

Public Private Partnerships for Rural Development

Some views based on concrete experiences so far

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Ueli Scheuermeier has been involved in designing and operating a Public Private Partnership (PPP)¹ between Sunlabob, a small Lao company, and the German donor agency GTZ. He has also been involved earlier in a publicly funded effort of the wood energy industry in Switzerland. Based on his experiences he explains some of his own beliefs about the principles of PPP and illustrates them with these two examples. He also points out typical challenges that we now face when trying to design PPPs.

What is a PPP

“Public Private Partnerships” is a term being used recently for efforts where public and private money is combined to run a commercially oriented effort. The public reason for such partnerships is that the result of the effort is important in the public interest, and that there is operational expertise in the private sector for efficiently achieving the result. The private reason for such partnerships is, that there is a commercial interest in the results to be achieved, and that the financial engagement of the public can speed up the achievement of the result. The drawback for a company in a PPP is, that the results of the PPP must be publicly accessible and competition neutral. A PPP can therefore not be used as a strategy to gain a competitive advantage over other companies.

Principles of a PPP

My experiences so far in designing PPPs point out that the following principles appear to be useful:

- **Common Venture:** In order to design a PPP it is important to clearly negotiate and define the common venture and its expected results. It is important to limit the venture to those aspects that are of interest to the public. For a company the engagement in a PPP can be a part of its overall business strategy. However, in such a case the PPP should be an own operational effort that can be run independently of the strategy of the company.
- **Defined private interest:** It is important to clearly define the private commercial interest of the participating company in the achieved results.
- **Defined public interest:** It is also important to clearly define the public interest in the results of the PPP, if possible also specifying the level of the public that is mainly interested, ie. local, district, national, etc.
- **Competition neutral:** Everybody in the society must have access to the generated information and knowledge. A PPP must not allow a company to achieve a competitive advantage that is funded by the public, as this would be inappropriate. So a company engaged with the public in a PPP must agree that the results are also made available to its competitors.
Of course this principle can only be followed for direct results in terms of information and knowledge. A company that engages in a PPP also acquires skills and personal contacts that have a competitive value. But this advantage can be seen as the compensation to the company for investing into a result that will also be available to its competitors.
- **Maximum 49 % public contribution:** A full-cost budget is made for the venture. This only includes direct costs for the venture itself. Normal costs for running the company cannot be included in the full-cost budget. Full cost means that all efforts are included, ie. non-monetary costs

¹ Public Private Partnerships are usually called PPP. However in SDC PPP already stands for „Plan par pay“, ie. Laenderprogram. So in SDC PPPs are called Public Private Development Partnerships, ie. PPDP.

are also monetarized and budgeted, such as for instance rent of equipment that already belongs to the company, or costs for personnel of the company when they work on the common venture. The public typically pays a maximum of 49% of the total direct costs of the common venture. This increases the chances of sustainability in that the capacity and commitment is in the company to continue to operate with the achieved results. In case a higher public engagement is necessary, one has to carefully consider the potential capacities of the company. It may be that in such a case the PPP has to be scaled down to a pilot phase, or the company first needs capacity building before engaging in a PPP.

Usually milestones are defined for reaching the results, if possible with clearly verifiable indicators. Only after reaching a milestone will the public disburse the funds for the next milestone.

Example 1:

Sunlabob-GTZ in Laos

Sunlabob is a Lao company that successfully markets and installs small decentralized energy systems such as solar home systems for lighting, solar electrification of communication equipment, micro-hydro power plants, etc. (see <http://www.sunlabob.com>). Sunlabob operates throughout Laos, which is a highly diverse country with difficult access and many remote areas that will not be connected to the electric grid for many years to come.

GTZ (German Agency for Technical Cooperation) is a Donor agency acting on behalf of the German government.

Common venture

Sunlabob needs a network of well trained people spread throughout the country in order to guarantee reliable service and to maintain the energy systems that it installs. This capacity for reliable servicing increases the chances to sell systems in remote villages and towns. The idea of Sunlabob was to train small entrepreneurs in rural areas to be able to run their own independent business. They would then buy

equipment from Sunlabob and install and service it as their own business. Sunlabob would then maintain a backup relationship with these small entrepreneurs in order to continuously increase their competence and ensure quality. Sunlabob would therefore enter into a franchise agreement with the small entrepreneurs it would train.

GTZ was interested in this, because of a general public interest in rural electrification (improved school performance of children, social and health issues, impacts on gender dynamics and poverty alleviation, etc), that would be commercially viable and therefore sustainable. Even more importantly, GTZ understood that Sunlabob's effort would increase income in rural areas, and create viable small enterprises operating in rural areas.

The common venture was therefore defined to be: *Train suitable small entrepreneurs to become independent and run competent businesses in rural electrification.*

Defined private interest

Sunlabob wanted trained and skilled people spread throughout Laos, who could buy the equipment as kits from Sunlabob, and then install, service and maintain it reliably.

Defined public interest

First GTZ made sure that what Sunlabob was attempting fit with the government policies. There is an explicit government policy that supports decentralized rural electrification in areas that are off the grid. The interests of the public are with regard to rural electrification, and with regard to launching viable rural enterprises that would generate income and commerce. This happens directly through the emergence of these businesses, but it also happens indirectly through the use of electricity in the villages.

Competition neutral

The people that Sunlabob trains are free to later operate on their own, or partner up with companies that compete with Sunlabob. The common venture therefore stops after the trainees have terminated the basic technical and business trainings. The curricula

are published. Sunlabob is then free to negotiate a franchise agreement with the successful trainees. The franchising therefore is outside the common venture, and the costs of trainings specific to the franchise-deal are borne entirely by Sunlabob.

Funding

The full-cost budget includes all costs for the trainings, including materials. GTZ pays for the development of the curricula and for conducting the trainings. Sunlabob pays all the equipment that the trainees need. Sunlabob also provides the demonstration system that each trainee can take home and install at home. After shifting a few budget items back and forth, the final outcome is that GTZ pays slightly less than half of the full-cost budget of the trainings.

Example 2:

Wood energy industry and Energy Department in Switzerland

The Swiss wood-energy association is an association of companies that produce and market equipment for burning wood and converting it into high quality energy.

The Department of Energy belongs into the Swiss Ministry for Economic Affairs at the national/federal level.

In the early 90s when this example took place, the term PPP was not yet used. However, it can now be interpreted as a PPP:

Common venture

There were many small companies in Switzerland that produced wood stoves. They were losing the heating market to cheap oil imports. But when the oil crisis hit Europe, there was an increased demand for wood stoves. However, there had been little development in the wood burning technology over the last few decades.

The Swiss parliament decided to fund a major push for alternative energies to reduce the dependence on imported oil (the program was called Energie 2000). In talks between the Department of Energy and the wood-stove industry a common venture emerged as:

- a) Develop and test improved technologies for producing energy through burning of wood, and
- b) improve the organization of the industry.

Defined private interest

The wood-stove companies wanted to develop and test better equipment in order to be able to compete with oil imports. They also wanted to organize themselves into a national association that would take care of the concerns of the industry as a whole.

Defined public interest

The Swiss government wanted more local wood to replace imported oil as a source of heating. Improving the efficiency of wood-burning equipment would also help achieve the publicly accepted environmental goals. A wood-energy association would allow the government to address and support the industry in an organized and efficient way.

Competition neutral

Companies could submit plans for research and development for wood-burning technology. When their plans were approved by the program, they could begin with building and testing new types of wood-stoves and other related technologies. The results of these tests and the prototypes were publicly available. This allowed everybody to see what the others were doing and copy anything they liked. Patents were not possible on technology that was developed in this way. Many companies however branded successful technology for their own purposes, which was perfectly in order.

With regard to competition with the oil-industry, this was a publicly sanctioned effort to strengthen the local wood-energy against the imported oil-energy.

Funding

Funds were provided to companies for conducting their research and development. The companies brought in their own infrastructures and personnel-costs as their own contribution. The government also provided initial funds for the establishment of a secretariat of a new wood-energy association at the national level. This association started as a membership association collecting membership fees. The government funding

was phased out over a period of several years, while the funding picked up from the members.

Typical problems, and ideas how to avoid them

In my observation the following are typical problems that we face in the implementation of Public Private Partnerships. I now focus particularly on the Donor-funded PPPs in a rural venture in developing countries.

Restrict the term PPP to commercial ventures

We presently observe a phenomenon that is typical in the emergence of new development jargon. A new term is used, and suddenly everything that a publicly funded Donor agency does with private entities is regarded as some form of PPP. This can be very misleading, and I believe it is important to clearly differentiate PPPs from public contracts, and from budgetary assistance to civil society organizations such as NGOs.

Donors should not do PPPs with non-profit NGOs

A NGO usually is a non-profit organization. Often it does things that are in the public interest. It is therefore legitimate that the public helps in funding the activities of the NGO, provided that the public interest is clearly defined. There are many such partnerships between NGOs and Donors. However, I think it would be counterproductive to view these partnerships as PPPs in the original sense. They lack a commercial objective. The partnerships between Donors and NGOs must be markedly different from partnerships between Donors and profit-oriented commercial companies. I prefer to view partnerships between NGOs and Donors (or the government) as budgetary support for doing something in the public interest that has no commercial potential. I also think it would be beneficial to stop existing Donor-funding of commercially oriented activities undertaken by NGOs, and to transfer such activities to partnerships with commercially viable companies.

Clearly differentiate a PPP from a public contract

Frequently I find that public contracts to private companies are wrongly talked about as public private partnerships. I believe there is a marked difference here too. When a company is contracted by the public to deliver a certain good to the public, then this is a

public contract, not a public private partnership. Of course both parties have an interest in the contract, ie. the public buys a service, and the company can sell the service to the public. But a PPP is different. In a PPP the private company intends to use the results of the PPP in order to do further business without the public partner. This is also a reason for the 49% limit to public involvement: When public involvement goes beyond this limit, one has to wonder whether this is already becoming something like a public contract with little effect on the emergence of independent commercial competence. Remember that PPPs are a means of the public to enhance private commercial competence.

On the other hand, a Donor must also avoid to pay for activities in the framework of a PPP that cannot be sustained later on by the company or by its competitors. As soon as it becomes clear that an activity in the public interest will not be commercially sustainable (for instance when a company finds out that it also has to provide training for very basic skills), then it becomes clear that this activity has to be continually funded by the public. In such a case the activity has to be taken out of a PPP-budget and transferred into a public-private contract.

Don't hide subsidies in PPPs

There is also a danger that subsidies can be "hidden" as public involvement in a PPP. This is the reason for open publishing of the results and making the results accessible to everybody. Never should a public involvement into a PPP be seen as a way to subsidize the delivery of a public good. That would belong into contracting. A PPP is a common venture with a private company, where the public behaves like a normal investor with the intent to make a profit.

PPPs as a further booster of an existing private competence, not as a launcher

Often I see proposals for PPPs where the company has not yet ever done what it is suggesting it will do in the PPP. The PPP is then seen as a means to start a new type of activity by the company. However, I find a PPP should primarily support a company to upscale an activity it has already proven to be capable of doing. So in general, a company must submit a business plan and a "proof of concept". Thereby the PPP is the instru-

ment that can support the company to reach a broader effect faster, than if the company had to do it entirely from its own resources. This insistence on proven competence can early on uncover private shortcomings which would otherwise be hidden by the public money flow.

However, there is also a case for supporting a company to explore a new venture. This however I would regard as a particular type of PPP that is aimed at R&D (research and development). Such PPPs have to be scaled down to a pilot-venture in order to prove the concept. And once it has been proven to work, then only invest in a larger scale.

In some instances it is preferable to invest in normal capacity building with private companies before doing a PPP with them.

Deal with private companies as business partners, not as funded development agencies

This is a serious problem that emerges very often. Donors may have good policies and regulations for engaging in PPPs. However, their internal administrative rules and also their staff are not used to deal in a business-minded way. This results often in private companies suddenly having to follow all the financial procedures that the Donor has developed for dealing with contracted services, such as with consultants or with NGOs. This is not the way a business partnership operates financially. Private companies only have the time and resources to fulfill all the financial procedures of Donors when they have a contract. But in a partnership they invest a lot of their own resources. They should be asked only to provide data that a normal business partner would provide in a normal joint venture. The companies must be allowed to flexibly react to emerging challenges. After all, they fund more than half of the total common venture.

So in most cases it is perfectly all right to have a mutually accepted detailed budget for each milestone. The company then proves that the milestone has been reached, based upon which the Donor releases its contribution for achieving the results of the next milestone.

The future

I believe PPPs will evolve as a useful means to open up new ways for doing development work, provided the term is used in the strict sense of commercial orientation. There is a lot to learn on the public and the private side for designing viable PPPs that have a sustained developmental impact in rural areas. I believe it will be beneficial in the future to clearly differentiate activities for public support:

- Those activities that deliver public goods that cannot be commercially provided but where the competence and capacity is in the private sector: Public contracts.
- Those activities that have a commercial potential, and the results of which are also in the public interest: PPPs.
- Those activities that belong into the domain of the state and which need to be tightly controlled: Institutions of the state (at all levels, ie. village, district, national).

It is fairly easy to design PPPs for ventures that have a material output. However, I believe there is a big scope for designing PPPs for rural service delivery too. For instance I have been repeatedly faced with the possibility of thinking along the lines of a company that provides capacitation to people who would then provide services in rural areas. In the case of Sunlabob in Laos we are dealing with a clearcut material input (energy systems) with a clearcut output (energy to be used). A similar system could be envisaged for advisory inputs that lead to increases of income by the end-users. It will be interesting to observe how Donors and governments will envisage the commercialisation of such services, while at the same time they focus on building the competence of local levels to ensure the crucial functions of the state.