Rethinking the State from a mixed-management perspective of public policies

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Introduction
It is now fashionable to malign government and the people working in it, and to point out gleefully all their failures, real and imagined. Such skepticism and cynicism about government is cheap; it requires much greater commitment and courage to continue attempting to solve problems that almost by definition exceed the capacity of any individual or private actor to solve. If the problems had been easy or profitable, they probably would have remained in the private sector, and government would never have been made responsible for them. Despite the popular mythology to the contrary, it is rare that governments are imperialistic and go looking for new problems to solve; they are more likely to be handed the poisoned chalice of an insuperable problem.


Ideas about changing government gained momentum during the 1980s and 1990s, flagged by new administrations particularly in countries like Great Britain, New Zealand, and the US, and partly as a response to the growing gap between ‘doing business in the private sector’ and ‘doing so in the public sector’ that took place over the second half of the twentieth century (Kamarck, 2007:1). New governance models represent a progressive alignment of public sector practices to principles such as customer satisfaction as guides for institutional operating and organizing.

Another factor that contributed to the pressing need for change were increasing citizen demands for better public services, which in some countries materialize under the form of a growing amount of critical citizens (Norris, 1999; Inglehart, 1999), and added on the public perception that politicians do not fulfill their promises.

The two previous elements have also been accompanied by increasing constraints on public budgets. In Latin American countries, during the 1950s and 1960s the Region experienced a strong economic growth which had as principal agent an active state in terms of industrial policies, investment in infrastructure, health and education. However, by the decade of the 1970s it became increasingly evident that both the state and the economic models suffered from serious problems in terms of competitiveness and efficiency. Excessively dirigiste, these development strategies assumed an overly ambitious role for the State, going far beyond its effective capacity, in turn undermining its performance in the delivery of core functions (Snowdon, 2001:47, citing World Bank, 1997a). In reaction, the 1970s and 1980s saw growing skepticism develop against the expanding role of government, and the debate about market failure versus government failure started to intensify. As a result, over the last decade and a half, Latin American countries moved towards the implementation of orthodox policies of fiscal discipline and resizing of the state. However, this has also resulted in a weakening of the State’s institutional capacity, with a corollary negative impact on public investment and the delivery of basic services and social protection systems.

In the following, the first two sections of the paper elaborate around two questions: How have roles and responsibilities been redistributed between public and private sector? And How has this redistribution affected the public sector? The first briefly presents some of the ideas and facts that have structured the debate on the role of government for social and economic development. The second section looks at it

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1 Preliminary Draft.
2 The opinions expressed in this document are those of the author and do not necessarily reflect the official position of the Bank or its Board of Directors.
3 For a review see Kamarck, 2007.
from the insight of the new strategies and tools used by governments to operate more efficiently. The literature devoted to these new forms of governance is very rich, reflecting the momentum that the topic has gained. For this reason, there is an attempt to simplify this list, by organizing the most prominent classifications and models in a comparative manner. The third section of the paper introduces the concept and types of Public-Private Partnerships (PPPs), presenting it in the broad context of privatization schemes. Complementing the top-down perspectives of the topic which have consumed a majority of the analytical efforts, this section brings part of the experiences and perceptions of public opinion around satisfaction with state services, privatizations, and how these two affect in turn trust in public and private sectors, and general support for democracy and its institutions. Trying to answer questions such as When are PPPs appropriate? Are certain areas more suited for PPPs than others? How can the difficulties and costs of organizing and managing PPPs be mitigated? What are the public governance implications of the co-production or mixed-management of public services? How can PPPs be made accountable? Are PPPs the right tool for making the public sector—and the state by extension—more effective?, the fourth section elaborates on the implications of new tools of governance for public sector reform. Starting with the conditions and critical steps necessary for building successful PPPs, the analysis then moves to some of the main implications in terms of public sector capacity and civil service reform, monitoring and evaluation tools for increased efficiency, and whether or not new public management is suited for developing countries. In the last and concluding section some final remarks are considered.

The Accommodating State: Changing Size, Boundaries, Roles and Centrality

The state is the primary instrument for organizing and regulating public activity as well as interactions between groups and individuals. The countries’ search for wealth and prosperity permanently modifies the structural conditions in which individuals relate to each other and the world. As the nature of relationships changes, the state has to reinvent itself and accommodate its functions to these contextual changes.

In its changefulness, the state has performed more or less prominent roles, it has been repeatedly resized, and allowed to enter certain areas to be subsequently deprived of them. If there is one single clear feature of the state that is its dynamic nature, permanently adapting to the changing social, economic, political and technological circumstances in which it works, and forced to ‘constantly re-evaluate what it does and how it does it’ (Stiglitz, 1997a; see also Tanzi, 1997).

Starting with minimalist conceptions, Adam Smith (1776) argues that society should only afford a diminished state, whose tasks will be restricted to the provision of core public services, maintaining law and order, and defense. However, government experienced an incredible expansion from 1870 to 1970. Whereas during the nineteenth century government expenditure represented in average around 10% of the countries GDP, in the mid-nineties it averaged 45% in OECD countries (Tanzi & Schuknecht, 2000; see also Tanzi, 1997; Quiggin, 1999). Among the factors that have been identified as net contributors to the growing size of the state during this period are: the Marxist and socialist thinking, which emphasized the importance of income redistribution; Keynesian thinking, stressing the importance of creating resilient economies by mitigating the effects of cyclical fluctuations through social programs and compensations, public pension schemes, and public enterprises; and the need to balance externalities, stimulating the production and consumption of goods and services generating positive externalities. Some have identified the model resulting from the combination of these factors as ‘mixed economies’ where the state had a large intervention capacity (Tanzi, 1997:10).

Today, the notion of ‘mixed economies’ refers to something quite different. After 1970, the state
moved in the opposite direction suffering a progressive contraction. In 2005, the average spending in OECD countries accounted for about 35 percent of the GDP, as opposed to the 45 percent of the past decade.\(^3\) However, even if it is certain that the glory days of welfare state have passed and there is a clear and (most likely) irreversible trend towards cost-reducing policy changes, none of the predictions about a possible collapse of the welfare systems materialized (Kumlin, forthcoming).

(Diagram 1 about here)

Dani Rodrik refers to this process of state accommodation in the following manner: ‘The idea of a mixed economy is possibly the most valuable heritage that the twentieth century bequeaths to the twenty-first in the realm of economic policy. The nineteenth century had discovered capitalism. The twentieth learned how to tame it and render it more productive by supplying the institutional ingredients of a self-sustaining market economy: central banking, stabilizing fiscal policy, antitrust and regulation, social insurance, political democracy. It was during the twentieth century that these elements of the mixed economy took roots in today’s advanced industrial countries. The simple idea that markets and the state are complements—recognized in practice if not always in principle—enabled the unprecedented prosperity the United States, Western Europe, and parts of East Asia experienced during the second half of the century’ (Rodrik, 2000:1).

Beyond Max Weber’s conception of the highly centralized bureaucratic state that controlled a territory and had a monopoly over the use of violence, today’s state, while maintaining some of its core attributions, has repositioned and redefined its role within society. Together with functional necessities and practical imperatives, new thinking has also contributed to this development. Ideology has also appeared to be a trigger in this process. It is in this sense that John Quiggin has argued that ‘the present contraction of government, like its expansion between 1900 and 1970, is driven at least as much by ideological enthusiasm as by rational analysis’ (1999:51). For this very reason he has also anticipated that some of these privatizations will have to be reversed ‘either through renationalization or through the establishment of new public entrants to markets where older public enterprises have been sold off’ (Quiggin, 1999:39).

However, even if ideology may have driven top-down reform strategies, recent empirical studies show that, at the public opinion level, it is not ideology and attitudes about state intervention structured around the traditional left-right cleavage that affect welfare state support, but the individual experiences and personal benefits that citizens obtain through welfare state institutions and services (Kumlin, 2004). We will come back to this point in the next section.

Against the common arguments that state intervention is harmful, ineffective, and unnecessary (Stiglitz, 1997), there exists today a firm recognition that governments play an important role, and that a successful development strategy cannot be conceived without solid public institutions (Rodrik, 2000; Stiglitz, 1998; Sen, 1999a, b; Bresser-Pereira, 2007; Johnston, 2006). Just as many of the state criticisms have come from economics, many of the responses have also remained within the discipline. Today, ‘there is a growing consensus that successful development requires active government involvement, but that it is important to improve public interventions so that they promote welfare’ (Stiglitz, extracted from an interview; see Snowdon, 2001:71).

Along the different reform waves, it has become increasingly difficult to identify the boundaries of the state. Apart from the external factors, different movements towards nationalization, privatization, re-

\(^3\) Source: World Bank, World Development Indicators.
nationalization or mixed management solutions have successively altered the frontiers of the state and its relations to society.

Particularly since the 90s, and together with—or rather as a consequence of—the rearrangements of boundaries, there has also been a redistribution of roles and responsibilities between governments, private sector and civil society. This reallocation of roles between different players is the result of two simultaneous movements towards ‘privatizing government’, while at the same time parts of the private sector and non-profit organizations have been ‘governmentalized’ (Kettl, 2002). It is along these lines, that Elaine Kamarck has referred to twenty-first-century government as ‘a messy blend of old-fashioned bureaucracy, partly and fully privatized government, and markets’ (Kamarck, 2007:10).

While recognizing that ‘governments can no longer manage social issues alone’ (United Nations Foundation, 2003:2), one of the central policy objectives of governments still remains the improvement of public services.

The state has also a major responsibility as regulator. Regulation becomes a fundamental tool in increasingly mixed management strategies, where responsibilities between the public and the private are becoming more unclear and delivery more heavily depends on the respect and enforcement of contracts (Dent et al., 2007:3). The set of norms of reciprocity that drive individuals to cooperate are not always spontaneous and do not necessarily respond to altruism and a sense of fairness. Rather, very often they are embedded in formal rules and depend on the perception of the capacity of formal institutions to enforce them. Bo Rothstein and Dietlind Stolle (2002) identify a set of institutions that seem to be more critical for the development of social capital. They argue that “certain types of institutions such as the legal system, the police and social welfare institutions play a more important role for generalized trust than the clearly political institutions”. These particular institutions – they continue – have a strong influence on people’s views of other people because “they 1) are permanent institutions that offer direct contact with street-level bureaucrats in every-day settings, 2) exhibit important norms of society such as impartiality and fairness, and 3) they deal with a valuable public good, personal safety” (2002:19).

Just as the private sector has progressively come to be involved more heavily in public sector core activities, there has also been a growing expansion of development agencies as mechanisms to foster economic development. These agencies have developed at different times and under different legal forms, generating different strategies of economic intervention, through, for example, territorial planning and development; reconversion of declining area economies; attracting foreign investors and promoting local enterprises; assisting in business creation; training and counseling companies; facilitating technology transfer; and fostering partnerships between related businesses in a common supply chain or business cluster. However, even if ‘there is general agreement that states can enhance welfare by regulating markets. There is much more controversy about whether states should try to accelerate market development through activist industrial policies’ (Levy, 1997).

The New Models of Governance

There have been different attempts to classify new strategies used by governments to operate and fulfill their functions and duties towards citizens more efficiently. In this field, very often practice has preceded theory, or as Guy Peters puts it: ‘except for the market model these alternatives have not been articulated in a comprehensive form; they have appeared more clearly in government documents than in the academic literature’ (2001:13).
Table 2 tries to summarize the most relevant of these alternatives in a comprehensive manner according to important features of governance such as the managerial methods and financial arrangements, the production schemes and purchasing techniques, the way policy making is structured, performance criteria or accountability mechanisms. Having always as a reference the traditional or bureaucratic model, two lines have been added to the table that respectively present the main criticism that each of the new models has on the former, and, in turn, their potential shortcomings. The frontiers between different models are certainly not always clear. Yet, for this exercise have been selected only those that had a distinguishing element around which governance is structured.

The traditional bureaucratic or hierarchical model (Column 1) owns much of its conceptualization to the work of Max Weber, which identifies as some of its distinguishing factors a clear division of labor among different agencies and public servants; the existence of stable and linear career paths; continuity and institutional permanence; and a vertical and hierarchical distribution of authority and centralized decision-making. In this model, there is no separation of functions between policy design and implementation. The state and its bureaucratic apparatus make policy and deliver services. Accountability processes seem to be rather straightforward, provided that the existing mechanisms function accordingly: citizens through elections elect their representatives, and they, in turn, make policy decisions and operate them; if citizens are unsatisfied with the way social problems have been dealt with and with the services provided they will reward governments at the next election period; otherwise, they will sanction the incumbent government by voting for any of the opposition parties.

After the bureaucratic model, the next columns refer to Guy Peters’ work, in which he organizes the different reform trends into four groups that he calls the market model, the participatory state, the flexible government and the deregulated government (Columns 2 to 5).

The first and most elaborate type is the Market model (Column 2), which builds on the hypothesis that private sector managerial methods are superior than those of the traditional public sector. With some variations, this model has been presented under different names such as entrepreneurial government or entrepreneurial public management, reinvented government (Osborne and Gaebler, 1993; Gingrich, 2005; Kamarck, 2007) or governing by contract4 (Schick, 1998). The baseline for judging public services delivery is cost: ‘government should be judged on the bases of how cheaply it delivers public services. Even more fundamentally, the market model asks what things should be public in the first place’ (Peters, 2001:46). Traditional public administrations are considered to provide insufficient incentives to performance, because, among other reasons, their goods and services are unpriced and results are not rewarded, they have the monopoly of information, and their structures are too complex, hierarchical, large and rigid to effectively respond to external stimuli. In relative terms, markets are seen as a more efficient mechanism for allocating resources within society. The market model proposes to replace the rigid payment schemes by merit principles through which people are rewarded according to performance; competition becomes the basis for allocating resources and budgeting, with a separation between the providers of services (ex. an enterprise), the purchasers of those services (government), and the customer (citizens). This marketization implies that techniques like contracting out or market testing are employed to identify ‘who will do the job better and cheaper’. Leaving aside

4 Government by contract functions through formal agreements, where the purchaser of goods and services is the government, and the suppliers are the agencies and entities in charge of the delivery. The system promotes competition among suppliers. Policymaking functions and service delivery are decoupled. Just as it happens with contracts, the dues are spelled out and specified: ‘when the budget is tabled in Parliament, each department publishes a departmental forecast report that, among other things, specifies the outputs it will produce in the next financial year’ (Schick, 1998:125).
the ‘transitional costs for government’ that any transition to a new model implies (Peters, 2001:49), Peters mentions other potential downsides of the market model, among which there is an excessive decentralization of functions to a number of ‘private-sector-like’ agencies making autonomous decisions, with subsequent problems in terms of coordination and control; there is also the fact that citizens lose some of their status by transforming into ‘customers’ if governing is reduced to the level of mere economic action’ (Peters, 2001:45); difficulties to identify the channels for and direction of accountability.

The second model discussed by Peters is the Participatory state (Column 3), which portrays a government with more collective mechanisms to channel citizens’ preferences, and, therefore, an enhanced participation beyond voting. The main critic to the public sector is its hierarchical style of management and centralized decision-making. It proposes a system in which there is a greater deal of consultation procedures, and employees and consumers are more involved in the decisions taken by the organization. Breaking away from hierarchy implies making organizations flatter and creating new structures and participatory channels. Yet, the implications of this model affect more the processes than the structure. Some aspects and recommendations of reform are shared with the market approach, like the idea of protecting the rights of the consumers of public services, in this case through participation and involvement in the decisions. However, the underlying objectives are different. Rather than stressing competition, the object of decentralization is to change the holders and mechanisms of control. Problems in this model are likely to be related to coordination between agencies and policy programs, and consistency between policies. Participation may also endanger the needed flexibility among leadership to negotiate, by increasing the bargaining costs through collective decisions and consultations.

Flexible government (Column 4) is a third model, in which the state’s capacity of response is the most important feature. Government has to be structured in a way that allows for rapid adaptation to changing external conditions and produces immediate responses to new challenges. This model can be considered to be the most at odds with traditional public sector management strategies. It criticizes the low efficiency of the public sector on basically two accounts: its permanence and institutionalization that tend to produce a certain degree of immobility, rigidities and excessive costs; and the tendency of traditional bureaucracies to perpetuate themselves, where the subject of concern becomes the survival strategies and self-perpetuating structures instead of the original purpose of the organization. To escape from it, the flexible government has to be capable of ‘uprooting organizations’. This has implications for the way employment is approached. Against permanent employment, flexible government implies moving to part-time and fixed-term contracts. It also implies a process in which government is constantly terminating obsolete organizations and creating new ones. In budgetary terms, it implies escaping from incrementalism. This model gives a premium to experimentation, where decisions and policies are approached in a more modest way, and the government is explicit about the risks involved. However, possible shortcomings are that the creation of external agencies very often falls into the same traps of traditional organizations, by tending, in turn, to perpetuate themselves. As already seen in other models, there is also here a potential problem of fragmentation and lack of coordination and control. Also the fact that institutions are temporary can have an effect on the level of commitment of public employees, and make government organizations more fragile. There is also a further issue that has to do with the level of fairness that this type of system will produce. Indeed, the most disadvantaged tend to have more difficulties to access certain institutions. It goes without doubt that, for certain groups, it takes more than good intentions and good will to benefit from public services, among other things because the costs of access to information are too high.

The fourth and last model discussed by Peters is the Deregulated government (Column 5). It poses that
by reducing constraints and internal red tape government will be more efficient. Both, the deregulation and the market approach are complementary. Clearly, new managerialism cannot be achieved if managers are constrained by the rigidity of the different sets of rules that regulate the personnel, the budget, or the procurement processes. The main limitation this model sees in the traditional public sector are its internal regulations that limit its performance. As it is the case with the flexible government model, one of the foreseen shortcomings of the deregulated government is also risk, given that the likelihood for error increases as the internal controls decrease, as well as a possible bias in the distribution of benefits. Central evaluation agencies focus more on policy and results than on accounts, and ex ante controls are replaced by ex post controls. This system, however, shares with the bureaucratic model its emphasis on authority as unique recourse to some degree of internal control. Managers become the source of institutional inspiration and are given more degrees of freedom for policy making, along the principle that ‘the public interest can be served through a more activist, and a perhaps less accountable, government’ (Peters, 2001:111).

Other works have also revolved around new organizational forms and strategies increasingly used by governments to function and deliver services in a more efficient way. Along these lines, Stephen Goldsmith and William D. Eggers (2004) dedicate a few hundred pages to what they refer to as governing by network (Column 6). They consider all third-party service delivery models, including contracts between government agencies, commercialization, public-private partnerships, outsourcing, concession arrangements, and privatization, as different types and ‘a central component of the trend toward networked governing’ (Goldsmith & Eggers, 2004:10). This model clearly shares some common characteristics with some of the previous, particularly the market and flexible models. However, instead of respectively stressing competition or the need to permanently uproot organizations, governing by network focuses on the importance of selecting the right configuration of actors for each policy problem. This model points to the existing contradiction between the structures of authority and action. Whereas in traditional bureaucracies authority is vertically structured, public action happens along horizontal lines. Government executives have no longer to focus on managing human resources. On the contrary, they have to manage the myriad of actors involved in policy making and implementation to produce public value. Government is not so much a provider of public services, as an organizer and facilitator of relationships.

Finally, the last column of Table 2 represents what Elaine Kamarck has called government by market, which, despite the apparent similarity in terms, is significantly different from the market model presented in column 2. Government by market implies the complete absence of the state in the provision of the service, and involves no public resources: ‘the government uses state power to create a market that fulfills a public purpose, and by definition that kind of market would not exist in the private sector. […] government by market is so well disguised that most people are not even aware that it is government in its operation’ (Kamarck, 2007:17-18). As opposed to other models of government, Kamarck argues that government by market is the most efficient of all when it comes to change people’s behavior in a massive way. This model is to some extent close to the governing by network model in that it uses other players to create public value. However, government by market is a much more opportunistic and less generalizable as a form of government than any of the others.

Summarizing, new models of governance have repeatedly questioned the traditional public sector in four major accounts: its hierarchical, monopolistic, rigid and overly regulated way of doing business. Beneath these criticisms lays the issue of performance, with an assumed lack of governmental efficacy, efficiency, flexibility and capacity of innovation, to deal with—now more than ever—new and changing circumstances. In response to these perceived state failures, a number of new strategies to deal with government business have emerged. Yet, it is important to bear in mind that, sometimes,
instead of immediately discarding ‘the virtues of stability and permanence’, one must consider that
‘long-standing organizational structures can help to guide policy choices’, the challenge being to find
the ‘mechanisms for identifying and discarding the overly mature policies while retaining the effective
ones’ (Peters, 2001:80).

Privatizations and the Use of Public Private Partnerships as a Government Tool

If it is widely recognized that there have been important changes in public management in the last
decades, essentially through the introduction of market arrangements, then it is also reasonable to argue
that Public Private Partnerships (PPPs) are one of its most innovative government tools.

If privatizing can be defined as ‘the act of reducing the role of government or increasing the role of the
private institutions of society in satisfying people’s needs’ (Savas, 2005:2), then it is fair to say that
PPPs are one sort of it. E. Savas establishes a useful classification, in which he distinguishes between
three broad categories of privatization according to the role the State plays in the equation: delegation,
where government has a positive and active role, retaining the responsibility but delegating the
production; divestment, in which government also has a positive role, but this time implying the end of
its control and/or production of the service—fall in this category the sale, free transfer or liquidation of
state-owned enterprises; and, finally, displacement, which, unlike the two previous forms, is not a
consequence of a positive act by government, but rather the result of a process in which the state is
progressively displaced by the private sector. In the following, this paper will concentrate on the first
category, i.e., delegation, and its different forms, namely, privatizations by contract, by public-private
competition, by franchise, by grants and subsidies, by vouchers, by mandate, with a special focus on
privatization by public-private partnerships.

PPPs first appeared as scattered initiatives in response to concerns around efficiency in the delivery of
public services and budgetary constraints. A milestone in this process, and the first comprehensive
attempt to promote PPPs at a more systemic level, was the United Kingdom’s Private Finance
Initiative introduced in 1992 by the government of John Major, and continued during Tony Blair’s.

Over the years, the incentives of the actors involved in these partnerships have changed, and there has
been a progressive readjustment of their roles. As some have put it, ‘partnerships represent the second
generation of efforts to bring competitive market discipline to bear on government provision of goods
and services’. Different from the first generation of privatizations, now ‘partnering involves a sharing
of both responsibility and financial risk’ (Linder & Vaillancourt Rosenau, 2000:6).

Privatizations, meaning the sale of state-owned enterprises, has been part of the package of structural
reforms engaged in Latin-America particularly during the 1990s aimed at improving efficiency and
reducing state involvement in economic activities (Lora, 1997). Privatization has been quite uneven in
the different countries of the Region. As Table 3 shows, since the 1990s 12 countries have engaged in
significant privatization efforts, averaging 8 percent of GDP (350,874 million US$). Per sector of
activity, for the period 2000-2005, privatizations have mainly concentrated around energy, financing,
infrastructure, and transport to a lesser degree (see Table 4). Indices elaborated for the 1985-1995
period, showed that the levels of privatizing activity were significantly different, allowing to establish
the following classification: i) early reformers: Argentina, Chile, and Jamaica; ii) gradual reformers:
Colombia and Uruguay; iii) recent reformers: Bolivia, El Salvador, Nicaragua, Paraguay, Peru, and the
Dominican Republic; and iv) slow reformers: Brazil, Costa Rica, Ecuador, Honduras, Mexico, and
Venezuela (Lora, 1997:3).
Latin-America (LA) started earlier with privatizations, pursuing it at a faster path than other regions in the world. LA countries basically concentrated on sectors of telecommunications, electricity and gas, and also water and sanitation (Chong & León, 2007). Privatizations are widely discussed in the literature, and do not go without some degree of controversy involved when it comes to assess the results. Privatizations are driven by expectations of improvements in profits, reduction of costs, increase in efficiency, greater innovation, capacity to attract investment, production, reduction of public debt, job creation and employment opportunities. Against privatization, it has been often argued that they result in an increasing concentration of wealth and unemployment, sometimes without real evidence that private enterprises really are more efficient than public sector ownership.

Among those supporting privatizations, the arguments revolve around a positive impact on foreign investment, either directly in the process of privatization of enterprises, or later, by ‘capitalizing privatized companies or investing in complementary activities that privatization has made more attractive’ (Lora, 1997:11), without necessarily having to pay the costs of a negative impact on employment (Chong & León, 2007). Failures of privatizations are very often put in the account of state failures under the form of poor regulations and contract design, inability to enforce them, and state capture during the privatization process leading to corruption and opportunistic behavior (Bortolotti & Perotti, 2007; Chong & León, 2007). Along these lines, it has been observed that, in some cases, privatization produces an immediate improvement of the quality of the service, but subsequent performance improvements are impeded by institutional limitations (ex. Nkya, 2004). To mitigate or simply avoid these problems, Bernardo Bortolotti and Enrico Perotti propose a context-specific and gradual approach adapted to the institutional conditions of the country: ‘in countries where public regulation cannot control private activity, the speed of privatization should be aligned with the progressive strengthening of institutional foundations. Where the institutional foundations to support or regulate private activities are completely missing, rapid privatization may lead to an unacceptable loss of control over the economic system’ (Bortolotti & Perotti, 2007:59).

Privatization may have changed the way public and private actors look at each other. Yet, have the citizens also changed their perceptions and expectations? To answer that question we will now turn to public opinion surveys gathered in 18 countries in the Region. Figure 1 compares trust in public sector with trust in private sector. Whereas the private sector is generally more trusted, the differences between both are not very large. However, in El Salvador, Argentina, Venezuela, and Uruguay the public sector is considered to be more trustworthy. The largest opinion gaps are found in Peru, Panama, Costa Rica and Uruguay. For the rest, on the contrary, attitudes tend to be closely connected: the more the public/private sector is trusted, the more the private/public sector is also trusted, the best example of it being Chile where both sectors are equally trusted.

Figure 2 displays opinions about privatizations. According to expectations, general opinions about whether privatizations have been beneficial for the country tend to be more positive than concrete expressions of satisfaction about the privatizations of public services. There is however one exception to this rule, Argentina, and two cases in which opinions are almost equal, Panama and Paraguay.

One of the main arguments against too much intervention is that by taking too many responsibilities the state will fail to fulfill its core functions, among which the delivery of central, basic public services. Poor delivery of these services—the argument follows—will in turn affect confidence in the state
capacity and its institutions. Recent empirical evidence in Western European countries suggests that dissatisfaction with the policy outcomes of the welfare state has week effects on ideological attitudes about state intervention and incumbent government support—these attitudes being particularly sensitive to country-specific institutional contexts—but, in turn, ‘undermines general support for political institutions, parties and politicians. It is the legitimacy of the democracies of Western Europe—rather than its welfare states or its incumbent governments—that will really suffer from increasing welfare state dissatisfaction’ (Kumlin, forthcoming:34).

The results in Tables 5 and 6 confirm this hypothesis. Satisfaction with public services leads to positive evaluations of the functioning of public institutions, foster confidence in that the state has the problem-solving capacity, and contribute to trust in government and the public administration.

(Tables 5 and 6 about here)

Regarding the hypothesis saying that people will turn to the private sector if the government does not deliver core services properly, the data rather seems to suggest that the state is so deeply identified with the provision of certain services—that people considered to be as quasi-inalienable rights—that wherever the responsibility rests, people will turn to the state asking for explanations if something goes wrong. Indeed, the positive and significant correlations between trust in public administration and government officials, and privatizations of public enterprises (Table 6) suggests that it is not (just) the private sector that will be hold accountable for the results obtained. In people’s minds the state continues to be somehow responsible for the outputs and outcomes provided. Interestingly enough, the confidence in the private sector does not seem to be related at all with the satisfaction with the results of privatizations. This clearly poses and accountability problem, particularly in the cases where the state lacks the capacity to properly regulate the activity in that sector and enforce the contracts signed with private partners.

An important conclusion of all the above discussion seems to be that state and market are coupled and complementary. Even if in some theoretical and practical debates they tend to treated as competitors for spaces and responsibilities, they seem to be closely connected in people’s minds. Trust in private sector is significantly and strongly connected to confidence in state capacity and general trust in public administration. Supporting the institutional approach to economic and social development, this clearly suggests that there is a dependency relationship: when the public sector works well the private sector works well too.

Moving now from the broad framework of privatizations to the specific schemes of PPPs, in the following different definitions of this government tool will be discussed.

In the United States, PPP started to be used during the 1950s to refer to ‘joint public- and private-sector funding for educational programmes’ and to ‘public-private joint ventures for urban renewal’ in the 1960s. More recently, the meaning of PPP has shifted to the ‘publicly-funded provision of social services by non public-sector bodies, often from the voluntary (non-for-profit) sector, as well as public funding of private-sector research and development in fields such as technology’ (Yescombe, 2007:2). Worth noting that the scope of partners has been extended beyond the private sector, and that the relationship can go both ways: there can be either a private funding of public services or a public funding of private activities. We will come back to this in the following.

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5 r=.209, P=.437 statistically non significant.
One of the most widely used definitions of PPPs is John G. Heilman and Gerald W. Johnston’s: ‘the combination of a public need with private capability and resources to create a market opportunity through which the public need is met and a profit is made’ (1992:197). Each proposed definition tends to reflect different conceptions of what should and should not be considered as PPP, stressing differential aspects of the partnerships. For instance, Heilman & Johnston’s definition uses as distinctive factors the fact that private capabilities and resources are used to fulfill a public function, while at the same time both actors’ objectives—profit and public value—are met.

Public institutions such as the European Parliament have defined PPPs as ‘a contractual agreement between the public and the private sectors, whereby the private operator commits to provide public services that have traditionally been supplied or financed by public institutions. The ultimate goal of PPPs is to obtain more “value for money” than traditional public procurement options would deliver’ (European Parliament, 2005:ii). This definition concentrates on the legal dimension of the partnership, and places as ultimate objective, not necessarily that the public sector should spend less, but that it will get more for its money.

Other definitions have also restricted the partnerships to public and private actors, while at the same time emphasizing the importance that there exists some degree of permanence and risk sharing in the relationship for it to be called a PPP: ‘[PPP] is a cooperation between public and private actors with a durable character in which actors develop mutual products and/or services and in which risk, costs, and benefits are shared’ (Klijn & Teisman, 2004:147).

In other references, this definition is considerably expanded and includes not only private sector enterprises as counterparts, but also nongovernmental organizations and civil society in general: ‘public-Private Policy Partnerships, speaks to the formation of cooperative relationships between government, profit-making firms, and non-profit private organizations to fulfill a policy function’ (Linder & Vaillancourt Rosenau, 2000:7; see also Nkya, 2004). Savas, for instance, defines PPPs as ‘an arrangement in which a government and a private entity, for-profit or nonprofit, jointly perform or undertake a traditionally public activity’ (2005:1). However, it becomes more specific when he differentiates PPPs from other privatization initiatives such as the sale of state-owned enterprises and other government assets (ex. land, buildings); contracting out and outsourcing (i.e., going to the private sector for a specific service or function); and competitive sourcing, (i.e., organizing biddings between public sector and private sector employees6).

For the purpose of this paper, we will use Heilman & Johnston’s definition of PPPs.

There exists broad consensus around the fact that the specific arrangements in use for PPPs are sector specific (United Nations, 2005). Yet, the variety and complexity of PPPs, and the fact that they are increasingly used also in nontraditional sectors, has made more difficult the task of classifying them. Despite this limitation, there are several typologies organized according to different criteria, such as the object of the partnership (Zadek & Radovic, 2006); risk transfer and risk management (Farlam, 2005); or contractual schemes combined with the modalities adopted (European Commission, 2005; IMF, 2004), together the allocation of key responsibilities and ownership (World Bank, 1997b; United Nations, 2005; Yescombe, 2007).

In general, what makes PPPs to differ from one another are factors that basically relate to asymmetries

6 Competitive sourcing may in turn result in either contracting out or contracting in; only in this case the outcome will be considered privatization.
in partner’s involvement and the legal framework, both establishing the distribution of tasks along the following components: ownership of the facility, responsibility for operation and maintenance, capital investment, responsibility for financing the service, responsibility for paying for the provision of the service, duration of the partnership, and financial risk allocation. Along these factors, and building on the previous classifications just mentioned, Table 7 presents a summary of the different modalities that regulate alliances between public and private actors. The modalities of PPPs range from basic procurement, in which everything, including capital investment, ownership of the facility, operation, maintenance and risks, belongs to the public sector, to other arrangements such as BOTs or DBFOs, in which ownership, responsibilities, and risks are progressively transferred to the private sector.

(Table 7 about here)

Combining New Modes of Governance: Implications for Public Sector Reform

Even if they are presented as models, the different government types just discussed should be rather thought of as tools, and being taken or discarded, in an opportunistic manner, according to needs. The use of one model of government very often does not preclude the use of the others, although they may be, in some aspects, embedded in important contradictions. Some of them are not ‘stand alone’ forms of governance and require to be combined with others to cover all the state responsibilities. To a certain extent, government today is an art of combining different methods for different policy problems (Kamarck, 2007).

The impact of these new strategies is so notable that organizations like the Institute for Public-Private Partnerships (IP3), have created special modules and intensive training courses designed to ‘assist public and private sector players plan, structure and implement viable PPP projects more effectively’. The training programs are structured around major PPP issues such as the different forms of PPPs and their use; how to identify PPP opportunities and best practices; the conditions for ‘bankable PPP projects’, such as the regulation of the quality of service and mechanisms for planning, monitoring and enforcement; and how to elaborate feasibility studies, manage risk, create the right financial structures, chose an effective management technique, or assess the impact of regulatory frameworks on business.

New models of governance have in common an increasing presence of external actors in governmental processes, under the form of markets, agencies, non-for-profit and civil society organizations, private sector enterprises, or simply citizens included as individuals having a right to participate, if not in the decisions, at least in the implementation of policies. This innovation has important implications for public management, since government has now less of a provider than of an organizer of different suppliers and a quality-controller of services: ‘government cannot through partnerships avoid its ultimate responsibility to the public for both the quality of a service and whether it is justly delivered’ (Goldsmith & Eggers, 2004:21-22).

7 The European Union works with five categories of risk: Construction risk, ‘related to the design and construction phase, i.e. the risk of poor project definition, costs overruns, late delivery of the asset’; Financial risk, ‘linked to the variability of interest or exchange rates and to all factors that can influence the cost of financing a project’; Performance/availability risk, ‘related to the delivery/availability of the asset against contractual specification, i.e. the failure to meet quality standards or to ensure the continuity of service provision’; Demand risk, ‘linked to the actual need for the service, i.e. the risk that the overall demand for the service/asset concerned turns out being lower than initially expected’; and Residual value, ‘related to the future market price of the asset; this type of risk is particularly relevant if property of the asset must be transferred back to the public entity at the end of the contract’ (European Parliament, 2005:1). A very complete specification of risks is also presented in Farlam, 2005.

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Recalling the work of Guy Peters and Donald Savoie, Laurence E. Lynn recently said at the First Annual Herbert Simon Academy of the University of Manchester that, even though there has been an important amount of research devoted to the description and comparison of tools and measures of new modes of governance and their impact on accountability, there is still a surprising lack of assessment of their expected results in governmental outputs and outcomes. Clearly, the choice between different government tools begs the question of how to evaluate their performance (Rosenau, 2000). Assessing whether or not, for instance, PPP is the most suitable option to deliver a service requires designing tools such as output/outcome performance indicators to evaluate the quality of the service provided (European Parliament, 2005). On this same point, Dani Rodrik also mentions that the good news is that ‘we enter the twenty-first century with a better understanding of the complementarity between markets and the state’; the bad news are, however, that ‘the operational implications of this for the design of development strategy are not that clear’ (2000:3).

Along these lines, and drawing from different works and experiences, the following will elaborate on some of the conditions and critical steps necessary for building successful PPPs, with its respective implications for public management.

First, it is important that the primary objectives of the partners will be respected. The main reason that can bring a private sector actor into a PPP scheme is self-interest, whereas, for the same matter, the goal of government will be to generate public value. The possible dilemma and conflict of objectives between the logic of profit of the private sector and the goals of representativeness and public accountability of the public sector (Heilman & Johnston, 1992) can be overcome if: i) the problem and the mechanisms to solve it have been clearly identified; ii) once the object has been defined, the right partner(s) are identified, i.e. those with the higher comparative advantage; iii) the PPP scheme is well designed and provides the right incentives for the partners, i.e., ‘builds on the respective strengths’ and ‘optimize[s] the allocation of resources’ (United Nations Foundation, 2003:3); and iv) the transaction costs involved in terms of information, bargaining, decision, and enforcement are minimized.

Second, an important challenge when operating through PPPs is how to create relationships of trust between the partners and investors, but also with the clients of the service: the citizens. Trust is first built on the basis of information, thus the ability of the provider to prove its solvency by showing at any point in time accurate and reliable information will be a crucial component in the equation. Reliable data is not only necessary for trust, but also for making informed decisions and managing risks. It is only on the basis of accurate and reliable information that one can effectively monitor agreed obligations and enforce contracts.

Third, the two previous conditions for aligning public and private sector on a common project are deeply dependent on the clarity and reliability of the legal frameworks, i.e., regulations and contracts. Effective regulation is an essential ingredient to create a favorable framework of conditions for PPPs to be successful. Without a proper institutional framework PPPs will not be able to efficiently deliver quality public goods. At the same time, the partnership will not properly function if it is not formalized with written agreements, and partners are in condition of enforcing the terms of the contract.

Fourth, the institutional arrangements that favor efficiency of PPPs and result in an improvement in the delivery of public services have to be sided by a strong institutional capacity of the partners (Levy, 8 Currently Professor of Public Affairs, past president of the Association for Public Policy Analysis and Management (APPAM), a fellow of the National Academy of Public Administration, and a member of the Council on Foreign Relations and the American Society of Public Administration.)
The institutional capacity of the state is a function of different factors, among which the capacity to comply and enforce contracts; management efficiency; adequate monitoring tools to control the quality of outputs; effective accountability mechanisms; and qualified human capital to deal with increasing technical complexity and sophisticated networks of actors. We will elaborate on this point later in this section.

Fifth, beyond the factors directly connected with the PPP, there are also external factors that can seriously compromise its performance. For this reason, it is important to have an accurate assessment of the risks. Among the political risks, there is a possibility that political opposition mobilizes against the initiative. Apart from assuring a strong political commitment to the project, the identification of strong political champions, combined with sensitization initiatives and public communication campaigns are good strategies to gather some degree of public support. Macroeconomic instability factors such as devaluations, inflation—both requiring unexpected price adjustments—or economic shocks affecting the financial viability of the project due to budgetary restrictions, constitute another set of factors that may put under risk a successful development of the PPP.

If these critical steps to build successful PPPs are to be satisfied, then government has to change its mindset and develop the necessary skills to efficiently respond to these requirements. This also means redressing the composition of its human resources.

**Building up public sector capacity.** One of the most significant implications of the new models of governance for the public sector is a progressive alignment of practices with the private sector. New public management has meant a progressive devolution of decision-making and authority, more flexibility, more emphasis on performance, and an increased use of information technology (e-government). New managerial techniques have also changed the meaning of professionalism and the status of the professional. Nobody doubts that better external perceptions of institutional efficiency reinforce the identification of professionals to the institution.

Testing the ‘convergence thesis’ that postulates a progressive emulation of private sector managers in the public sector, Michael Poole et al, come to the conclusion that ‘although there are some signs of convergence, the two sectors continue to exhibit similarities, persistent differences and parallel movements evident in managerial attitudes, behavior and experiences’ (2006:1051). Using national surveys, at three points in time (1980, 1990 and 2000), in Britain, they examine the differences in the interests that management should promote within the organization; the managers’ views on professionalism and their organizations; and the employment relations (collective bargaining experiences, the membership and existence of trade unions and/or staff associations at the managers level, and the managerial involvement in various forms of employee participation).

**Accountability.** The more pro-active a state is, the more openness, transparency and accountability are needed to avoid state capture (Staab, 2003). The same applies when flexibility and deregulation are part of the managing rules: the higher the degree of discretion of public officials, the more control mechanisms are needed to avoid state failures.

In democratic systems the agent, i.e. the State, is given the authority to act and decide on behalf of the principal, i.e., the citizens. In the social contract underlying the relationship that exists between citizens and the state both parts agree on a number of rights and duties. Without changing the conditions of the social contract, but under growing budgetary constrains and changes in the expectations of the quality of public services, governments have been forced to move towards alliances with the private sector to better fulfill its responsibilities. This has meant introducing a third party in the relationship. The State
needs to readapt itself to ensure that the accountability mechanisms with this third-party relationship work efficiently. This accountability problem can also be expressed in the contradiction between the simultaneous demands for legitimacy and efficiency (Dent et al., 2007:6). It goes without question that improving the state’s efficiency through public management reform can contribute to the legitimacy of government (Bresser-Pereira, 2007). The problem is that by introducing new and complex governance structures the existing mechanisms for accountability are no longer valid, and need to be replaced by new and also efficient ones.

Only when there is a clear allocation of responsibilities can the parties be hold accountable. Blurred and diluted responsibilities among different actors and institutions makes it very hard for citizens to identify and democratically sanction. When nobody can be clearly identified and blamed for the public dissatisfaction, it is the general political trust that will pay the consequences (Kumlin, forthcoming).

Some have argued that the lower productive efficiency of state owned enterprises is mainly due to ‘a general absence of accountability’ (Bortolotti & Perotti, 2007:55). However, it can also be argued that it is the progressive outsourcing of public services that may reduce social accountability. A counterargument to this point is that ‘constraining public abuse may be more difficult than regulating private economic activity’, with the underlying assumption that it can be more difficult for society to effectively scrutinize the government activities than for government to effectively scrutinize the private sector activities (Bortolotti & Perotti, 2007). Then the question is ‘under what governance forms there will be enough public scrutiny to ensure political attention to public welfare’ (Bortolotti & Perotti, 2007:56).

**Monitoring, Evaluation and Efficiency**. Going back to the questions stated at the beginning of this section, empirical evidence about ‘which system works better?’ is still inconclusive. For instance, in the United Kingdom, one of the pioneers in new public sector management, the expected impact on public budgets has not necessarily materialized. This is partly explained by the constraints that the private sector imposes on governments in terms of, for instance, return rates despite the fact that a majority of the risks are endured by the state.

One of the factors contributing to the uncertainty of the results of new governance models is that their success is very often sector dependent. For example, in the European Union PPPs have been successful in services like road and railway infrastructure, waste and water management, healthcare and school buildings. What it is still unclear is whether they will also perform ‘in areas closely linked to the core competences of the public sector, such as clinical services, education or prison facilities’ (European Parliament, 2005). It is precisely in these more central areas that the conflict of interests can intensify and make contract negotiations very hard.

New public management reforms in Western countries do not seem to have significantly contributed to a better school performance (Calmar Andersen, 2005:904, referring to research done by Boyne et al., 2003). Once again, the evaluation tools and the parameters for assessment need to be clearly specified. For example, while the flexibility that private schools have to ‘respond to demands of their customers’, the parents, […] might create greater consumer satisfaction, it does not necessarily create greater educational quality’ (Calmar Andersen, 2005:903).

**Is the New Public Management adapted to developing countries?** There is an interesting debate generated around the issue of whether or not developing countries should have first classical hierarchical bureaucracies before moving onto new public management models (Schick, 1998; Bresser-Pereira, 2007). Discouraging developing countries to engage in government reforms in line with those
advanced in countries like New Zealand, Alan Schick points out that with the existing high levels of informality in the market economy and in the public sector overall— influencing for instance the budget process or the way civil servants are hired—new public management reforms will inevitably lead to corruption and greater inefficiencies: ‘no country should move directly from an informal public sector to one in which managers are accorded enormous discretion to hire and spend as they see fit’ (Schick, 1998:129). Some progression in the logic of changes is needed—he argues—where there have to be, first, effective external controls, before moving on to internal controls; and, second, politicians and officials ‘must be able to control inputs before they are called upon to control outputs; they must be able to account for cash before they are asked to account for cost; they must abide by uniform rules before they are authorized to make their own rules; they must operate in integrated, centralized departments before being authorized to go it alone in autonomous agencies’ (Schick, 1998:130).

Against the hypothesis that ‘if a developing country had not completed its bureaucratic or civil service reform, there was no reason why it could not continue with this reform while gradually implementing public management reform’, Luiz Carlos Bresser-Pereira argues that there is no need for sequencing both types of reforms; both can be done simultaneously, particularly in middle-income developing countries (2007). The issue is that developing countries should not adopt uncritically the public management models exported by developed countries: it is fundamental to always develop some sense of ownership. In one way or the other, and contributing to this debate, one of the dilemmas that to date has not found good answer is what Vito Tanzi expresses as follows: ‘the very countries that would seem to have the greatest need for an expanded public sector role may be the same ones where the public sector is least prepared to play that role efficiently. Therefore, when policymakers of these countries attempt to play a large role, they end up damaging economic activity’ (Tanzi, 1997:3).

**Conclusions**

The state of the twenty first century has some resemblance with its ancestors in terms of core responsibilities, but the way in which it thinks and operates is undergoing fundamental changes. This is reinforced by the fact that it works in a context of ‘distributed public governance’ that reflects the progressive tendency to devolution, where an increasing number of resources and responsibilities have been progressively transferred to sub-national entities. States have been increasingly confronted to situations in which, some of the old commitments to welfare state services and social protection systems are not viable because they represent too heavy burdens for public budgets and high costs of opportunity for governments. Without necessarily having to give up basic citizens’ rights to access decent services, these constraints have progressively forced governments to innovate and experiment with new and cost-reducing forms of state organization and management. One of the major public sector implications of new models is a progressive alignment of public and private sector practices. However, this tendency to experiment with new forms of governance may have unforeseen costs, both financial and institutional, if risk is not properly addressed and mitigating mechanisms are not anticipated. Breaking away from traditional bureaucratic values such as institutional permanence may endanger important public administration principles such as impartiality and independence of public officials, with the risk of making them more subjected to political capture. At the same time, permanence is also linked to institutional memory, which in turn helps preventing to incur on the costs of repeating the same errors.

New governments have started to operate on the basis of an increasingly clear separation of functions between decision making and implementation. A citizen entering an office asking for a traditional public service will be surprised to discover who is the real provider and, overall, how the system operates. Sophistication will be a good word for defining governance in this century. The state has
modestly come to accept that it lacks the capacity and resources to implement as it used to. Together with the myriad of alliances with different actors from the private sector and non-for-profit and civil society organizations in general, other important innovations have also been introduced, such as information and technology. Governments have less incentives to operate ‘by the book’. On the contrary, the reality of governing is progressively demanding more tailor made formulas specially designed for each policy problem.

In this context, the use and popularity of PPPs can be interpreted as both, a response to increasing constraints as well as the failures of state intervention which translate into a greater reliance on market mechanisms, or simply as an opportunistic way for governments to face the existing limitations and deal with public demands. Along these lines, PPPs have been increasingly used to refer to some of the other types of privatization, as the notion of ‘partnership’ is less controversial and ‘distracts from privatization as a pragmatic tool to improve government performance and societal functioning’ (Savas, 2005:2).

Finally, an interesting observation is that bad welfare experiences and dissatisfaction with public services are negatively related with support for democracy and public institutions in general, but do not necessarily result in more support for privatizations. It seems to be a mistake to systematically try to decouple state and market, because they both count in the equation of people’s satisfaction and overall support for democracy. State performance does not simply depend on the performance of its constituent parts, namely: public institutions and agencies. Today more than ever, there is a myriad of actors involved in implementation processes, sometimes, even in the process of shaping policies. Success of privatizations greatly depends on the institutional environment. Beyond the ideological debate, the public expects that the state will do the things right, and therefore, it is not simply the private provider that will be responsible for the quality of the service. On the contrary, it is the state, at last, that will also be held accountable for the results obtained. Thus, it is in both best interest, state and markets, public and private sectors, to cooperate.

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### About the author

Mercedes Mateo Diaz is a Modernization of the State Specialist in the Institutional Capacity of the State Division of the Inter-American Development Bank. Previously she was post-doctoral research fellow of the Belgian National Research Fund. From 2002 to 2004 she was Marie Curie Fellow of the Robert Schumann Center at the European University Institute. She holds a doctorate in political science and international relations from the University of Louvain. She is the author of Representing Women? Female Legislators in West European Parliaments (Colchester: ECPR Press, 2005), and co-editor of Democracies in Development. Politics and Reform in Latin America (Washington, DC: DRCLAS Harvard University, 2007). Her current research interests revolve around State building and institutional reform.

### Tables and Figures

**Table 1. Public Expenditure as percentage of GDP. Latin America**

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<td>17.1</td>
<td>17.0</td>
<td>17.0</td>
<td>18.8</td>
<td>18.9</td>
<td>18.8</td>
<td>19.1</td>
<td>21.0</td>
<td>21.0</td>
<td>21.9</td>
<td>21.5</td>
</tr>
</tbody>
</table>

Source: World Bank, World Development Indicators.
Table 2. Main Features of Different Models of Governance

<table>
<thead>
<tr>
<th>Features</th>
<th>Bureaucratic model</th>
<th>Market model</th>
<th>Participatory model</th>
<th>Flexible government model</th>
<th>Deregulated government model</th>
<th>Governing by network</th>
<th>Governing by market</th>
</tr>
</thead>
<tbody>
<tr>
<td>Managerial method</td>
<td>Hierarchic model</td>
<td>Private sector model: competition</td>
<td>Less hierarchic processes; creation of participatory channels</td>
<td>Uprooted organizations. Mutating structures</td>
<td>Unleashing of rules: public servants as risk takers</td>
<td>Mutating structure responding to configurations of actors involved in a policy problem</td>
<td>No government apparatus required</td>
</tr>
<tr>
<td>Personnel</td>
<td>Rigid hierarchy rules and payment schemes</td>
<td>Premium to merit and performance</td>
<td>Flatter personnel schemes</td>
<td>Flexible. Adapted to needs. Fixed term contracts</td>
<td>Hierarchic personnel structures</td>
<td>Shift in managers' responsibility: from administrating people and programs to organizing resources</td>
<td>n/a</td>
</tr>
<tr>
<td>Financial management</td>
<td>Traditional budgeting</td>
<td>Budgeting for results. Creation of internal markets</td>
<td>Budget result of consultation</td>
<td>No incrementalism: Budget as a result of actual needs</td>
<td>Budgeting for results</td>
<td>Budgeting according to needs</td>
<td>No public resources</td>
</tr>
<tr>
<td>Production schemes</td>
<td>Providers = purchasers</td>
<td>Separation between providers and purchasers</td>
<td>Increased participation of producers</td>
<td>Exchangeable schemes adapted to needs</td>
<td>Subjected to managers decisions</td>
<td>Government is not always a service provider but a generator of public value</td>
<td>Government is not a service provider</td>
</tr>
<tr>
<td>Purchasing techniques</td>
<td>Internal and centralized</td>
<td>Competitive: contracting out, market testing, etc</td>
<td>Internal bargaining</td>
<td>Competitive</td>
<td>Subjected to managers decisions</td>
<td>Identification of actors with greater value added for each service</td>
<td>n/a</td>
</tr>
<tr>
<td>Policymaking</td>
<td>Policy design and policy implementation integrated</td>
<td>Policy design separated from policy implementation. Decentralization of functions</td>
<td>Separation of functions. Bottom-up. Decentralized decision-making</td>
<td>Separation of functions. Experimentation</td>
<td>Separation of functions. Stronger role to bureaucracy in policymaking</td>
<td>Separation of functions. Most of the time government is not a provider</td>
<td>Government only designs policy, does not implemented</td>
</tr>
<tr>
<td>Performance criteria</td>
<td>Public value</td>
<td>Cost and efficiency</td>
<td>Participation</td>
<td>Innovation and efficiency</td>
<td>Adaptation</td>
<td>Public value</td>
<td>Public purpose</td>
</tr>
<tr>
<td>Accountability</td>
<td>Government responds to citizens</td>
<td>Government responds to signals coming from market</td>
<td>Government responds to contextual stimuli</td>
<td>Government responds for policy outputs: more activist, less accountable. Ex post controls</td>
<td>Government responds for policy outputs</td>
<td>Government responds for policy design</td>
<td></td>
</tr>
<tr>
<td>Role of the public</td>
<td>Citizens</td>
<td>Customers</td>
<td>Citizens</td>
<td>Customers</td>
<td>Downgraded citizen</td>
<td>Citizen</td>
<td>Customers</td>
</tr>
<tr>
<td>Main critic to bureaucratic model</td>
<td>n/a</td>
<td>Monopoly</td>
<td>Top-down management</td>
<td>Excessive costs. Policy rigidity</td>
<td>Internal regulations</td>
<td>Partial replacement of bureaucracy: government often delegates implementation</td>
<td>Government should not implement policy</td>
</tr>
<tr>
<td>Other names/references</td>
<td>Hierarchical model</td>
<td>Entrepreneurial government (Osborne &amp; Gaebler, 1993; Gingrich, 2005). Government by contract (Schick, 1998). Reinvented government (Kamarck, 2007)</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>Kamarck, 2007</td>
<td>n/a</td>
</tr>
</tbody>
</table>

Source: Own elaboration.
Table 3. Privatizations in Latin American countries (1990-2005)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>10,373</td>
<td>10,417</td>
<td>2,102</td>
<td>16,667</td>
<td>22</td>
<td>0</td>
<td>0</td>
<td>44,589</td>
<td>284,204</td>
<td>16%</td>
<td></td>
</tr>
<tr>
<td>Bolivia</td>
<td>0</td>
<td>22</td>
<td>789</td>
<td>74</td>
<td>161</td>
<td>11</td>
<td>0</td>
<td>1,057</td>
<td>8,398</td>
<td>13%</td>
<td></td>
</tr>
<tr>
<td>Brazil</td>
<td>1,677</td>
<td>5,022</td>
<td>3,096</td>
<td>24,507</td>
<td>36,827</td>
<td>13,647</td>
<td>4</td>
<td>723</td>
<td>85,503</td>
<td>601,732</td>
<td>14%</td>
</tr>
<tr>
<td>Chile</td>
<td>462</td>
<td>114</td>
<td>141</td>
<td>187</td>
<td>1,234</td>
<td>517</td>
<td>306</td>
<td>781</td>
<td>3,742</td>
<td>75,213</td>
<td>5%</td>
</tr>
<tr>
<td>Colombia</td>
<td>168</td>
<td>396</td>
<td>170</td>
<td>4,951</td>
<td>518</td>
<td>483</td>
<td>70</td>
<td>462</td>
<td>7,218</td>
<td>83,779</td>
<td>9%</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>34</td>
<td>34</td>
<td></td>
<td></td>
</tr>
<tr>
<td>El Salvador</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>295</td>
<td>295</td>
<td>13,134</td>
<td>2%</td>
</tr>
<tr>
<td>Mexico</td>
<td>14,449</td>
<td>9,055</td>
<td>933</td>
<td>6,022</td>
<td>1,290</td>
<td>189</td>
<td>0</td>
<td>351</td>
<td>32,289</td>
<td>581,426</td>
<td>6%</td>
</tr>
<tr>
<td>Nicaragua</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>158</td>
<td>0</td>
<td>49</td>
<td>207</td>
<td>3,936</td>
<td>5%</td>
</tr>
<tr>
<td>Peru</td>
<td>3</td>
<td>339</td>
<td>4,116</td>
<td>3,019</td>
<td>766</td>
<td>0</td>
<td>262</td>
<td>398</td>
<td>8,903</td>
<td>53,290</td>
<td>17%</td>
</tr>
<tr>
<td>Uruguay</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>185</td>
<td>34</td>
<td>18</td>
<td>237</td>
<td>20,671</td>
<td></td>
<td>1%</td>
</tr>
<tr>
<td>Venezuela</td>
<td>2,288</td>
<td>176</td>
<td>47</td>
<td>3,404</td>
<td>158</td>
<td>0</td>
<td>0</td>
<td>6,073</td>
<td>117,148</td>
<td></td>
<td>5%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>29,420</td>
<td>25,541</td>
<td>11,394</td>
<td>47,172</td>
<td>57,621</td>
<td>15,212</td>
<td>676</td>
<td>3,111</td>
<td>190,147</td>
<td>350,874</td>
<td>8%</td>
</tr>
</tbody>
</table>

Source: Own elaboration with data from World Bank, Global Development Finance 2001 and World Bank, Privatization Database.

Table 4. Privatizations in Latin America, by sector (2000-2005)

<table>
<thead>
<tr>
<th>Country</th>
<th>Electricity</th>
<th>Energy</th>
<th>Financial</th>
<th>Infrastructure</th>
<th>Manufacturing &amp; Services</th>
<th>Primary</th>
<th>Telecommunications</th>
<th>Transport</th>
<th>Water and Sanitation</th>
<th>Total (million US$)</th>
<th>Quantity of privatizations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>22</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>5</td>
</tr>
<tr>
<td>Bolivia</td>
<td>11</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Brazil</td>
<td>78</td>
<td>5,223</td>
<td>5,276</td>
<td>2,637</td>
<td>542</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>14,374</td>
<td>28</td>
</tr>
<tr>
<td>Chile</td>
<td>306</td>
<td>517</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1,604</td>
<td>14</td>
</tr>
<tr>
<td>Colombia</td>
<td>9</td>
<td>462</td>
<td>160</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1,015</td>
<td>7</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>34</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>34</td>
</tr>
<tr>
<td>El Salvador</td>
<td>295</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td>1</td>
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<tr>
<td>Mexico</td>
<td>189</td>
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<td></td>
<td>540</td>
<td>7</td>
</tr>
<tr>
<td>Nicaragua</td>
<td>158</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>207</td>
<td>4</td>
</tr>
<tr>
<td>Peru</td>
<td>205</td>
<td>71</td>
<td>262</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>660</td>
<td>4</td>
</tr>
<tr>
<td>Uruguay</td>
<td>219</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>237</td>
<td>5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>283</td>
<td>5,609</td>
<td>5,738</td>
<td>4,464</td>
<td>542</td>
<td>506</td>
<td>362</td>
<td>1,094</td>
<td>690</td>
<td>18,999</td>
<td>81</td>
</tr>
</tbody>
</table>

Source: Own elaboration with data from World Bank, Privatization Database.
Figure 1. Opinions on whether privatizations have been beneficial and satisfaction with privatizations of public services (%)

Note: The bars represent the ‘agree’ and ‘completely agree’ answers to the question ‘Do you think that privatizations been beneficial for the country?’, and the ‘satisfied’ and ‘much more satisfied’ to the question ‘How satisfied are you with the public services that have been privatized?’, both expressed as weighted percentages. Source: Own elaboration with data from Latinobarometer, 2005.

Figure 2. Trust in public sector versus trust in private sector (%)

Note: Trust in public sector has been measured taking the ‘a lot’ and ‘some’ answers to the questions ‘How much do you trust the government’ and ‘How much do you trust the public administration’, expressed as weighted percentages. Trust in private sector has been measured taking the ‘a lot’ and ‘some’ answers to the questions ‘How much do you trust the private enterprises’ and ‘How much do you trust the Banks’, expressed as weighted percentages. Source: Own elaboration with data from Latinobarometer, 2005.
Table 5. Relationships between support for democracy and perceptions of democratic development, and several dimensions of trust in state institutions and satisfaction with public services

<table>
<thead>
<tr>
<th></th>
<th>Confidence that the state has the means to solve the problems</th>
<th>Evaluation of functioning of public institutions</th>
<th>Trust in people running the country</th>
<th>Trust in public administration</th>
<th>Satisfaction with health services</th>
<th>Satisfaction with education services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Satisfaction with democracy</td>
<td>0.589*</td>
<td>0.780**</td>
<td>0.734**</td>
<td>0.785**</td>
<td>0.796**</td>
<td>0.636**</td>
</tr>
<tr>
<td>Scale of democratic development</td>
<td>-0.795**</td>
<td>-0.749**</td>
<td>-0.795**</td>
<td>-0.873**</td>
<td>-0.686**</td>
<td>-0.695**</td>
</tr>
</tbody>
</table>

Note: Correlations are calculated using the aggregated means for each variable and country (N=18). ** Correlation is significant at the 0.01 level (2-tailed). * Correlation is significant at the 0.05 level (2-tailed). Source: Own calculations with data from *Latinobarometer*, 2005.

Table 6. Relationships between support for democracy and trust in state institutions, and opinions on privatizations and trust in the private sector

<table>
<thead>
<tr>
<th></th>
<th>Privatization of public enterprises has been beneficial</th>
<th>Private sector is necessary for the development of the country</th>
<th>Satisfaction with privatization of public services</th>
<th>Trust in private sector</th>
<th>Trust in Banks</th>
<th>Satisfaction with health services</th>
<th>Satisfaction with education services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Satisfaction with democracy</td>
<td>.365</td>
<td>.417</td>
<td>.308</td>
<td>.470*</td>
<td>.432</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Scale of democratic development</td>
<td>-0.535*</td>
<td>-0.591*</td>
<td>-0.477</td>
<td>-0.648**</td>
<td>-0.565*</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Confidence that the state has the means to solve the problems</td>
<td>.340</td>
<td>.348</td>
<td>.486</td>
<td>.546*</td>
<td>.241</td>
<td>.508*</td>
<td>.478*</td>
</tr>
<tr>
<td>Evaluation of functioning of public institutions</td>
<td>.302</td>
<td>.236</td>
<td>.293</td>
<td>.248</td>
<td>.070</td>
<td>.609**</td>
<td>.539*</td>
</tr>
<tr>
<td>Trust in people running the country</td>
<td>.491*</td>
<td>.233</td>
<td>.498*</td>
<td>.360</td>
<td>.131</td>
<td>.482*</td>
<td>.374</td>
</tr>
<tr>
<td>Trust in government</td>
<td>.349</td>
<td>.380</td>
<td>.333</td>
<td>.513*</td>
<td>.305</td>
<td>.573*</td>
<td>.539*</td>
</tr>
<tr>
<td>Trust in public administration</td>
<td>.502*</td>
<td>.532*</td>
<td>.517*</td>
<td>.669**</td>
<td>.485*</td>
<td>.629**</td>
<td>.542*</td>
</tr>
<tr>
<td>Satisfaction with health services</td>
<td>.125</td>
<td>.421</td>
<td>.221</td>
<td>.538*</td>
<td>.393</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Satisfaction with education services</td>
<td>.137</td>
<td>.655**</td>
<td>.023</td>
<td>.641**</td>
<td>.536*</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Note: Correlations are calculated using the aggregated means for each variable and country (N=18). ** Correlation is significant at the 0.01 level (2-tailed). * Correlation is significant at the 0.05 level (2-tailed). Source: Own calculations with data from *Latinobarometer*, 2005.
Table 7. Types of Public Private Partnerships

<table>
<thead>
<tr>
<th>Schemes</th>
<th>Asset Ownership</th>
<th>Operation and Maintenance</th>
<th>Capital investment</th>
<th>Who pays for the service?</th>
<th>Who is paid for the service?</th>
<th>Duration</th>
<th>Financial Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public sector procurement</td>
<td>Public</td>
<td>Public</td>
<td>Public</td>
<td>Public</td>
<td>n/a</td>
<td>0-2 years</td>
<td>Public</td>
</tr>
<tr>
<td>Service Contract</td>
<td>Public</td>
<td>Public and Private</td>
<td>Public</td>
<td>Public</td>
<td>n/a or public</td>
<td>1-2 years</td>
<td>Public</td>
</tr>
<tr>
<td>Management Contract</td>
<td>Public</td>
<td>Private</td>
<td>Public</td>
<td>Public</td>
<td>Private</td>
<td>3-5 years</td>
<td>Public</td>
</tr>
<tr>
<td>Lease Contract</td>
<td>Public or Private</td>
<td>Private</td>
<td>Private</td>
<td>Public sector or users</td>
<td>Private</td>
<td>8-15 years</td>
<td>No obligation to transfer ownership</td>
</tr>
<tr>
<td>Concession</td>
<td>Public</td>
<td>Private</td>
<td>Private</td>
<td>Public sector or users</td>
<td>Private</td>
<td>25-30 years</td>
<td>Private</td>
</tr>
<tr>
<td>Build-operate-transfer (BOT)</td>
<td>Private and Public after transfer</td>
<td>Private</td>
<td>Private</td>
<td>Public sector or users</td>
<td>Private</td>
<td>20-30 years</td>
<td>Transfer when the operating contract ends</td>
</tr>
<tr>
<td>Build-own-operate-transfer (BOOT)</td>
<td>Private and Public after transfer</td>
<td>Private</td>
<td>Private</td>
<td>Public sector or users</td>
<td>Private</td>
<td>20-30 years</td>
<td>Transfer when the operating contract ends</td>
</tr>
<tr>
<td>Design-Build-Finance-Operate (DBFO)</td>
<td>Private</td>
<td>Private</td>
<td>Private</td>
<td>Public sector or users</td>
<td>Private</td>
<td>No obligation to transfer ownership</td>
<td>Private</td>
</tr>
<tr>
<td>Divesture</td>
<td>Private or private and public</td>
<td>Private</td>
<td>Private</td>
<td>Private sector</td>
<td>Indefinite (may be limited by license)</td>
<td>Private</td>
<td></td>
</tr>
</tbody>
</table>

Note: In yellow are those relationships that are considered as PPPs. There are some disagreements in the classifications presented in different works. For instance, Yescombe classifies the DBFO as publicly owned, whereas the European Parliament, based on work of IMF and European Commission, places ownership of assets in the private sector. In the table we have opted for this second one.

Source: Own elaboration from World Bank, 1997; European Parliament, 2005; and Yescombe, 2007.