercial litigation and dispute settlement. Labor laws establishing legal working conditions, hours, and

minimum wages, and obligations of workers and employers are essential parts of effective legal institutions. In most market economies, the legal system for business sets out regulations concerning the sale and management of commercial real estate, corporate tax rules and exemptions, and licensing and permitting regulations.

Participation in international trade also depends on a set of legal standards ensuring fair treatment of foreign investors, including those for rules on admission, entry, and establishment of foreign firms and general standards of national treatment or fair and equitable treatment. Innovative governments create effective mechanisms for the transfer of capital and profits and for dispute settlement through local courts or international arbitration.³²

Another important institution for economic and social development is a reliable system of property rights that facilitates property ownership and its transfer. In countries lacking adequate property rights institutions “common pool” problems allow resources or assets to be overused and eventually depleted because there are no limitations on their use. Without an effective system of property rights a country’s resources can be allocated inefficiently, private agents can bribe officials to grant them preferential use of property, bureaucrats engage in rent-seeking behavior, intellectual property developed through innovation can be difficult to protect by those who invested in its creation, and common property is often depleted.³³ The lack of enforceable private property rights in many countries allows state-owned (common or collectivized) property to be misused, abused, over-used, or to go unused, leading to inefficient resource allocation.

The institutional components of an effective property rights system include rules for asserting claims of ownership, recording ownership, the types of property that can be

publicly and privately owned, settling ownership disputes, and acquiring title to property that has been lost, abandoned, or improperly acquired.³⁴ An impartial, comprehensive, stable, and efficient body of contract law must be created to institutionalize these rights. Many developing countries are still in the early stages of privatizing state-owned assets and enterprises. They are far from establishing effective rights to property (both real and intellectual) and its use for productive purposes. Yet, without these institutional protections of property achieving the benefits of deep integration that results from direct foreign investment and the meshing of factors of production around the world is difficult if not impossible.

Expanding the participation of countries more fully in globalization depends on the ability and willingness of their governments to strengthen political, economic, and social institutions to meet the requirements of international markets. Creating an institutional structure for market economies and economic growth is a complex and long-term process. Market economies developed in Western industrial countries over a period of more than 200 years. Few developing countries or those in transition from centrally-planned to market systems can pursue all of the changes simultaneously and, in some of these countries, new institutions may take generations to put into place. Since the late 1980s, however, states have been under increasing pressure, both from within and without, to accelerate the process of institution-building in order to participate more effectively in globalization.

2. Creating Enabling Policies for Participation in the Global Economy

Achieving sustainable human development in the 21st century, as outlined in the Millennium Development Goals, requires governments to enact and implement policies

that create an enabling environment in which individuals and enterprises can participate in and benefit from global economic interaction. The heads of state that ratified the United Nations Millennium Declaration believed “that the central challenge we face today is to ensure that globalization becomes a positive force for all the world’s people.”³⁵

Innovative governments respond in new ways to the opportunities and risks that globalization brings to all areas of modern life – the economy, society, communications, transportation, trade, and investment. As Table 1 clearly shows, national economic and social development is being driven increasingly by the multinational regionalization and internationalization of trade and investment and that innovative governments participate effectively in shaping the international rules of global economic interaction. In a global economy, governments must be willing and able to participate in regional trade agreements – free trade areas, customs unions, common markets, or economic unions. Since the 1970s countries have been expanding their international trade by cooperating in regional trade alliances such as the North America Free Trade Agreement, the Association of Southeast Asian Nations, the Arab Common Market, the Southern Africa Customs Union, and the European Union.

Innovative political leaders and government officials recognize that increasing global economic interaction and technological advances in communications and transportation result in greater similarities in production capabilities around the world, in the need for agile business practice by companies seeking to meet growing international demand for speed, efficiency and quality, and the expansion of markets required to attain economies of scale and scope.³⁶ All of these trends affect the competitiveness of

individual firms and often require them to forge international strategic alliances and cooperative arrangements in order to compete. In a global society, innovative governments create a climate of national competitiveness in which enterprises, localities, and regions can engage profitably in international transactions and contribute to national economic and social development.³⁷

Governments in those countries seeking to expand their international trade and investment, create jobs, increase incomes and wealth, and improve the standards of living for their citizens must find ways to create a domestic economic system in which most or all goods are available for purchase or sale on the market. Effectively operating markets allow prices to reflect true relative scarcities in the economy, encourage decision-makers to behave according to rules of the market, and allow producers to obtain fair profits. For innovative governments, this means finding effective ways of implementing structural adjustment policies, liberalizing trade and investment, creating or strengthening property rights, and developing a legal framework for economic transactions.

Macroeconomic adjustment policies encourage the development of market mechanisms that can efficiently and effectively allocate scarce economic resources and set prices for both production inputs and consumer goods. This often requires financial liberalization and the reduction (and eventual elimination) of price controls. Macroeconomic adjustment policies seek to change the economy's structure of production and consumption by increasing the efficiency and flexibility of producers and consumers to respond to market signals. Macroeconomic reforms establish a process in which firms are free to enter and leave the market based on their profitability. Policies promoting market competition should prevent excessive collusion through antitrust laws,

reduce barriers to entry, and eliminate marketplace impediments to competition. At the same time, those countries that face serious problems of inflation and decline in national output must enact economic stabilization policies aimed at reducing balance-of-payments deficits, rescheduling debt, controlling the money supply, reducing subsidies, and restraining wage increases. The effective operation of market economies requires governments in all countries to adjust their trade and investment policies in order to become or remain competitive.

Promoting export competitiveness, as UNCTAD emphasizes, involves “diversifying the export basket, sustaining higher rates of export growth over time, upgrading the technological and skill content of export activity and expanding the dbase of domestic firms able to compete internationally.”³⁸ Liberalization of trade laws and regulations and the enactment of more favorable investment policies have become crucial aspects of structural reforms. Reforms generally aim at developing the capacity to expand export markets and engage more effectively in foreign trade and investment. This requires liberal trade and investment policies including programs for export promotion, foreign direct investment, exchange rate adjustments, and the easing of investment restrictions and trade barriers.

The importance of enacting appropriate trade and investment policies is seen not only in the challenges facing governments in developing countries but also in the pivotal role that foreign trade has played in the history of established market economies. In the West, the extension of trade and the freedom of a merchant class to engage in trade substantially expanded economic opportunities.³⁹ It allowed new products and commodities to be introduced into the domestic economy (that were later produced

locally or transformed into yet other products that found both domestic and overseas markets), and provided consumer goods for which no local or national source yet existed. Innovation by extension of trade and the discovery of new resources has been a major source of creativity and profitability for enterprises and for their suppliers and distributors in the West and will continue to be a driving force of economic growth in market economies in the future. A crucial function of innovative governments, therefore, is to enact and implement policies that create the enabling conditions that allow its citizens and enterprises to participate effectively in globalization and for all segments of the population to benefit from that participation.

3. Combating Poverty

At the core of the United Nations Millennium Goals is a challenge to United Nations Member States both to pursue socially equitable economic development and to reduce poverty. As countries integrate more tightly into the global economy they also become more vulnerable to international economic cycles and external financial forces that can adversely affect poor countries and poor groups within all countries. Innovative governments go beyond conventional macroeconomic adjustment, trade and investment liberalization, and exchange rate reform that are necessary to create an enabling environment for economic growth, and even beyond policies aimed at capital accumulation, labor force expansion, total factor productivity, and infrastructure expansion that accelerate economic growth, to achieve sustainable human development.

The United Nations Development Programme (UNDP) notes that in order to alleviate poverty in developing countries, governments and the private sector must take actions to prepare the poor to participate effectively in the economy.⁴⁰ This requires

providing social services and increasing the access of the poor to basic education and health services; enacting agrarian reform policies that give the rural poor a more equitable distribution of land and agricultural resources; and opening access to credit for the poor by changing criteria of creditworthiness and decentralizing credit institutions. In many countries governments must help expand productive employment opportunities and sustainable livelihoods for those who are unemployed or underemployed and increasing the participation of the poor in the development and implementation of poverty alleviation policies and programs to assure that they are needed and appropriate. In all countries undergoing transition, governments need to provide an adequate social safety net to protect those excluded temporarily or permanently from the market. Pursuing policies that promote economic growth and increased productivity so that new opportunities are available for the poor to improve their living standards and increasing people's capacity to use resources in a sustainable and environmentally beneficial manner are high priorities for innovative governments seeking to alleviate poverty.

In order to spread the benefits of globalization, innovative governments place poverty reduction at the core of the development process. They combat poverty and increase participation in economic growth through policies and programs that direct resources to the sectors in which the poor earn their livelihoods (agriculture and food production), to the areas in which the poor live (rural and underdeveloped regions); to the factors of production they possess (largely unskilled labor), and to the outputs they consume (food and basic necessities).⁴¹

4. Increasing Public Administration Capacity

The key to innovation and quality in government and to performing the functions effectively that are identified in Figure 1, is increasing public administration capacity. Public administration or management must be strengthened, especially in developing countries, if government is to perform the functions required to promote socially equitable and sustainable economic growth, create enabling policies for participation in a globalizing economy, and combat poverty. Among the most important of those functions, as shown in Figure 1, are :a) developing human resources, b) protecting human rights and political freedoms; c) protecting security, health, safety and welfare; d) building social capital by strengthening civil society; e) protecting the natural environment; f) mobilizing financial resources for development; g) creating partnerships and collaborations with the private sector and non-government organizations for service delivery; h) democratizing and decentralizing government; i) providing or facilitating the provision of physical and technological infrastructure; and j) enabling private sector development.

Although each of these functions is important in its own right, they are all interrelated and together affect the ability of governments to achieve social and economic development goals. Achieving socially equitable economic development depends on the ability of the leaders of national and local governments, non-government organizations (NGOs), civil society organizations, and businesses and industries to adjust rapidly to complex international social, political, and economic changes.

The challenge facing all governments in the 21st century is to create a system of governance that promotes and supports efficient economic interaction and that, at the same time, advances the health, safety, welfare and security of its citizens. All states face

continuing challenges in renewing political institutions, finding new modalities of governance, and expanding political capacities to guide national economic activities without undue intervention and control. Innovative governments create a political system that can elicit at least a minimum level of public consensus on social and political goals; encourage political, business, and civic leaders to articulate social and economic priorities; and guide the actions of public and private organizations toward economic objectives that benefit society.

Among the means available to strengthen public administration are constitutional, electoral, governance, administrative, and civil service reforms. Constitutional reforms restructure and revise the basic principles and institutions of governance; establish the structure of government as a federal, federation, or unitary system; identify the purpose and powers of the state; delineate the powers and limitations of and relationships among legislative, executive, and judicial branches of government; and clarify the responsibilities and obligations of government and citizens. Electoral reforms create new types of and bases for representation, establish or revise the qualifications for registration and voting, modify election rules and voting procedures, determine the process of candidate selection, prevent corrupt or unfair voting practices, guarantee voting rights, and determine how the public can hold elected officials accountable.⁴² Governance reforms delineate the units of government at national, regional and local levels, their roles and responsibilities, and the relationships among them that can strengthen mechanisms for decision-making, interaction, coordination and cooperation and create procedures for dispute resolution and settlement. Administrative reforms improve the quality of government by specifying the procedures of bureaucratic accountability, of decision-

making by rule of law, and of the role of the judiciary in maintaining them. Innovative governments concerned with quality strengthen the efficacy and transparency of financing, procurement, contracting, accounting, and other management functions. Civil Service reforms establish or adjust the duties, responsibilities and obligations of public employees, pay levels, recruitment procedures, incentives, training and career development rules, and ethical standards.

In many countries, governments play a catalytic role in the growth of small- and medium- sized enterprises and in accommodating the needs of transnational corporations. The International Finance Corporation points out that in many countries governments can play an important role in making the environment more conducive for the expansion of small- and medium-sized enterprises by reducing barriers to entry and eliminating non-competitive behavior, the expense and time required to meet regulatory requirements for licensing and registration, and official and unofficial levies that undermine small business' growth and survival. They can encourage enterprise development by enacting a legal framework for commercial transactions and dispute settlement, enforcing laws protecting business and intellectual property, and reforming tax structures that discriminate against small enterprises.⁴³ Governments can have a stimulating effect on small business expansion by revising government procurement policies that discourage or eliminate small firms from bidding, reducing labor market rigidities that limit the flexibility of small firms in hiring and firing workers, and providing infrastructure that increases access for small firms to information and markets.⁴⁴

With the growing recognition that the government plays a pivotal role in economic development has come the realization that its functions must change drastically

in order to position the countries competitively in the international economy. Government sometimes plays a catalytic role in providing or arranging for the provision of public services and infrastructure needed for economic production. Governments can help break the bottlenecks to economic expansion by investing directly in productive activities during the early stages of economic growth and creating favorable conditions for private enterprise development in later stages.

Globalization requires governments to not only arrange for the provision of conventional physical infrastructure such as roads and utility systems but increasingly to take a strong role in strengthening the infrastructure required to promote technological innovation, apply knowledge, and expand information systems. Expanding knowledge-oriented infrastructure requires government to collaborate with the private sector and with universities and research institutes in creating what the United Nations describes as “Knowledge, Innovation and Technology Systems” (KITS).⁴⁵ Governments are increasingly developing electronic systems (e-government) that open access to information about public institutions, allow public agencies at different levels of administration to cooperate more effectively, and make it easier for citizens to obtain public services. More governments are strengthening their e-government capacity to cut costs, increase the efficiency and effectiveness of public agencies, make decision-making and service delivery faster, improve the quality of service delivery, and enable new and innovative approaches to governance.⁴⁶

In Singapore, for example, for more than a decade the government has been building technological infrastructure that contributes to the nation’s goal of becoming a high-tech industrial center. It is creating a system that delivers interactive multimedia

applications and services to individual households. The system provides kiosks that allow residents to connect personal computers and through which they can pay bills, renew licenses, apply for public services, and obtain access to virtual bookshops, libraries and entertainment and commercial resources. The system operates through a high-speed broadband fiber backbone with ATM switches that connect cable modems and ADSL that connect personal computers to the kiosks.⁴⁷

The widely varying impacts of globalization require governments to provide a social safety net for the most vulnerable groups in society until they are able to develop their capacities to participate productively in the economy. In every society, government has a responsibility to create and maintain social assistance programs for the disabled, disadvantaged, or the poor who are adversely affected by economic reforms.

A recurring lesson of experience with economic and social development over the past half century is that central government alone cannot achieve economic and social equity. Innovative governments find appropriate ways to deconcentrate or devolve authority, resources, and responsibilities to local governments and non-government organizations in order to elicit greater participation in political and administrative decision-making and to deliver social services that are essential to creating a strong economy. Governments seeking to improve the quality of their services strengthen the capacities not only of national bureaucracies, but of sub-national regional and local administrative units as well. Strengthening local governance capacity can be done through vertical decentralization of authority, responsibility, and resources to sub-national administrative units, local governments, and other organizations working at the local level; and through horizontal decentralization that empowers local communities.

Strengthening local governance capacity, involves a variety of stakeholders, including central government agencies, local governments, civic society organizations, community groups, the private sector, and international donor organizations.⁴⁸ Innovative governments play an important role in empowering these organizations to participate in five essential functions: priority-setting, planning, producing, paying or financing, and consumption.⁴⁹ All of these functions are critical in engaging local groups, and in encouraging them to take ownership of, development projects and programs

Creative governments seeking to increase the quality of services find new ways to strengthen their fiscal architecture in order to mobilize the financial resources needed for development. Although managing domestic resources has always been an important role for the state, national governments must now develop greater competency in managing foreign financial resources as well. States face increasing challenges in widening the tax base, enforcing tax compliance, and managing tax competition. As tax systems become more complex, the state must take a stronger role in ensuring that the incidence of taxes falls equitably on all groups in society. Innovative government develop new sources of revenue for financing essential economic and social programs and tap into revenues generated by international business opportunities that globalization creates.

To satisfy citizens' needs and meet the challenges of globalization, the state must support a fiscal architecture that not only strengthens central government revenues, but also the capacity of the central government to expand local government finances. Beginning in the 1980s, for example, the Government of China initiated fiscal reforms that changed the system of public finance from a unitary one in which the central government exercised total control over revenue collection and budget allocation to a

more decentralized one in which provincial and central governments shared revenues and provincial governments gave greater flexibility to lower tiers of government. Studies show that fiscal decentralization not only increased economic efficiency in China but also contributed significantly to economic growth.⁵⁰

Innovative political leaders and government officials know that the success of democratization depends on decentralizing participation in public policy-making and the implementation of government programs and that the success of decentralization depends, in turn, on giving local administrative and political units adequate revenue and spending powers. Central governments can strengthen the fiscal capacity of local governments by, among other things, expanding taxing and revenue-raising authority for local governments, allowing them to raise taxes from a wider variety of local sources and to use a greater number of tax instruments. In some countries the central government has created special funds that can be replenished from national revenue sources such as customs, excise, or import taxes or regular budgetary assignments that are set aside from line agency budgets to be used to finance costly capital investments. In other countries the state provides statutory payments to local governments from fixed percentages of recurrent revenues of central or provincial government budgets as unrestricted grants, thus giving local administrations more flexibility to meet local needs and demands.⁵¹

Globalization has activated public interest groups and NGOs around the world calling for governments to take a stronger role in protecting natural resources and the quality of the physical environment. Economic growth can have both positive and negative impacts on the environment. Unsustainable industrialization, commercialization of agriculture, urbanization, and use of technology contribute to global climate change,

the degradation of water resources, air pollution, the loss of biological diversity, ozone depletion, forest destruction, desertification, degradation of land, and over-consumption of energy, water, and land resources. But an increasing number of studies conclude that economic growth, in and of itself, is not the problem; rather it is the way in which growth is pursued.⁵² Governments that pursue sustainable economic growth can, in fact, contribute to maintenance of ecological systems and protection of the environment. Economic growth is associated with lower fertility and slower population expansion -- which reduce population pressures on natural resources -- and with income increases that can be used in part for pollution control and prevention and energy conservation. Energy efficiency generally improves with economic growth. People with adequate sources of income are not as likely as the poor to destroy forests for firewood or engage in slash and burn agriculture.

Governments can use market principles to overcome environmental degradation by internalizing the costs for individuals and businesses of environmental pollution through taxation and fees, eliminating pollution subsidies, and enacting other measures to ensure that polluters pay.⁵³ Moreover, open markets that attract foreign direct investment can also be beneficial; most transnational corporations transfer environmental practices to their foreign affiliates that are far superior for preventing and controlling pollution than those used by domestic firms in developing countries. Of course, economic growth alone is not sufficient to reverse or prevent environmental degradation; governments and the private sector must take specific actions to prevent or overcome market failures and use sound regulation and market-based instruments to protect common resources.

PART III: REINVENTING GOVERNMENT AS A PARTNERSHIP WITH THE PRIVATE SECTOR AND ORGANIZATIONS OF CIVIL SOCIETY

Several of the functions of effective governments that are depicted in Figure 1 call for strengthening the public sector's capacity to cooperate or partner with organizations of civil society and private enterprise. Innovative governments are seeking ways, first, to strengthen the roles of civil society organizations and the private sector; and, second, to collaborate with them in providing services more efficiently and effectively.

Strengthening Organizations of Civil Society

Strengthening the capacities of public administration to empower organizations of civil society to participate in economic, social, and political activities will be an increasingly important function for all governments in an era of globalization. Civil society organizations not only supplement services provided by the private sector and maintain a check on government power, but they can also help to distribute the benefits of economic growth more equitably within society, and offer opportunities for individuals to improve their standards of living. Civil institutions channel people's participation in economic and social activities and organize them into more potent forces in influencing public policies. Organizations of civil society have an important role in mitigating the potentially adverse impacts of economic instability, creating efficient mechanisms for allocating social benefits, and providing a voice for poorer groups in political and governmental decision-making.

A robust network of social and civic institutions -- which political-economist Robert Putnam refers to as "social capital" -- contributes to the capacity of society to undertake activities that facilitate economic and social development.⁵⁴ Putnam's studies

of regional economic development in Italy showed clearly that regions with higher endowments of social capital were far more successful at stimulating and sustaining economic growth, social progress, and democracy over a long period of time than regions with less social capital. These regions were established throughout the country and had the same structures and authority and substantial amounts of money (about 10 percent of GDP) to spend for economic development. But despite their identical form, some of the regions flourished and others failed to achieve their objectives.

Putnam found that the regions -- some predominantly Catholic, some communist, and others almost feudal -- with strong and extensive networks of social and civic organizations invariably did far better than those with weak social capital. The former not only achieved higher levels of regional development but were also more democratic. Putnam points out that social capital has powerful consequences because civic networks and norms ease the dilemmas of collective action by institutionalizing social interaction and reducing the attractions of opportunism, by fostering norms of social reciprocity and social trust, and by facilitating political and economic transactions.⁵⁵ Well-developed networks of civil institutions also amplify the flows of information and help transmit knowledge of people's reputations that lower economic and social transaction costs and provide the means for reliable political, economic, and social collaboration, all of which are essential to the effective operation of market systems.

Among the most important institutions of civil society that must be created or strengthened in countries seeking to promote sustainable economic and social development are the following:

1. *Employers organizations*, industry associations, and commercial associations can mobilize resources to assist their members, make claims on government, represent the interests of their members with government and businesses, and develop markets and commercial relationships.

2. *Workers organizations*, labor unions, and employee groups can represent the interests of their members, obtain protection for workers rights, mobilize resources for mutual benefit, and participate with employers in the efficient operation of enterprises.

3. *Professional associations* provide problem-solving and policy advice and that support applied business research and provide business and industry with assessments of the impacts of their actions on the public.

4. *Policy and advisory groups* can help the government with public policy recommendations, review government operations, and evaluate the impact of public policies.

5. *Media* such as a free press, television, and radio can report information and interpret events independently and provide the public with a means of holding government and business leaders accountable;

6. Gender, language, religious, or politically-oriented *interest groups* create the foundation for a pluralistic political system, articulate and advocate the interests of their members within the political system, and support democratic values and procedures.

7. *Local community and neighborhood groups* articulate and represent local geographical interests and work together to solve social, economic, and political problems on a self-help basis.

8. *Consumer groups* provide members with information about goods and services and help maintain and improve standards of quality and service.

9. *Charitable and philanthropic organizations* mobilize private resources to assist the poor and support education, the arts, and scientific and humanistic endeavors.

10. *Social organizations* bring people together to participate in a wide range of activities from sports and recreational endeavors, to music, art, handicrafts, hobbies, or other forms of social interaction and, in so doing, provide them with a basis for contributing to the quality of life in their communities and countries.

Organizations of civil society can provide functions and services that markets cannot offer, facilitate social transactions, and protect vulnerable groups in society from adverse economic impacts. These organizations have especially strong impacts on economic, political and social development when they work in cooperation with each other, the government, and the private sector. Civil society groups can contribute to economic development by helping to create an “entrepreneurial milieu” so essential to sustaining a competitive system.

Although markets are efficient mechanisms for allocating resources and delivering goods and services, some groups in society sometimes are excluded or are at a disadvantage in market transactions. Cooperatives, for example, have played an important role in helping some groups in society overcome their weaknesses in the market by uniting them into nonprofit organizations through which they can obtain greater strength in market transactions. Consumer cooperatives had a long history in Europe as a means of giving low-income households greater purchasing power by obtaining cost advantages by combining their purchases and distributing goods to

members less expensively than wholesale or retail outlets. Farmers' cooperatives have been successful in North America, Europe, and in many developing countries in obtaining higher prices for the agricultural goods of members by bulking products of individual farmers, eliminating intermediaries, and negotiating higher prices with agribusinesses, processors, and distributors. Farmers have also used cooperatives to pull their purchasing power to obtain farm inputs and equipment less expensively and to provide credit to their members. In some rural areas, cooperatives have been used to provide electricity and other utilities. In urban areas of many developing countries, groups form cooperatives to obtain decent shelter that might not otherwise be available to individual households through the commercial real estate markets.

Organizations of civil society can make a contribution in all of these areas of human resource development. As the World Bank points out, governments have a strong responsibility to provide the "public goods" aspects of health care -- that is, in providing information about and control of contagious diseases, requiring child immunization and vaccinations against transmittable diseases, reducing environmental pollution and social behaviors posing health hazards, providing cost-effective health services to the poor and unemployed, and in overcoming problems created by uncertainty and insurance market failure.⁵⁶ But a wide range of civil society organizations -- including employer and trade union organizations, charitable groups, and religious organizations -- also play an important role in influencing health care policy and in providing some types of health services directly to their members or to other groups in society.

In all of these areas, governments can find innovative ways of working with or supporting organizations of civil society that make strong contributions to protecting the

interests of the poorest groups who are most likely to suffer from traumatic economic changes.

Public-Private Partnerships

The private sector is playing increasingly important roles in producing goods and providing services that were once considered “public” and therefore exclusively the responsibility of governments.⁵⁷ Public-private partnerships (PPPs) and other forms of cooperation between the private sector and local and national governments are being used frequently around the world to develop and expand energy and utility networks and services, extend telecommunications and transportation systems, construct and operate water, sewer, and waste treatment facilities, and provide health, education and other services.⁵⁸ In many developing countries, innovative governments are also using PPPs to finance and manage toll expressways, airports, shipping ports, and railroads and to reduce environmental pollution, build low-cost housing, and develop ecotourism.⁵⁹

Governments and the private sector are cooperating in the provision of services and infrastructure through a variety of mechanisms including contracts and concessions, build-operate-and-transfer (BOTs) arrangements, public-private joint ventures, and informal and voluntary cooperation.⁶⁰ Innovative governments are also deregulating many industries and allowing the private sector to compete with public agencies and state enterprises. They are “corporatizing” state-owned enterprises (SOEs) that are not privatized requiring them to compete with private firms and to cover their costs and manage their operations more efficiently. They are allowing or encouraging businesses, community groups, cooperatives, private voluntary associations, small enterprises, and other non-governmental organizations (NGOs) to offer social services. In some countries

governments are using PPPs as an intermediate phase in the process of privatizing SOEs or as an alternative to full-scale privatization.

1. Motivations for Public-Private Partnerships

Interest in PPPs and other forms of government-private sector cooperation has emerged in countries around the world for a variety of reasons. Neither national nor local governments in most countries have sufficient budgetary resources to extend services and infrastructure or to subsidize inefficient state enterprises or agencies. The United Nations Development Programme points out that in developing countries “the current and projected revenue base of most municipalities is inadequate to finance capital improvements and associated operating costs ... [and] many municipalities have large debt obligations, leaving little room for major new loans.”⁶¹

Public dissatisfaction with the quality and coverage of government-provided services and the slowness with which national and local governments extend infrastructure often pressure them to seek more private sector participation. Prior to the reform of and introduction of private sector participation in the telecommunications sector in Jordan, for example, the country had a telephone service penetration rate of only about 7 lines per 100 population and about 72 percent of those lines were concentrated in Amman. More than 120,000 people were on the waiting list to obtain service and the waiting time for a telephone line was nearly nine years.⁶² The state-owned telephone monopoly could not meet growing demand for telecommunications services from businesses seeking to become competitive in regional and global markets or provide data communications, cellular mobile and satellite based services that were in great demand. Before Thailand began inviting private firms to help expand its telecommunications

systems, the Telephone Organization of Thailand, a state-owned enterprise had a waiting list of nearly one million and a nearly 10 year waiting time for responding to customer demand.⁶³

Experience suggests that many goods and services for which people can pay -- transportation, telecommunications, electric power, piped water, or housing -- can be delivered more efficiently by involving the private sector.⁶⁴ Involving the private sector often brings stronger managerial capacity, access to new technology, and specialized skills that governments cannot afford to develop on their own.

Economic globalization is also creating strong pressures on private firms to respond more flexibly to rapidly changing world markets and to gain access to modern transportation and telecommunications systems that facilitate international trade and investment. They can fill void in countries where governments are slow to respond to demands for the technologically sophisticated infrastructure and services on which improvements in economic competitiveness depend.⁶⁵ Moreover, international assistance organizations such as the World Bank and the International Finance Corporation often require as a precondition for infrastructure loans to developing countries that governments mobilize private investment and improve public service delivery. Privatization of SOEs is usually a basic component of economic reform programs and PPPs can help privatize commercially viable services.

Forming public-private partnerships to assume functions that were formerly public sector responsibilities has potential benefits for both citizens and governments. PPPs can increase competition and efficiency in service provision, expand coverage, and reduce delivery costs. As the British government points out, PPPs allow optimal overall

risk allocation between the public and private sectors, facilitating the distribution of risk to the organizations that can most effectively manage it.⁶⁶ Involvement of the private sector ensures that projects and programs are subject to commercial discipline and sound financial due diligence. Moreover, the private sector can often manage more efficiently the entire supply chain needed to provide and distribute goods and services more effectively than can government agencies. Public-private partnerships can bring new ideas for designing programs and projects, and greater synergy between design and operation of facilities. Through public-private partnerships, governments can avoid expensive over-specification and design of public assets and focus on the life-of-project costs of initiating new activities or building new facilities.

By outsourcing or working in partnership with the private sector, governments can benefit from the strong incentives for private firms to keep costs down. Often, private firms can avoid the bureaucratic problems that plague national and municipal governments, and they can experiment with new technology and procedures. PPPs allow government to extend services without increasing the number of public employees and without making large capital investments in facilities and equipment. Private firms can often obtain a higher level of productivity from their work forces than can civil service systems, they can use part-time labor where appropriate, and they can use less labor-intensive methods of service delivery. Partnering with the private sector gives local governments the ability to take advantage of economies of scale. By contracting with several suppliers, governments can assure continuity of service. By contracting competitively for services, they can determine the true costs of production and thereby eliminate waste.

Cooperating with the private sector also allows governments that are seeking to improve the quality and efficiency of service delivery to adjust the size of programs incrementally as demand or needs change. Partnerships that partially or completely displace inefficient SOEs can help reduce government subsidies or losses and relieve fiscal pressures on the national treasury. PPPs can usually respond more flexibly to "market signals," more easily procure modern technology, and develop stronger capacity to maintain infrastructure than can public agencies. Public-private sector cooperation can also generate jobs and income while meeting demand for public goods and services.

At a time when private transfers far outpace the flow of official development assistance, partnerships are often the most effective way for innovative governments in developing countries to mobilize private and foreign investment capital for infrastructure expansion or improvement. And to the extent that PPPs achieve their objectives they can contribute to increasing national productivity and economic output, assuring a more efficient allocation of scarce capital resources, accelerating the transition to a market economy, and developing the private sector.

2. Types of Public-Private Partnerships

The ways in which governments and the private sector cooperate most frequently include contracting for services and facilities management, co-ownership or co-financing of projects, build-operate-transfer arrangements, informal and voluntary cooperation between government and the private sector, and passive government financing of the private provision of services.⁶⁷

a. *Contracting with Private Companies.* Governments in countries with both advanced and developing economies are increasingly outsourcing the provision of

services and infrastructure to private sector firms. Contracting is the method most frequently used by governments to elicit stronger private sector participation in providing public services and infrastructure. Contracting for infrastructure and services allows governments to arrange with private companies to provide services or facilities that meet government specifications. Generally, governments contract with private organizations to provide a service through three mechanisms: service, management and leasing arrangements.

Through service contracts government agencies arrange with a private firm to provide a specific service for a specified period of time. The United Kingdom's Private Finance Initiative extends services and provides infrastructure by purchasing services with defined outputs on a long-term basis from the private sector. The government uses public-private partnerships to modernize government housing projects, obtain defense equipment, and expand schools, prisons and hospitals.

In the United States, federal, state and local governments contract with private organizations to help provide infrastructure and services that public agencies cannot offer efficiently or effectively on their own. In the United States municipalities contract out more than 25 per cent of their services to the private sector.⁶⁸ Among the services local governments in the United States most frequently contract out to private companies are street light maintenance, solid waste collection, street repairs, hospital management, mental health facilities, day care programs, ambulance services, bus operations, and drug and alcohol treatment programs. Canada and most European countries also use private companies as "public service" providers, and an increasing number of developing countries are turning to private sector service contracts as well.

Contracting has become one of the most important methods of privatizing water and wastewater treatment services in many countries. In South America, the governments of Chile and Guatemala offered territorial concessions in large cities to companies that procure, purify, distribute, meter, and charge for water. In both countries, tariffs were approved by the national government, which also monitored water quality. In Peru, the government contracted out to private companies many of the activities involved in water supply, such as meter reading, computer services and billing and collection.⁶⁹

Governments are also using management contracts to provide services more efficiently while maintaining ownership control. Governments have contracted with international firms to privatize state-owned hotels in Africa and Asia, agro-industries in Senegal, Cote d'Ivoire and Cameroon, and mining operations in Latin America and Africa. But management contracts have been used more extensively in Europe, North America, and many developing countries to provide a variety of services and infrastructure. In this form of PPP, a contractor takes over responsibility for operation and maintenance of a service facility for a specified period of time with the freedom to make routine management decisions.

In Bahia, Brazil, the state government has contracted with private firms to manage new public hospitals that the government constructed and financed.⁷⁰ The state government sought management contracts with the private sector in order to transfer operational risk, improve the quality of medical care, and increase service efficiency. Through annual funding contracts that can be extended for five-year periods, the private companies recruit staff, manage facilities, and provide medical services for all public patients coming to the hospitals. The government pays for medical services based on a

target volume of patients and the operators receive reimbursement by achieving at least 80 percent of the target. In the United States and Canada, private companies also take contracts to manage municipal or public hospitals; several states and local governments have let private contracts to operate correctional facilities; and some local governments contract with private companies to manage public utilities. The Persian Gulf state of Abu Dhabi sought to bring commercial discipline and efficient management of its utilities by contracting with the private sector to manage electricity generation. It competitively tendered long-term management contracts with a private firm while maintaining its majority stake in the partnership.⁷¹

In Poland, the government used management contracts to privatize state-owned enterprises during the 1990s.⁷² Under the business contract arrangement groups of Polish or foreign managers could obtain the right to restructure and develop a state enterprise by submitting a business reorganization plan and making a down payment equivalent to about 5 per cent of the value for which they estimate the enterprise can be sold after restructuring. The managers received shares in the SOE and could realize capital gains after the company was privatized. If the restructured SOE could not be privatized, the managers might lose all or part of their collateral. Managerial contracts have also been used to restructure SOEs that could not be immediately privatized and for which there was no prospect for capital gains. The managerial and business contracts shifted the responsibility and part of the cost of restructuring SOEs from the government to entrepreneurial managers and decentralized the privatization process to the enterprise level.

Lease contracts are also used extensively for both public services and commercial operations.⁷³ In Latin America and Africa state-owned industries are leased to private companies for long-term operation. The government has leased electricity and water supply enterprises in Cote d'Ivoire; steel mills and refineries in Togo; and hotels and farm holdings in Jamaica. Companies leasing facilities assume responsibility for operation, maintenance and replacement of non-fixed capital assets. Lease contracts are popular in other countries as well. In Sri Lanka, for example, local governments have for a long time rented municipal markets to private merchants. In Malaysia, the Municipal Council of Petaling Jaya, turned to the private sector during the 1980s when it experienced declining revenues, mismanagement, and rising costs in the collection of parking fees. The Council leased parking areas to private management firms and was thus able to retain control over parking services while relieving itself of management and financial responsibilities and earning monthly rental income.⁷⁴ The State Railway Authority of Thailand (SRT) successfully experimented during the 1980s and 1990s with contracts with private firms to provide service on three intercity rail routes that were incurring substantial losses. The private companies leased passenger rail-cars and railway lines from SRT and paid it a fee every 15 days. The private contractors covered the costs of rail-car maintenance and cleaning and optional concession services. SRT provided the use of railway stations and the personnel to manage them, as well as train drivers and guards.⁷⁵

All three forms of contracting -- service, management and lease arrangements -- allow the government to maintain ownership of public facilities and control over public services but also to benefit from private sector management and operation and derive an

income from leases, management fees, or service concessions. Contracting with the private sector has increased efficiency, decreased vulnerability to employee actions and contractor failures, ensured protection against monopolistic behavior of contractors or government agencies, provided dual yardsticks for measuring and comparing performance, and provided more substantive knowledge and understanding of service delivery.⁷⁶

b. ***Public-Private Joint Ventures.*** Privatization policies in many countries either require or allow the government to retain some share of the stock in profitable or politically strategic companies making them, in effect, joint ventures. In Oman, the government developed a joint venture between Omani public and private companies and Maersk Sealand to expand and maintain its Salalah container shipping port.⁷⁷ In 2002, the municipality of Ajman in the United Arab Emirates formed a 50-50 joint venture -- the Ajman Sewerage Company--with a consortium of Black & Veatch, Thames Water, and other companies, to invest \$100 million in a wastewater network that will deliver services to 300,000 people. The government granted the joint venture a 27- year concession in which the company will recover its costs by levying tariffs for service to be paid by customers.

In other countries, national, regional, and local governments seek joint ventures with private enterprises to overcome problems that they cannot solve on their own. In Colombia, for example, the government of the Department of Caldas developed a joint venture with Aqua Pura S.A. to bring together five regional public sector groups and two regional private enterprises to manage coffee waste in several municipalities in the State. The joint venture partners helped coffee producers adopt new coffee washing technology

to reduce water consumption and waste water from coffee processing. The partnership also developed a comprehensive waste management plan for 21 towns in the region to reduce coffee processing waste pollution of rivers and streams.⁷⁸

China has used joint ventures between foreign investors and state enterprises to obtain foreign technology and capital, learn foreign management and marketing techniques, increase foreign exchange-generating capacity, and promote joint research and development projects.⁷⁹ The Chinese government also used joint ventures between SOEs and private foreign companies to make new investments in infrastructure and manufacturing facilities. The expansion of telecommunications equipment facilities in the Shanghai area, for example, was financed through joint ventures. Shanghai Bell Telephone Equipment and Manufacturing Company was taken over by a joint venture among China's Ministry of Posts and Telecommunications, Alcatel Bell, and the Belgian government to produce switches for telephone companies in China.⁸⁰

In order to upgrade and expand container-shipping terminals at the port of Shanghai, the state-run Shanghai Port Authority formed a new joint venture company, Shanghai Container Terminals Ltd., with the multinational company Hutchinson Wampoa. The joint venture company, in which each side held a 50 per cent share, was formed to upgrade and operate the container terminals under a contract providing for 5 years of tax-free operation, an additional 5 years with a 50 per cent tax reduction, and special tax privilege.

c. *Build-Operate-Transfer Agreements.* Governments around the world use turnkey projects with consortia of private companies to build telecommunications, transport, shipping, airport, utility, and water and sewerage infrastructure. Governments

in countries with both advanced and developing economies use build-operate-transfer (BOT) agreements in which they buy or lease completed facilities constructed by private investors after the companies have recouped their investment and a reasonable return by operating the facilities for an agreed-upon period of time. In 2001, the Netherlands developed a BOT with a consortium led by Siemens Corporation to design, build, finance and maintain the superstructure of a high-speed rail system that will run from Amsterdam into Belgium. Financing for the project comes from the sponsors and from a 28-year loan from the European Investment Bank. The government is also using a BOT to finance and extend highways that will become toll roads generating revenues to repay the capital and operating costs of the private consortia that will build and operate them.⁸¹

In the United States private companies sometimes provide the financing, design, construction, operation, and maintenance of water treatment or wastewater treatment facilities with a contract from one or more local governments. The companies provide services until they recover their investment and a fair profit, and then turn ownership over to the government. Cities extend their water supply systems through BOT contracts with private corporations that make the capital investments in developing or expanding water supplies. Typically, the private company obtains private financing to expand the system, with the city government contracting to purchase water from the company for an agreed upon number of years on a per-gallon fee basis. At the end of the contract, the city can take ownership for an agreed-upon transfer fee or extend the contract for water supply.⁸²

The government of South Korea is using the BOT arrangement to develop and operate the Seoul Beltway and Daegu-Pusan highway as toll roads. It has given the Pusan NewPort Company sponsored by the Samsung corporation, CSX World Terminals, and

local Korean contracting companies a 50-year secured concession to develop a \$900 million Pusan port expansion project using the PPP approach.⁸³ The Private Infrastructure Investment of Korea (PICKO) organization seeks financing and participation from private firms around the world in constructing, financing and operating infrastructure in Korea.

BOT or Build-Operate-Own (BOO) arrangements have also been used extensively in Malaysia and Turkey to build telecommunications systems, highways, utilities, and water supply systems, and operate them under a concession from the government. Debt financing is usually highly leveraged and the private consortium takes a small equity position. It also seeks loans from international financing agencies and commercial banks using future revenues from the projects to repay them. In Australia, the federal and state governments have used BOOs to expand public hospitals. Private firms build, own and operate a public hospital under government supervision for about 15 year periods. The operators provide fully accredited clinical services to all patients without charge and are reimbursed by the government based on a forecasted mix of patients. They also receive block grants for teaching.⁸⁴ Another approach, a build-operate-own-transfer (BOOT) arrangement, has been used to construct and operate independent power plants in China (Shajiao project) and Pakistan (Hab River project) as well as in the Dominican Republic and Costa Rica. These projects usually involve limited recourse financing in which capital is raised on the basis of cash flows and not on the collateral of project owners.

c. ***Passive Public Investment.*** Governments use passive public investment when they make grants, equity investments, loans, or guarantees to induce private sector

organizations to participate in offering goods and services or construct infrastructures that are deemed to be in the public interest. Government agencies may offer guarantees or fiscal incentives to induce private organizations to provide infrastructure and services that contribute to economic development or provide loans or subsidies to individuals or groups to purchase services, equipment, or housing from the private sector.

In India, various federal and state government agencies have long encouraged private companies to become more heavily involved in land development and low-cost housing construction. In Ahmedabad, for example, a private construction and housing finance company played an active role in providing low-cost housing with support from local regulatory authorities. This private corporation assembled land for housing projects, obtained approvals from the Ahmedabad Urban Development Authority, helped organize cooperative societies that held title to land and performed maintenance functions after the project were completed, and obtained mortgage financing for beneficiaries from the Housing and Urban Development Corporation (HUDCO), a public agency. With government assistance and encouragement, the company was able to construct thousands of low-cost housing units in and around the city of Ahmedabad.⁸⁵

State guarantees and incentives reduce private companies' costs or increase the potential for profits in activities that would, in their absence, seem too risky or unprofitable. These incentives may ultimately be less costly for government than providing services directly. Guarantees and incentives can mobilize private sector financial resources that would otherwise not be available to the government and assure that services are provided more flexibly and efficiently than by government agencies.

However, both government officials and the private sector can abuse the guarantees and incentives unless they are carefully monitored and supervised.

e. Delegating Responsibility for Services or Infrastructure to the Private Sector.

Governments in some countries are increasing the participation of the private sector by delegating responsibility for some services and infrastructure to non-government organizations or simply leaving them to private enterprise. This is done through publicly mandated- or regulatory- requirements; by using merchant facilities; and by requiring developers to provide or financially support the services and infrastructure associated with residential, commercial or industrial construction projects.

In the United States federal and state governments have often used regulations to shift responsibility to the private sector for providing services and infrastructure if their operations lead to health, safety, or security hazards for the public. Private sector organizations are required to invest in infrastructure and equipment that reduce or eliminate air and water pollution and to dispose of potentially toxic or hazardous wastes. More stringent environmental laws have spawned a strong private industry to supply environmental protection technology, equipment and services to both the public and the private sectors. In the United States, the Clean Air Act, the Resource Conservation and Recovery Act, and the Comprehensive Environmental Response Compensation and Liability Act, and state and local environmental regulations, have all stimulated more investments in environmental infrastructure. Clearly, investments by private companies in environmental protection technology and equipment relieve the public sector of cleanup costs and of increased public investment in the infrastructure required to cope with higher levels of air and water pollution.

Increasingly local governments in the United States and in other countries are requiring private developers of residential areas, commercial facilities, or industrial sites to provide the infrastructure and services required to treat waste water and dispose of solid and hazardous wastes, and to provide access roads, utilities, and other types of facilities. The requirements for developers to finance infrastructure improvements directly may be a part of a local government's subdivision or building permit requirements or may be imposed through development fees, impact fees, purchase of sewer access rights, capacity credits, or other forms of exaction. Most state governments that have experienced rapid population growth and large-scale residential, commercial, and industrial development have given municipal governments the authority to impose development and impact fees to cover the costs of infrastructure construction or extension⁸⁶

f. *Voluntary or Informal Public-Private Cooperation.* Globalization and the widespread expansion of the operations of transnational corporations has led to increasing voluntary cooperation among private corporations, corporate foundations, international organizations, and national and local governments in addressing important social issues and in providing public services. For example, in 2002, the Conrad N. Hilton Foundation pledged nearly \$41 million to a public-private partnership with the U.S. Agency for International Development and the governments of Ghana, Mali, and Niger to provide potable water and sanitation to rural villages in those countries. Participants in PPP include UNICEF, World Vision, WaterAid, the Lions Clubs International Foundation, the Desert Research Institute, Winrock International, the World Chlorine Council, and Cornell University's International Institute for Food, Agriculture

and Development.⁸⁷ The PPP will be responsible for drilling new water boreholes, developing alternative water sources, and providing safe hygiene and sanitation facilities and practices to more than 500,000 people in the four countries.

Through its partnership with Rotary International Coca-Cola helps the government of India immunize its population against polio. Coca-Cola uses its extensive distribution network in India to provide resources and expertise in marketing and community mobilization, and makes employee volunteers available to support Rotary International's immunization drive. The Finnish telecommunications corporation, Nokia, launched a three-year \$11 million campaign with the International Youth Foundation and its own employee volunteers to help children with learning difficulties in public schools in South Africa, China, Mexico, Brazil, the United Kingdom and Germany.⁸⁸

Several pharmaceutical companies have also volunteered to assist governments in overcoming tropical diseases, especially in Africa. The World Health Organization (WHO) and national governments in Africa work together through a partnership with Merck & Co and the African Programme for Onchocerciasis Control and the Task Force for Child Survival and Development at the Carter Center on elimination of onchocerciasis; Pfizer works with WHO and the Edna McConnell Clark Foundation, and African governments on elimination of blinding trachoma; GlaxoSmithKlein, WHO, and government health agencies have partnered to eliminate lymphatic filariasis and control of drug-resistant malaria.⁸⁹

In many developing countries, governments leave some services entirely to non-government organizations (NGOs) or allow them to provide services of a higher quality or more comprehensive coverage than those provided by the public sector. For decades,

cooperative organizations, trade unions, women's and youth clubs, and religious groups in Asia have all been involved in some aspects of public service provision.⁹⁰ Non-government and religious organizations provide health, education, and training programs that supplement those offered by government.⁹¹

3. Conditions for Effective Public-Private Partnerships

Although they offer governments in developing countries important means of expanding services and infrastructure and the private enterprises commercial opportunities to expand their businesses, PPPs are complex arrangements and can create potential problems for both the public and the private sectors if they are not properly designed and administered. They often displace public workers, thereby generating political opposition among public officials, labor unions, and public employee associations. If PPPs are not well designed and supervised, their services can become more expensive than those provided by government. Poorly designed and inadequately analyzed projects have failed in both rich and poor countries. Corruption can undermine public trust in PPPs if the contracting process is not transparent and carefully supervised. Lack of sufficient competition can turn PPPs into private monopolies that operate no more efficiently than SOEs. Overly restricting concessions or creating too many can deprive PPPs of economies of scale. If government regulation is too stringent it can lead to deficiencies in service provision and if it is too lax it may not hold private service providers sufficiently accountable.⁹²

The cost of contract management can be substantial. Governments committed to improving the quality and efficiency of service delivery compare carefully the costs of contracting out with the costs of providing services directly. The involvement of the

private sector in providing services that were formerly free or that were subsidized by the government can increase their price and place poor segments of the population at a significant disadvantage. Governments of jurisdictions with large numbers of poor people must make adequate provision to serve those who may not be able to afford them under PPPs.

Experience suggests that if PPPs are to succeed, governments should: (1) enact adequate legal reforms to allow the private sector to operate efficiently and effectively; (2) develop and enforce regulations that are clear and transparent to private investors; (3) remove unnecessary restrictions on the ability of private enterprises to compete in the market; (4) allow for liquidation or bankruptcy of existing state enterprises that cannot be commercialized or privatized; (5) expand opportunities for local private enterprises to develop management capabilities; (6) create incentives and assurances to protect current state employees after PPPs take over service provision; and (7) redefine the role of government from producing and delivering services directly to facilitating and regulating private sector service provision.⁹³

The experience in the United Kingdom led the government to conclude that for PPPs to work effectively, it must retain responsibility and accountability for deciding among competing objectives; define chosen objectives for services provision; set standards, criteria, and output targets; and safeguard the broader public interest.⁹⁴ National or local government agencies must have the capacity to decide on the level of services needed and the financial resources available to pay for them, set and monitor safety, quality, and performance standards, and enforce those standards and the output targets.⁹⁵

From its extensive experience with PPPs, the United Nations Development Programme concludes that in order to succeed national and local government officials must be receptive to finding alternative mechanisms to traditional public service provision and be willing to accept private-sector participation. They must choose appropriate projects that are conducive to private sector management, and properly package the projects in order to avoid disproportionate transaction costs. Because PPP projects often take a long time, strong public sector leadership and political commitment are essential to their success. PPP projects work best when both the public and private sector partners have project “champions” as catalysts and sustainers. Such projects are only sustainable if they are mutually beneficial to both government and private sector partners and if each can overcome adversarial posturing to build mutual trust.⁹⁶

The UNDP points out that the tendering, procurement and contracting procedures must be financially and operationally sound, open, transparent, and fair. “Any departure from the sealed-bid tender and contracting method will open the government to accusations of partiality or corruption.”⁹⁷ In addition, the procurement process should 1) state the desired end goal or output targets of the agreement and minimize overly specific requirements, so that the private sector can innovate and manage flexibly; 2) ensure that the potential private sector partners can be adequately compensated for or retain their intellectual property; 3) include monitoring provisions of performance measures by a third party or autonomous government agency; and 4) make provisions for renegotiating the terms of the agreement over time.

Ultimately, the success of PPPs depends not only on developing mutual trust between government officials and private sector executives, but on building and

maintaining public confidence in the integrity of the partnerships. Trust and confidence can be undermined when the goals of the partners are ambiguous or when their objectives are unrealistic or in conflict. Incompatible organizational systems and management practices can also weaken PPPs, as can reluctance on the part of governments or the public to allow private companies to obtain a fair return on investment.⁹⁸

CONCLUSION

As the foregoing descriptions clearly illustrate, governments around the world are experimenting with many innovative approaches to reinvention. The 21st century began a new era of globalization, not only for economic trade and investment, but for technological, social, and political interaction as well. Because of the necessity in an era of globalization for all nations to participate through open markets in international trade and investment, governments can no longer centrally plan and manage national economies or merely provide traditional public services. Global competitiveness will require governments in nations at all stages of economic development to strengthen market-supporting institutions and the capacity of public administration. Private businesses, private voluntary organizations, and even informal sector enterprises are providing more of those goods and services for which user charges can be levied and from which private companies can derive a reasonable profit. Government's roles will change drastically from controlling, directing, and intervening in the economy to supporting and facilitating productive economic activities, providing adequate infrastructure and social overhead capital, creating and maintaining a competitive business climate, assuring fair market access, protecting the interests of workers and consumers, and providing for the health, safety and security of its citizens.

Experience suggests, however, that no single approach to government reinvention is suitable for all countries. Although they are an important form of government reinvention, public-private partnerships, for example, are not panaceas for all of the ills confronting governments in providing services and infrastructure. Public-private partnerships that are carefully planned and implemented can help governments to improve the quality, reduce the price, and extend the coverage of services and they can accelerate the construction of infrastructure and facilities that are crucial for economic development and social progress. PPPs and other forms of public-private cooperation can be valuable instruments for leveraging the resources of both the public and the private sectors and of enhancing the capabilities of national and local governments to achieve their development goals.

Those governments that reinvent their roles and functions through innovation can play a positive role in helping citizens and enterprises participate more effectively and share in the benefits of globalization. Governments that continually reinvent themselves through innovation and quality improvements can strengthen their relationships with their own citizens, the private sector, and organizations of civil society. National governments are taking a strong role in shaping the rules of global interaction so that all countries can benefit equitably from the opportunities and minimize the burdens of globalization. During the 21st century governments must be efficient, effective, participative, honest, transparent, professional, responsive, and collaborative if they are to achieve the goals of socially equitable economic growth and sustainable human development. Both rapid external economic and technological changes and growing internal demands from

citizens for better services will make “innovation” and “quality” imperatives of good government in a globalizing society.

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