



# Private sector roles in service delivery: the complex political economy of local government roles in market facilitation and regulation

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# Key messages

- Small-scale **private sector** roles in service sectors with low profit margins (such as water and sanitation) require significant **facilitation** by local governments.
- However, there are **several constraints** to local governments playing this role
- **Regulatory functions** are also much needed, however these rarely existed and **conflicts of interest** can arise
- To realise the potential contribution of private sector, we need to **address the constraints and incentivise** local governments to act, whilst foreseeing and **proactively managing the risks and perverse incentives** that arise from their multiple roles

# Small-scale private sector in water and sanitation service delivery: What and why?

- In case study countries and elsewhere, small-scale local enterprise are increasingly supporting these basic services
- In the sector, they represent an evolution from reliance on voluntary community management arrangements, and development of relevant supply chains
- Systematic review revealed mixed effectiveness, particularly in reaching the disadvantaged, and unquestioned assumptions about how to enable their role

Research question: What political economy dynamics are shaping the role of private sector in water and sanitation services?

Research gap

# Methodology

- Contexts: Indonesia, Vietnam and Timor-Leste
- Systematic review
- Three political economy analyses – semi-structured interviews with 120 stakeholders (Ostrom, 2011; Harris et al. 2011)
- Mixed-method research on enterprise roles with 172 enterprises



This presentation: focuses just on  
local government roles

# Nature of the enterprises

- Private and social enterprise
- Micro-enterprise (1-10 employees)
- Significantly male-dominated
- Serving 1,000's of households



# Tensions in local government roles

Market facilitation

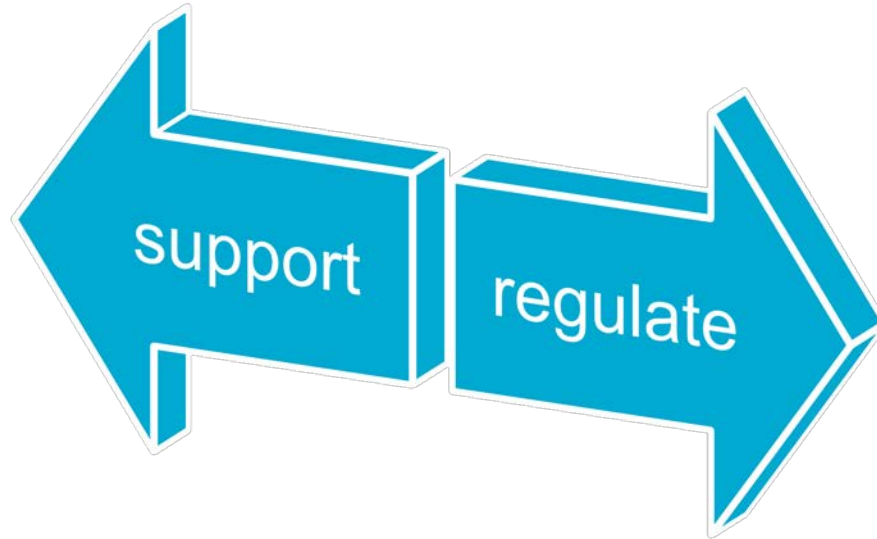
Consumer demand  
creation

Market analysis

Assist access to  
finance

Training to  
entrepreneurs

Link demand and  
supply



Service quality  
and/or  
construction  
standards

Equality of  
outcomes,  
access by  
disadvantaged  
groups

Found to result in complex dynamics and  
potential for perverse outcomes

# Constraints to market facilitation roles

- Low budget allocations to water and sanitation (despite legal mandate) – lack of constituent demand, particularly for sanitation
- In Vietnam and Indonesia, agencies were unable to utilise budget allocations to support or catalyse private sector roles

*“when district government doesn’t pay attention to sanitation then you can’t have sanitation entrepreneurs”*  
*[Indonesian entrepreneur]*





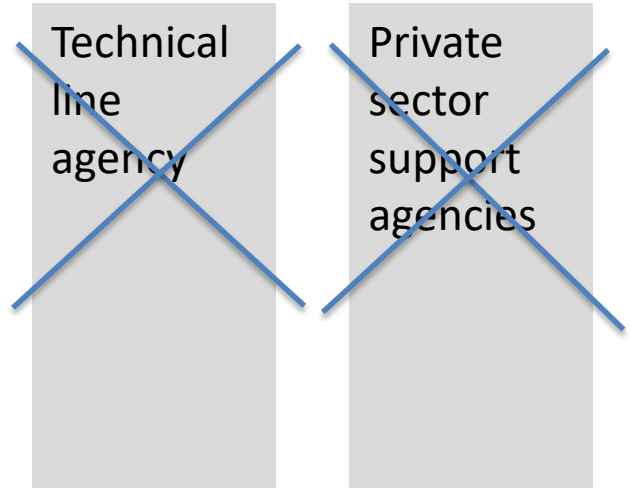
# Constraints to market facilitation roles (cont'd)

- Assumptions that private sector would emerge 'spontaneously' and relevant skills unavailable in relevant **line agencies**

*'if [you] say this is private sector, then they [local government] respond that this is not their domain, and that they [enterprises] have to survive... if you ask them to help, then they say they don't know how'*  
*[National government official, Indonesia]*

# Constraints to market facilitation roles (cont'd)

- Few incentives for **private sector support agencies** to play a role (patronage relationships and preference to support enterprises with local economic outcomes evident in Indonesia and Vietnam)



# Constraints to market facilitation roles (cont'd)

- Negative perceptions and mistrust of private sector amongst government officials in all three countries
- Many local governments paralysed by the multiple possible roles and tensions between them

*"...if you ask if companies exist, companies exist, but are they appropriate to provide service ...[the] quality is not reliable. [It is] risky to involve them".*

*[local government official, Timor-Leste]*



# Incentives supporting market facilitation roles...



Coverage  
targets



Prestige and  
recognition



Financial  
incentives

But also potential for conflicts of interest...

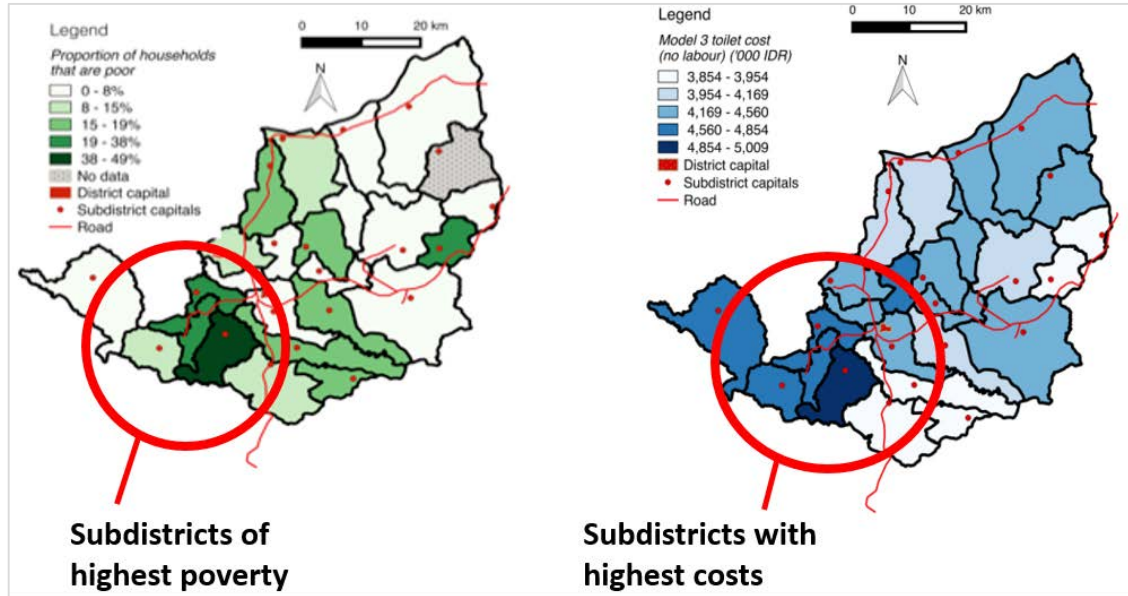


# Finding: regulatory function mostly nascent

- Local government role in ensuring **quality services standards not yet developed** in most locations – no consumer protection and **few complaints mechanisms** available
- Evidence of **patronage relationships** with enterprise owners – **lack of transparency** in selection processes (for example for private water enterprises in Vietnam)

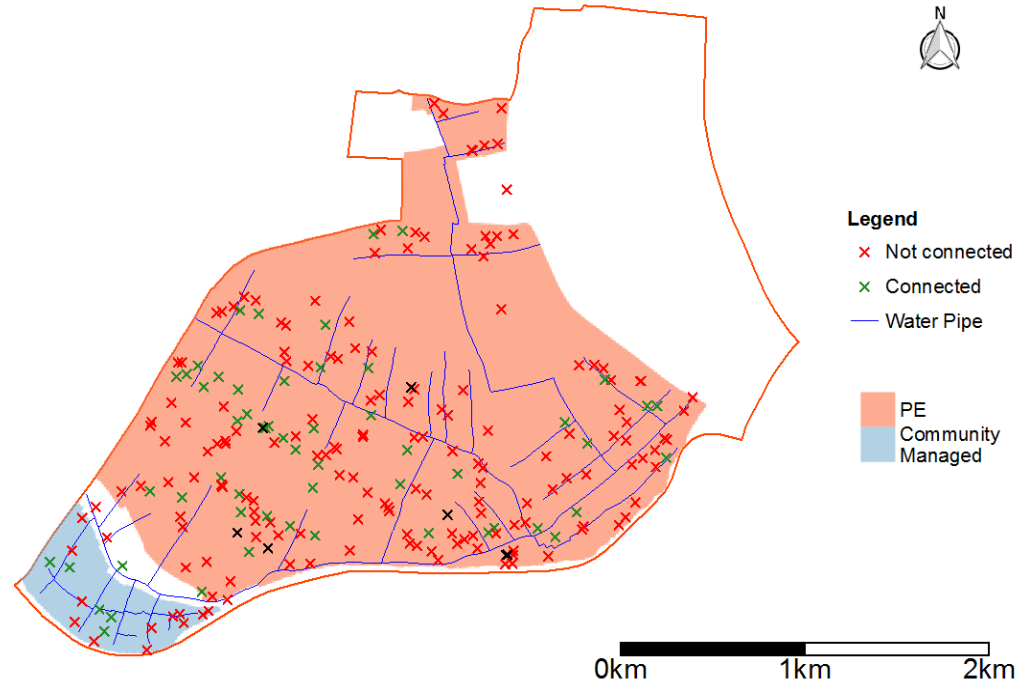
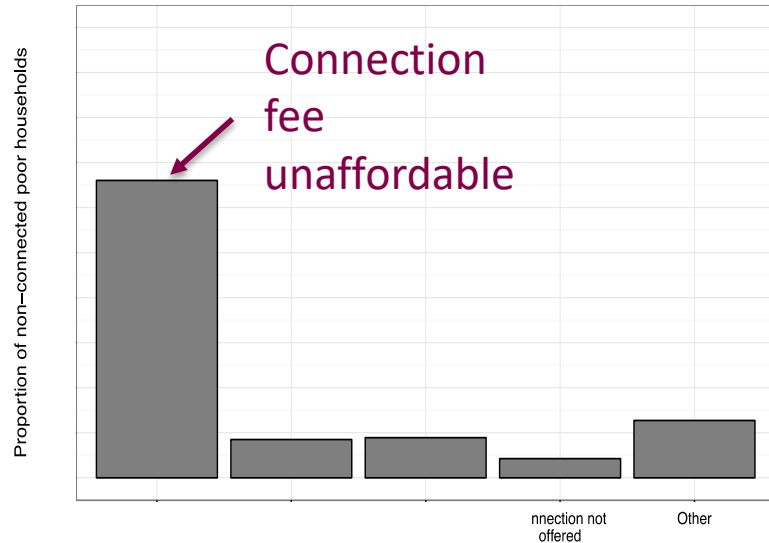


# Finding: Local government role to ensure equitable outcomes also absent



*Highest costs were in the areas of highest poverty [Timur Tengah Utara, Indonesia]*

# Finding: Local government role to ensure equitable outcomes also absent



*Non-poor were 6.5 times more likely to be connected to the water service than the poor [Hoa Hau commune, Vietnam] and main reason across 452 households 6 communes was connection fee*



# Conclusions

- **Small-scale private sector** have a role to play in service delivery
- Both **market facilitation** and **regulatory functions** are needed by local governments
- The dynamics and incentives affecting these local government roles are complex and **need to be analysed, predicted and navigated**
- Implications for how **national governments and development agencies support** and develop capacity amongst local governments – current approaches towards private sector support may be too simplistic

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