

Public-Private Partnerships for the provision of public goods: theory and an application to NGOs

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This article provides a theoretical framework for the involvement of non-profit organizations in Public -Private Partnerships (PPPs), and then uses this framework to explain a number of empirical regularities found in case studies. Although there is no statistical test for the predictions of the model, the illustration through pre-existing cases is a first step towards a more comprehensive empirical project that uses consistently defined variables with a sizeable number of observations.

The theoretical model defines a PPP in a very generic sense. It is a project where inputs from both a private and a public operator are necessary. However, the contract that relates the provision of the inputs to claims about the returns for the project is an incomplete contract. This means that it is impossible to ex-ante specify what will be the reward for each party in each state of nature. When the returns for a project are of a private nature (that is, they are rival and excludable), then ownership of the relevant project assets can provide incentives for the most efficient parties because they are motivated by the private returns resulting from ownership. However, when the returns for a project have a public component (as is the case in the model by Ghatak and Besley), it means that it is difficult to appropriate these returns in a material sense, because they will have spillovers or they will be collectively shared.

When the returns from an investment project are public and not private, then one way to provide incentives for the input providers is through their preferences for these public returns. Here is where the role of non-profit organizations becomes important. Those organizations that have strong preferences for the public good will have incentives to provide the investment that makes possible the existence of this public good. This may explain the widespread and increasing presence of non-profit organizations in public-private partnerships in developing countries, for example in education, health or social services.

The authors also make predictions about the likelihood of greater or lesser reliance on the non-profit entity versus the public agent within the PPP. In particular, they predict that partnerships will be more likely when the government and the NGO have comparative advantages in the respective tasks and when NGO and government mission preferences are more congruent. They also predict that the NGO will own assets related to the project if it is

the more efficient provider and/or its assets are not highly specific. Each of these predictions is related to one or more case studies that seem to provide confirmation.

The article shows the importance of combining insights from public economics and from the economics of organizations, in order to tackle some of the key issues that are important in guaranteeing the achievement of public objectives, especially in developing countries.

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