

# Public-Private Partnerships

## The Trojan Horse of Neoliberal Development?

*Faranak Miraftab*

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### ► I. Introduction

Since the end of the cold war, two concurrent global trends—government enablement of markets and government enablement of communities—have enlisted policy makers concerned with local economic development. A third trend advocates the marriage of those two, on the grounds that partnership of communities and the private sector, mediated by the public sector, achieves a synergy able to overcome certain shortcomings of each of the other trends—a win-win situation. The public-private partnership (hereafter, partnership or PPP) has been celebrated by international development agencies as a key strategy for delivering services to cities of the third world (United States Agency for International Development [USAID] 2002; Department for International Development [DFID] 1999; Fiszbein and Lowden 1999).

A series of studies carried out by the author in South Africa beginning in 1998 as well as those conducted by the Community Development Program of the United Nations in five countries of Africa, Latin America, and Asia prior to 1998<sup>1</sup> reveal serious discrepancies between the theory propounding partnerships as a third world panacea and their consequences in actuality. In the context of the third world's wide socioeconomic gaps and decentralizing states, where central governments often have neither the will nor the ability to intervene effectively, PPPs are free to operate as the "Trojan Horses" of development. Private sector firms approach local governments and their impoverished communities with the message of power sharing, but once the process is in motion the interests of the community are often overwhelmed by those of the most powerful member of the partnership—the private sector firms.

The literature on PPPs has not examined the power relations and the influence of the environments within which partnerships are implemented. The mechanistic approach of this literature is largely confined to examining the logistics and typology of PPPs, notably ignoring broader issues such as partnerships' distributive implications. This article examines the equity aspect of one such "power-sharing" arrangement. Focusing on the inherent conflict between profit-driven interests of the private sector and welfare-driven interests of the communities, it points to the role of the state as essential to regulate the relationship between the partners and keep the playing field level.

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### Abstract

This article concerns the equity dimension of partnerships between disadvantaged communities and local governments and private sector firms to provide basic services and amenities. It examines the necessary conditions for fulfilling the expectation that such partnerships can serve the interests of the poor and the critical role of state in intervention to level the playing field for such a partnership. In the context of decentralizing third world governments, the article highlights conceptual inconsistencies underlying public-private partnerships that lead them to deliver results opposite to those they claim. The article points to the ambivalent and even deceptive core of such partnerships that enables their effective operation as a form of privatization, advancing the interests of the private sector and the market under the banner of sharing power with the poor and the state.

**Keywords:** *public-private partnerships; decentralization; privatization; state-society relations*

*Faranak Miraftab* is an assistant professor in the Department of Urban and Regional Planning at the University of Illinois at Urbana-Champaign. She has conducted research in Mexico, Chile, South Africa, Iran, Canada, and the United States and served as a consultant to the United Nations Centre for Human Settlements. Her current research concerns neoliberalism and privatization of basic urban services in the Third World and its affects on low-income populations.

The article is organized in six sections. Section II introduces the ideological genealogy of the debate over PPPs, in particular an overview of the debate on government's enabling role with reference to the market and to communities. Section III discusses conceptual issues of equity in PPPs. Three points are explored that must be clarified to develop partnerships with equitable outcomes: (1) rigorous definition of the partners' roles and responsibilities and also of what is meant by the public and the private sectors, (2) the notion of associated action and how horizontal power relations among partners are to be ensured, and (3) the mediating role of the state to enable and regulate the partnership. Section IV illuminates the broad context for PPPs and the decentralization debates that underlie advocacy of PPPs. The contradictory expectations of government to both enable and regulate the market are examined as a factor limiting equality in partnerships. Section V presents a case study of the South African housing subsidy scheme, which despite its claims, has failed to meet the shelter needs of the poor through a three-part partnership. The case study illustrates the conceptual inconsistencies identified in previous sections. Section VI acknowledges the possibilities for authentically synergistic partnerships to serve disadvantaged communities but stresses how PPPs, despite their names, belong among the privatization strategies of the neoliberal agenda that remove the poor's access to basic services and amenities from the responsibilities of government.

## ► II. Road Map of Existing Debates

To enable markets through privatization, deregulation, decentralization, and economic adjustment is now common priority among national governments. The rapid rise of this trend among governments of the third world is not due to overwhelming evidence for the social and political benefits of enabled markets, since plenty of documentation proves otherwise (see Sclar 2000; Loftus and McDonald 2001; Petras and Veltmeyer 2001). Rather, the neoliberal economic policies often are due to the lack of a perceived alternative, the interests of the ruling elite (see Bond 2000b), and/or the powerful pressure on governments by international lending agencies (see George 1997). The World Bank and the IMF condition the release of external financial aid and loans on the adoption by national governments to adopt neoliberal policies favoring greater freedom of market forces (Moore 2001; Bond 2000a, 2000b; Cheru 1997; Crewe and Harrison 1998). Countries with fragile links to the global market and in desperate need of external loans lift controls on market forces to win the loans and discover the negative consequences later.<sup>2</sup>

The concurrent trend, to enable communities, is promoted by nongovernmental organizations (NGOs), community-based organizations (CBOs), and small-scale, informal economies. The concept has the blessing of governments, policy makers, activists, and international agencies—but that is given from two very different viewpoints. Community development is hailed as part and parcel of the global hegemony of the market (World Bank 1997; United Nations Center for Human Settlements [UNCHS] 1985) and also as the alternative to that hegemony (Friedmann 1992; Chambers 1997; Burkey 1996; Korten 1990).

Advocates argue that strengthening communities is the only way to achieve a sustained market economy. As government resources and responsibilities are more and more constrained, the arena of the communities and their NGOs are looked to instead. There is no coincidence in the concomitant trends of increased liberalization of the market, the shrinking role of governments, and the growth of NGOs and CBOs (Miraftab 1997; Mohan and Stokke 2000; Schmitz 1995; Ribot 1999). The activities of NGOs and CBOs find enhanced meaning in the context of the privatization of public sector activities (Kamat 2004).

Other supporters of community enablement see it very differently, as an alternative path to economic development that may ameliorate the damage caused by neoliberal policies of privatization. In the innovative strategies, flexibility, and locality-based activities of communities, these advocates see not only a means of surviving the ferocity of global competition but also a way for communities to take charge of their own destinies (Friedmann 1992; Chambers 1997; Burkey 1996; Korten 1990). Some proponents of community enablement as an alternative development path, who see an antagonistic relationship between the interests of the market and those of the community, reject partnership with the state or the private sector (Esteva and Prasad 1997; Escobar 1997). Other proponents see futility in treating community development/enablement in isolation from the forces of the larger economic context (Wilson 1996; Sanyal 1997; see also this article's account of the prominent NGO People's Dialogue operating in South Africa). These authors aim at understanding the contextual forces that affect communities' actions to find ways for them to coalesce with those forces to the advantage of the poor.

Such proponents of community enablement, who seek alliance among different sectors, thus cross the path of those who promote market forces but find community participation to be a necessary component of privatization strategies. The two groups, from very different points of departure, arrive at similar support for partnership among communities, the private sector, and the public sector.

Within the broad context described above, the literature on PPPs emerges mostly among two groups that trust market forces: neoliberals, who want less of a role for government and more for the private sector on the grounds that government is inefficient; and neoconservatives, who have the same aim but on the grounds that taxpayers are asked to bear too many burdens (Linder 1999). Both groups argue that the public sector should not be the sole provider of public services but that private sector firms and communities should take over many responsibilities from the state (Savas 2000; Bingman and Pitsvada 1997). Hence, neoliberal and neoconservatives support PPPs as a market-enabling strategy by which the private sector's role is supported by the resources of the government, the community, and the NGOs.

In the economies of the North, PPPs were fostered in the 1980s by the Thatcher and Reagan administrations as the main strategy for urban development (Mitchell-Weaver and Manning 1991; Beauregard 1998). That policy exemplified their neoliberal capitalist enshrinement of "the supremacy of the private sector and market forces in nurturing development" (Squires 1991, 197). To reduce government expenditures on public services and shrink its areas of responsibility, PPPs were prompted as avoiding presumed inefficiencies of the public sector by relying more on the private sector (Forrest 1991).

During the past two decades, third world governments in the South have increasingly followed suit in adopting the credo of the market supremacy and government inadequacy, leading to a rise in PPPs (Osbourne 2000). Bilateral and multilateral donor agencies including also the United Nations Development Program (UNDP) and USAID advocate public-private partnerships as the solution to keeping pace with the need for public services in the fast-growing third world cities (USAID 1997, 2002; DFID 1999; Fiszbein and Lowden 1999; World Bank 1997). In South Africa in 1998, for example, the national government helped to establish a Municipal Infrastructure Investment Unit (MIIU)<sup>3</sup> whose task is to create PPPs for building municipal infrastructure. The MIIU alone, in its first three years, launched partnerships with value of more than 5.6 billion Rand.<sup>4</sup>

The rationale for PPPs in the South dovetails with that for decentralization (Bennett 1998). Economic decentralization implies a spectrum of privatization strategies, marked at one end by the outright sale of public assets and at the other end by for-profit firms' participation as a partner; political decentralization implies democratization, marked by inclusion of a broad range of actors in democratic decision making (Burki et al. 1999). Decentralization assumes to open up decision

making as it shifts service delivery not only from the central and the local government but also from state to nonstate actors. Decentralization, hence, intertwines with PPPs since it advocates that local governments partner with other actors—both private sector firms and nonprofit CBOs—to serve local areas, and especially disadvantaged communities, better (Peterson 1997; Rondinelli and Cheema 1983).

However, the PPP literature is conspicuously silent concerning evidence of partnerships' equity dimension and documented record of actually serving the interests of the poor (e.g., USAID 2002, 1997; Fiszbein and Lowden 1999; DFID 1999; Bennett 1998; UNCHS 1985). This literature, most of which is funded and published by development agencies as promotional material, is dominated by mechanistic accounts of the PPPs—that is, the forms of contracts and the terms of concessions—but has little to say about whether and how partnerships replace the public sector's responsibility to serve the public good. Topics such as the political, economic, social, and cultural environments of the PPPs and whether they do serve the interests of the urban poor are thinly treated (Osbourne 2000; Linder 1999; Rosenau 1999; Payne 1999). In fact, the literature commonly begs such questions by conflating economic growth and poverty alleviation/eradication. The assumption is that partnerships good for the market are also good for the poor by creating jobs as well as economic growth (see World Bank 2001). The unexamined assumption here is that as partnerships create wealth they also distribute it equitably.

This article aims to help remedy precisely that shortcoming in the literature through a close examination of PPPs in operation. To examine issues of partnership equity, the article sets the interests of the poor as its specific frame of reference and takes into account the broader environment of public-private partnerships, namely, state decentralization. The approach taken to interrogate the equity of partnerships' processes and outcomes is to ask for whom the partnerships are expected to provide more effective and efficient delivery of services. This contributes to disentangle the three notions of efficiency, effectiveness, and equity, which often blur into one in accounts of PPPs.

As the complex genealogy of partnership advocacy outlined above reveals, PPP understood in all its aspects cannot be either categorically accepted or rejected (Bateley 1996). Rather, one must ask, Under what political, social, and economic conditions and institutional environments, and with what processes, can PPPs succeed or fail as synergistic relationships that benefit all partners, including poor populations and their allied organizations?

### ► III. Conceptual Nodes in Public-Private Partnerships

Three conceptual issues are significant for Partnership equity: (1) the definition of partners' roles and responsibilities in Partnership processes and of what is meant by the public and the private sectors; (2) associated action—how we understand and achieve horizontal power relations among partners; and (3) to what extent and how the state should play a mediating role, both enabling and regulating the Partnership.

#### Definitional Imprecision

Discussions of PPPs often use terminology ambiguously, or loosely defined.<sup>5</sup> It should be clear who is being referred to by the “public sector,” the “private sector,” or the “community.” For example, what kind of private sector is being referred to: small-scale, entrepreneurial businesses or large local or multinational firms? Partnerships between disadvantaged communities and small-scale informal businesses require distinctive precautions and imply different consequences than do partnerships with large multinational private firms. Which tiers of the government make up the public sector under discussion: national, provincial, and/or local? The grassroots potential for partnership with the local government differs from that with higher tiers of the government. Last but not least, the notion of community as a single and monolithic entity is also problematic. How is a particular community defined? Which individuals or organizations assume representation for the community? Could it sometimes be that community is conveniently defined as whoever agrees with and/or participates in the project?

Loose use of the term private sector dodges the question of vested interests by large private sector industries, allowing PPPs to be presented as convenience dictates, as strategies to enable small-scale business initiatives of the poor but also, alternatively, as strategies to attract investment by large corporations. The term private sector may also be used for anything outside the public sector, thus embracing nonprofit grassroots groups and NGOs.<sup>6</sup>

This terminological sloppiness in debates about PPPs fosters convenient ambiguities in defining the roles and expectations of each partner. For example, the prescription for the enabling role of the state must clarify which tier of government is intended and why. Which tier is expected to regulate the operation of the market? And is it the national or the local government that should regulate the partnership? Local governments often are too weak financially and technically to do so.

Yet because the other tiers of government are too far from the communities and their development processes to have much input, PPPs often rely on local governments for the performance of tasks loosely defined as those of government but that are impossible for local government to manage (Chipkin 1997; Parnell and Pieterse, 2002; Beall, Crankshaw, and Parnell 2002).

All such loose terminology ultimately is not innocent, because it permits the interests of the strongest partner to be served under the guise of serving the weak. The discussion, below, of horizontal power relations develops this point further. The point made here is that PPPs' definitional ambiguity can smudge the distinct agendas of the different stakeholders.

#### Associated Action

The possibility of a partnership benefiting a community's poor depends on the nature of the associated action: how the partnership is conceived, why it is initiated and carried out, and whether the power imbalances amongst participants can be dealt with to secure equitable, horizontal power relations.

The inception of a PPP requires attention. How a partnership originates reveals much about the power relations that will emerge amongst participants. Who initiated the process and sought partnership with the other sectors is significant. So is the way in which one partner may fill a need of another. For example, is the community filling a gap for the public or private sector by performing tasks that organizations in those sectors prefer not to perform—perhaps by providing cheap labor? Or, more beneficially, are local governments and private sector organizations, for example, filling the gaps in community action by carrying out the tasks that community people and organizations cannot do? In partnerships among communities, government, and the private sector, it is important to realize who is participating on whose terrain and in whose process (Lankatilleke 1999). This is a crucial conceptual distinction, defining on whose premises the partnership develops and will operate.

To sustain a partnership, partners must have reciprocal benefits and hold complementary roles. Philanthropy from the private sector or government benevolence is not a reliable foundation for a partnership. Central governments decentralize some decision-making and financial power to local tiers or share them with community members and the private sector, not out of benevolence, but in the expectation of political or economic return. The same is true of other partners. Business supports local development through donations and development funds out of the conviction that development of the area

where it is based also helps its own business. Thus, all partners have the expectation to gain and are more likely to sustain the partnership when its benefits are mutual.

Equitable horizontal power relations amongst participants are not possible unless any discrepancies in their socioinstitutional capacities are recognized and addressed. For example, large-scale private sector developers have better access to financial institutions than the grassroots or small-scale, informal businesses do, and can respond much faster and more effectively than communities can to government programs in institutional systems. Any discrepancies in participants' access to financial, institutional, and legal resources, as well as the uneven thickness of civil society among the grassroots groups or between organizations of the grassroots and of the market, must be kept in mind (Fox 1997). Incompatibilities between government, market, and people's organizations when interacting with each other can pose thorny problems for establishing horizontal power relations.

In sum, to analyze the success and limitations of a partnership with regard to benefiting the poor of a community, one must consider in particular the strength of the grassroots and their allied organizations. Was the proposal for partnership initiated, designed, and developed with major impetus from the community sector and thus able to reflect its premises? To what extent has the partnership produced benefits for all partners? How were the legal, institutional, and financial incompatibilities of participants addressed? The last question raises the role of state intervention and how its legal and financial mechanisms can even out such imbalances.

### State Intervention

Conceptualization of the state's responsibility for and role in providing public services has undergone a notable reversal since 1980. Through the 1970s, public services were acknowledged to be the responsibility of central governments—not only as a moral commitment but also to produce the infrastructure for national economic growth. Since the early 1980s, however, that role has been shifted to the operation of the market and the lower tiers of government (Bennett 1990; Rondinelli and Cheema 1983). The current neoliberal perspective expects the private sector to pursue, more effectively and efficiently, the development of infrastructure and the provision of public services, while the state monitors its activities (Plane 1999). Recent national administrations have viewed government as changing “from doing to ensuring” and have abandoned its redistributive political role in favor of a technical managerial role (Kaul 1997; Schmitz 1995). Robert Bennett

(1990) terms this shift in the North one from welfarism to postwelfarism. The former is characterized as a paradigm that “institutionalized the responsibility of government as provider and rational planner” and attached to it “a principle of entitlement, rights, and social justice.” The latter, however, rolls back “the boundary of government,” in a new paradigm focused on consumer demands (p. 25).

In terms of partnership strategies for delivering public services, the shift described above is explained by an analogy to the rowing and the steering of a boat (Osborne and Gaebler 1992). The state, instead of rowing, should steer and let the private sector and other nonstate actors “row the boat” to provide public services and basic infrastructure. Such a concept of the state's leadership deciding the direction of service provisioning highlights the need for adequate state capacity to do so—a significant requirement discussed below.

To perform this “steering” role, to synergize the interests of different “rowers,” the state has to be willing as well as able to use its financial, legislative/regulatory, and institutional resources. Weak governments with inadequate will or resources in any of those areas cannot effectively negotiate to lead partnership processes or guide their outcomes. Yet the state's mediating and redistributive role is necessary to strengthen the capacity of weaker partners and to establish a level playing field (Bately 1996). But it is usually local governments that are found in PPP local development projects, and their limited resources do not bode well for their leadership unless their decision making is backed by macro-level strategies of the central government. Furthermore, the state's regulatory capacity is not likely to serve the interest of the poor or the weaker members of a partnership unless strong civil society organizations and their democratic participation prompt it to do so (see Abers 1998; Brown 2000). Thus, the strength of grassroots movements is critical not only for shaping partnership strategies but also for ensuring support by the local and central governments, including by their regulatory capacities.

In sum, effective state intervention for equitable PPPs requires a strong and democratic state using its financial, institutional, or legislative muscle to level the playing field for all partners by regulating unequal power relationships between partners who have uneven socioinstitutional capacities. This condition is more likely to be met by macro-level policies that support intervention at various levels of government and by strong civic organizations and social movements that can make sure supportive policies are enforced.

Below, I will discuss how the state decentralization context of partnerships in the third world generates contradictory expectations for the role to be performed by the state. It is a contradiction that often brings the “steering” role of

government tiers, as presumed by partnership discourse, to a halt. The result can be a process dominated by the interest of the private sector firm(s), who “steer” while the other actors only “row.”

#### ► IV. State Decentralization and Public-Private Partnerships

This section characterizes the policy environment that encourages partnerships and its significance for their equity. State decentralization arguments that lay the groundwork for advocating PPPs reveal contradictory expectations that through them the government both enables and regulates the market. As discussed above, successful partnerships require strong mediation by the state to develop detailed regulations that level the playing field amongst unequal partners (Bately 1996) and that protect the interest of the disadvantaged partner(s). The decentralization strategies of third world countries, however, often encourage both central and local governments to share some functions with nonstate actors, including for-profit organizations. That strategy generates market-friendly policies of deregulation—counter to the state’s regulatory role fostering equity in the PPPs. It is on this basis that I argue that PPPs promoted through state decentralization are dominated by the interest of the private sector and end up as a form of privatization.

One of the earliest and most comprehensive studies of decentralization was carried out by Rondinelli and Cheema (1983), who identify a range of decentralization strategies by third world governments: de-concentration, with responsibilities remaining with the central government but redistributed within it; delegation to parastatal agencies, which for specific functions delegate decision making and management to organizations semi-independent of the central government; devolution, by which central government relinquishes functions to local governments that are outside its direct control and have autonomy; and transfer of public functions to a broad range of nongovernmental institutions, from nonprofit volunteer organizations to private, for-profit firms. Robert Bennett (1990, 1) distinguishes two kinds of decentralization: one that shifts responsibilities to lower tiers of government and one that shifts the responsibilities away from the government to the private sector and NGOs. This article examines the conjuncture of those two decentralization strategies, namely, the shift of responsibilities to local governments that then reach out through partnerships to share those responsibilities with the private sector, NGOs, and community-based groups.

Critiques of decentralization policies in the third world show that central governments turn to decentralization and

participatory development that draws in other actors as strategies to manage troubled economic and political situations (Agrawal and Ribot 1999; Schmitz 1995). In other words, it is often economically and/or politically weak governments that opt for decentralizing their responsibilities or decision-making power downward to local governments or outward to nongovernmental institutions including CBOs and for-profit private sector firms. These researchers have also found that in the current decentralization in the third world, lower tiers of government are given more responsibilities but not the matching capacity—neither adequate funds nor the technical capacity needed (Cheema 1993; Amos 1993). It is thus argued that decentralization, even in the best form—the devolution of power to other units of the government—shifts central government’s responsibilities and its vulnerability to blame downward to protect its political legitimacy (Agrawal and Ribot 1999; Schmitz 1995).

In some cases, it is argued that decentralization has achieved only the creation of new dysfunctional administrative structures, especially if the local government budget still comes from the central government earmarked for specific activities. For example, the sub-Saharan local governments, 80 percent of whose budgets are transfers from the central government, have no autonomy; not much can be expected from them (see Ahwoi 1998). Their financial dependence, combined with their limited technical and financial capacity to handle their new responsibilities, leaves local governments little power of independent decision making and hence little influence on partnerships they enter into.

Other observers view decentralization as a neocolonial project (Ribot 1999) bringing back the decentralized despots who previously catered to colonial rule (Mamdani 1996) and this time strengthen the grip of global capitalism (Heller 2001). That process can be treated as follows: local governments that receive only limited funds from other tiers of government or from subsidies across public agencies are expected to raise their own revenues. To increase revenue, local governments are also urged to function as a private sector firm does, insisting on full cost recovery for services and competing to make their area more attractive to local or multinational investors (see Peterson 1997 prescribing state privatization on behalf of the World Bank). To gain a competitive advantage, then, local governments often ease regulations—among them labor or environmental protections—to be more “market-friendly” to potential investors. Such forms of decentralization essentially privatize the state. In South Africa, for example, where “fiscal principles of cost recovery are firmly entrenched, citizens have in effect been reduced to clients” and “local governments have become the frontline in the marketization of public authorities” (Heller 2001, 145, 134).

In either case, whether the state creates new but ineffective decentralized administrative structures or adopts the operating principles of the for-profit private sector, the outcome is often similar: the regulatory role of the government presumed to address equity in partnerships remains as toothless abstraction.

### ► V. Insights from a Case Example

The example of South African housing policy, and specifically its main feature: the housing subsidy scheme, is pertinent to the argument made here. In the official policy documents, this scheme is presented as a partnership among the poor, private sector firms and institutions and the local government that promises fast delivery of a large number of houses to disadvantaged families. The Housing White Paper of 1994 specifically states that the government's approach to housing is aimed at "harnessing and mobilizing the combined resources, efforts and initiatives of communities, the private sector, commercial sector and the state" and underlines the enabling role of the national government through support and monitoring<sup>7</sup> (National Department of Housing 1994, 5). A detailed account of the housing policy is beyond the scope of this article (but see Miraftab 2003). A summary of the scheme is presented below. There follows an assessment of it in relation to the key conceptual points the article has made about PPPs.

The most prominent feature of the South African housing policy for remedying the acute housing shortage among poor populations discriminated against under apartheid is its housing subsidy scheme. That partnership set the goal of producing 1 million houses within five years (1994 to 1999) and eliminating the entire housing backlog thereafter. Under the scheme, every low-income household is eligible for a one-time subsidy of up to 17,000 Rand toward housing.<sup>8</sup> The subsidies, however, do not go directly to individual qualified households. Rather, they are paid to a developer who purchases the land and builds on behalf of a group of qualified households and then is paid with the total subsidy for those households. The developer need not be a private sector company; it can be a local authority or a CBO that registers as a housing association.

Today, the policy has been challenged on the grounds of both its quantity and the quality of the housing delivered. At the end of the targeted five years, the number of units produced was far short of the goal,<sup>9</sup> and today the housing backlog still stands at around 3 million units compared to the 3.4 million units estimated in 1994 for all South Africa.<sup>10</sup> The quality of the units has been poor and their locations so remote that some families refused to leave their shacks to move into them, rightly fearing that their remote location would prevent access

to job opportunities. Moreover, once the developers take their margin of profit from the small subsidies, what remains is too little to construct decent residential units. In the end, its subsidy often obtains a poor household no more than a serviced site and a toilet in a vast area outside the city and far from job opportunities. The small amount of the subsidies<sup>11</sup> in combination with the profit-maximizing drive of private sector developers has contributed to the serious failure of the scheme (Tomlinson 1999).

Having given this brief account of the failures of South Africa's partnership policy to shelter the poor, I turn to discussions of the conceptual nodes of partnership processes that it exemplifies. The scheme's potential for sustainable and equitable associated action amongst the participants is examined below in terms of conception, reciprocity, and the partners' uneven institutional capacity; and the urgency of the state's mediating role to level the playing field is shown. The discussion also examines how the policy context in which this partnership project is implemented helps to explain its failure to meet the shelter needs of the poor.

### Associated Action

The first point to note in this example of PPP is that it was conceived outside the terrain of the homeless communities concerned and their allied organizations. The well-documented 1993-94 negotiation sessions of the National Housing Forum (NHF), which first drafted the housing policy and the notion of partnership, were dominated by formal market institutions: banks, the construction industry, and the business sector; and the political parties (see Lalloo 1999). Grassroots organizations of the poor and the homeless were represented only by SANCO (South Africa's National Civic Organizations). Thus, the new policy was constructed on the premises of the private sector and formal political institutions. The poor and their allied organizations participated in processes set in motion and shaped by others.

Second, in the lengthy discussions at this forum and afterwards, little attention was given to identifying the range of capacities among the partners and the possibilities for complementary interactions in the development processes. Much of the debate of the time moved around the question of breadth versus depth or quality versus quantity, with a presumption—since shown to be questionable—that the developers would meet the need for quantity by delivering a larger number of units in a fast pace.

The role of the financial institutions is illustrative. Conviction that the private sector's formal institutions are the most effective way to provide access to credit by the poor, the South

African government focused on strengthening the private financial institutions and setting up mechanisms that reduce the private banks' risks, as a means to increase their housing loans to low-income applicants (Jenkins 1999, 435). But this assumption was faulty: banks failed to deliver the fifty thousand they had promised in the first year, granting only twenty thousand bonds in the applicable areas within the intended price range (Bond 2000a, 303); they favored the upper range among the low-income recipients, for increased security of repayment, and they made relatively fewer, but large loans to groups of applicants through developers, rather than making many small loans to individual applicants, to reduce their operating costs (Bond 2000a). Of the Housing Facilitation Fund, for instance, 43 percent was directed "to those beneficiaries who, because they were in higher income categories, were more likely to secure these loans" (Bond 2000a, 304).

Given that the policy was formed on a bias toward the roles of the private firms and the banks, little room was left for participation by the grassroots with their unique potential for mobilizing savings. The scheme's design does not take into account the abilities of the poor; nor does it attend seriously to enlisting the reciprocal strengths of different partners. Hence, the emergence of equitable horizontal power relations in the partnership is unlikely.

Third, although the policy documents declare that any of the three partners (private sector firms, the community organizations, and local authorities) can act as developers and receive the subsidy on behalf of a group, in practice it has been predominantly private sector developers who have received the subsidies. Of the subsidies allocated by 1998, about 90 percent had been projects-linked and with few exceptions carried out by private sector firms (for more, see Mackay 1999). Without mediating action to balance them, the uneven institutional capacities of the partners made that outcome inevitable. The local authorities are overwhelmed by their new responsibilities and unlikely to be able to assume the role of contractors and developers for their areas. CBOs, on the other hand, lack the cash flow for bridging funds to develop housing projects on behalf of the qualified but penniless households (Jenkins 1999).

### Mediating Role of the State

This imbalance between the capacities of community-based groups and local authorities, and that of private sector developers, makes clear the importance of mediating role by the South African government and of other conditions outlined earlier in this article: macro-level policies to encourage and support the state's distributive initiatives and mobilize the

resources of local communities and strong grassroots mobilization to influence housing policy.

The state's mediating role in this partnership can be examined in terms of credit and financial resources, since they are the major problem for the poor in obtaining adequate shelter. The subsidy scheme relied on the availability of credit to augment the limited subsidies to low-income families. But most of the poor—70 percent—could not secure bank loans from private financial institutions.<sup>12</sup> The South African government therefore set up mechanisms to reduce the bank's risks, as noted above, assuming that this alone would increase the housing loans offered to low-income applicants<sup>13</sup> (Jenkins 1999, 435). But that assumption was largely mistaken. The banks failed to deliver anywhere near the value of bonds they had promised, and they continued to exclude the poorest of those eligible, as detailed in the previous section.

The lack of cash flow among the communities hindered the possibility of community groups acting as developers. The policy documents claim that the central government will provide an enabling environment to secure the partnership of the local governments, people's organizations, and the private firms. In actuality, however, the government housing agencies at the provincial and national levels offer little support to proactive grassroots organizations to act as housing developers on behalf of their members.

For example, the Homeless Federation is a grassroots organization that has more than one hundred thousand members, mostly women (see Wilson and Lowery 2003). Organizing in small groups, federation members daily save a minimal amount toward the cost of housing, and they have proved that their community-based groups can build larger and better-quality houses than those built by private sector developers, whose profit cuts further into the limited amount of subsidies (Bolnick 1993, 1999). People's Dialogue, their allied NGO, supported these saving groups through its Utshani Fund by providing them with small bridge loans to develop land and build their own houses while waiting to receive their entitled government housing subsidy.

In the face of private financial institutions' reluctance to find many of the poor, either as individual households or as groups, to be "bankable," the Homeless Federation and the People's Dialogue have been demanding the national and provincial governments to intervene in support of their unique resource mobilization strategies at the grassroots level, that is, through intermediary financial institutions. But to date the South African partnership for housing has not taken any step to establish such financial institutions that link the informal savings groups of the poor with formal financial institutions. Worse, the nongovernmental, nonprofit housing funds such as the Utshani Fund have been compromised as a result of



government's inaction. In a recent publication by People's Dialogue, the experience of people's organizations participating in the subsidy scheme is described as going "from the frying pan to the fire" (Baumann and Bolnick 2001). By failing to deliver the subsidy amounts to federation members whose applications have been approved—sometimes for seven years—the state has jeopardized the viability of the Utshani Fund, which depends on repayment of loans by subsidies.

Thus, in various ways, the central government has abdicated the role of achieving a level playing field for all partners. That allowed the private sector developers, financially and technically the strongest members of the housing subsidy scheme, to steer the housing strategies in their own interests, at the cost of the poor, who receive inferior units on land in areas inaccessible to job opportunities.

To explain the deleterious inaction of the South African government in this PPP, one may point to certain macro policies that guide its strategies at all levels. The current policy framework of the South African state, the Growth, Employment, and Reconstruction Program (GEAR), stresses state interventions to speed adoption of neoliberal policies strengthening the influence of the market; concomitantly, state interventions for justice and equity diminish (Bond 2000a, 2000b). This 1996 shift of almost 180 degrees in macro policies of the state from the redistributive and equity agenda of the original Reconstruction and Development Program (RDP) (Moore 2001; Heller 2001; Bond 2000a, 2000b; Howarth 1998; Cheru 1997) is a fundamental factor in how the central and local governments handle the possibility of mediating the unequal relationship between PPP partners such as low-income communities and private sector developers and financial institutions. The consequences of GEAR dovetail closely with the state's decentralization strategies, which also have undermined the ability of local governments to play a regulatory role.

### The Decentralization Context

Since the first local government elections in South Africa, in 1995, the local governments have been overwhelmed by trying to meet their new responsibilities with only poorly prepared resources. Decentralization has dramatically increased the participation in governance of disadvantaged and previously excluded populations, through the local councils, but it has also had debilitating financial and technical consequences. Great responsibility is given to local governments for delivering shelter and basic services; but this is not accompanied by intergovernmental transfer of funds. According to the Financial and Fiscal Commission, the size of

intergovernmental grants from the central to local levels in real terms has fallen to 85 percent lower than in 1991 (International Labor Research Group [ILRIG] 2001, 26). Yet the mandate of local governments has increased with the devolution of central government responsibilities and incorporation of the black areas into their service areas (Parnell and Pieterse 2002).

In Cape Town, for example, where the present case study was conducted, the local government (now called *unicipity*) must earn 90 percent of its own budget through local revenues, sale of bulk services, and fees. Only 4 percent of the budget comes from grants received from other spheres of government (Coopoo 2000, 6). The Cape Town budgets for specific services are "ring fenced," meaning that each service has to recover its own costs. Other examples of private sector strategies now adapted by the local government are the massive water cutoffs and the evictions of poor families who have fallen behind in their payments<sup>14</sup> (Miraftab and Wills forthcoming; Desai 2002), deregulation and liberalization of private sector business activities to draw private investments that can increase tax revenues, and/or outright sale of public assets. "The language of managerialism and cost recovery has displaced the language of participation and social justice" (Heller 2001, 150).

Such strategies of market enablement embedded in the decentralization policies of the South African state suggest all too clearly that partnerships implemented in that context are unlikely to achieve an equitable outcome. The absence of macro policies that support community-based initiatives or weak local governments leaves the power imbalances among the members of a partnership undisturbed. South Africa's adoption of neoliberal GEAR as its macro policy exemplifies how the market focus of decentralization can vitiate genuinely tripartite PPPs.

The state's willingness and ability to intervene to create level playing fields for PPP partners is not, of course, decided by the state's policy framework alone or by elite interests. Social movements exert influence—but only according to how strong such grassroots mobilizations and their participatory processes are and, hence, how much force they can exert to strengthen the state's will to intervene. Social movements can indeed be the deciding factor in a partnership's success by effectively pressing the state to play its expected mediating and regulatory role, while at the same time supporting initiatives by local communities and their organizations.

As a partnership, the housing subsidy scheme of the new South African government fell far short of its stated goals. The explanation can be sought in the context of the ANC government's hegemony and its market-oriented, neoliberal macro policies, as well as the limited local resources and abilities under decentralization. Rather than housing poor families in

South Africa successfully through power-sharing, like a Trojan Horse the partnership brought in market institutions and freed them to profit from the shelter needs of the poor.

## ► VI. Conclusion

This article illuminates the likelihood of PPPs becoming a form of privatization under neoliberal policies of decentralization. It first highlights certain definitional imprecision in the discussions of PPPs and how that can protect and cover for the dominance of for-profit firms in PPPs. The notions of associated action and the state's essential mediation are elaborated as conditions for partnerships with equitable processes and outcomes. Those conditions also include strong grassroots mobilization to ensure that partnerships embody the premises of the poor as well as of powerful organizations and that their relations rely on the partners' mutual interests.

The article also stresses the significance of the state policy environment within which partnerships function—that is, the absence or presence of macro policies that support the state's redistributive interventions. With regard to PPPs under decentralization, the article identifies a conceptual contradiction in the expected role of the state. While equitable partnerships require a strong regulatory role for the state, decentralization in the third world commonly brings with it deregulation to promote private sector participation. Such contradictory expectations of the state, the article argues, may undermine PPPs' equitable processes and outcomes.

The main lesson for decision makers that emerges from this article is that the flaws of partnerships in terms of both equitable processes and outcomes are not to be sought by simply focusing on their technical planning and execution, as the literature so often does. The details of the partnership contract, though extremely important, cannot alone ensure equitable process and outcome. Particular attention must be paid to a program's social, economic, cultural, and political environment. The larger policy context ultimately determines the state's will and/or capacity to intervene with a redistributive agenda and steer a partnership process toward equity. The strength of the grassroots and disadvantaged communities as partners must be fostered so that they can exert and sustain their interests in PPP processes. Those two elements are critical to the ability of partnership projects to achieve equitable processes and outcomes that serve the interests of the poor as well as of other partners.

These caveats do not rule out the possibility of achieving partnerships capable of serving the interests of disadvantaged communities. The conditions under which a fruitful alliance

can emerge among the welfare-driven interests of communities, the profit-driven interests of the private sector, and different tiers of government in a partnership require respectful attention to the particularities of its historical and political moment and to the premises held by each partner. Policy makers and practitioners who formulate a partnership program focused on the nuts and bolts of the scheme must also give profound consideration to its sociopolitical environment and the pitfalls that may lie in wait there. Otherwise, they risk having the state fade after the project formulation, with the result that the power-sharing scenario intended to serve the interests of all partners dwindles into a familiar charade. Like the Trojan Horse, these partnerships might arrive with the promise of a gift but only to further dispossess the poor from their locally mobilized resources.

*Author's Note:* This article was first submitted to JPER in November 2002; hence, its content reports on aspects of the South African context up to that point. I am grateful to Ken Salo at UIUC, John Pape at ILLRIG, and Chris Williams at UNCHS Community Development Program for their valuable input and to the anonymous reviewers of this article and JPER's editors for their invaluable comments. I also thank local organizations and individuals in Cape Town who generously shared their information and experience with me. The responsibility for the shortcomings of the article, however, stays with the author.

## ► Notes

1. I served as a consultant providing critical case analysis and synthesis of these UN-led case studies, which are included in a 1999 volume produced by the UN's Community Development Program. The case studies span several countries—Ghana, Ecuador, El Salvador, South Africa, and India—and were presented and discussed at the conference held in Cape Town, South Africa, in 1998 (see United Nations Center for Human Settlements [UNCHS] Community Development Program 1999).

2. The case in point is the fate of market economies adopted by the Argentinean government. During the 1990s, Argentina represented the poster child of the World Bank and IMF for full adoption of their proposed policies of market liberalization. The false promises of neoliberalism for growth and prosperity were only unmasked in 2001 with the tragic collapse of the Argentinean economy, which devastated the basic livelihood means of much of the country's population.

3. For more on the Municipal Infrastructure Investment Unit (MIIU), see their Web site at <http://www.miiu.org.za/>.

4. In 1998 exchange rates, this values a bit below 1 billion U.S. dollars.

5. The Expert Group Meeting held by the UNCHS Community Development Program in Cape Town, South Africa, in 1998, was a clear showcase of this problem. Clarification of terminology and definitional articulation absorbed much of the meeting's discussions. The questions raised in this section closely relate to the observed definitional ambiguities in public-private partnership

(PPP) examples presented in that meeting (for meeting proceedings, see UNCHS Community Development Program 1999).

6. The category, society, constructed in Peter Evans's (1997) influential work on synergy between state and society is also guilty of this. In Evan's articulation of "embedded complementarity," society is too broadly defined, embracing all nonstate actors including the for-profit firms and nonprofit civil organizations. If horizontal power relations are to be sustained, broadly defined categories such as "society" must be broken down to recognize the inconsistencies in socioinstitutional capacity of different actors.

7. According to the new South African legislation, the national government promotes an effective functioning of the housing market but retains the powers to allocate finance and administer subsidy schemes (Mackay 1999; Jenkins 1999). Provincial and local governments, however, implement the policy as developers or facilitators. Municipalities have been given powers to promote housing development by a developer, undertake development, enter a joint venture, and facilitate and support other role players.

8. In summer 2002, one U.S. dollar was exchanged for ten South African Rands.

9. By 1999, nationwide, 745,717 units were completed or under construction (National Department of Housing 2001).

10. This figure is quoted from the first page of the chapter on Housing in the South Africa Yearbook, 2000-01, also available via the Government Communication and Information System Web site at [www.gcis.gov.za](http://www.gcis.gov.za).

11. The budget commitment of the South African government to housing has been decreasing from the promised 5 percent to 3.4 percent in 1995-96, 2.4 percent in 1997-98, and 1.6 percent in 1999-2000 (Khanya College 2001, 40-41).

12. "Between 1994 and 1996, only 18 percent of houses built under the subsidy scheme were linked to credit" (Bond 2000a, 304).

13. These mechanisms include a Mortgage Indemnity Fund to guarantee banks against politically related nonpayment of new housing bonds; Servcon, a parastatal organization created with private sector financing and a "nongovernmental" status to resolve the problems of nonpayment with properties in possession; the National Urban Reconstruction and Housing Agency to guarantee bank-originated bridging finance for developers; a state-controlled National Housing Finance Corporation to provide wholesale funding to retail banks to increase their low-income loan portfolios; and a warranty fund against defective building (Bond 2000a, 302; Jenkins 1999, 435). The warranty fund was also supported by establishing the National Home Builders Registration Council to respond to banks' concerns that some defaults were caused by lapses of the builders (Tomlinson 1998, 144). The private sector conditioned its commitment to make housing loans to low- and moderate-income households on effective operation of these institutions.

14. Various sources extrapolating on micro data arrive at a similar number of about 10 million water cutoffs for all of South Africa since 1994 (Bond 2002; Ministry of Water Affairs and Forestry 2003). The conservative calculation by the minister of water affairs published in the *Sunday Independent*, June 8, 2003, admits that the three largest municipalities alone are now disconnecting 17,800 households per month. Extrapolating this number for the country and for the period since 1994 cumulatively this represents 2 million instances of household water disconnections affecting 10 to 13 million people. Nationally, it is also estimated that a growing

number of evictions have affected nearly 2 million people since 1994 (Desai 2002).

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