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# ENHANCING THE PUBLIC ADMINISTRATION CAPACITY OF FRAGILE STATES AND POSTCONFLICT SOCIETIES

PARALLEL AND PARTNERSHIP APPROACHES

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# ENHANCING THE PUBLIC ADMINISTRATION CAPACITY OF FRAGILE STATES AND POSTCONFLICT SOCIETIES PARALLEL AND PARTNERSHIP APPROACHES

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## ABBREVIATIONS

ARTF	Afghanistan Reconstruction Trust Fund
BOT	build-operate-transfer
CCSRP	Collège de Contrôle et de Surveillance des Ressources Pétrolières
CPA	Coalition Provisional Authority (Iraq)
FISE	Nicaragua Social Investment Fund
FAO	Food and Agriculture Organization (UN)
HNP	Haitian National Police
IDA	International Development Association
MINUSTAH	United Nations Stabilization Mission in Haiti
PISG	Provisional Institutions of Self-Government (Kosovo)
PIU	project implementation unit
PWA	Palestinian Water Authority
SACB	Somalia Aid Coordination Body
UNMIK	UN Interim Mission in Kosovo
UNTAET	UN Transitional Administration in East Timor

## INTRODUCTION

Governments in fragile states recovering from conflicts arising from insurgencies, civil wars, and external invasions are expected to deal with complex economic, political, social, and humanitarian challenges. Many face daunting tasks of providing humanitarian and social services, stabilizing and legitimizing governance, reviving the economy, controlling inflation, and stimulating trade and investment. Often, they must also promote political participation, hold elections, and address violations of human rights in order to sustain peace accords or move toward more stable governance systems. Sometimes, unstable governments must also heal the wounds of war by reducing existing social and political tensions. Practically all postconflict fragile states face the difficult tasks of demobilizing and reintegrating ex-combatants, establishing civilian control over the military, and undertaking security reforms. Unsteady governments must often carry out all these tasks and others while restoring essential public services (such as health and education), extending infrastructure to increasing numbers of people, and caring for returning refugees and internally displaced persons.

Performing all these tasks requires strong public administration capacity, a resource often lacking in countries recovering from conflict. USAID's *Fragile States Strategy* points out that developing the capacity of public institutions serving “key social and economic sectors—such as those providing healthcare, education, and financial services—will reduce stress and vulnerability, especially among poorer populations. Viable institutions will also speed recovery from conflict.”<sup>1</sup> USAID's White Paper, *U.S. Foreign Aid: Meeting the Challenges of the Twenty-First Century*, states that international assistance should only support self-help efforts in developing countries and fragile states and reinforce governments' efforts to improve governance and make sound public investments.<sup>2</sup> This document also notes that approaches to achieving more effective foreign aid include attaching “more importance to strengthening institutional capacity and avoiding programs and practices that undermine institutional capacity; placing more emphasis on partnership, participation, and ownership in the programming of aid; [and] paying more attention to absorptive capacity constraints.”<sup>3</sup>

## INTERNATIONAL ASSISTANCE FOR PUBLIC ADMINISTRATION CAPACITY BUILDING

The international community provides assistance for strengthening public administration to many fragile states. Donors assist governments to rehabilitate their shattered public institutions by funding salaries of all or a part of their civil services and helping with their operating expenses. Assistance projects often help fragile governments recruit outside experts on a temporary basis. USAID and other donors also try to tap the diaspora of fragile countries to assume governmental administrative and advisory positions—for example, in Cambodia, Timor-Leste, Mozambique, Afghanistan, and Iraq. In addition, donors provide the services of expatriate experts to advise local officials in various ministries and departments and organize short- and medium-term training programs for civil servants. Donors design such assistance to respond rapidly to humanitarian and emergency needs in postconflict countries, improve the efficiency and effectiveness of existing civil services, and lay the foundations of future public administration reforms.

Donors also seek to enhance limited public management capacity by leveraging governments' resources with the private sector and NGOs. Sometimes, in the rush to meet the needs of people in crisis, they simply bypass governments and deliver assistance through parallel governance and administrative structures until critical gaps in public management capacity can be filled. For example, international donors funded the establishment or revitalization of customs offices or central banks through arrangements with the private sector on the assumption that the functions

performed by these organizations will eventually be transferred to the government. Donors also fund private-public partnerships to deliver essential public services, such as water, sanitation, or waste removal. In some cases, donors assist host governments to promote the wholesaling of social services or work with private investors to build, operate, and transfer infrastructure. In some cases, international assistance agencies urge governments in postconflict societies to arrange for the provision of important social services and infrastructure by privatizing state-owned enterprises that lack the capacity for functioning efficiently and effectively.

Like many other donors, USAID uses a wide variety of parallel structures for delivering assistance. Its staff and contractors often carry out tasks that extend the capacity of civil servants and government ministries in developing countries. The Agency funds NGOs to provide public services and facilities in health, education, and other fields. It supplements the limited capacities of ministries and agencies by providing consultants who advise on policy reform, program development, and project implementation. USAID's Global Development Alliance arranges and funds public-private alliances among international donors, multinational corporations, foundations, local private enterprises, and NGOs and charitable organizations in developing countries and fragile states.<sup>4</sup>

## KNOWLEDGE-BUILDING FOR EFFECTIVE INTERNATIONAL ASSISTANCE

Although many of the alternative approaches that international organizations use to channel assistance are well known, more needs to be learned about how they affect public administration capacity in fragile states. For parallel arrangements to work well, civil servants must have adequate and appropriate skills—and the government must have effective procedures and policies to manage—partnerships or supervise service provision effectively. International donors and political leaders in postconflict societies often overlook this fact. All parallel structures and channels have both potential advantages and disadvantages in fragile states, especially in those where political, financial, social, and security risks are high. Often donors use parallel arrangements precisely because public administration capacity is low or because they believe that the private sector or NGOs are more effective than government agencies.

Yet little analysis has been done of the types of parallel arrangements donors use or of their potential advantages and disadvantages in postconflict situations. More importantly, each of these parallel structures and arrangements requires appropriate policies, coordinating mechanisms, and administrative capacities within governments to work effectively. When these preconditions do not exist or cannot easily be developed, parallel structures and arrangements fail.

This report identifies the types of parallel structures that donors use in countries with fragile governments and weak public administration and examines the roles of these structures in leveraging limited public management through partnerships with the private sector and civil society organizations. It reviews the advantages and limitations of these approaches and their potential for delivering services and building long-term public management capacity, the conditions and circumstances under which the approaches are likely to produce effective results, and factors that governments and donors should consider in using them. Only by understanding these conditions more clearly can donors identify the kinds of technical and financial resources they need to make these approaches work better and attain their objective of strengthening public management capacity.

## APPROACHES TO ADMINISTRATIVE CAPACITY ENHANCEMENT IN POSTCONFLICT COUNTRIES

Because strengthening public administration in postconflict societies often requires difficult and complex changes that may take a long time to implement, initial efforts should focus on management capacities needed for reconstruction and basic governance functions related to postconflict stabilization.<sup>5</sup> The basic functions that seem most often to challenge governments in postconflict societies—establishing safety and security, strengthening governance and participation, providing for emergency humanitarian needs and social wellbeing, stabilizing the economy and providing infrastructure, and strengthening justice and reconciliation organizations—are usually the areas of public administration needing enhanced capacity most urgently.

Figure 1 depicts many of the parallel structures and arrangements that international donors have used in postconflict fragile states to leverage or supplement the limited public administration capacity of emerging or weak governments during a time of transition and recovery. These include

- externally established governance and administration structures
- build-operate-transfer (BOT) and private investment arrangements
- public-private joint ventures
- public service wholesaling
- government-NGO partnerships
- independent civil society organizations.

In postconflict societies, where public administration capacity is weak or the government lacks financial resources, it cannot easily mobilize skilled managers and suffers from institutional deficiencies. Because public administration reform and rebuilding will require long periods of time, donors assisting with reconstruction and recovery may decide to enhance management capacity by exploring parallel or public-private partnership approaches. The World Bank suggests four alternatives: 1) bypassing weak government capacity, 2) buying capacity, 3) creating temporary capacity, and 4) building permanent capacity.<sup>6</sup>

**Figure 1. Parallel Channels for Enhancing Public Administration Capacity in Fragile States**

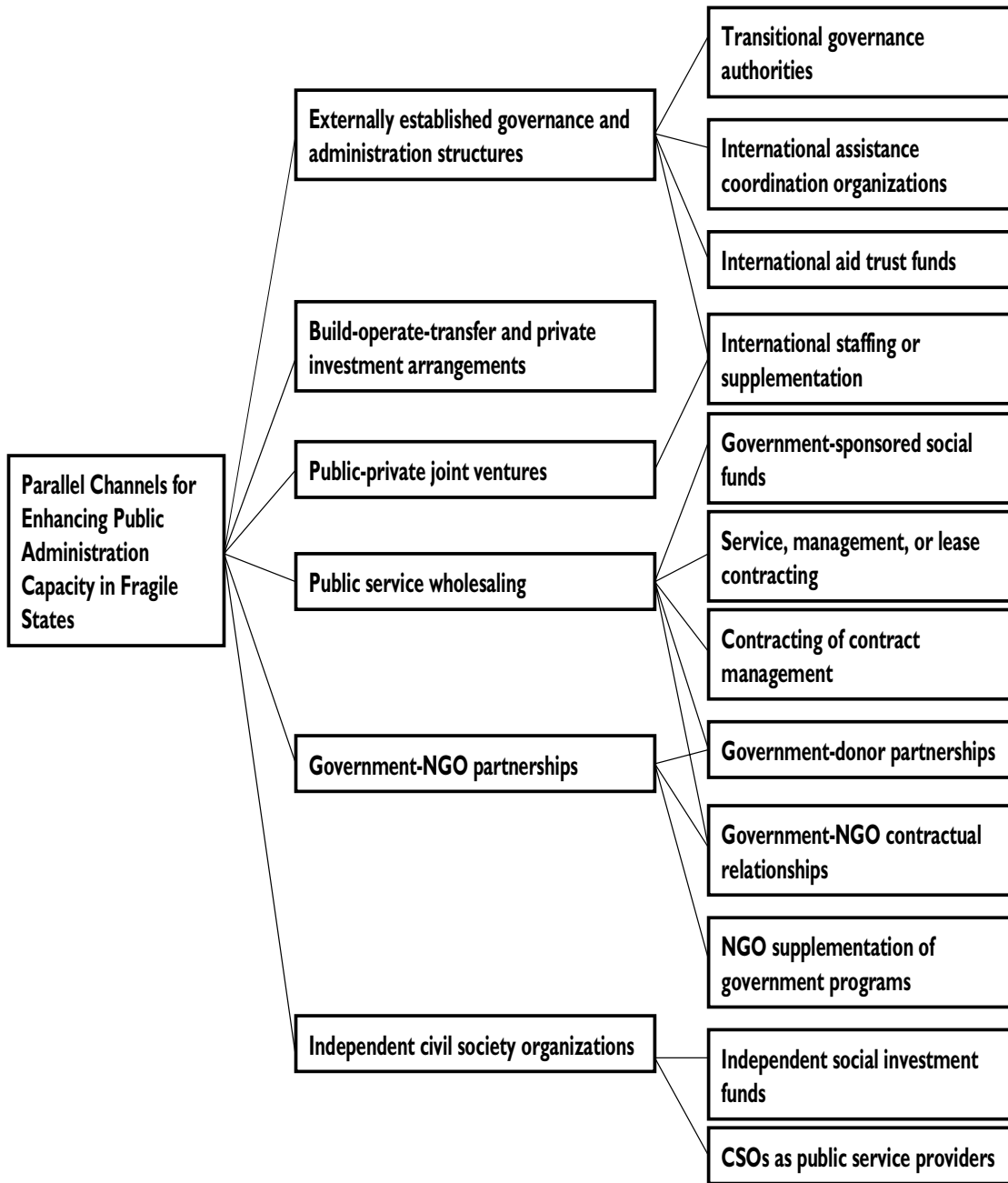


Figure 1 shows that parallel approaches include bypassing weak governments altogether—at least temporarily, until urgent problems can be addressed—or using NGOs and private organizations to perform public service functions while building the capacity of government agencies to take them over later. Public-private partnership approaches focus on leveraging whatever public administration capacity exists by using the private sector and civil society organizations to deliver services and infrastructure or perform public service functions under government supervision.

Of course, neither parallel nor partnership approaches may be as desirable for sustainable recovery in postconflict societies as building permanent public administration capacity. In fragile states, however, in the absence of government's ability to quickly and effectively reform public administration, donors may have few viable choices other than to use alternative means, at least temporarily.

## **EXTERNALLY ESTABLISHED GOVERNANCE AND ADMINISTRATIVE STRUCTURES**

In many postconflict fragile states, international organizations have created temporary substitutes for indigenous governments, established externally managed governance organizations, or bypassed weak governments in order to promote and maintain peace and deliver essential social services effectively. Among the most frequently used arrangements for supplementing the weak capacity of public administration in postconflict fragile states are: 1) transitional governance authorities, 2) international assistance coordination agencies, 3) international aid coordination agencies or organizations, and 4) international staffing of government agencies.

### **I. Transitional Governance Authorities**

In postconflict fragile states where the previous government has been displaced or a new government must be created, international organizations often create a transitional governance authority to carry out public administration functions until an indigenous government can be created. The United States, for example, created the Coalition Provisional Authority (CPA) as a caretaker administration in Iraq following the fall of the Saddam Hussein regime. The CPA was established and funded as a division of the U.S. Department of Defense, and its U.S. administrator reported to the U.S. Secretary of Defense. The CPA administered the Development Fund for Iraq and financed Iraq's wheat purchases and currency exchange, electricity, and oil infrastructure programs. It also equipped Iraq's security forces, paid Iraqi civil service salaries, and supervised the operations of government ministries. The CPA created and appointed members of the Iraqi Governing Council and oversaw the drafting of the temporary constitution and the Transitional Administrative Law. It also supervised contracts to the private sector to rebuild infrastructure in Iraq.<sup>7</sup>

The UN Security Council established transitional administrations in several postconflict fragile states, including Kosovo, East Timor, Afghanistan, and Bosnia.<sup>8</sup> Following the cessation of hostilities in Kosovo, the UN established a parallel governance and administrative structure, the UN Interim Mission in Kosovo (UNMIK), as a political trusteeship in 1999 that provided most public administration functions. UNMIK was charged with performing civilian administrative functions, promoting autonomy and self-government in Kosovo, coordinating the humanitarian and disaster relief of all international agencies, supporting the reconstruction of infrastructure, promoting human rights, and assuring the safe return of refugees and displaced persons. UNMIK also maintained civil law and order and supervised the development of a constitutional framework establishing the Provisional Institutions of Self Government (PISG). After its creation in 2001, PISG and UNMIK redefined the division of responsibilities and operated as dual administrations.<sup>9</sup>

Similarly, the UN Transitional Administration in East Timor (UNTAET), created to oversee the transition to an elected legitimate government in Timor-Leste, operated through a staff of 7,687 uniformed personnel, including 6,281 troops, 1,288 civilian police and 118 military observers. There were also 737 international civilian personnel and 1,745 local civilian staff. UNTAET exercised overall responsibility for the administration of East Timor and all legislative and executive authority, including the administration of justice.<sup>10</sup>

## **2. International Assistance Coordination Agencies**

Often, because governments in postconflict fragile states are weak, unstable, or unable to extend their authority over the entire national territory, the functions of aid coordination, programming, and financial management must be performed by parallel organizations that are set up independently of the government or in cooperation with it. For example, international donors in Somalia created the Somalia Aid Coordination Body (SACB) in 1994 to coordinate international assistance because of the lack of a legitimate government and the weak capacity of temporary governments. The Transitional National Government established in Mogadishu in 2000 had only limited control over the country, and diverse and sometimes dissident administrations had strong influence—if not outright control—in cities and regions outside the capital.<sup>11</sup> Without a government counterpart with the capacity to coordinate aid, SACB became a parallel agency for aid management.

Because of security and logistics difficulties in Somalia, SACB's secretariat was located in Nairobi, Kenya. Its membership consists of representatives of donors, UN agencies, and international NGOs. Representatives of organizations such as the Inter-Governmental Authority on Development, the World Bank, the Organization of African Unity, and the Arab League served as ad hoc members and observers, and they cooperated with autonomous organizations such as the International Committee of the Red Cross and the International Federation of Red Cross and Red Crescent Societies. SACB provided policy guidance and technical assistance to implementing agencies as well as policy and operational coordination for rehabilitation and development activities. SACB also developed recommendations for the allocation of resources to different regions and assisted with programs for resource allocation.<sup>12</sup>

Membership in the SACB was voluntary. It acted as an information exchange for international organizations providing assistance; updated donors on political, security, and humanitarian conditions and needs in Somalia; and acted as a forum for debates on important development issues and as an advocacy group for expanding social and economic aid for the Somali people. Subcommittees met regularly in and outside of Somalia to coordinate aid programs for the country.<sup>13</sup> The SACB thus carried out many of the functions of aid coordination and programming that government ministries and agencies would ordinarily perform in countries with stronger public institutions.

## **3. International Aid Trust Funds**

Aid agencies often set up semiautonomous trust funds to manage aid and help finance the enhancement of public administration capacity in countries where governments are weak and lack capacity to manage large infusions of international aid, and where donors are concerned about corruption or the legitimate use of revenues from externally financed projects. Some of the trust funds work independently of the government in countries where stable or legitimate regimes may not yet exist. The funds may also function as an external parallel organization, in cooperation with the national government. For example, international donors set up the Afghanistan Reconstruction Trust Fund (ARTF) in 2001 to coordinate external assistance for the transitional government of Afghanistan. ARTF was funded and jointly managed by international aid agencies. It sought to provide short-term, emergency funding for civil servant salaries and projects and programs to rebuild Afghanistan, and it facilitated the return of skilled expatriate Afghans to the country. ARTF promoted transparency and accountability of reconstruction assistance, supplemented the national budget for reconstruction activities, reduced the burden on limited government capacity while promoting capacity building, and helped fund the recurrent budgetary expenditures required for the government to function effectively.<sup>14</sup>

The World Bank also uses trust funds to channel aid to low-income countries under stress, most of which are fragile states and postconflict societies. These funds, administered by the International Development Association (IDA), seek to promote policy and institutional reforms, improve government performance, strengthen the government's ability to deliver social services, and harmonize donor activities. The funds also support capacity building for governance reform and enhancing government capacity for service delivery.

Where donors see weak governments, strong risks of corruption, or lack of financial management capacity, they often create special trust funds that are beyond the government's sole control. They attempt to ensure that income from internationally financed infrastructure or other revenue-producing projects are allocated to development activities and protected from misappropriation. Increasingly, for example, the World Bank uses trust funds or special administrative arrangements as part of its system of safeguards to ensure that revenues from the large-scale infrastructure projects that it supports are allocated to programs that reduce poverty or achieve other social objectives.

For example, in supporting the Chad-Cameroon petroleum pipeline project, the Bank insisted on the creation of a special revenue management program in which 10 percent of Chad's dividends and royalties on oil were placed in a Future Generations Fund, 80 percent of royalties and 85 percent of dividends were earmarked to priority social development sectors—education, health and social services, rural development, infrastructure, and environmental and water resource management—and the remainder allocated for regional development in the oil-producing area. Chad's revenues were deposited in an escrow account and in the Future Generations Fund at Citibank in London. The program required the creation of a petroleum oversight committee—the Collège de Contrôle et de Surveillance des Ressources Pétrolières (CCSRP)—to monitor the use of petroleum revenues. The CCSRP included representatives of the government, parliament, supreme court, and civil society, who had to approve all allocations and disbursements of oil revenues.<sup>15</sup> Although the Government of Chad eventually undermined its trust fund commitments, the Bank was able to protect revenues for social development for a few years and took punitive action against the government when it unilaterally changed the allocation of funds going into the general treasury.

#### **4. International Staffing or Supplementation of Government Ministries or Agencies**

Lack of administrative capacity or weaknesses in public administration in many postconflict fragile states require international donors either to temporarily staff government agencies and ministries or perform functions that are normally the responsibility of government organizations. Donor staff, technical advisors, or contractors often perform public administration functions, either in conjunction with government agencies or in place of them. In some cases, they play such a significant role that they become, in effect, shadow governments.

For example, in fragile states still in conflict or in postconflict recovery, UN peacekeeping forces or UN missions play strong roles in staffing and financing internal police and security forces. In 2005, the UN Stabilization Mission in Haiti (MINUSTAH) provided more than 6,000 military personnel to carry out security functions that would ordinarily be a government responsibility. In addition, MINUSTAH mobilized 648 civilian police officers from 33 countries and 750 police units from four countries to supplement, supervise, and train Haiti's military and police forces.<sup>16</sup> MINUSTAH personnel, jointly with Haitian National Police (HNP), restored law and order in trouble areas and moved against former soldiers attempting to carry out a coup d'état. On their own, the UN forces carried out operations to prevent or end illegal activities of former military personnel and protect HNP forces and facilities. Similarly, the UN Mission in Liberia mobilized more than 14,000 international military troops to provide security for a weak government during

2004 and 2005, providing more than 1,000 civilian police to carry out security and crime prevention functions that the government could not perform.<sup>17</sup>

International donors also directly substitute temporarily for government personnel or indirectly supplement the civil services of weak governments with their own staff, international technical advisors, or international consultants and contractors. In Iraq, USAID contractors staffed teams that reestablished local governance units—neighborhood, subdistrict, district, and governorate councils—and trained them in local administrative functions to improve access to basic services and develop small-scale infrastructure.

Through contractors, USAID also provided advisors to the government of Timor-Leste in a variety of ministries and agencies to supplement weak public administration capacity and help build Timorese management skills. USAID contractors provided advisors to assist the Prime Minister's Office in improving government budget preparations and the efficiency of public expenditure management, maintaining macroeconomic stability, drafting enabling legislation for economic policies such as private-sector development, and recommending policies for natural resource development.<sup>18</sup>

Because technical capacity in the Ministry of Finance in the Democratic Republic of the Congo was so weak after years of conflict, the IMF posted resident advisors with the ministry and the virtually defunct Central Bank to take on many of the tasks of developing and implementing policies for effective management of financial institutions. The IMF also took the lead in formulating a strategy for rebuilding fiscal institutions; arranging for technical assistance; recommending policies, programs, and procedures for financial management reforms; and assessing progress on the implementation of reforms.<sup>19</sup> Similarly, the UN provided technical assistance and staff in Burundi to many of the government's ministries and agencies during more than a decade of civil war, "often seeming to take on more responsibility for the functioning of the country than the government did."<sup>20</sup>

## **BUILD-OPERATE-TRANSFER AND PRIVATE INVESTMENT ARRANGEMENTS**

In many fragile and postconflict states, international donors encourage or require governments with weak administrative capacity to use private-sector financing and management for BOT infrastructure for ministries, agencies, and state-owned enterprises. This parallel channel of providing assistance either bypasses ministries with weak administrative capacity or enhances the limited capacity that government agencies already have, depending on the way the BOT is structured. Donors recommend BOT arrangements most frequently in infrastructure and service provision projects, but occasionally use them to establish or reestablish and operate temporarily government agencies and organizations. BOTs and other forms of private investment provide important financial resources for weak governments seeking to reconstruct postconflict countries.

The World Bank calculated that private investment in infrastructure in 31 conflict countries totaled more than \$112 billion between 1990 and 2002 and that \$15 billion of that investment went into "nonfunctioning" conflict countries.<sup>21</sup> Although the amounts the private sector invested in infrastructure in conflict countries was only about 18 percent of the investment in nonconflict countries, the scale of private investment indicates that, under appropriate conditions, governments in postconflict countries do attract private participation in the reconstruction or extension of infrastructure. The sectors attracting private investment in postconflict countries in the period immediately after peace were usually mobile telephony and electricity, followed later by transport and water.

In postconflict countries, bilateral donors support the use of private investment and BOTs in reconstructing large-scale infrastructure, primarily in telecommunications, transport, shipping, airport, energy, and water and sewerage sectors, often through tied aid. Usually, a private-sector consortium acts as the developer for the infrastructure or service network in a BOT project. It obtains financing from international institutions (and sometimes the government), seeks guarantees from donor organizations and the government, builds the project, operates it long enough to pay back loans and recoup an acceptable return on investment, then transfers the assets and operations to the government. The government buys or leases completed facilities from the private investors.

BOT arrangements have been used extensively to build telecommunications systems, highways, utilities, and water supply systems and operate them under a concession from the government. In Afghanistan, a BOT project undertaken by TCIL of India, funded by a \$14 million tied aid grant by the Government of India, built wireless telecommunications loop networks in 11 secondary cities.<sup>22</sup> Sri Lanka, even during a period of continuing conflict with the Tamil Tigers, extended cellular telephone service through the Sri Lanka Telecom—a joint venture with the Japanese company NTT—and the licensing of local loop mobile networks to private companies. Sri Lanka Telecom operated about 85 percent of Sri Lanka’s fixed-line telecom market, and the government relied on licenses to Sun Tel, a private joint venture between companies based in Sweden, Hong Kong, the Sri Lankan National Bank, and the International Finance Corporation to provide internet and ISDN voice and data services. MTN Networks, a subsidiary of Telecom Malaysia, is licensed to provide cellular telecom services, along with CellTel Lanka, Mobitel, and Lanka Cellular.<sup>23</sup>

In Cambodia, the postconflict government used licensing and concession arrangements to provide a wide array of public services and infrastructure. Concessions were given to private enterprises for garbage collection for Angkor Wat and Phnom Penh; road building and maintenance in provinces; development of airports, internet service providers, and voice-over-internet protocol.<sup>24</sup>

## PUBLIC SERVICE WHOLESALING

In many fragile states (and especially those recovering from conflict), limited public administration capacity must often be focused on the immediate needs for providing security, building the legitimacy and stability of government, and extending its authority over the national territory. In the immediate postconflict period, government management capacity is often consumed by providing humanitarian assistance and establishing political stability and legitimacy. Although providing public services is a crucial need in postconflict countries, the weak administrative capacity in many ministries and agencies limits the ability to reach large portions of the population with services and facilities. In countries with scarce administrative, financial, technical and logistics capabilities, it may be more effective to increase capacity for service delivery by encouraging public service wholesaling, an arrangement in which governments attempt to focus scarce administrative capacity building on developing the ability of civil servants to implement broad service and infrastructure policies and to supervise and coordinate service provision through what Collier and Okonjo-Iweala call “retail organizations,” that is private firms, small-scale enterprises, NGOs, ethnic or religious organizations, or other civil society organizations.<sup>25</sup>

Public service wholesaling allows governments in fragile states to concentrate administrative capacity on facilitation, coordination, and supervision of service delivery rather than on delivering public services directly. Public service wholesaling allows weak governments to leverage the managerial capacity of private and nongovernmental organizations, mobilize private and social capital, and extend access to services. Often, retail organizations are based in or have strong

relationships with local communities and can develop stronger ties with local governments or service organizations than can civil servants in the central government.

In a public service wholesaling arrangement, government agencies provide the broad policy and regulatory framework for service delivery; contract with or make arrangements with private firms, NGOs, or social investment funds to finance or deliver services; and then supervise the arrangement to assure that resources reach the intended beneficiaries.

### **Government-Sponsored Social Funds**

In many developing countries and fragile states, international donors encourage governments with weak public administration capacity or low levels of ability to reach out to local communities to create or sponsor social funds. Through such funds, civil service organizations channel financing to local governments and community organizations to provide services or accomplish social development objectives. Social funds usually act either independently of government or under the auspices of a government agency. They become intermediaries that “appraise, finance, and supervise implementation of social investments identified and executive by a wide range of actors, including local governments, nongovernmental organizations, local offices of line ministries, and community groups.”<sup>26</sup>

The Inter-American Development Bank has invested more than \$2.7 billion in more than 40 social investment funds in Central and South America. Between 1987 and 2003, the World Bank alone financed nearly 60 social funds in developing countries and postconflict fragile states such as Rwanda, Angola, Ethiopia, Eritrea, Sierra Leone, Kosovo, Sri Lanka, Cambodia, East Timor, the West Bank and Gaza, and Lebanon.<sup>27</sup> Some of these funds were government-sponsored and others were independent. Most of those affiliated with governments were located in offices of the prime minister or president, although some were in sector ministries, ministries of finance or planning, or a government bank or government foundation. The funds were usually organized and operated relatively independently of government and political influence, however, and when they were funded by international donors they were subject to independent audits, using international standards.

For example, one of the largest government-sponsored social funds in a postconflict fragile state was that funded by the World Bank in Nicaragua. The Nicaragua Social Investment Fund (FISE) was created as a temporary agency by presidential decree in 1990; the World Bank twice extended its funding into the early 2000s. Between 1991 and 1998, FISE accounted for about 40 percent of the total public investments in social sector infrastructure and constituted about 1 percent of Nicaragua’s GDP.<sup>28</sup> Although FISE’s four-member board of directors was appointed by the president, the organization was run by an executive director and operated relatively autonomously from political influence. It was exempt from government budget, procurement, and personnel recruitment regulations. Financing for FISE was through a special account in a commercial bank that was approved by the IDA and audited by independent organizations using World Bank auditing standards.

In a period when Nicaragua’s government was focused on recovering from conflict and attempting to stabilize governance, FISE provided a parallel means of wholesaling public services and reconstructing infrastructure. FISE provided most of its financing to extremely poor communities for water systems; education and health projects; environmental, municipal infrastructure, and sanitation projects; and construction of low-cost housing for the poor and for early childhood development centers. FISE worked with national government ministries, local governments, associations of municipalities, local civil society organizations, and donors.

## **Outsourcing Public Service Provision to the Private Sector**

Another approach to public service wholesaling is through outsourcing to the private sector. International donors sometimes play an important role in providing technical assistance to government agencies and ministries for creating private-sector outsourcing procurement, contracting, coordination, and management. Donors may also provide financial assistance to cover, at least temporarily, some or all of the government's overhead costs of contracting out service provision. For services that private-sector retail firms might not be able to provide at a cost that the poorest segments of society can afford, international donors occasionally provide some or all of the recurrent costs or subsidies needed to make outsourced services available to the poor. In countries where the private sector is weak or in disarray because of conflicts and hostilities, international donors sometimes arrange for services to be outsourced to international firms.

During the CPA's administration of Iraq, for example, the U.S. Department of Defense and USAID contracted to the private sector nearly all of the infrastructure reconstruction functions that would normally be done by an indigenous government. Private firms not only received contracts to rebuild airports, bridges, healthcare clinics, schools, hospitals, seaports, the electrical power systems, railways, telecommunications, and water and wastewater systems, but also to reestablish and build the capacity of Iraqi local government councils and restore marshlands.<sup>29</sup>

Generally, governments wholesale services through private organizations through three mechanisms: 1) service contracts, 2) management contracts and 3) lease contracts.

*Service contracts.* Donors often encourage government agencies to contract with private firms to provide a specific service for a specified period of time. Governments use service contracts to provide low-cost housing; operate schools, clinics, or hospitals; or provide a wide variety of other public services and utilities. Contracting has become one of the most important methods of privatizing water and wastewater treatment services in many countries. The Government of Guatemala, for example, contracted companies to procure, purify, distribute, meter, and charge for water in the larger cities. Tariffs were approved by the national government, which also monitored water quality. After conflicts abated in Sierra Leone, the government used service contracts with small and medium-sized enterprises for road maintenance to leverage its own limited administrative capacity and redevelop local enterprises and individual contractors.<sup>30</sup>

*Management contracts.* Governments also use management contracts to provide services more efficiently while maintaining ownership of facilities. Governments have contracted with international firms to operate state-owned hotels in Africa and Asia, agroindustries in Senegal, Côte d'Ivoire, and Cameroon, and mining operations in many countries in Latin America and Africa. In this form of outsourcing, a contractor takes over responsibility for operation and maintenance of a service facility for a specified period of time with the freedom to make routine management decisions. In Côte d'Ivoire, for example, the government joined with a private corporation, Société de Distribution d'Eau de la Côte d'Ivoire (SODECI), to supply piped water to households and public fountains with coin-operated pumps. The government established rules for price-setting, and surcharges on water fees were paid to the municipality to amortize the construction costs of the water system.<sup>31</sup>

*Lease contracts.* Governments also use lease contracts for both public services and commercial operations. In Latin America and Africa, governments lease state-owned industries to private companies for long-term operation. Companies leasing production facilities assume responsibility for operation, maintenance, and replacement of non-fixed capital assets. In Sri Lanka, the government used a combination of lease and concession contracts to attract private-sector

participation in supplying water to cities outside of Colombo.<sup>32</sup> Following the peace accords and elections in Nicaragua, the government privatized almost 90 percent of state enterprises, and leased with a purchase option about 25 percent to workers or ex-soldiers.<sup>33</sup> Under a lease contract in Mozambique a private operator provided water to five major cities and Maputo beginning in 1999.<sup>34</sup>

### **Outsourcing the Management of Outsourcing**

In some fragile states, the governing authority not only lacks the administrative capacity to provide services directly, but may not have managerial or technical skills to manage the service wholesaling process. In some instances, international donors have either provided the management expertise themselves by supervising procurement, contracting, and oversight or provided funding for the government to outsource these responsibilities to a third party.

For example, from 1996 to 2000, the Palestinian Water Authority (PWA) used the Gaza Management Contract to outsource water and sanitation services in Gaza. The management fee for the contract had two components: a fixed payment and a performance-linked payment based on the operator's score on 32 performance targets. The PWA outsourced the technical and financial audits of the private operator to an international company, Deloitte and Touche Norway, with financial assistance from the Norwegian bilateral donor agency. Deloitte and Touche Norway's evaluation supplemented the contractor's audit and the PWA's assessment.<sup>35</sup> Final decisions on performance-linked fees were based entirely on the independent auditor's report.

By outsourcing this regulatory aspect of contract management, the PWA enhanced its administrative capacity to verify the contractor's performance, used the auditing organization to put pressure on the operator to perform at higher levels, and encouraged the operator to revamp its operations and management team in order to comply with all of the performance measures. Because the auditing organization was both politically and administratively independent of the PWA and the Palestinian Authority, it could enforce the quality measures objectively. The outsourcing arrangement created a nonpolitical regulatory mechanism that reduced PWA's costs of developing its own regulatory procedures.

## **PUBLIC-PRIVATE JOINT VENTURES**

As noted, the weak administrative capacities in many fragile states require the government to attract private investment for infrastructure reconstruction so that public services can be extended quickly and more widely than government agencies or state-owned enterprises could have accomplished. The World Bank noted the example of Cambodia, where the postconflict government had neither the financial resources nor the administrative capacity to reconstruct infrastructure and restore public services effectively and was not likely to develop sufficient capacity in time to meet urgent requirements. "The need for efficiency in service delivery is a key driver for change, given Cambodia's lack of tax revenue, its substantial reconstruction and maintenance needs, and the poor record of public provision of services," World Bank analysts pointed out, and the government would not be able to meet those needs without mobilizing private investment and private-sector provision of the infrastructure networks through which services would reach local communities.<sup>36</sup>

Donors, therefore, often recommend another means of attracting private capital investment in infrastructure reconstruction through public-private joint ventures, a parallel channel through which governments are able to retain some control over politically strategic service sectors while enhancing their limited administrative and financial capacity. Joint ventures are often formed between domestic and multinational companies and state-owned enterprises or government agencies at both the central and local levels.

In Afghanistan, for example, the Ministry of Communications and the U.S. company Telecommunications Systems International formed a joint venture with the Afghan Wireless Telecommunications Company to set up a mobile network even before the Taliban was overthrown. After a new government was installed following the U.S. invasion in 2000, the joint venture upgraded substantially Afghanistan's mobile platform. In 2003, the Government of Afghanistan approved a telecommunications and internet policy that looked to private-sector investment for implementing the telecommunications development strategy. The government licensed two private-sector operators to operate the mobile network—the joint venture of Afghan Wireless and Roshan, a consortium led by the Aga Khan Foundation for Economic Development and Monaco Telecom International and Alcatel.<sup>37</sup>

In Cambodia, joint ventures expanded telecommunications services. The Ministry of Post and Telecommunications formed a joint venture with RTI for developing an international telecommunications gateway, one with Indosat for a second fixed line network, and another with Mobitel, Samart, Camtel, and Shiniwatra for mobile telephone services.<sup>38</sup>

### GOVERNMENT-NGO PARTNERSHIPS

All international donors encourage or support the leveraging of limited public administration capacity in postconflict fragile states by directly or indirectly funding international and domestic NGOs to provide services. Three types of government-NGO partnerships appear frequently in fragile states: 1) government-donor partnerships for service delivery, 2) government-NGO contractual relationships for services provision, and 3) NGO supplementation of government programs and services.

Often, postconflict countries require a combination of all three types of arrangements to supplement or substitute for public-sector provision of public services or to extend the limited capacity of government to reach large numbers of citizens, especially the poorest groups, those living in remote areas of the country, or those living in areas still experiencing hostilities. The World Bank points out that the weak public administration capacity and resources in the Central African Republic made social services delivery almost entirely dependent on NGOs.<sup>39</sup>

Also, many of the donor's commitments to assist with postwar reconstruction in Afghanistan were through NGOs such as the International Committee of the Red Cross, the Red Crescent Society, CARE, Oxfam, Médecins Sans Frontières, the Islamic Relief Agency, and Handicap International to provide a variety of social services that the Afghanistan transitional government simply did not have the administrative or financial capacity to perform.<sup>40</sup> Both international and local civil society organizations in Mozambique took an active role in developing the country after the cessation of hostilities, especially by extending services and promoting economic development in rural areas. Many NGOs worked in partnership with the government at both the central and local levels, and the government encouraged and enabled NGOs to become involved in reconstruction.<sup>41</sup>

In Rwanda, NGOs and international organizations worked together with government agencies attempting to restore agriculture. Unicef, the Food and Agriculture Organization (FAO) and other UN organizations, USAID, and several bilateral donors funded the nationwide "Seeds of Hope Initiative," providing seeds and tools for rural households in order to increase agricultural production and food security. Although the Rwandan Ministry of Agriculture and FAO provided some coordination for the program, it was largely implemented by NGOs such as CARE, Catholic Relief Services, Lutheran World Federation, World Vision, and Action Nord-Sud.<sup>42</sup> CARE, for example, carried out large-scale surveys of rural households to determine needs and better understand the problems in delivering agricultural inputs and Caritas Internationalis, in

conjunction with Catholic churches, delivered thousands of metric tons of vegetable seeds to farm households. World Vision provided seed and tool packages and helped rehabilitate the seed multiplication programs and paid the salaries of some government extension agents until the government could take over the responsibility.

## **STRENGTHENING INDEPENDENT CIVIL SOCIETY ORGANIZATIONS TO PROVIDE PUBLIC SERVICES**

Over the past two decades, international donors—including USAID—have come to see a robust network of social and civic institutions (commonly referred to as social capital) as essential to the effective operation of markets and economic development. In many developing countries and fragile states, social capital has powerful consequences because civic networks and norms ease the dilemmas of collective action by institutionalizing social interaction and reducing opportunism, fostering norms of social reciprocity and social trust, and facilitating political and economic transactions. Well-developed networks of civil institutions also amplify the flows of information and help transmit knowledge of people’s reputations that lower economic and social transaction costs.<sup>43</sup> They offer channels for reliable political, economic, and social collaboration.

In fragile states where governments lack the capacity to extend services throughout the country, donors often attempt to support independent social investment funds as social service wholesalers, or they try to strengthen independent civil society organizations as parallel suppliers of social services.

### **Service Wholesaling through Independent Social Investment Funds**

As noted, international donors have increasingly used social investment funds to support NGOs in providing social services in developing countries and fragile states. Although some social funds emerge indigenously, many are created with the encouragement and support of international assistance agencies in countries where public administration capacity is weak or inadequate. Independent social funds are “agencies or programs that channel funds in the form of community grants for small-scale development project that are identified, prepared, and implemented by local actors, such as community groups, local governments, and non-governmental organizations.”<sup>44</sup> Unlike government-sponsored social funds, independent social funds operate outside of the government structure as parallel organizations.

Like government-sponsored ones, independent social investment funds finance public infrastructure and services, such as water supply systems, local roads, schools, and health centers. They provide microfinancing of income-generating products, run literacy campaigns, nutrition programs or programs that support youth or the elderly or disabled, and they train local NGOs and civil society organizations. Usually they simply fund other organizations—local governments, NGOs, and community organizations—to implement programs rather than delivering services directly. Thus, in some sense, they are parallel nongovernmental public service wholesaling organizations that use other NGOs to extend services to citizens. Donors see social investment funds as a means of creating temporary organizations that can act quickly to extend services during or following a crisis or in countries where public administration capacity is limited.

### **Strengthening Civil Society Organizations as Public Service Delivery Channels**

In many postconflict fragile states, international donors encourage and support government efforts to strengthen civil society organizations as permanent independent and parallel providers of social services. Although they may have no formal contract or arrangement with government agencies, they either supplement limited public administration capacity or substitute for government in providing services. Although the definition of civil society organizations varies from

country to country, among the most important institutions of civil society are employers organizations; industry associations; commercial associations; labor unions; employee groups; professional associations; policy and advisory groups; the media; gender, language, religious, and other social interest groups; and community and neighborhood groups.

In countries where public administration capacity is limited, people need the help of consumer groups, charitable and philanthropic organizations, and social organizations that bring them together to participate in a wide range of activities that contribute to the quality of life in their communities. Civil society also play crucial roles in providing functions and services that the private sector may not be able to offer in fragile states, where market mechanisms are weak. Civil society organizations have especially strong impacts on economic, political, and social development when they work in cooperation with each other, the government, and the private sector. They often contribute to economic development by helping entrepreneurs and supporting community self-help activities that sustain livelihoods and contribute to economic recovery, developing human resources, protecting the economically weak segments of the population from the potentially adverse effects of economic transformation, and participating in activities that help alleviate poverty.

USAID's Global Development Alliance seeks to form coalitions of NGOs, private foundations, and international donors to extend the scope and coverage of public services in fragile states. In Guatemala and Nicaragua, USAID, Visa International, and other partners have funded FINCA, an NGO involved in providing small-scale loans to women who want to start or expand small businesses. Together with Visa and Bancafe, FINCA provides debit cards from which women entrepreneurs can draw loans of \$200 or less to begin or sustain their small businesses.<sup>45</sup>

In many postconflict fragile states with weak public administration capacity, government simply cannot provide basic social services alone. It must therefore allow and encourage civil society organizations to provide what in many other countries would be considered public services.<sup>46</sup> In Cambodia, for example, the Catholic Church provides a significant share of educational services ranging from preschool, elementary, and high school to university education. The quality of educational services offered by the Catholic Church in Cambodia tends to be of higher quality than that provided by the government. As a civil society organization, the Catholic Church both supplements the public education system at all levels and offers a higher-quality alternative to public schools.

## MAKING PARALLEL STRUCTURES WORK FOR PUBLIC ADMINISTRATION ENHANCEMENT

For international donors seeking to find ways of quickly providing humanitarian and social services that may be beyond the capacity of weak public administrations in postconflict societies, the only options available may be parallel structures and arrangements, through the private sector and civil society organizations, that bypass, temporarily supplement, or leverage the limited capacity that exists.

The dangers of arrangements that donors use to bypass governments have been known for more than a quarter of a century. The tendency of the World Bank, regional development banks, and bilateral aid programs to create autonomous project implementation units (PIUs) for large-scale projects during the 1970s and 1980s to avoid government weaknesses often created as many problems in developing countries as they solved.<sup>47</sup> PIUs often attracted some of the most talented public administrators away from governments because they often paid higher salaries and they were not constrained by bureaucratic regulations and procedures. Because PIUs had large amounts of resources, many became powers unto themselves and did not coordinate or integrate their work with government ministries and agencies.

Although created as temporary organizations, PIUs often perpetuated their existence by seeking continued international funding for increasing numbers of new projects, often competing with regular government agencies for funding. They often responded more willingly to donor criteria and objectives than they did to the development plans of the host-country governments and had little incentive to respond to the needs of the people who were the intended beneficiaries of their projects. Few PIUs contributed to developing administrative capacity within the government; many of their employees took jobs with the private sector, international donors, NGOs, or multinational corporations after gaining skills and knowledge while working on internationally funded projects.

One important difference between the context of aid today and that of a quarter-century ago, however, is a broader perception of administrative and governance capacity. In the 1970s, governance was perceived of simply as the actions of government. Today, it is seen as the interaction of government, the private sector, and civil society organizations, and there is a wider acceptance of the fact that the decisions and actions of all three shape the modern state.<sup>48</sup> Moreover, many more people recognize that development in all states requires widespread administrative capacity, not only in government but in private enterprise, NGOs, and civil society organizations. No single sector can bring about political, economic, social, and technological change, and weaknesses in administrative capacity in any sector diminish governance capabilities in others.

Parallel structures and arrangements currently used by donors seek to achieve many of the objectives of bypassing government as did autonomous PIUs and share some of the same potential pitfalls in building government capacity. Though parallel structures and arrangements have strong potential advantages for donors, governments with weak administrative capacity, and people in postconflict fragile states, they have potential disadvantages. If they do not operate effectively they can weaken public administration capacity, rather than strengthening it, or they do harm to citizens when they act corruptly, ineffectively, or inefficiently.

Donors will undoubtedly continue to use parallel structures and partnerships in fragile states and postconflict societies because they have potential advantages and international organizations may have few options. If donors seek to build and sustain long-term capacity in public administration,

however, they must address potential adversities in using parallel structures and partnership arrangements by designing and implementing them more carefully, based on a better understanding of conditions and needs in host countries.

## POTENTIAL ADVANTAGES OF PARALLEL STRUCTURES

Each parallel option reviewed has potential advantages and disadvantages specific to its structure and operation, though most share common attributes. When parallel structures and channels work effectively in postconflict fragile states, they can achieve at least some donor objectives and assist weak governments with immediate needs when they are recovering from hostilities. Among frequently observed advantages of parallel and partnership arrangements are that they can

- respond rapidly to emergency situations and humanitarian crises
- fill gaps in public administration capacity until governments become more stabilized and reforms can be undertaken
- substitute as a governing authority in postconflict countries where no legitimate or acceptable government exists
- overcome complex obstacles caused by weak administrative capacity or inefficient or ineffective civil services
- leverage scarce public administration capacity and extend government's ability to perform functions or deliver services
- increase the efficiency and effectiveness of existing government services and functions
- mobilize private financial, managerial, technical, and knowledge resources for public service provision
- extend the reach of weak governments in providing services to the poor, remote rural areas, and regions subject to continued fighting or hostilities
- build public administration capability to take over functions carried out by parallel structures and manage public-private partnerships
- create or strengthen administrative capacity in the private sector or civil society organizations to deliver services that supplement those of the public sector

Donors use parallel arrangements to respond quickly to crises, humanitarian needs, and reconstruction requirements in fragile and postconflict states. All parallel channels for donor assistance provide potential opportunities to respond to immediate needs for public services, infrastructure, and administrative capacity in countries where government is struggling with reconstruction and establishing legitimacy. Externally established governance structures fill a void where governments must be reconstituted or established. International assistance coordination organizations can provide some degree of planning and integration of donor activities, and international trust funds can help manage financial resources effectively so that they are not diverted or misallocated.

Public service wholesaling through private and nongovernmental sectors can leverage weak or limited capacity in government ministries and agencies and reach groups of citizens or geographical areas that public administrators cannot. Public-private joint ventures, BOTs, and private investment can more quickly mobilize financial resources and managerial capacity to reconstruct infrastructure and extend services than still struggling governments can alone. Encouraging independent civil society organizations to provide services that complement or substitute for those ineffectively provided by government can assure that citizens have some access until the public sector attains greater administrative capacity.

Parallel arrangements substitute for or supplement the weak public administration capacity of governments that are either not fully constituted, struggling to gain popular legitimacy, focused

almost entirely on postconflict reconstruction, or unable to extend their authority over the entire national territory. In Nicaragua, for example, in the absence of strong public administration capacity in the postconflict period, private medical services filled the gap, eventually overtaking the public sector as the major provider of healthcare in most of the country. As the government became more stable, it began to partially privatize portions of the public health system. As one observer noted, “The government has introduced the provision of private services within public hospitals as well as the contracting of specialized private medical services. The supply of pharmaceuticals for the entire public system has been contracted with private firms, and some donors like AID and the World Bank have suggested the privatization of some or all public hospitals.”<sup>49</sup>

In addition, parallel channels can bypass political and bureaucratic complexities and constraints in the delivery of public services and functions until the government becomes more stable and capable. Although bypassing government is not an ideal arrangement in countries where the governing authority is attempting to establish its legitimacy and popular support, it may be necessary where humanitarian needs must be met quickly in the absence of strong public administration capacity or where public administration is plagued by corruption and incompetence. The World Bank Group’s encouragement of BOTs and private investment in infrastructure provides some financial guarantees against high levels of political and financial risk, corruption, and weak public administration capacity for multinational corporations undertaking projects in postconflict societies.

Moreover, all of the parallel and partnership arrangements can be used to leverage scarce public administration capacity and focus public administration reform on supervising and facilitating services and functions, rather than providing them directly. Public service wholesaling through outsourcing to the private sector elicits stronger private investment and participation in providing public services and infrastructure. Contracting for infrastructure and services allows governments to arrange with private companies to provide services or facilities that meet government specifications. By outsourcing to the private sector, governments in postconflict societies can benefit from strong incentives for private firms to keep costs down.<sup>50</sup> Often, private firms can avoid the bureaucratic problems that plague government agencies, and they can obtain new technology and apply more efficient procedures. Outsourcing allows government to extend services without increasing the number of public employees or making large capital investments in facilities and equipment. Private firms can often obtain a higher level of productivity from their work forces than can civil service systems, they can use part-time labor where appropriate, and they can use less labor-intensive methods of service delivery. Contracting with the private sector gives governments the ability to take advantage of economies of scale. By contracting with several suppliers, governments can assure continuity of service. By contracting competitively for services, they can determine the true costs of production and eliminate waste.

Cooperating with the private sector also allows governments to adjust the size of programs incrementally as demand or needs change. In some cases, private enterprises can respond more flexibly to market signals, more easily procure modern technology, and develop stronger capacity to maintain infrastructure than can public agencies. Public-private sector cooperation can also generate jobs and income while meeting demand for public goods and services.<sup>51</sup> Partnerships that partially or completely displace inefficient government agencies can help reduce public subsidies or deficits and relieve fiscal pressures on the national treasury.

Perhaps, more beneficially, parallel channels for international assistance not only leverage limited public administration capacity but also mobilize financial and human resources of the private sector and networks of NGOs and civil society organizations. By encouraging and supporting

BOT arrangements and private investment in public services and infrastructure, international donors help bring financial resources to reconstruction and recovery that fragile states may not be able to mobilize on their own. As the World Bank pointed out, improving access in Cambodia to efficient and affordable electricity, water, transportation, telecommunications and other services directly affected people's living standards and stimulated economic growth and industrial competitiveness. Parallel and partnership arrangements in some postconflict fragile states cannot only be created and become operational relatively quickly, but also extend access to infrastructure and services to the poorest groups and areas of the country more effectively than can weak or fledgling governments.<sup>52</sup>

Finally, donors use parallel channels of aid and service delivery to strengthen the capacity of public administration to take over functions within the civil service system. World Bank studies show that government-sponsored and independent social investment funds in Bolivia, Nicaragua, and Honduras played important roles in strengthening the administrative capacity of local governments.<sup>53</sup> Donors' assistance for BOTs and public-private joint ventures often have built-in support for public administration capacity building and the transfer of know-how in managing the partnerships. As a part of its support for the Nam Thuen 2 hydropower project in the Lao People's Democratic Republic, for example, the World Bank created a decision framework in which the government had to meet major milestones and the Bank provided extensive capacity building assistance in financial management. The Bank identified serious weaknesses in the government's budget preparation, execution, and control systems and supported improvements in expenditure management, including fiscal planning and budget preparation, treasury, accounting and reporting, the development of information systems, and the legislative framework for public expenditure management.<sup>54</sup>

## POTENTIAL DISADVANTAGES OF PARALLEL STRUCTURES

As with any form of international assistance, parallel structures and channels have potential advantages and weaknesses. These can undermine the enhancement of public administration capacity if necessary conditions are not established or if donors fail to design and implement the parallel structures and channels in ways that contribute to stronger government as well as postconflict recovery.

Among the frequent disadvantages of parallel and partnership arrangements are

- inappropriateness or inadequacy to overcome weaknesses in governance and administrative capacity in the public sector
- negative, unintended, or unanticipated consequences
- undermining of the effectiveness of parallel and partnership approaches by corruption, lack of transparency, or political favoritism
- ineffective government supervision and regulation of partnership arrangements
- inability of government to facilitate and manage public-private and public-NGO contractual arrangements
- weakening or dilution of public administration capacity by parallel structures or private and civil society organization participation in service provision
- weak administrative capacity in NGOs and civil society organizations
- ineffective administrative, financial, and technical performance by the private sector or NGOs

Parallel or partnership arrangements are not always appropriate or adequate in all postconflict situations or in all fragile states. Although they offer developing country governments important means of expanding services and infrastructure and offer the private sector commercial opportunities to expand their businesses, parallel governance and administrative structures are

complex arrangements that can create potential problems for both the public and the private sectors if they are not properly designed and administered. They often displace public workers, thereby generating political opposition among public officials, labor unions, and public employee associations, as well as among important ethnic, religious, or political factions seeking representation in a postconflict government's civil service. If the parallel structures and contractual relationships among government, the private sector, and civil society organizations are not well designed and supervised, their services can become more expensive than those provided by government alone.

Critics of internationally established governance and administration structures such as UN trusteeships argue that such approaches are inconsistent, inadequate, and inappropriate for nation-building.<sup>55</sup> They argue, for example, that benevolent autocracies are weak bases for developing legitimate and stable national governance, and that the postconflict aid delivered through them is often supply-driven, rather than demand-driven, and tends to decline or disappear after immediate crises. In addition, unrealistically high expectations for standards of governance in fragile states are often imposed. For example, attempts to bypass governments or establish arrangements that protect resources from corruption or misallocation do not always work as intended in fragile states or postconflict situations. Although in creating a trust fund to channel revenues from the Chad-Cameroon pipeline, the World Bank placed strong emphasis on building skills and capacity in Chad's government to manage oil revenues effectively, maintain transparency and accountability, and strengthen the Ministry of Finance through training in public resources management, the trust fund approach did not fully achieve intended objectives. The Government of Chad undermined the process by enacting a law diverting the oil revenues to the national treasury in 2005.<sup>56</sup>

Poorly designed and inadequately analyzed projects have failed in both rich countries and fragile states. Corruption can undermine public trust in the private sector if the contracting process is not transparent and carefully supervised. In a study of the environments for international private investment in postconflict countries, Bray pointed out that multinational corporations willing to explore public-private partnerships or BOTs in fragile states face high corruption risks. "In Sierra Leone, political leaders' exploitation of the diamond industry was one of the main factors that led to conflict," he noted. "Postwar Bosnia-Herzegovina has had to cope simultaneously with the challenges of physical reconstruction, the transition from socialist economics, and the complexities of the national constitution established by the 1995 Dayton accord. These complex political structures have in themselves provided opportunities for high levels of corruption."<sup>57</sup> In Cambodia, the effectiveness of public-private partnerships has been hampered by the widespread lack of transparency in the administration of public-private sector arrangements; the government's failure to negotiate openly contracts with private investors; significant gaps and weaknesses in the legal framework for telecommunications, water supply, and transport; and the tendency of government officials to bypass laws and administrative processes in awarding contracts. Moreover, government agencies have not paid much attention to assessing or documenting the liabilities assumed by the public sector in contracts negotiated with the private sector for infrastructure projects. Because the government's planning processes remain inadequate, private firms make—and the government often accepts—unsolicited offers that are not identified in sector plans or new contracts that conflict with existing concessions. The Government of Cambodia does little or no auditing of concessions either before or after implementation.<sup>58</sup>

Public service wholesaling through the private sector or through NGOs can go awry, and the cost of contract management can be substantial if there is insufficient administrative capacity within government to supervise and oversee the process effectively. In all cases, governments must compare carefully the costs of contracting out with the costs of providing services directly. The

involvement of the private sector in providing services that were formerly free of charge or that were subsidized by the government can increase their price and place poor segments of the population at a significant disadvantage. Governments of fragile states with large numbers of poor people must make adequate provision to serve those who may not be able to afford services provided through public service wholesaling or private provision.

Moreover, parallel channels of international assistance can further weaken or dilute public administration capacity rather than contribute to capacity enhancement. The autonomous status of both government-sponsored and independent social funds, for example, sometimes leads to poor coordination with operating ministries and agencies of governments, thereby inhibiting sectoral planning or undermining sectoral reforms.<sup>59</sup>

Also, many social funds, private-sector contractors, BOT projects, international NGOs, and the donors' in-country assistance offices frequently pay higher salaries and offer better working conditions and opportunities for career advancement, benefits, and access to equipment and support services than do government civil service systems in fragile states. Parallel structures can easily attract the most skilled and talented public administrators away from government and into international, private, or nongovernmental organizations. In addition, parallel arrangements may rely on NGOs and civil society organizations that have as little administrative capacity as governments in postconflict fragile states.

## CREATING CONDITIONS FOR THE EFFECTIVE OPERATION OF PARALLEL STRUCTURES

Although there are well-known dangers involved when donors and governments in developing countries bypass a weak government or use parallel governance and administrative arrangements, using such channels may be the only feasible way of assuring that financial assistance is directed to crucial reconstruction tasks. In other circumstances, parallel structures may be a viable long-term strategy for supplementing public administration in delivering essential social services. Experience with parallel and partnership arrangements reveals lessons that donors should consider in selecting, designing, and implementing parallel and partnership alternatives to promoting public administration reform more directly.

1. Design capacity-building assistance for public administration into assistance programs, using parallel or partnership arrangements.
2. Design parallel arrangements to transfer functions and knowledge as public administration capacity increases.
3. Implement parallel and partnership arrangements in ways that coordinate with and enhance the administrative capacity of appropriate government departments and agencies.
4. Assist governments with developing appropriate policies, procedures, and programs to support the effective operation of partnership arrangements.
5. Strengthen requirements and safeguards for increasing honesty, transparency, and fairness in transactions between government and the private and nongovernmental sectors.
6. In postconflict fragile states, help governments create a business and investment climate conducive to partnering with private-sector organizations and NGOs.

7. Assist NGOs and private-sector organizations in developing administrative, technical, and financial capacity to partner with or supplement government in the provision of infrastructure and social services.

Although channeling aid through independent, private, or nongovernmental organizations can be a viable means of supplementing weak public administration capacity in postconflict fragile states, care must be taken to build in transition procedures whereby functions are transferred back to the government as its administrative capacity becomes stronger. Donors should make provisions in their assistance programs to strengthen civil servants' administrative capacity to formulate and implement appropriate supporting policies and procedures for and maintain oversight of partnership arrangements. Institution-building and training for government officials should be an integral part of implementation plans for using independent or autonomous organizations.

To make partnership arrangements between governments and the private sector or civil society organizations effective, donors should build the capacity of public administrators to design and manage contractual arrangements effectively. Government must have procedures for transparent contracting and procurement and mechanisms for preventing abuse and corruption. Experience in developing countries with outsourcing, public-private partnerships, and public-NGO arrangements for service delivery suggests that for these parallel channels to work effectively, government must have the willingness and capacity to choose among competing objectives; define objectives for services provision; set standards, criteria, and output targets; and safeguard the broader public interest.<sup>60</sup> National or local government agencies must have at least the minimum capacity to decide on the level of services needed and the financial resources available to pay for them; set and monitor safety, quality, and performance standards; and to enforce those standards and the output targets.

From its extensive experience with public-private partnerships, the UNDP concludes that government officials must be receptive to finding alternative mechanisms to traditional public service provision and willing to accept private-sector participation. They must choose appropriate projects that are conducive to private-sector management and properly package the projects to avoid disproportionate transaction costs. Because public-private partnership projects often take a long time, strong public-sector leadership and political commitment are essential to their success. They work best when both public and private sector partners have project champions as catalysts and sustainers. Such projects are only sustainable if they are mutually beneficial to both government and private-sector partners and if each can overcome adversarial posturing to build mutual trust.<sup>61</sup>

The UNDP points out that the tendering, procurement, and contracting procedures must be financially and operationally sound, open, transparent, and fair. "Any departure from the sealed-bid tender and contracting method will open the government to accusations of partiality or corruption."<sup>62</sup> In addition, the procurement process should

- state the desired end goal or output targets of the agreement and minimize overly specific requirements so that the private sector can innovate and manage flexibly
- ensure that potential private-sector partners can be adequately compensated for or retain their intellectual property
- include monitoring provisions of performance measures by a third party or autonomous government agency
- make provisions for renegotiating the terms of the agreement over time

Experience suggests that the success of partnerships among public, private and nongovernmental organizations requires governments to enact adequate legal reforms that allow the private sector

to operate efficiently and effectively, develop and enforce regulations that are clear and transparent to private investors, and remove unnecessary restrictions on the ability of private enterprises to compete in the market.<sup>63</sup> Host-country governments should allow for liquidation or bankruptcy of existing state enterprises that cannot be commercialized or privatized. They should also expand opportunities for local private enterprises to develop management capabilities, create incentives and assurances to protect current state employees after private or nongovernmental organizations take over service provision, and redefine the role of government from one of producing and delivering services directly to facilitating and regulating private-sector service provision.

Just as donors that encourage governments to partner with the private sector and civil society organizations should build in assistance to strengthen public administration capacity, they should also design projects using parallel or partnership arrangements to enhance the administrative, technical, and financial capacity of small enterprises, NGOs, and civil society organizations to deliver services efficiently, effectively, and responsively. Often, the assumption that the private sector and NGOs can carry out quasi-public functions better than government needs to be tested and verified in countries receiving assistance. In countries where parallel or partnership channels are necessary or desirable, donors may have to provide assistance not only for service delivery, but also for strengthening capabilities in private and nongovernmental organizations.

## CONCLUSION

In postconflict fragile states where government has limited resources and capabilities, parallel and partnership structures and arrangements may be the only viable options for donors to achieve their objectives in providing financial and technical assistance. Indirect or parallel channels of providing assistance and implementing projects are often used because public administration capacity is weak and the short-term prospects for public administration reform are dim.

Using parallel or partnership channels for assisting postconflict societies, however, does not obviate the need to strengthen public administration capacity. Nor does it eliminate or reduce the donors' responsibility to help host governments develop the required capacity to make partnerships work effectively. Some types of public administration reform may still be a crucial condition for stabilizing and legitimizing governments in fragile states.

The most important lesson of experience is that any attempt to create a parallel or partnership arrangement for enhancing public administration capacity itself requires public administration capacity. Even divesting of public enterprises and the functions they perform requires governments to have the capacity to formulate and implement appropriate laws and regulations and fair and honest procedures and to provide effective managerial supervision.

By using parallel or partnership arrangements donors can focus on those components of public administration reform that need to be adopted and implemented quickly, so that governments in postconflict fragile states can leverage their limited capacity through effective interaction with international assistance organizations, the private sector, and nongovernmental and civil society organizations.

## ENDNOTES

<sup>1</sup> USAID, *Fragile States Strategy* (Washington DC.: USAID, 2005), 5.  
[www.usaid.gov/policy/2005\\_fragile\\_states\\_strategy.pdf](http://www.usaid.gov/policy/2005_fragile_states_strategy.pdf)

<sup>2</sup> USAID, *U.S. Foreign Aid: Meeting the Challenges of the Twenty-First Century*, White Paper (Washington DC: USAID, 2004). [www.usaid.gov/policy/pdabz3221.pdf](http://www.usaid.gov/policy/pdabz3221.pdf)

<sup>3</sup> *Ibid.*, 12.

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