

**Second Inter-American Conference of Mayors.**  
**An Emerging Policy Agenda for Local Government**  
**April 17-19, 1996**

**“Private Sector Participation and Local Governance -  
Forming New Partnerships between Local Government,  
Private Sector, NGO and Civil Society”.**

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Mr Chairman, ladies and gentlemen,

It is a great honour for me to share with you some ideas about lessons on conditions for success and failure in private sector participation in community services.

**First:** I would like to briefly summarise the **political** changes of policy necessary in country **conditions** for private sector participation in community services.

**Second:**The choice of the **form** of private sector participation in community services.

**Third:** The **transition**. The stages towards new partnerships will be examined.

**Political policy changes in Country Conditions**

What is the role of the public sector? What is the optimum balance between private and public financing and management? How are the public and private sectors organised to communicate, consult and co-operate with each other? These questions have been focused at this conference.

The process of reform in public sector management has highlighted fundamental dilemmas. Creating conditions in the public sector which promote a culture of continuous improvement, foster innovation, and capitalise on individual and team performance is an ongoing challenge for governments. Pluralistic provision of public services - involving private sector and not-for-profit agents - must be properly managed to ensure effectiveness and adequate feedback into the policy process.

Local government is a key element in the political systems of liberal democracies. It is seen as an appropriate level for effective government intervention to meet welfare needs and also to stimulate economic efficiency. Local government is central to the establishment and maintenance of a democratic process.

Political changes in developing and transitional countries, in, for example, Eastern Europe, have been initiated to remake the structure of these societies. The established Western systems provide a vital base of lessons of experience for the development of new government systems. Effective public sector management is crucial for furthering the process of democratisation and market development. However, local government organisations in different countries provide a range of community services - electricity and water supply, sewerage, housing, education, social welfare, waste disposal, streets and parks, local communications, emergency and fire services, building, planning and culture to name but a few. These services are central to the social and economic well-being of citizens in high-income economies, but much of this is more or less missing in low-income and middle-income economies. The changing relations between central and other levels of government will be an increasingly important consideration in developing countries. As a country's income grows, the amount of community services increases.

In terms of broad strategies of service reform, a distinction can be drawn between those countries where the emphasis is on retaining but reforming the established systems of public service delivery and those that lay a greater stress on the introduction of market mechanisms, business-like organisation and private sector competition.

The consumers of services show signs of being more demanding, expecting higher-quality services tailored to their needs. The aim is to stimulate private and voluntary sector alternatives in order to create a marketplace of service providers. Competition is seen as ensuring efficiency and responsiveness to the customer.

Market-oriented reforms have been implemented in countries as Britain, Italy, the Netherlands and Sweden. The label is "marketisation" (not privatisation). In some countries the focus is on voluntary organisations, in others private contractors.

Among the measures used have been (among others)

- \* Co-ordinating voluntary activities (for example, contact services)
- \* Financial assistance to various professional and specialist organisations
- \* Co-operation with private and voluntary organisations
  
- \* Creating the conditions for more entrepreneurs to enter the market by purchasing services through competitive tendering
- \* Making it possible for employees to take over their operations as producer cooperatives or private companies.
- \* Creating the conditions for the establishment of consumer cooperatives.

### **A few examples:**

In Britain, the 1988 Local Government Act requires local authorities to contract out or to offer for tender the provision of services such as school catering. The Act has increased the efficiency of local governments and is changing their role from provision to supervision and monitoring.

Germany has a long tradition of voluntary associations engaged in service delivery from Kindergarten and home-help services to nursing homes and hospitals. In France the privatisation of urban services is not something new but a tradition (for example, water distribution 75 per cent, and provincial urban transport 85 per cent).

Community services include services of different kinds. Some are collective utilities produced by local government to take account of externalities or free rider problems, for example, water, wastewater, streets and parks. Other services are individual, for example education and social welfare. The third group is infrastructure services such as mapping and land surveying, public buildings, environment and health protection.

### **Different types of Community Services**

1. Communal services  
(service to the general public)
2. Service to individuals and families  
(customer service)
3. Environment, housing and work  
(strategic planning)
4. Legal security and the exercise of public authority
5. Own administration  
(staff welfare, capital and properties)

Private sector participation (PSP) comes in many forms, depending on what kind of community services we are talking about: Supply of services and goods to utilities, services in utility management and operations, provision of investment finance and so on. Voucher systems are relevant in education, social welfare and other individual services. To introduce competition by contracting out is profitable in all kinds of services, except the exercise of public authority.

### Conditions for success

What are the conditions for success? Both Country conditions and Enterprise conditions are important:

<p>Country conditions</p> <ul style="list-style-type: none"> <li>* High or low capacity to regulate</li> <li>* Market-friendly or unfriendly</li> </ul> <p>Enterprise conditions</p> <ul style="list-style-type: none"> <li>* Competitive or non-competitive</li> </ul>
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If regulated properly, PSP leads to higher efficiency and possibly lower prices to the public. In natural monopolies like water and wastewater, regulations by public authorities is essential to take account of externalities. The degree of regulation increases with the level of private involvement. The division of labour between public and private partners should be based on competitive advantages.

The advantages of PSP can be the profit motive and competition forcing efficiency, freedom from civil service regulations and clear enforceable contractual obligations. Sometimes economies of scale are important and sometimes private firms do not suffer from constraints often placed on public utilities.

How is it possible to make water problems in a developing country an interesting area for private enterprise? How can it be transferred to the private sector?

Most essential are market-friendly country conditions:

- \* Companies hate risks. The private sector is not going somewhere where there is a risk of being expropriated within a couple of years.
- \* Profit is a dirty word to many civil servants. But companies cannot afford to lose money. They have to be paid.
- \* Companies do not like to be micromanaged by the politicians. They have to be given a free hand to make the company efficient.

There has then to be a PSP-friendly environment and a balance between those who provide PSP and those who regulate.

Community services consist of a conglomeration of widely-differing services. There is hardly any group of companies which has such breadth in its activities. Operators in community services extend from multinational companies to small local organisations.

Large companies are usually involved in PSP in the heavy technical activities. In the spheres of education and social welfare, other producers are active such as

- \* Consumer co-operatives
- \* Producer co-operatives
- \* Co-operatives consisting of both producers and consumers
- \* Trusts
- \* Religious and other voluntary organisations

Typical for the latter is they generally have their base in the local area, in one municipality, and have seldom won the commission as a result of a competitive tendering procedure but by direct negotiations, and that they have no ambition to expand their operations beyond the municipality.

Many municipalities in some countries have succeeded in achieving considerable reforms, while the process is taking place much more slowly in other municipalities and countries. Are there any factors which are especially important for the reform process to be successful?

Success is dependant on the degree of maturity of both central and local government. To succeed with PSP the following are required among others

- \* The political will
- \* A holistic view of the municipality's role in financing, production and following up activities from the perspectives of citizens, customers and owner.
- \* Decentralised organisation managed by objectives
- \* Clear objectives for the reform process
- \* Well thought-out strategies for purchasing, employee takeovers etc with clear "rules of the game"
- \* Flexibility and market orientation
- \* A high degree of competence on the part of those placing orders

I will develop these seven "factors leading to success" in more detail.

Opening up services to competition which have been protected by a monopoly for a long time is a complicated process. Management,

entrepreneurs, employees taking over operations, etc encounter attitudes and values which openly or clandestinely oppose this development. Increased competition arouses fear and anxiety for job security and incomes. Established interests are threatened. Changes disturb established power bases and preserves. These tendencies can be counteracted by clear, firm political leadership with clear objectives and strategies. The strength and stamina of the political will to achieve reforms is of decisive importance for the pressure for change created in organisations. It is not sufficient to accept or permit or have a positive view of reforms. The internal opposition has to be broken.

It is important that municipalities take active steps to provide the private alternative with real opportunities to grow on a market with free competition and establish clear and predictable rules of the game. Stimulating the growth of a functioning market is an investment.

The basic structural conditions need to be improved. Adequate purchasing and ordering competence is lacking in most places. There is often a lack of computations and other bases for effective purchasing behaviour. The responsibility for purchasing and running operations is often in the same department, which creates problems of objectivity and loyalty. It may even be the case that the manager responsible for operations produces the invitation to tender and takes part in evaluating tenders when it is his or her own unit which is facing competition. It is very difficult to satisfy the requirement for neutrality in competition between internal units and private companies. Changes must be made in the management system. Furthermore, a large number of the usual tools belonging to a commercial environment are missing -experiences, networks, concepts, follow-up and quality control etc.

### **Implementation**

A market economy is a sensitive plant requiring a firm, stable democratic soil to thrive. A well-established local democracy is a prerequisite for building a stable society. In many countries the local budget has been a part of the state budget, which has been distributed arbitrarily. Local self-government creates a link between the state and civil society which can provide the basis for the effective use of resources.

An important question is then: Should political responsibility be decentralised first so that PSP is carried out at the local level?

The answer depends on the type of activities concerned and how quickly reforms are to be introduced. In PSP of operations that form natural monopolies there are in general economies of scale which mean that decentralisation of political responsibility can come at a later stage. As far as social welfare, education and other individual services are concerned, the local contact between citizens, operators and politicians well-established in the local community is important if confidence in the system is to be maintained - especially in a situation where the economic situation is deteriorating.

All experience shows that increased competition leads to activities becoming better and cheaper. It is therefore desirable that there be more providers of services - private companies, producer co-operatives, consumer co-operative etc. Why are some municipalities interesting co-operation partners while others are not? Which co-operation partners are to be preferred - voluntary organisations or private contractors? What is it that makes a municipality successful in its efforts to make activities more effective by opening them up to competition?

Others have instead expanded the possibilities for alternative producers to become established, by various voucher systems and quasi-voucher systems, where the principle is that all citizens may choose among producers approved by the municipality which are wholly or partly paid from public funds.

The collective experiences of different countries show that it is possible to establish a foundation for the development of more market-like conditions by opening up municipal activities to competition:

- \* Creating freedom of choice and variety are **ideological** arguments for alternative operational forms in contrast to homogeneity and monopoly.
- \* It is a generally accepted fact that free, open competition leads to **increased** efficiency. This is of such fundamental importance in a market economy that the state prevents the formation of monopoly and cartels in the economy by legislation and agencies to supervise competition.
- \* More alternatives mean greater choice which can **improve the quality** of services. It can also lead to a better balance between cost and choice of quality standard.

- \* The fourth main reason is **greater flexibility**. This means the ability to adapt the supply of services to the varying needs of different individuals. It involves adaptation of the input of **resources over time** as needs change. It may also mean avoiding being tied down by expensive investments.

It is of especial interest to develop a model which at the **same time** creates price competition by tendering and giving citizens freedom of choice.

Experiences also show that the following questions among others are especially important to take into consideration in implementation if the reform is to succeed.

### **Implementation**

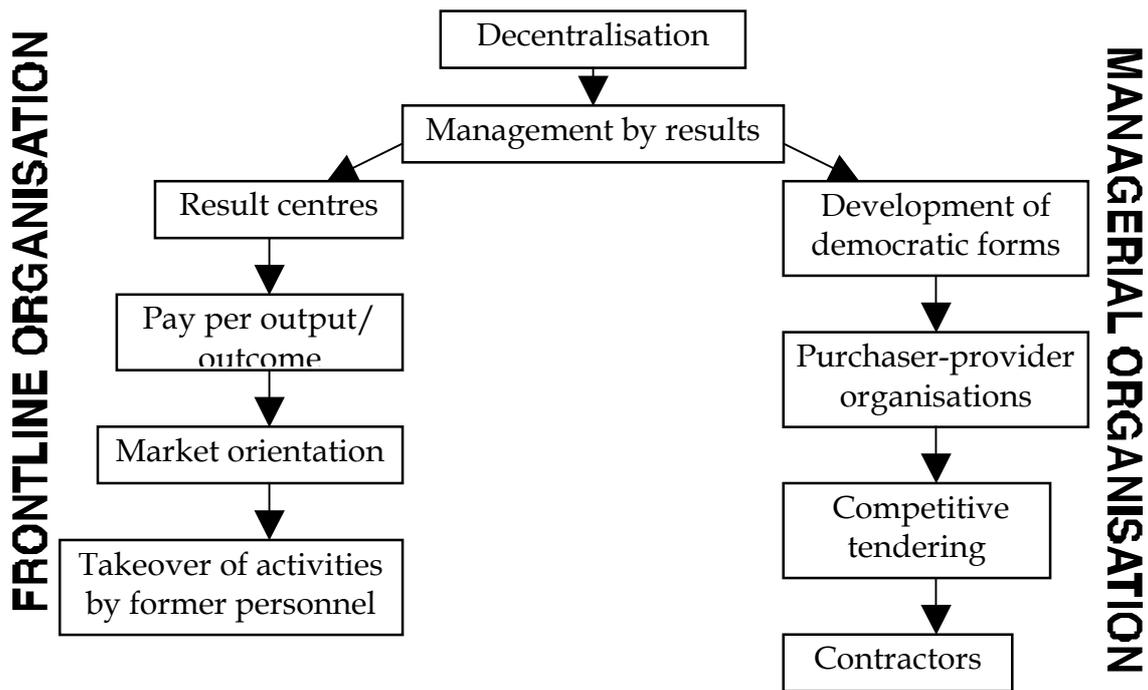
- Define the objective clearly
- Adopt realistic targets
- Build internal consensus on options
- What, how much and how fast (to sell/competitive tendering)
- Privatizing management
- Sort out the impact on the labour force at an early stage
- Preparation for sale/competitive tendering
- Pricing and valuation
- Financing
- Managing the Transaction

Promoting reform also requires shared visions and the active participation of a range of actors involved in implementing changes; including politicians, senior officials, business and labour representatives, the private sector and the not-for-profit sector involved in public service delivery, as well as the general public.

And in most cases it is profitable to retain independent expert advice.

For a long time development in many countries has meant the expansion of community services. In some countries the overwhelming majority of care, nursing and education is produced within the public sector.

The following general development tendencies are especially evident in these welfare states as far as the organisation and management of community services are concerned.



Source: Arne Svensson, Målstyrning i praktiken (Liber, 1993)

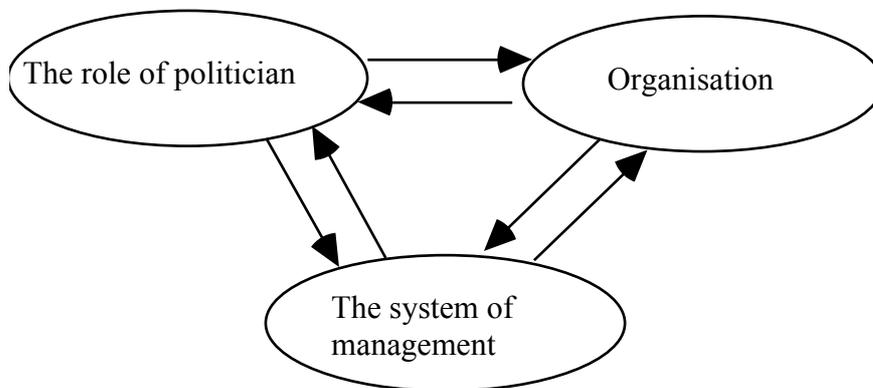
The general development tendency which has most affected the organisation of work in recent decades is **decentralisation**. Management by results as a management philosophy is a natural consequence of the decentralisation of an organisation, which leads to a clear focus on results. Responsibility for results means that some definite objectives are to be achieved within a given financial frame or that payment is made according to actual performance: Specifying performance goals and targets in explicit contracts between managers and the government (performance contracts with existing management, management contracts with outside managers, service contracts for the supply of specified services). Internal "markets" have been created by an internal purchase-sale system involving a commercial approach and competition. An increased orientation towards the market, performance - linked incentives and new management information systems, has meant that operations have been adapted more rapidly to changing needs.

## The role of politician

Political forms of work have also changed. At the beginning of the drive towards decentralisation, it was widely believed that it would be an improvement if there were a greater number of politicians. For the individual citizen, this cannot, however, act as a replacement for the ability to choose the producer one feels confidence for.

**Development of democratic forms of work** is an important issue at all levels. But if it is difficult enough to implement this change in the work organisation, it seems to be even more difficult to develop the political organisation to enable it to live up to the demands which people make today.

Adaptation and/or influence?



The role of politicians has always been complex, involving the task of solving conflicts of interest. The clarification of roles which has been striven for in many municipalities involves separating the tasks of citizens' representative, employer (producer representative), and owner (of land, premises, equipment etc). Some key components of this perspective are shown in the following diagram:

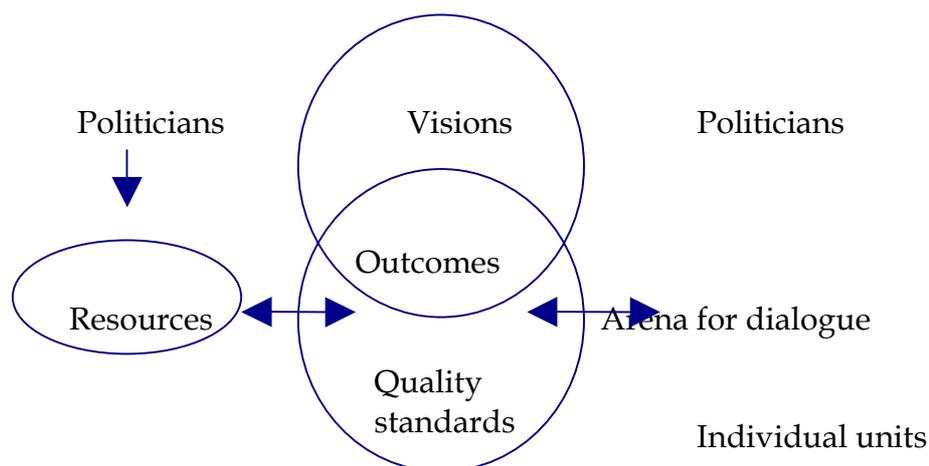
A. To represent citizens as	
- financier	* Effective use of available resources
- consumer	* Guaranteed access to community services
	* Quality assurance
	* Safeguard ethical considerations
	* Efficient tendering procedures

B. Producer representative, activities carried out under municipal control	
	* Ability to compete (to be the best alternative)
	* Commercial approach

C. Owner	* Good employers
	* Yield on invested capital

### Commitment Quality Management - CQM

The problems regarding the hierarchical structure of MbO have been solved in MbR by emphasizing dialogue regarding the goals, rather than their breakdown.



We have called this model CQM - Commitment Quality Management - as a combination of results steering and Total Quality Management.

CQM consists of

- A. A leadership based on clear specifications of quality in aims, objectives, goals and targets
- B. Focus on the results for the citizens
- C. Commitments based on participation from every employee in the process
- D. Measuring and evaluation of service standard quality
- E. A program for continuous improvement of quality and efficiency.

Efforts to reform the public sector in this direction have been very successful in the 1990s:

- rising productivity performance by distinguishing between agencies and central government departments.
- utilization of the MbR negotiating process as a step towards total quality management.
- utilizing MbR systems in the form of interactive co-planning with citizens in technical and social areas.
- integrating MbR systems with systematic customer/citizen quality feedback systems.
- distinguishing between programming, financing and implementation in the sense of various forms of the "enabling authority".
- interaction between results orientation, regulation and competition in local government services.
- integration of MbR systems and organizational outsourcing with the aim of stimulating institutional competition.
- extending the opportunities for employee participation and further development of industrial liberalisations.

There is considerable evidence of the allocatively and productively beneficial effect of competitive elements in the course of public sector modernization, frequently without undesirable distributive effects. Thus the rational use of markets under well specified conditions is clearly an important element of public sector modernization.

There is a trend within the OECD reforming countries towards a quality control of public service production through citizen and customer participation. Above all, they include systematic and decentralized citizen quality feedback systems and in some cases explicit service obligations by the administration towards citizens within the framework of a citizen charter.

The core element of all internal modernization programs is the introduction of the new administrative steering model containing element of management by results, cost and performance calculations, and results budgeting. In most countries the introduction of the new steering systems and the re-organization of the operative administrative units has thrown the central units into crisis.

This leads to a strategic dilemma in the course of the internal modernization process: usually the central units prove to be an important if not indispensable motor initiating the reform process: once a certain stage of development has been reached, however, the headquarters often constitute a major barrier for the further course of the modernization process.

One of the aims of abandoning administrative rule steering in favor of results oriented steering is to create the scope for autonomous action by the units at local level. Such a steering logic will, however, lead to the centrifugal segmentation of the administrative system unless monitoring skills accompanying the process of reform are developed as a medium for collective observation, learning and selfsteering.

Internal modernization is not merely a task for management, but is inherently a function of the work and action of all the employees participating in the value added process. Thus the development of working structures which are conducive to learning and favor task integration, together with corresponding personnel development systems is essential.

An evaluation of the lesson of Experience in central government and municipalities has pointed out the following prerequisites in the reform process (Svensson, 1993):

1. The effects for the people concerned (patients, children, pupils) should be focused at all levels in the Organization.
2. The discussions about visions, goals and targets should be integrated in the budgetary process and all decisions should relate resources to demands for effects and results (quantity and quality).
3. This process should be designed in a way that it is possible to engage and encourage every politician and every employee.
4. There should be a commitment (contract) for every result unit signed by the manager and her/his supervisor, where the responsibility for a certain result is agreed upon.
5. This commitment consists of the demanded results (possible to follow up and evaluate), linked to the resource allocation.
6. MbR is a method for combining service standard improvements with deregulation. Outdated and unnecessary regulations should therefore be subject to consideration. Decentralization of power and employee empowerment are fundamental.
7. A commitment for every employee, including demand for defined results, rights and competence.

8. MbR is improved by monitoring, evaluation, performance incentives systems and accountability.
9. Essential prerequisites for MbR are systematic customer/citizen quality feedback systems, and evaluation and accounting systems so that the achieved effects and results can be measured and compared with visions, goals and targets.
10. The philosophy of MbR should be carefully implemented among all politicians and all employees through well thought - out introduction and development programs and appropriate training systems.

CQM (Commitment Quality Management) is being used as the basis for furthering the development of its services in many organisations. In brief, this method constitutes that the units design and structure working processes, in accordance with set goals, and that working processes of special importance are ensured by means of a detailed description and follow-up of their application. The identification of goals is based on the unit's own assessment of its customers' needs, and consideration of the unit's own professional image. These goals are integrated with the goals set for the community in a dialogue between the contractor and the purchaser. The processes are designed, independently, by the operative, responsible personnel, and are monitored by the management, which also follows the work that is done to ensure that results are fulfilled. The end-product is that the management and the unit assess a level of ambition, which is reasonable in relation to the goals set, and establish the unit's commitments in relation to the community's goals and its customers. These commitments are continually added to through the process of development.

The following is an example of the stages used in determining how the practical work should be structured.

**Goal identification (= what is to be achieved) consists of the following stages:**

- Identification of customers' needs.
- Identification of community goals.
- Identification of professional goals (the unit's professional image).
- Integration of the above goals with the activity's goals.

**Service structuring (= how the goals are to be achieved) consists of the following stages:**

- A clear description of the working processes, which is closely linked to the fulfilment of the activity's goals.
- A detailed description of especially important parts of the processes.

**Safeguards (= when, by whom, follow-up of work carried out and follow-up of results) consists of the following stages:**

- Specification of the time for carrying out the processes.
- Allocation of responsibility for carrying out the processes.
- Description of routines, which should provide the possibility of monitoring whether the agreed working methods are in fact being applied.
- Description of the results the unit anticipates.
- Description of how the unit is to follow up and trace back actual results.

**Evaluation and development consists of the following stages:**

Description of how the unit evaluates the quality system in relation to customers' needs, professional image and community goals.

Description of development goals.

Description of development efforts.

CQM endeavours to focus the development of evaluation methods on the relationship between goals - working methods - results. Evaluation consists of the standard of the quality system itself - i.e., how the unit has acquired/formulated goals, structured working methods and assessed results - and the unit's professional knowledge - i.e., are the goals relevant and comprehensive, are the working methods relevant to the goals and of an adequate professional standard, and are the results sufficient in comparison to the performance of other units.

Due to the current economic situation of the public sector in Sweden, as well as many other countries, it is of vital importance that clarity regarding meaningful qualitative values, and ways of achieving these values in the most significant parts of a unit's work, are identified by using methods such as those provided by CQM. It is possible to carry out a responsible transition to a situation with reduced public resources in combination with efficiency incentives, such as competition and performance-linked budgeting. It should also be noted, that efficiency can, and should be one of the unit's goals. This enables the unit, itself, to describe, follow up and further develop processes to improve the efficiency of its activities.

CQM is a method which has been specifically developed for services provided by the public sector. It is particularly suitable for activities which have relatively complicated goals that are difficult to follow up.

Public sector services are required to achieve a balance between the interests of customers, the professional ambitions of personnel, and the interests of the community. A balance of this kind requires that the customer has the possibility to influence and/or choose the provider of a service, that personnel have the possibility to choose the image of their respective activities, and that the political leadership's goals have an impact on activities. Experience gained from the implementation of CQM, to date, indicates that far-reaching decentralisation combined with an active follow-up of goals to establish how they are applied to working methods, can create the basis for a balance of this kind. The result is that a step towards a solution to a serious management problem, within the public sector, can be discerned.

**A system of customer choice**

By customer choice is generally meant that the individual citizen, given the entitlement by the municipality to a subsidised service, is able to make use of this subsidy by means of a service cheque/money grant or the equivalent which is valid as a means of payment when purchasing the service.

This right is based on an individual decision for each person or a general decision covering all individuals with a particular need. The person or organisation providing the service is to be authorised by the municipality

to cash the cheque. The individual citizen can also be given the opportunity of choosing more or less freely without this being linked to a system of cheques or money grants.

There are many advantages with systems using money grants. The individual has a clear freedom of choice. Producers are obliged to compete for customers which increases quality. The disadvantage of systems of money grants is that there is a risk that price competition will be eliminated.

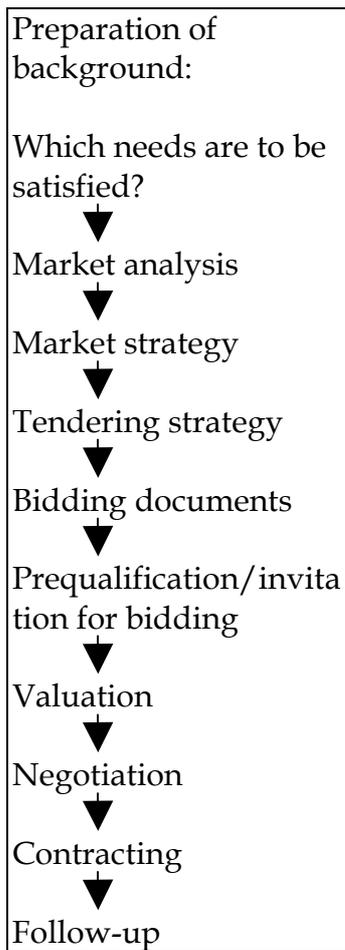
One of the prerequisites of a system of money grants is that it is easy to establish the entitlement to the grant, preferably on the basis of objective criteria. This is the case, for example, with school grants that follow the pupil, maternity care, child care and dental care grants. In these examples, the service provided is relatively homogeneous and individual differences in needs can be assumed to cancel each other out over time in the community which the producer is responsible for.

### **Steps in transformation**

To facilitate opening up municipally-produced services to competition, some municipalities have divided up their activities into a "purchaser section" and "a provider section". It is then made clear to the entrepreneur who is the opposite party when tendering i.e. who is in fact the purchaser of the service.

To further facilitate the internal process in a municipality when tendering is to take place, this can be sub-divided into a number of steps as follows:

## Steps in transformation



An important prerequisite for a good end result is that there are clear and concrete strategies and rules of the game to guide the various participants.

### **The question at issue: public or private?**

The form of financing is as important for many citizens as the legal form in which production of the services takes place. This is shown not the least by discussion on the financing of health care by taxes, compulsory sickness insurance, or private commercial sickness insurance policies.

In some countries the debate is focused around the issue of who is best at producing **certain** kinds of services - the public or private sector. In other countries this discussion has been nuanced somewhat by emphasis being instead laid on the importance of competition and for people being given the opportunity of being able to choose freely on a market who is to provide services.

The political objectives for the reform process have often been formulated in the following terms:

- \* Public ↔ Private  
 \* Plan ↔ Market  
 \* Monopoly ↔ Competition

One of the aims of the reform process is for the future production of publicly-financed services to be increasingly run in private forms. Private sector production is not, however, an end in itself (nor is production by the public sector which typified the period of expansion in some western countries). One objective of the reform process is to create freedom of choice and variety by making use of private alternatives. It is, however, equally important to develop and make more efficient public production by opening it up to competition. Functioning markets are a prerequisite for genuine competition.

**Answer: both public and private!**

The discussion on the respective merits of the public and private sectors involves, however, a number of balances to be struck which are difficult and multidimensional, as illustrated in the schematic review below. In reality, it is not a matter of either completely public or wholly private but of finding the optimal balance which give citizens the best value for money.

	Public	Private
Financing	Taxes	Charges
Responsible authority	Public	Private
Production	Publicly-owned units	Private forms
Remuneration to producer	By agreement with responsible authority	Customer/market
Follow-up/supervision	Public by inspection/restrictions on right of establishment	By customer

Source: Arne Svensson, Offentligt-Kooperativt-Privat: Nya vägar! (Studentlitteratur, Lund, 1985)

When an activity has been opened up to real competition, it has very considerable consequences for the organisation. What these consequences are and their scope depends on the balance struck between the five dimensions. This obviously affects the role of politicians and the content of political work.

**Financing** of services is an important issue as regards redistributive policies. **Remuneration to the producer** can be regulated by agreement with the public authority responsible for the operation or directly between the customer and the producer on a market. A considerable element of public financing is motivated by a desire for optimisation of purchasing power in relation to the needs for services. The idea is that needs should be given more weight than demand and individual purchasing power. On the other hand, the setting of charges is also an important instrument of control. It is well known that there is excess consumption of "free utilities". Even a low charge in relation to the value of the service for the consumer will result in consumption (and/or demands) becoming greater than if the customer had to pay the entire cost of the product. The degree of tax and charge financing respectively and the design of taxation are therefore important political issues, regardless of who produces the services. The role of **financier** thus continues to be important.

When a public **authority** is responsible, production can be carried out within the authority's own organisation or by external

contractors. This makes it necessary to distinguish between the role of **purchaser** and that of **provider**. However, this does not necessarily have to lead to the division of the organisation into a purchasing section and a providing section. Objective treatment of tenders is one of the main principles of tendering. From the point of view of the external tenderer, it is of course unacceptable that the major competitor is responsible for evaluating tenders, processing them and even making decisions as to which offer is to be accepted.

The role of taking **responsibility for the totality** is given another meaning when activities are subject to competitive tender on a market, compared with the situation when some parts are controlled according to a plan in a monopoly. When governments make contracts with private businesses, they are shifting the delivery of services, not the responsibility for services.

These means further that the role of "**owner**" of the public part of production really consists of two different roles. One role involves responsibility for fixed assets and other assets arising from investments in infrastructure, equipment etc. This task involves ensuring the owner a reasonable **return on capital**, regardless of whether the assets are used by

the municipality's own production units or "hired out". The second role is to be **responsible for production** i.e. to be in charge of the running activities, of personnel and having financial responsibility for operations carried out by the municipality itself. Employer responsibility for staff is especially important since considerable investments have been made through recruitment and the development of competence.

There are different contractual arrangements according to these principles. Sale of assets is not the most common. Some characteristics for the most important private-public alternatives within community service are as follows:

### Some private-public alternatives

Responsibility	Management contract	Leasing contract	Concession contract	Voucher system
Tariff setting	Public	Public	Public	Public
Ownership (fixed assets)	Public	Public	Private (under contract-period)	Private
Fixed asset finance	Public	Public	Private	Private
Expansion investments	Public	Public	Public/Private	Private
Operation and maintenance	Private	Private	Private	Private
Reinvestment	Public/private	Private	Private	Private
Working capital finance	Public	Private	Private	Private
Contract period	About 3-5 years	About 5-10 years	No limit 10-30 years	

As you can see PSP is always a public/private partnership. It is essential that private enterprise in community services is regulated by local government.

PSP is widespread around the world. In water supply, for example, we have Mexico city, Buenos Aires and Lima in Latin America, Guinea and Cote d'Ivoire in Africa, Macao and Malaysia in Asia, Melbourne and Sydney in Australia, Gdansk and Brno in Central and Eastern Europe.

The general experience from Sweden and other countries is also that PSP leads to increased efficiency. On behalf of the Swedish Association of Local Authorities I have made an analysis of the degree of exposure to competition in Swedish municipalities. The report shows how quality has been guaranteed at the same time as there has been a cost reduction by up to 70 per cent when an activity has been opened up to competition. This applies to everything from administering sports facilities to care of the elderly (home care services and accommodation for the elderly).

On behalf of the government I have evaluated this year the experiences from the radical developments in the area of freedom of choice initiated by the new government in 1991. In the book "Valfrihetsrevolutionen i praktiken" I come to the conclusion that increased freedom of choice is positive in the municipalities and that county councils which have made determined efforts in favour of Private Sector Participation. Voucher systems in schools, day care for children, care of the elderly, dental care and maternity care have led to quality improvements in these activities and a better adaptation to individual needs and wishes. Experiences show clearly that exposure to competition by competitive tendering and voucher systems are both good methods for increasing efficiency in community services.

On a free market the survivors are those who best satisfy customers' needs. Their own strength in relation to their competitors is of decisive importance. This is the case when competition takes place on equal terms.

The entrepreneur's analysis of the market and the situation as regards competition must therefore take into account the special conditions existing in this sector of society. Entrepreneurs in Community Service at present compete mostly with activities run by the municipalities themselves. The companies' market in the field of publicly-financed activities is thus controlled by its principal competitor. The greatest obstacle for many entrepreneurs is to understand how the municipality operates and the grounds for its actions, as well as the nature of its decision processes and organisation.

The decisive factor for companies is whether it is possible to rely on the municipality acting in a commercial manner and aiming at a long-term commercial relationship. Healthy companies are influenced by long-term considerations. Unclear political ambitions, instable political leadership, hostile opposition, unclear rules of the game etc will therefore impair the functioning of the market.

The development of a healthy market is facilitated if the municipalities can present a clear market strategy for presumptive entrepreneurs. **The**

**market strategy** describes how the municipality wishes to influence the development of the market.

Competitive tendering presupposes that there is a market. This condition is sometimes lacking. In most cases, it is then a requirement that the municipality **create the conditions** in which a market can be established. This can take place, for example, by encouraging employee takeovers of activities.

At a later stage steps must be taken to **ensure** that this market develops in a healthy manner. The risks for monopoly and the creation of cartels must be taken into account etc.

### **Voucher - systems or tendering?**

In introducing a voucher - system (or quasi-voucher-system), price competition is eliminated and companies primarily compete by means of quality. A lack of structural tools to establish structural changes can then result in over-establishment and excess production. Such excess production could theoretically lead to the market being restored to a sound basis by bankruptcies or by companies voluntarily terminating their activities in a market in an orderly manner. This structural change does not, however, take place automatically but is controlled by the actions of the parties involved.

To avoid terminating engagement in a market, various emergency measures will be resorted to, extra grants will be demanded etc. This may lead to termination taking place far too late, involving a risk for bankruptcies and the disadvantages that the latter involves for those affected and from the point of view of competition.

This probably leads to a more unfavourable development of costs compared with competitive tendering. It is of course the case that even limited competition is better than an unbridled monopoly. Quality will improve and prices can be held down.

There are therefore reasons as regards services which are mainly publicly financed for ensuring that the necessary tools exist to regulate the development of the market. This can take place through, inter alia, competitive tendering, establishment control, and other regulatory possibilities to initiate structural changes.

### **Tendering strategy**

The choice of **tendering strategy** is dependant on the needs which are to be satisfied, the appearance of the market in the short term and the long

term, and how the municipality wishes to exploit the possibility of the market and to influence the development of the market.

Which parts are to be the subject of competitive tendering? To what extent may the municipality's own staff make tenders in competition with their present employer? Are all activities to be open to tendering at the same time? How is the invitation to tender to be designed so as to enable small businesses (as well as producer co-operatives) to make tenders for minor parts, as well as making it attractive for larger companies which are only interested in larger operations? How can the individual consumer be given freedom of choice between more producers? These are some questions which must be answered in the tendering strategy.

There is a tendency, especially in larger municipalities, to put operations out for tender in altogether too large blocks. In that way many small entrepreneurs are excluded from participating in the competitive tendering. Moreover, it gives the individual consumer less freedom of choice than if more entrepreneurs had been involved. The municipality influences the development of the market through the way in which it organises competitive tendering. It is in the interest of municipalities to avoid private monopolies or companies becoming so dominant in a sector of the market that they can in practice control price movements. Competitive tendering must therefore be organised in such a way that it also gives scope for smaller, local entrepreneurs. It is of course of considerable importance how each individual municipality decides to fashion its competitive tendering strategy if there is to develop a market on which producer co-operatives and other small businesses can operate alongside larger companies.

It is important for entrepreneurs to know the strategy that is to be adopted in the short and long run, since this controls the actions of the company to a considerable degree. The choice of tendering strategy naturally affects the possibilities for developing a well-functioning market. The actions of the municipality therefore have considerable importance for the entrepreneur. Taking a position on the active steps required to make possible the gradual development of a healthy market is an important political question. It should be obvious that it is not sufficient to passively await initiatives from entrepreneurs.

The bidding documents should include performance targets over the contract period, model contract, regulatory framework, tariff system, evaluation/award methodology.

There are many ways to finance, steer, regulate, structure, organise, manage and operate commercial services. For those seeking to remake their systems, a number of models presented at a conference may serve as sources. However, cultural background, resources, traditions and other

conditions all have to be taken into account. The system has to suit the country and the situation. I hope that this conference will contribute to developments in your countries in one way or another.

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