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?
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
References:


Relevant outputs:

M. Grant, M., Dominish, E., Carrard, N, Bui, L., Ha, H. Nghiem,T. and Willetts, J. (2016) Reducing or increasing inequalities? The role of private water enterprises in rural Viet Nam, Development Bulletin No 77

