

ECONOMIC AND SOCIAL COMMISSION FOR ASIA AND THE PACIFIC

The Emerging Role of the Private Sector in Delivering Social Services in the ESCAP Region

Social Policy Paper No. 4



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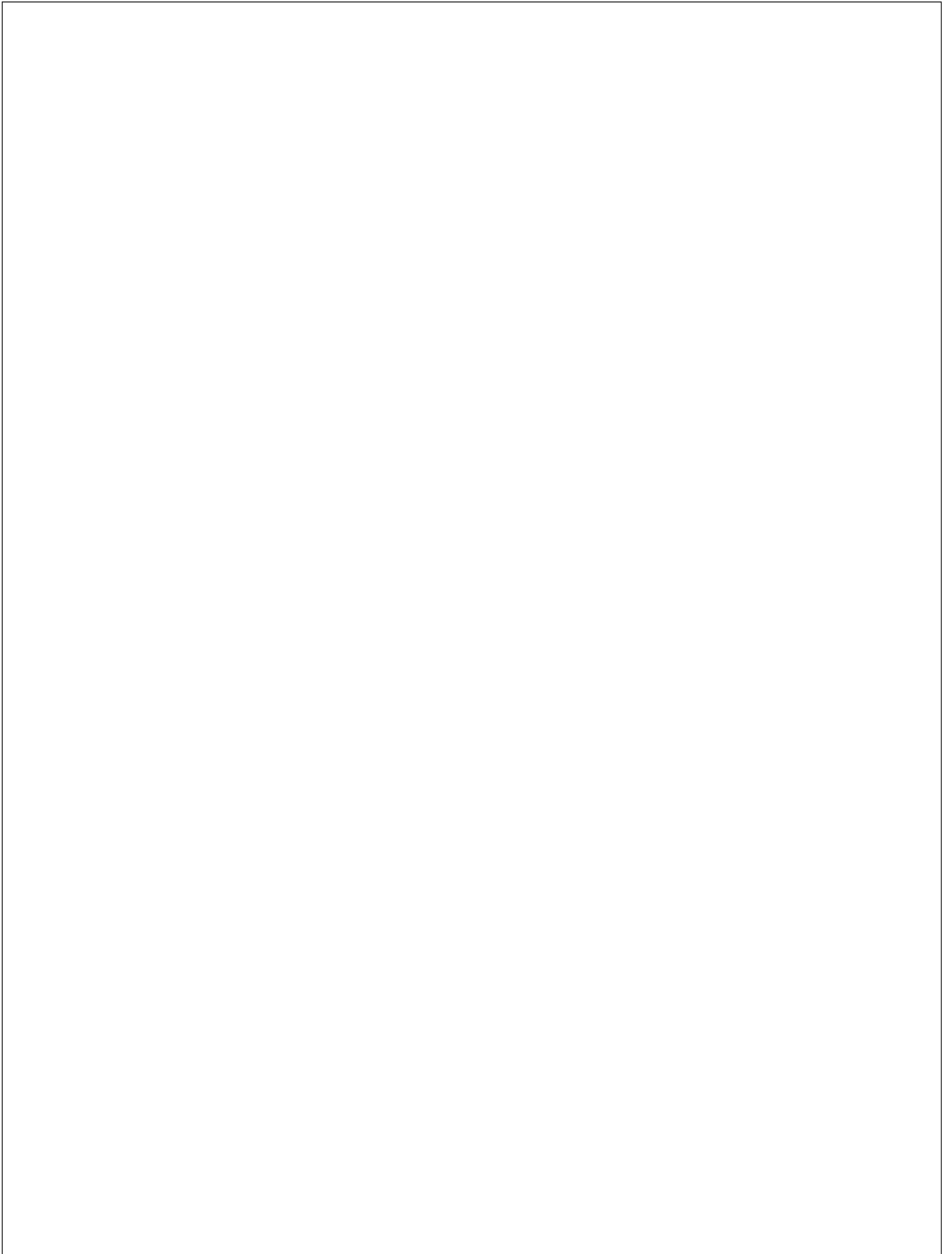
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Preface

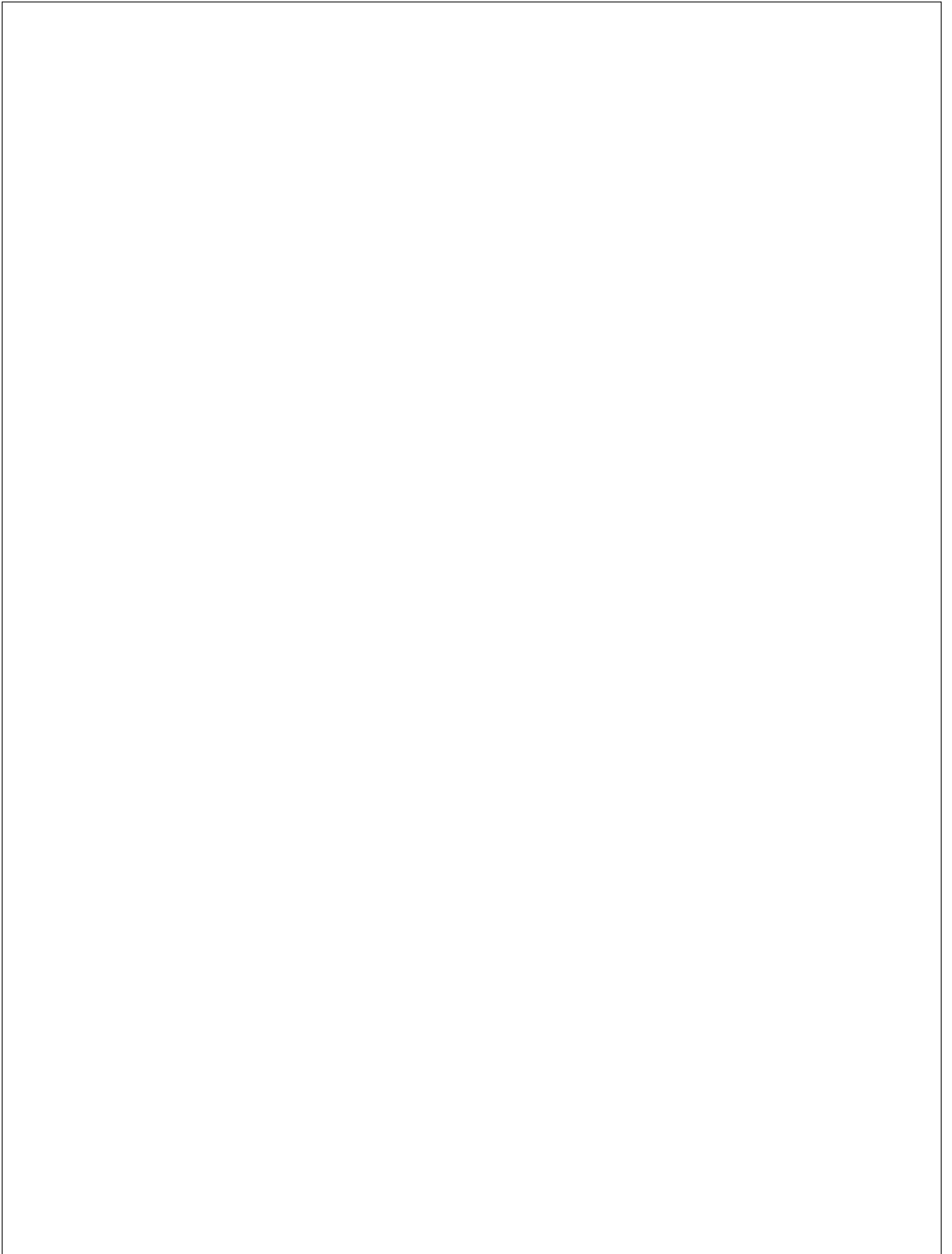
This paper elaborates on the current approaches in viewing the private sector as either a partner or a separate entity in delivering such basic social services as education, health care, water and sanitation. The term private sector is inferred to include: (a) for-profit private business/corporate entities, and (b) not-for-profit non-governmental organizations (NGOs). It highlights the changing role of the different stakeholders, with special focus on the for-profit private sector in delivering social services and how public sector participation can be supplementary to that emerging role in the years after the Copenhagen Declaration. The emergence of the non-governmental sector, particularly not-for-profit NGOs, as an active participant in the delivery of social services is extensively analysed. The paper also provides an analysis of the growing importance of the for-profit private sector in the delivery of social services among subgroups of countries in the region. As the role of the private sector is linked to the stage of development of a specific country (and therefore of its own private sector), the paper examines the feasibility of involving the private sector in the delivery of social services, including employment creation for the poor. Here it is found that not-for-profit NGOs are emerging as important players and are increasingly undertaking commercial activities. In most countries in the region, the private sector may not be willing to undertake the production/delivery of such services if clear criteria for earning a profit do not exist. At the present state of the development of the private sector in the developing countries of the region, the establishment of appropriate regulatory mechanisms to ensure that services are delivered to the intended beneficiaries appears to be a distant possibility. The paper concludes by providing some policy options to develop effective national policies and suggests a regional framework for further cooperation in promoting the role of the private sector in delivering social services.

This paper was first presented at the Ad hoc Expert Group Meeting on Regional Implementation of the Copenhagen Declaration and the Agenda for Action on Social Development in the ESCAP Region, held at Bangkok from 17 to 19 September 2001. The ESCAP secretariat gratefully acknowledges the substantive contribution of Mr. Sajjad Zohir, Senior Research Fellow, Bangladesh Institute of Development Studies, Dhaka, in the preparation of this paper.



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Introduction

The Copenhagen Declaration on Social Development, adopted by the World Summit for Social Development in 1995, included a number of commitments aimed at promoting social development and providing social services to the people without any discrimination. The commitment that is more relevant for the purpose of this paper called for promoting and attaining the goals of universal and equitable access to quality education, the highest attainable standard of physical and mental health, and the access of all to primary health care, making particular efforts to rectify inequalities relating to social conditions and without distinction as to race, national origin, gender, age or disability.

Since the Copenhagen Declaration, the importance of social development and its inclusion in decisions on resource allocation have received a new impetus, prompting the member states and the multilateral agencies to focus more on issues of social development. For example, ESCAP has identified emerging social issues as one of the three programme areas of its activities during the coming years. The Asian Development Bank's (ADB) poverty reduction strategy, unveiled recently, has three pillars: promoting pro-poor sustainable economic growth, social development and governance.

Access to social services forms the core of social development activities in the region and beyond. This is based on the idea that the delivery of social services, which aims at developing the capacity of people to work continuously for their welfare, is an essential first step towards promoting social development.¹ The Social Development Section of the Department for International Development, United Kingdom of Great Britain and Northern Ireland, has identified the equitable access to basic social services such as health, education, water and sanitation and shelter as the first ingredient of best practices in social policy² (Deacon, 1999).

As the importance of access to basic social services has risen, countries of the region have looked to the private sector to play a greater role in the provisioning of social services.³ There have been several reasons for the growing importance of the private sector in this important area of social development.

¹ J.F.X. Piva is quoted in Singh and Gadkar (1995): "Social development has two interrelated dimensions – the first is the development of capacity of people to work continuously for their welfare; the second is the alteration or development of a society's institutions so that human needs are met at all levels especially at the lowest level, through a process of improving the relationship between people and socio-economic institutions, recognising that human and natural forces are constantly intervening between the expression of needs and the means to attain them".

² The other two elements are (i) social protection enabling individuals to reduce their vulnerability to shocks, and (ii) core labour standards.

³ One may propose decentralization as an alternative, which may improve the efficiency of public expenditures, but it is not a panacea for the solution of problems in social service provision (Ugaz 1997).

The neo-liberal perception that state organizations are predatory and inefficient, with rent seeking as the primary motive for the behaviour of public officials, is dominant in current thinking (Robinson and White, 1997). One offshoot of such a perception is the recommendation for privatization, which began with the manufacturing sector and then was extended to the infrastructure sector. Although most countries in the region have been hesitant in pursuing a comprehensive privatization programme in the production and delivery of basic social services, there is a growing realization that the inclusion of the private⁴ and other non-government sectors would induce competition and make the state agencies more accountable. With the latter perception, it is noted in the World Bank document *Country Assistance Strategy for Bangladesh* that NGO partnership and stakeholder participation made up for weak and centralized public institutions and led to increased public accountability. As part of the long-term strategy, the World Bank therefore intends to support civil society and the private sector to help build constituencies that call for accountable and well-performing public institutions.

There is also a politico-economic rationale which underpins the shift in focus towards a greater role of the private sector in the delivery of social services. Faced with fiscal stress, Governments in many developing countries find it attractive to shift the responsibility for the financing and provisioning of public goods and welfare services from the State to the private sector (including voluntary sector).⁵ In addition, there is a perception that developing countries do not have the institutional capacity to finance and deliver services at a cost and quality that are adequate to meet the needs of the consumers and that state provisioning is characterized by a high level of inefficiency and sub-standard services (Robinson and White 1997).

The need to involve the private sector and civil society in the delivery of social services also has its roots in the changing perception on governance, a critical element in promoting sustainable human development. A United Nations Development Programme publication on governance for sustainable human development stated that governance includes the state, but transcends it by taking in the private sector and civil society. All three are critical for sustaining human development. The State creates a conducive political and legal environment. The private sector generates jobs and income. And civil society facilitates political and social interaction – mobilizing groups to participate in economic, social and political activities. Because each has weaknesses and strengths, a major objective of our support for good governance is to promote constructive interaction among all three.

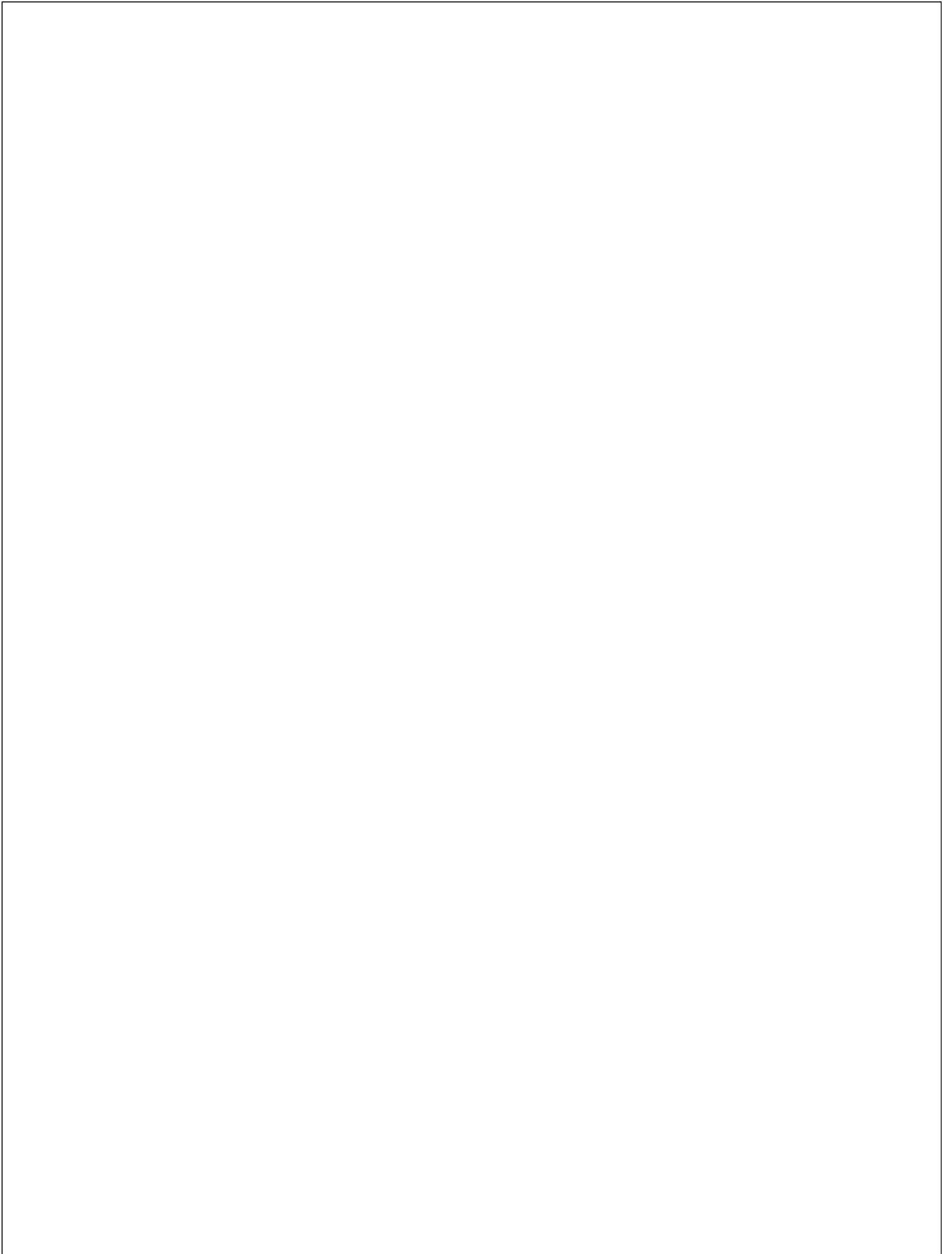
⁴ One basis for including the for-profit private sector lies in the increasing evidence that consumers/beneficiaries pay an additional amount to avail of a social service, which does not go to government revenue.

⁵ An interesting extension of this view is posed in Cointreau-Levine (1994). In the context of engaging the private sector in solid waste management, it is suggested that the Government may wish to exploit the lower wages in the private sector vis-à-vis those in the public sector.

The above argument has provided the broad rationale for the growing importance of private sector participation in the delivery of social services, although the private sector's involvement with social development, either on humanitarian grounds or for commercial motives, dates back long before the Copenhagen Declaration. The experiments in the region in recent times have been of a wide range and have unfolded a new set of relations among various stakeholders involved in the process. This has called for a fresh look into the classification of social services and the roles to be played by the state agencies, the for-profit and non-profit private sectors, non-governmental organizations (NGOs) and civil society. It has also called for designing a new set of regulations to be put in place with a view to ensuring greater accountability and better targeting of social services.

This paper focuses only on basic education, basic healthcare facilities and water and sanitation within a narrow definition of social services. The term "private sector" for the present purpose includes all or some of the following: (a) the for-profit corporate/business sector; and (b) the non-profit NGO sector. Some of the issues and difficulties in defining the private sector are taken up in the subsequent discussions in this paper.

With the aforementioned perspectives, chapter I deals with the nature and the trends in the growing partnership between the Government and the private sector in delivering social services to the people, especially the poor. Based on the analysis in chapter I, some broad conclusions and policy options are offered in chapter II.



I. DELIVERING SOCIAL SERVICES: PARTNERSHIP BETWEEN THE GOVERNMENT AND THE PRIVATE SECTOR

This chapter primarily draws upon the experience of selected countries in the ESCAP region. While the chapter puts emphasis on partnership in delivering social services, the problems of contracts in a wider sense are also recognized, including that of potential conflict of interest among various stakeholders.

A. The stakeholders

Defining the private sector in reference to the delivery of social services has been made complicated by the emergence of a large number of institutions called NGOs in performing such delivery functions. As the latter entities have various shapes and the changes in their functions and objectives are yet to stabilize, the distinction between them and the corporate sector and civic society is often blurred. Psacharpoulos and Nguyen (1997) differentiate between commercial agencies and voluntary agencies, both of which are included under private sector agencies. The former include private insurance companies, drug manufacturing companies, private educational institutions, private medical practitioners, pharmacies, health maintenance organizations and other commercial outlets. The latter include local, national and international NGOs, community-based groups, religious groups, trade unions and professional organizations. Hjerpe (1997) distinguishes between the private for-profit sector and non-profit NGOs. The former is strong in areas in which the goods to be provided are predominantly private in nature. The latter are able to avoid some of the important failures of collective action and asymmetric information. They are also efficient in complementing the activities of the Government in many fields – especially in organizing local people, for example, social mobilization. For purposes of exposition and elaboration of the basic trends in the region, the following categories of actors are proposed to be grouped under the term “private sector”: (a) the for-profit corporate/business sector, and (b) non-profit NGOs.

The literature recognizes the special character of the market for the delivery of social services, where there are multiple providers. They include the State (more appropriately, the government agencies) and the aforementioned two types of private sectors. It is, however, widely recognized that the involvement of the community is also important and growing in the provision of basic social services. While NGOs are often perceived to have comparative advantage in organizing the community, increasingly this role is being overshadowed by their active engagement in quasi profit-making activities. Thus, civil society may not be viewed synonymously with NGOs, nor is it the case that NGOs will always represent the best interests of the people/community they are meant to serve.⁶

⁶ One example is the leasing of state-owned water bodies in rural Bangladesh by NGOs on behalf of the local community. In several such cases, management of these water bodies in a commercial way led to isolating the community from the resource it historically depended on.

Under such circumstances, there is a need to identify “civil society” at an operational level. As noted in the introduction (see footnote 3), the discourse on decentralization runs parallel to that on government-private sector partnership in the delivery of social services. One may include local elected bodies as part of civil society. Many will find it difficult to accept this, given the state of politics in many developing countries in the region. Thus, too often, there is a search for civil society organizations (CSO), in the forms of clubs, professional associations, religious groups (such as mosque or church committees) and other locally-rooted organizations. Given the importance of local-level participation in the design and implementation of projects, local governments (elected bodies) and CSOs have become important elements in defining and engaging the private sector in the delivery of social services.

Another important stakeholder in the delivery of basic social services is the donor community. As its role in shaping the market is well-reflected in all the discourses on the subject, no further elaboration is made here.

The problem of changing role and character is not unique to NGOs. Water Aid noted that NGOs’ human development experiences have begun to be copied and co-opted by government extension services in many developing countries. There is ample evidence in the field of micro-finance, where public sector formal banks have opened outlets, following the model of group formation and weekly repayments perfected by NGOs. Another case is the Local Government Engineering Department, under the Government of Bangladesh, which is acclaimed to be no less efficient than the private sector in delivering rural infrastructure services.

Within the broader perspective on governance, as outlined in the UNDP publication on governance for sustainable development, healthy changes in the functions played by each of the stakeholders are expected. This, however, raises the problem of arriving at a universal set of principles to describe and analyse them.

B. Types of social services and nature of private sector participation

As noted earlier, basic social services include a wide range of activities, the most common ones being basic education, basic health care facilities, and water and sanitation. Provision of shelter is also often included in the context of the urban poor. Another major item is infrastructure, which may include numerous elements. The focus in the literature has largely been on areas of rural roads and services pertaining to municipality jurisdiction. The case of extension service, which is common to education, health and water and sanitation, is also applicable in the case of agriculture, and it is often perceived as a social service. There are many other activities, such as combating drug abuse, old-age security and rehabilitation of people living with HIV/AIDS, which would normally be included under social service.

Arguments in terms of the “public goods” nature of social services have played an important role in rationalizing the government monopoly over delivery of such services. There is no question that government action was a major contributor to progress achieved in health and education in developing countries. However, increasingly, these activities are perceived at much more disaggregated levels, thereby opening up the scope to redefine the nature of these goods and services and allowing the private sector to have a role in their delivery. That is, while the “public goods” argument may hold for one stage of the production and/or delivery, it may not hold for other stages in the process. For any particular social service to be delivered, one may therefore identify stages where private sector participation is desirable. Within each stage, there may be more than one option open to realize such participation.

To give an example of the above, the experiences of five Asian cities may be cited, where successful public-private sector partnership in delivering social services has been achieved (Asian Development Bank, 2000). Based on the experience of Kuantan, the state capital of Pahang in Malaysia, private sector participation is perceived in five stages: (i) indirect and non-statutory involvement in the planning process, (ii) revenue generation through joint ventures, and leasing and building social facilities, (iii) privatizing municipal services, including sewerage treatment, garbage collection, landscaping facilities and parks maintenance; (iv) sponsorship toward promoting cleanliness, beautification, social interaction, safety, sports, recreation and education; and (v) organization of social events.

Specific to each service type and stage of involvement, there may be a number of options open. The types of private sector participation most common to solid waste management are contracting, concession, franchise and open competition (Cointreau-Levine, 1994). The main options for private sector participation in water and sanitation are the service contract, management contract, leasing, build-operate-transfer, concession and divesture (World Bank, 1999). Often, particular services within an activity, such as training, organizing the poor to participate actively in project design and implementation and distribution of relief may be contracted out to the private sector as well.

C. Nature of public-private collaboration in selected countries of the region

The size and strength of the different stakeholders in the delivery of social services vary across countries in the region. Six different actors were mentioned earlier: central government (identified as State), local government (partly representing State and partly playing an important role in coordinating participation of the local community), for-profit private sector (whose participation and actions are motivated by profit-seeking), non-profit NGOs (whose homogeneity is questionable), CSOs (representing civil society/local community) and the donor community. In spite of the current trend in establishing complementarities among these various stakeholders with a view to realizing better governance, the history of institutional development in the developing countries suggests that there

is a good deal of substitutability among them. For example, a strong central government may (in certain cases) imply a weak local government; or, a weak State may have enabled fast development of the NGO sector. Similarly, the presence of the public sector in the production and distribution of goods and services very often implies an underdeveloped (for-profit) private sector. Regrettably, not much research has been undertaken to group countries along these dimensions. One reason for this is possibly the absence of an identifiable set of observable variables which could distinguish or explain different outcomes. Under these circumstances, some anecdotal evidence is presented below to suggest how the countries in the region stand in this regard.

Bangladesh is economically an underdeveloped country, which obviously reflects the underdeveloped state of its private sector as well. A prolonged period of a “weak” State and aggressive donor assistance paved the way for the NGO sector to emerge as an important actor. A weak private sector, along with NGO-assets in the form of large networks of producers-cum-consumers,⁷ has encouraged many of these NGOs to engage in commercial activities (thus, gradually turning into a quasi for-profit private sector). While the State is identified to be weak in its engagement in delivery of social services, the central government remains strong vis-à-vis the local government in case of decision-making and resource control.⁸ This has generally resulted in a weak local government, with the obvious implication that NGOs monopolize the representation of civil society.

Some of the developed countries in the region have strong States and well-developed private sectors. Normally, these countries have weak NGO sectors, but strong local government, with weak civil society outside the State. In contrast, some of the socialist countries have a strong State, committed to the economic development of their national economies, and have only recently opened up the way for private sector development. One may cite many other examples to suggest that there are difficulties in arriving at an acceptable generalization with regard to grouping of countries.

The relative strengths and weaknesses of the various actors within the bounds of a national economy and polity will largely determine the configuration of actors in the delivery of any particular social service. Interestingly, in many instances, even the type of services to be delivered will have close association with the level of economic development of a country. Generally, an economically developed country will have greater incidence of government partnership with the for-profit private sector. In contrast, partnership between non-profit NGOs and the Government are likely to receive greater focus in an underdeveloped economy with a strong NGO sector.

⁷ NGOs and/or the Micro-finance Institutions (MFIs) form groups of 5 to 30 or more members, who, on their own, are engaged in small-scale production activities. These members also participate in product markets as consumers. An NGO/MFI, through its employed staff, coordinates these groups in pursuing any particular programme.

⁸ Note that a State may be “weak” in terms of its performance, and yet be “strong” in terms of its control over resources.

D. Current trends in the private sector delivery of social services in selected countries of the region

A comprehensive survey of the country-specific experience with private sector participation in the delivery of social services would require a collaborative initiative of researchers and/or practitioners in the countries of the region. This was beyond the scope of the present study. Here, some key issues and selected experiences are highlighted.

1. Social services becoming more marketable

With increased awareness, most social services now have markets. In addition, the share of private individuals in the total cost for the services they receive has persistently increased over time.⁹ For example, children attending state-run schools often pay high prices for private tutoring. Similarly, household expenses on medical care are often quite large, but do not get included in public expenses incurred in delivering such a service. More interestingly, markets of these services have now gone beyond political borders. Thus, provision of health care services, for example, in Singapore or Thailand, may benefit the people in South Asia, who often seek medical treatment in those countries. This is also true in the field of education.

2. General increase in private sector participation

The broad trend in the region has been a gradual increase in the delivery of social services where private sector agents participate, either as contractors, partners or as competitors. The pace and level vary from country to country. In some countries, there is an increased recognition of the issue, while in others, the actual delivery is being increasingly organized through private sector participation. For example, the Medium-term Philippine Development Plan, 1999-2004, aimed at involving local communities and NGOs in improving the efficiency and effectiveness of the social services delivery system. While state agencies are still quite heavily involved in the delivery of social services in Viet Nam,¹⁰ the Public Expenditure Review, prepared jointly by the Government of Viet Nam and the donors, notes that there is a need to reassess the scope of private delivery of services in education, health and infrastructure.

⁹ Ugaz (1999) makes an important distinction between privatization of social services and private sector participation in the delivery of such services. The latter is only a supply side phenomenon of the former; which includes privatization on the demand side as well (for example, introduction of a user fee to access a particular service). The current trend reflects increased privatization of social services.

¹⁰ State subsidy covers 48 per cent of total cost of primary education, about 30 per cent of secondary education cost and 78 per cent of the cost of post-secondary education (Jansen, 1997).

Similarly, there has been substantial progress towards involving the local community and the private sector in the management and delivery of social services in urban areas. This has been largely facilitated by the Asian Development Bank's support to many countries in the region. China, Malaysia and the Philippines are among the top five developing countries to engage the private sector in water and sewerage contracts in urban areas. Such practice has also been undertaken in Madras, India.

The overall progress in the South Asian region appears to be mixed. Over the recent past, there has been substantial progress made in Pakistan. It is estimated that some 10,000 NGOs now provide social services to communities throughout Pakistan. The Social Action Program in Pakistan, supported by the World Bank, aims at decentralizing the delivery of social services, entering into annual agreements with private service providers and engaging NGOs and other private institutions to organize local people in participatory development (Van der Gaag 1995). In contrast, progress appears to be slow in India. An evaluation carried out by the World Bank of the Tamil Nadu Integrated Nutrition Development Project and Integrated Child Development Services shows that there was no noteworthy improvement in the delivery of services during the period from 1987 to 1996 and that progress towards involving the private sector and NGOs had been very slow.

The differential progress in engaging the private sector in the delivery of social services largely reflects, as noted before, the relative strengths of various actors within the bounds of the national economy. In general, however, the donor community has been persistently pushing the agenda of increasing private sector participation in the delivery of social services. The World Bank's Country Assistance Strategy Paper for Bangladesh (2001) notes that, five years ago, almost no International Development Association-assisted projects in Bangladesh relied on substantial NGO involvement, while almost all do today. This is generally the case in almost all countries in the region. However, as noted in the Indian case, there may be differences in stated intentions and progress actually achieved in the field.

3. Some sectoral examples

(a) Education

Involvement of the private sector in the delivery of education historically preceded state involvement in such affairs. It was an obligation on the part of the land-based elites in many parts of the region to allocate land for the school premise, construct the building or classrooms, and provide financial support to the teachers and general running of these schools.¹¹ With land redistribution and the subsequent diminished role of the landed elites, government agencies gradually had to undertake the responsibility of running many of these schools.

¹¹ One may argue that the responsibility of the State lay with the land-based elites during that time.

Private sector participation in the education sector – of both for-profit and non-profit organizations – has been on the increase over the last two decades. There are two distinct phenomena that are observed today, first government schools and higher education institutions in urban centres failed to accommodate the increase in demand, especially as a consequence of rapid urbanization in the developing countries. This attracted private sector investment, initially at primary and secondary levels and in English medium schools, which aimed at serving the upper income groups. There has occurred a spread of alternative education (including non-formal and adult education) under the initiatives of NGOs aiming to increase literacy rates and attract children of poor rural households. In addition, there have been private sector investments in specialized education (such as medical and vocational training). In all these efforts, the Governments in developing countries had been silent observers and are still grappling to find the right regulatory framework. The only area of support provided to the private sector was in the form of leasing out urban school premises on concessionary terms.

An example of NGO participation may be elucidated by the Bangladesh Rural Advancement Committee (BRAC), which started its education programme in Bangladesh in 1985. The non-formal primary education (NFPE) is for children aged 8-10 years, which is a four-year programme. The other is the Basic Education for the Older Children (BEOC), for children aged 11-14 years, and is a three-year course. There are currently more than 31,000 BRAC schools in rural Bangladesh (Nath and Chowdhury, 2000). The existence of BRAC schools remains independent of any formal arrangement between the Government and BRAC.

A different kind of collaboration is observed in Pakistan. Under the Primary Education Program in Baluchistan, the Primary Education Directorate picks the school sites, registers schools and monitors them. A private Baluchistan Education Foundation vets potential school operators and trains them. Local NGOs help motivate neighbourhoods.

Maintaining a fine balance between the social objective of the public sector and the profit motive of the private sector has been a difficult task. This surfaces prominently in the provision of education in urban areas, especially in the mushroom growth of kindergartens in major urban centres of developing countries. Given a static supply of qualified teachers in the short term, such growth invariably leads to a decline in the quality of education, and the consumers (parents) often end up not getting the right kind of education for their children. Deviation of curricula from nationally set standards further accentuates the problem.

As noted, NGO-initiated schools, funded with donor money, run parallel to the government schools in many countries of the region. Such schools generally target the poor and other disadvantaged groups. However, some feel that the provision of such services should be the responsibility of the State, and getting accustomed to the emerging situation may unduly influence the Government to move away from its responsibility.

(b) Health care and nutrition

As in the case of education, the developing countries in the region have experienced a significant increase in investment in the health sector. For obvious reasons, such investment, motivated by profit, was made in urban areas. The case of quality decline in the public sector was more visible in the case of health than was observed in education. There was a trend towards decline in the quality of service provided by the public sector when subsidies were withdrawn and the private sector was allowed to play a role in the health sector. The services provided could also get biased against the poor (Jensen, 1997).

There is also a similarity in NGO engagement in the health sector with that in education. In the case of Bangladesh, their involvement, prior to rapid expansion of micro-credit, ran parallel to public health services. However, such services were largely confined to consultations as major treatments required massive investment. Much NGO support was also in the form of raising awareness and facilitating links with rural health centres. During the more recent past, some NGOs have ventured into establishing their own hospitals, aiming to subsidize health care for the poor. In the post-micro-credit scenario, some NGOs (who also provide micro-credit) offer health insurance. However, such insurance primarily covers consultations and a minimum level of local treatments.

Unlike in the education sector, increasingly, collaboration between the government agencies and the private sector in the delivery of health care is being observed in the developing countries of the region. For example, the Urban Slums Family Welfare Project in India enlists private organizations and medical practitioners to train thousands of health workers. The Slum Improvement Project in Bangladesh, run by the municipalities and the Local Government Engineering Department, employs NGOs to train local community health and sanitary workers (Water Aid). The Bangladesh Integrated Nutrition Project (BINP) uses participatory, community-based nutrition activities, and NGOs are key to implementing this community-based approach. In the case of the United Nations Children's Fund-sponsored Expanded Program on Immunization (EPI), implemented in many countries, the Rotarians raised money, and local voluntary organizations, private entrepreneurs and government workers worked together.

Health care beyond raising awareness involves large-scale investment, which is not always forthcoming in the non-profit private sector. However, the for-profit private sector will, for obvious reasons, have an urban and pro-rich bias. Thus, current concern with provision of health care to the poor involves less of regulation and more of devising appropriate frameworks for cooperation between the State and the private sector to ensure quality health services for the poor.

(c) Water and sanitation

The close relation between privatization of and private sector participation in the delivery of a social service is quite visible in the case of water and sanitation (see footnote 10). While the poor may opt out of educational institutions and consider illness as “*fate accompli*”, none can refrain from appreciating the need for safe drinking water and the improvement in living conditions due to improved sanitation. Thus, the willingness to pay for social services is more pronounced for services like water and sanitation. This also provides the basis for a wider participation by the private sector, and such participation is less likely to be biased against the poor. This is also one area where participation by local communities has proved to be very effective in sustaining the delivery of service. Some experiences in selected developing countries in the region are cited below.

“Urban Basic Services” programmes in Bangladesh, the Philippines and elsewhere show that even the very poorest slum communities are willing to organize themselves not only to provide labour for construction, but to raise subscriptions towards the cost of drains, pumps and sanitary latrines. A landmark project on sanitation is the Orangi Pilot Project, which provided in-house sanitary latrines, household sewers and connections to underground sewers in adjoining lanes and streets for the slum community in Karachi, Pakistan (Water Aid). Three years of NGO extension services in Khulna, Bangladesh, helped the poor to get access to safe drinking water and reduce the child mortality rate. CARE-Bangladesh has several projects in this area – Child Health Initiatives for Lasting Development, Safe Motherhood, Sanitation and Family Education Resources. In many of these, as well as in programmes on income generation (for example, on aquaculture and farming), the involvement of the local NGOs is quite extensive. In several countries in the region, involvement of users in the development and implementation of water supply systems has proved to have an important bearing on the sustainability of the programmes.

As the scope for privatization is greater in the delivery of water, potential conflict between for-profit private sector and non-profit NGOs is more likely to arise in this area. An example is given by Robinson and White (1997). About 200 NGOs in Bangladesh were involved in a water supply programme, funded by a German NGO. While the project succeeded in installing more than 1,500 tube wells and 8,000 sanitary latrines, site selection had a male bias and maintenance (by women) was poor. The project suffered some of the problems experienced by state provision: limited consultation and problems with cost recovery and community maintenance. Independent probing by the author revealed that the for-profit private sector initially supplied the tube wells. Soon, some of the local NGOs, who also produced the item, allegedly at a lower cost owing to cross-subsidization of their programmes, displaced the for-profit private sector.

(d) Other social services

There are other experiences in the region, which deal with the delivery of other kinds of social services. Some of these are cited here to provide insights into the general progress and the kinds of problems normally encountered.

- (i) Raghavan (1999) elaborates the case in Tamil Nadu on how entrenched interests in fertilizer and pesticides may resist NGO promotion of sustainable agriculture;
- (ii) China, Malaysia and the Philippines are among the top five developing countries to engage their private sectors in water and sewerage contracts. China has awarded 13 contracts and Malaysia 6. In terms of investment, the Philippines topped both of them. Service contracts were awarded in Madras, India; a build-operate-transfer option was adopted in Johor, Malaysia; and the concession option was adopted in Manila, the Philippines.

(e) Employment creation for the poor

Employment rarely enters into discussions of delivery of social services. One rationale for including employment for the poor lies in the practices in many developing countries of allocating resources to provide employment and other safety net measures during slack periods, which have been perceived to be a state obligation.¹² In several countries in the region, the World Food Programme (WFP) has also been involved in supporting such activities. Historically, such activities were undertaken in the countries of South Asia by government agencies or by involving elected local bodies (such as *Union Parishads*). In an improved version of the programme, called the Integrated Food and Development Programme, there has been a major shift away from relief to development. Local NGOs have been actively involved in coordinating small-scale employment generation activities for the rural poor. In some activities, such as constructing and maintaining rural roads, private contractors are assigned to do the work in cooperation with local trade unions. In Bangladesh, the Local Government Engineering Department has collaborated with local NGOs and private contractors in coordinating such employment generation activities for the poor.¹³ The case presented describes an example of collaboration between donors, government agencies, NGOs and the private sector. A more interesting development in the field of employment for the poor is associated with the graduation of some of

¹² Reference is being made to the Rural Works Programme, Food for Work Programme and Vulnerable Group Development programmes.

¹³ Reference is made to the Rural Employment Sector Programme (RESP), sponsored by the Swedish International Development Agency (SIDA).

the NGOs into quasi-commercial enterprises, acting like business organizations. Drawing upon the experience of Bangladesh, this new trend is described below. It also provides for future potential conflicts between the for-profit private sector and the “non-profit” NGOs.

Creating employment opportunity for the poor is a social obligation, and many developing countries, either by default or by choice, have opted to take up this responsibility. Thus, massive state involvement in an economy’s productive sector was common for more than three decades since the 1950s. Over the last two decades, owing to both internal compulsion and donor pressure, the move has been towards privatization. While this has worked for some, dismal performance of the private sector in many developing countries is a reality, especially, when it is assessed in terms of generating employment for the poor. In this context, graduation of some NGOs into corporate-like bodies have raised new hopes.

Development of NGOs in the region has, in general, undergone two distinct phases, and some of them are now into a third phase where their engagement in commercial activities is more visible. The first phase was one of engaging in relief and rehabilitation activities, supported by donor funding. This also included an NGO role in providing social services in fields such as education, health, sanitation and family planning, which ran parallel to state-provided services. The second phase saw massive expansion of micro-credit activity, which also enabled NGOs to spread their network widely into most rural areas. This network of rural people, who are simultaneously producers and consumers, turned out to be an asset which can be harnessed for the betterment of the poor. While internal savings and the compulsion to become financially self-reliant have encouraged many NGOs to undertake commercial activities, many such activities do not necessarily create employment for the poor. The potential for the latter lies in redirecting NGO resources into activities which will employ rural poor, with NGOs playing the role of a marketing agent and/or undertaking the risks in production.

(f) A socially responsible private sector

It is widely recognized that, in some instances, short-term market solutions do not necessarily lead to long-term benefits. This recognition has further fuelled the philanthropic urge towards promoting equity between individuals within a country and between countries. In institutional forms, this trend has surfaced more in the international plane than within individual countries. However, increasingly, countries in the region have witnessed increased social responsibility of the private sector. Such participation came in a number of ways, some of which are mentioned below.

Historically, as noted in the context of education, charity had found its way into the delivery of social services. With increased commercialization of economies and separation between the state and non-state sectors, this role of the private sector had possibly been

reduced. Where, as noted in the previous section, the for-profit private sector is less developed, engagement of NGOs in commercial activity is identified as “socially conscious investment”. In many such initiatives, in spite of the activity being undertaken on commercial terms, investments from the for-profit private sector may not be made. Long standing contact with the clients leading to moral obligation and possible economies owing to networks and to interlinking with credit induce many NGOs to undertake investments, which partly reflect the social responsibility they undertake. As noted before, there has been an increase in such activity in the region.

Governments in some of the moderately developed countries in the region, such as in Malaysia and Thailand, increasingly take initiatives to motivate their private sectors to engage in delivering social services. There are two broad trends that one can observe here. The first involves providing essential services, such as, childcare, to the employees, where the employers may have an interest to be involved as well. In other cases, the private sector contributes to initiatives that do not directly bring benefits to themselves.

A second trend observed in the region arose from restrictions imposed by the developed countries on the use of child labour in the export industry. In the case of ready-made garments, which earn a substantial amount of foreign exchange for some of the developing countries in the region, adjustments to the newly imposed restriction called for undertaking rehabilitation of child labourers already in place and for providing child education and childcare services to the children of employees. In many of the countries, the private sector (often under the umbrella of an association of the respective group) contributed towards financing such initiatives.

II. POLICY OPTIONS AND FUTURE DIRECTIONS

The above analysis clearly indicates that the countries of the region have welcomed the emerging role of the private sector in the delivery of social services. The nature of what is called “private sector” is also changing. To facilitate that process, Governments would have to pay increased attention to several aspects and areas.

A. Diversity of the region requires a differentiated approach

In designing policy to deliver social services and identify potential partners in the delivery process, one has to note the diversity of the region in terms of the relative strengths and weaknesses of different agents. It has been argued in this paper that the latter varies significantly and (possibly) non-systematically across countries in the region. Thus, generally speaking, it is not possible to design a unique set of policies which will be applicable for all countries in the region.¹⁴

B. Need to identify a focal agent

Underlying all policy discussions, value judgments are involved. Whenever two or more agents are involved in a market, one may choose to analyse the market and suggest alternative policies to understand how the actions of all the agents together (often, within a game-theory framework) lead to an outcome. Such a perspective may be considered neutral but, quite often, policy recommendations lack potency, mainly because none of the agents would be willing to own those recommendations. It may therefore be desirable to side with an agent and identify policies in pursuit of its objectives in the game. The latter may however be a non-starter in a search for cooperation. Quite naturally, the latter would have to be rooted within a game setting so that areas of mutual cooperation may be identified.

The above problem occurs because there exist alternative views on the issue of cooperation. For example, Farrington and Lewis (1995) note that the relation between NGOs and government agencies should at least be neutral and they should have similar vision with regard to the poor in order to have successful NGO-government interaction. Note that equal weights are being assigned to government organizations and NGOs. A contrary view, by Hjerppe (Hjerppe 1997), argues that the problem of the appropriate extent of state involvement in the provision of public goods is badly posed. The right question to be asked, according to him, is: what is the nature of state involvement in the provision of social services? In this position, the state is central (principal) and all other agents are secondary. A similar conclusion also emerges from the arguments made in Ugaz (1999).

¹⁴ The common experiences have been identified in the previous discussions.

C. The role of civil society

One common pre-requisite for effective delivery of social services, whether by the state or by the private sector, is the participation of the local community. In this regard, the concept and the role of the civil society has been much discussed. One may operationalize the concept in terms of the organic coherence of the local community and consider the NGOs and local governments to have potential in fostering such coherence. It is argued that elected local bodies (in the case of decentralization) may have no less ability to organize a local community than an NGO or a private sector entity. Their relative performance and potential to do the job may vary across countries, depending on the relative strengths and weaknesses of different stakeholders.

D. Breakdown of service delivery into various stages

It was noted that the “public goods” argument rationalized state monopoly over the delivery of social services, and this was rooted in the idea that all stages of the delivery were homogenous in terms of their public/private character. With disaggregation of each service delivery into a number of activities, which are inter-linked, one may have mixes of (stage-specific) activities. Some of these may have public goods character, while others have private goods character. In addition, for each case of service delivery, one needs to assess the level of social capital development, which has a bearing on effective mobilization and participation of the local community. As there will be some degree of commonality across countries in the economic characterization of the various stages in service delivery, a study of these stages may yield useful guidelines for practical policymaking.

E. Areas of substitutability and complementarities

This paper has emphasized that there is a great deal of competition among the agents/ stakeholders (identified as substitutability), while complementarities in their functions are prerequisites for cooperation. One aspect that commonly surfaces in the literature on privatization is the perceived threat to government staff (both employment and pecuniary and non-pecuniary returns) from private-sector participation in the delivery of social services. There is also the case of government organizations and NGOs competing with each other to access donor funds and this is a well-accepted proposition. It is proposed here that, along with an identification of various stages in the delivery of a social service and their nature, efforts should be made to identify the areas of substitutability and complementarities among different activities undertaken by various stakeholders in the market.

F. Promoting NGOs as entrepreneurs

In the discussion on creating employment for the poor, the paper noted the emerging trend among NGOs to undertake commercial activities. More importantly, it was noted that they have the potential to undertake productive investment and engage in marketing in such ways as to create pro-poor employment. This potential needs to be harnessed and appropriate policies should be in place. No less important is an appropriate regulatory framework so that the incentives for pro-poor employment creation do not get misdirected to activities which thwart the development of the for-profit private sector.¹⁵

G. A socially responsible private sector

For balanced social development and improved governance, it is important to make the private sector aware about its social responsibility. If realized, this will also reduce the fiscal stress faced by many developing countries in the region. ESCAP may facilitate identification of areas (and modalities) where social responsibility of the private sector may be put into practice.

H. Broad guidance on a regulatory and monitoring framework

This paper has refrained from going into details on regulation as a meaningful discussion can only occur with reference to specifics of a social service. Regulation is commonly understood as a set of rules that aim to protect users of the services by imposing requirements on quality and standard. One obvious difficulty in establishing a regulatory contract for procurement of social services is that quality *a priori* is very difficult to assess. Presence of a multiplicity of providers further complicates the problem of regulation, as for-profit and non-profit providers differ in their approach to the provision of services.¹⁶ However, it is generally recognized that the Government should reformulate its own activities and have a framework in place to facilitate the process of engaging the private sector in the delivery of social services.

¹⁵ Strong voices are being raised by the for-profit private sector against NGO participation in commercial activities. The arguments are normally couched in terms of the grant and subsidy the NGOs receive. This does not, however, negate the NGO network's potential in promoting employment for the poor.

¹⁶ See Ugaz (1999), and Crowen and Crowen (undated). The latter paper considers unregulated, privatized monopoly as a potential alternative, which offers a first-best solution across both quantity and quality of output.

I. Prospects of cooperation at the regional level

Given the current state of development in private sector participation in the delivery of social services, a number of areas may be identified where regional cooperation may be sought. The very first, as noted, is the monitoring and promotion of activities within a common framework. The second area includes the dissemination of information on some of the practices already mentioned in the paper. The third includes exchange of technical expertise within the region – many countries may gain from the expertise of another country in promoting the involvement of the private sector in the delivery of social services.

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