PUBLIC-PRIVATE PARTNERSHIPS IN SCANDINAVIA

Carsten Greve

ABSTRACT

If public-private partnerships are here to stay, how are they brought to use by governments and can we learn anything from the scant experience with such partnerships so far? This article addresses this question and others by examining the experience with public-private partnerships in Scandinavia. Scandinavia has a long tradition of preferring cooperative arrangements and forging consensus between different organizational types. In recent years, reforms have mostly concentrated on reforms within the public sector itself. However, there has been a pressure by the governments to establish more close contact with private sector providers (PPP). One obvious way for Scandinavian governments would then be to pursue establishing PPPs as the main form of cooperation with the private sector.

INTRODUCTION

Contracting out has dominated the agenda of the privatization movement for over 20 years. Contracting for public services relies on competition and a government that knows what it is buying. If the government does not know “what to buy” and does not know “whom to buy from”, the government cannot rely on the private sector, or must look for new ways to engage it (Kettl, 1993). The main alternative to managed competition is public-private partnership (Savas, 2000). They embody a wide variety of institutional forms. Public-private partnerships are long-term cooperative relationships. The most well known forms are various BOOT and BOT models (Build-own-operate-transfer, build, own, operate). These models are mostly used to construct new government facilities with such as new school buildings or new bridges or tunnels. They have become very popular in infrastructure projects in the public sector throughout the world. Using the models is quite complex and involves a sophisticated purchaser insight from public sector organizations. They usually take place over longer period of time, that is to say, the time it will take to erect a new bridge or build a new tunnel.

Another model of this kind is where a government sells an asset, a school building, for example, and then leases it back from the financial partner with which the government is cooperating. The time period of these sale-and-lease back arrangements can last up to 20 or 30 years. The advantage for the government is that it gets some financial resources, which can be spent on new initiatives in the community. The advantage of the financial private sector company is that it gets tax reductions for establishing the loan. Thereby, in theory, everyone should win. However, sale-and-lease back models involve risk sharing, and there is often a risk combined with entering these arrangements. Both the government and the private sector company must evaluate and judge the risk implied. Most of these kinds of public-private partnerships are purely financial arrangements; they are not new organizational forms that embrace both public sector and private sector employees.
Linder (1999) has identified six different meanings of the public-private partnership-term: a) as management reform, b) as problem conversion, c) as moral regeneration, d) as risk shifting, e) as restructuring public service, and f) as power sharing. Linder sees a danger that all the talk of new public-private partnerships neglects the experience of low profile, but well established public-private relations between government and non-profit organizations. Salamon (1995) has been studying non-profit organizations for years, and in his analysis, the relationship between governments and non-profit organizations are essentially partnerships.

There is clearly a danger that the PPP term is just another catchy piece of terminology that governments would like to promote to keep off the attention of the more mundane contracting for public services arrangements. On the other hand it seems like partnerships are more attractive to governments when they establish long-term relationships with private sector providers of public service. “Stability” is one factor that research has found government cherishes when it does business with networks of in the private sector (Provan & Millward, 2000).

If public-private partnerships are here to stay, how are they brought to use by governments and can we learn anything from the scant experience with such partnerships so far? The next section of the article looks at that question by examining the experience with public-private partnerships in Scandinavia. Scandinavia has a long tradition of preferring cooperative arrangements and forging consensus between different organizational types. In recent years, reforms have mostly concentrated on reforms within the public sector itself (Christensen & Lægreid, 2001; Pollitt & Bouckaert, 2000). However, there has been a pressure by the governments to establish more close contact with private sector providers. One obvious way for Scandinavian governments would then logically be to pursue with establishing PPPs as the main form of cooperation with the private sector. In the following section, we examine that question.

PUBLIC-PRIVATE PARTNERSHIPS IN SCANDINAVIA

Scandinavian governments consist of three different layers: the national or central government, the regional governments, and the local governments. In Denmark, for example, there are 14 regional governments (“counties”), and 275 local governments (“municipalities”). A fourth tier can be added, that of the European Union, which we will not consider in this article.

At the central government level, public-private partnerships are mostly concerned with building infrastructure projects. Roads in Norway have been constructed as a PPP. The road project was proposed by the Norwegian Parliament in 1999, and began operations in 2000. The project of road construction has not caused a big amount of fuss in Norway, but there is limited experience with this kind of public-private cooperation. Norway is a country where there has been limited amount of reform in comparison to other countries in the world (Christensen & Peters, 1999; Christensen & Lægreid, 2001). The main reason seems to be that Norway is such prosperous countries because of oil money that there is little, if any, incentive to embark on risk sharing with private sector organizations. Why should the government want to take risks when the government can finance its own projects?
In Denmark, public-private partnerships have been attempted in some instances. The Danish central government launched a program where it would write “development contracts” with private sector companies. A development contract consisted of a cooperative arrangement between a public sector organization that either provided money or manpower, and a private sector company, which made pilot projects, or new commodities that in time could be exported to other countries. A commercial contract focuses on a specific project or service. A public interest contract focuses on developing skills and sharing knowledge. And a feasibility study contract examines the possibility of making either a commercial contract or a public interest contract. In 1998, more than 39 development contracts were signed together with 29 feasibility studies. 246 Mio. DKK were allocated to the project (PLS Consult, 1998). The evaluation by an independent consultancy group certified that the development contracts’ scheme had met its objectives. Among the projects were a teaching system to Danish navigators at sea, and a new type of environmentally friendly kindergarten.

At the central government level, the Danish government had praised the BOOT and BOT-models for infrastructure projects. In a financial report from 1999, the central government examined various options for promoting BOOT and BOT-models (Danish Ministry of Finance, 1999). Although it could not boast of new projects, the government pointed to historic infrastructure projects such as building of the railroads in the 19th century as examples of former PPP-like arrangements.

At the regional level there has not been many visible PPP arrangements. Regional government in Scandinavia are mostly responsible for running high schools and hospitals. As most of the hospitals in Scandinavia are publicly owned, there has not been a debate on how to make PPP arrangements. There have been, however, suggestions to make it easier for private hospitals to compete for patients, but that is more of a privatization effort than a PPP-initiative.

Most of the action goes on at the local government level. The local governments in Scandinavia are responsible for providing most of the direct services to the citizens. Local governments provide primary and secondary school education, welfare for the elderly, childcare, and local doctors’ help. Furthermore, local governments are responsible for cleaning of public buildings, waste disposal, and social and human services. To pay for this, local governments have independent taxation powers of the central governments, and are collecting 20% of citizens’ income in tax.

A study of public-private partnerships in Sweden surveyed 64 local governments (out of 280 local governments), and they had 117 public-private partnerships in total (Collin, 1998a). Public-private partnerships were defined in the study as “an arrangement between a municipality and one or more private firms where all parties involved share risks, profit, utilities and investments through a joint ownership of an organization” (Collin, 1998a, 79). The primary reasons for using public-private partnerships were the following. First, local governments mentioned financial reasons for setting up public-private partnerships in the first place. Second, only smaller local governments would enter into public-private partnerships. If local governments were too big, they saw little reason to be a part of a PPP. Third, wherever there was a vibrant service sector, Public-private partnerships would prosper more than in local governments with a small service sector. In another study on Sweden, Public-private partnerships were seen as “agents for change” in their local environment (Collin 1998b). Public-private partnerships were
seen as institutions, which could generate new ideas and provide a setting for tackling
issues in a new and liberated way.

In Denmark, there have been public-private partnerships at the local level where
providers and purchasers have joined forces to establish a new organizational structure
in local government service delivery. In the case of Skovbo local government in
Denmark, the global service provider, ISS, teamed up with the local government to start
a kindergarten run by ISS. The contract was not competitively bid, but was an
agreement between ISS and the local government. ISS promised to develop a new
concept for running kindergartens, and would use Skovbo local government as a test
case for that purpose. The local government of Skovbo agreed because it suffered
financial stress and also because it wanted to develop local service in new ways. The
result was a new company set up by ISS to provide the service. The experiment lasted
for three years, but the project was then stopped. Parents were complaining about the
service quality, and the complaints attracted nationwide attention because of the
experimental nature of the project. In the end, ISS, the private company, decided that it
had experienced enough bad press, and that it would not be beneficial for the company
to progress.

Another prominent experience in Danish local government has been with sale-and-lease
back arrangements. In the late 1990s, sale-and-lease-back arrangements became popular
with some innovative mayors who wanted to pursue new avenues in delivering and
securing public service. In 17 local governments in Denmark (out of 275 local
governments) have entered into sale-and-lease-back arrangements where, for example,
the buildings of a local school is sold to a private financial company who then leases the
buildings back to the local government against a set rent. Sometimes the duration of
sale-and-lease-back arrangements in Denmark can be up to 30 years (compare to the US
where there is a limit of 20 years in selected states; see Johnson & Waltzer, 2000). The
official purpose for both partners is that they both gain from the project. The local
government gets an injection of cash from the sale. The private financial company can
get a tax relief from the project. There is a substantial amount of risk sharing – and risk
taking – connected to these arrangements, although the partners to the deals would
naturally argue otherwise. Investigative journalists and independent news reports
accused local governments in Denmark of “gambling” with taxpayers’ money and
future money (Børsens Nyhedsmagasin, 1999).

A recent and much debated case in Denmark illustrates what happens when public-
private partnerships go wrong. The local government of Farum in Denmark has used
public-private partnerships and an extended ways of contracting for public services.
Farum local government is a member of the Cities of Tomorrow network, which is
financed by the German-based Bertelsmann-Foundation. Other members of the
exclusive network of innovative local governments include Phoenix, Arizona and
Christchurch, New Zealand. Phoenix, Arizona, which also contracted for many of its
services, shared the Bertelsmann prize for being the most innovative local government
in the world with Christchurch, with Farum close behind.

In 2002, the controversial mayor, Mr. Peter Brixtofte, was challenged by a newspaper
story that he had run up excessive bills for drinking and dining at a local restaurant in
the town of Farum. This newspaper report, it turned out soon after, was the beginning
of a disclosure of malpractice and mismanagement in Farum that had being going for
years. The end has been that the mayor has been expelled from his office by the Danish minister of the interior, the first mayor to be expelled from office in the entire history of Denmark! There will be brought criminal charges against the mayor, and he may end up going to prison for his wrongdoings. Let us briefly review the charges brought against his management of the local government.

Farum local government has entered into a PPP concerning the construction of two sports arenas in the town of Farum. Finance for the project was a joint project between the local government and a Danish based financial company. The project was not competitively bid according to European Union regulations for that kind of costs, so the project was judged be a matter for Farum local government. The revenue that Farum received should have been deposited in the Home Office, according to Danish legislation. The local government did not do this, so it must pay around 600 mio more. DKK in deposit (approx. 550 million USD). This is not within reach for the local government who subsequently will miss the money from its budget. Farum local government has also used sale-and-lease-back arrangements to sell the buildings of primary schools and its wastewater-industry.

To make matters even worse, it was discovered (again by investigative journalism) that the mayor of Farum local government had made it a condition for awarding contracts to private providers of public service that private providers supported the local soccer club with sponsorships. The mayor was also chairman of the local soccer club incidentally!

The lessons of the case of Farum local government is that relationships between the public organization of the local government and the private sector partners dealing with the local government had become too much close. The relationships were not transparent to the public. Journalists or researchers could not get access to documents. The Danish legislation does not allow the public to view documents that are considered business agreements between a public sector entity and a private sector entity. The law on openness in public administration only applies to traditional government bureaucracies, not to public-private partnerships and other quasi-government organizations.

PUBLIC-PRIVATE PARTNERSHIPS AS ALTERNATIVES TO CONTRACTING OUT

Contracting out for public services have been on the agenda in Scandinavia since the 1980’s and it remains on top of the political and administrative agenda. How many services are contracted out in Scandinavia? In Denmark, 10% of local government service provision is contracted out to private service providers. In Sweden, 15% of public services are contracted out, and in Norway the figure is notably less than in the other two countries.

The public services contracted out are cleaning, street maintenance, waste disposal, and meals-on-wheels to elderly people. New service types that have been contracted out are administrative services, kindergartens, elderly care services, nursery homes, and childcare services. Denmark and Sweden also have tradition for contracting for ambulance service and fire fighting, and the service is provided by the Danish based company Falck (Refuss, 1989, 259; Savas, 2000, 71).
Falck merged with the British based company Group 4 in the late 1990’s, and the company is now a global service provider under the name of Group 4-Falck. The services now extend to security and prison management. Group 4-Falck has pursued an aggressive strategy of buying up other companies. The company already runs several prisons in the United Kingdom. Group 4-Falck bought the American company Wackenhut Corporation in 2002, making Group 4-Falck one of the biggest global providers of prison management and security provision.

Contracting for public services takes place in two kinds of local governments: Smaller, but innovative local governments who feel that they champion a cause of renewal of public service delivery. These local governments include Farum and Græsted-Gilleleje in Denmark, and Malmo and xxx in Sweden. The other group consists of the capital cities of each country and the top-5 cities in terms of inhabitants. Both the capitals of Stockholm in Sweden, and Oslo in Norway have carried out contracting for public services strategies (PLS Ramboll Management, 2001; Fromm & Torsøe, 2000). The capital city of Denmark, Copenhagen, is lagging behind the others capital cites in this respect.

The experiences with contracting for public services in these Scandinavian cities have been that there has been too much – in their view – focus on competition. Local governments and the private service providers want to move towards cooperative arrangements and embrace the PPP term.

The urge to embrace public-private partnerships can be interpreted as a result of Scandinavian political culture, which several research projects point out put a stress on cooperation, consensus and participation (Christensen & Lægreid, 2001). Public-private partnerships are seen as viable alternatives because it leaves out competition and “destructive” bargaining, requirements for formal written contracts for every move that is made, and because of the flexibility inherent in public-private partnerships as opposed to stricter contractual obligations in competitive contracting for public services.

**DISCUSSION**

The move towards public-private partnerships is turbulent and insecure. First of all, public-private partnerships have already taken on a number of institutional forms. Most notable are perhaps the BOOT and BOT models, and the sale-and-lease-back models. They are, however, infrastructure organizational models and financial arrangements respectively. The BOOT models have been employed for a number of years in road construction and construction of buildings. Sale-and-lease-back models are newer. The operations of both types of models depend on the historical-institutional context they are used in. The limits to how many years a sale-and-lease-back arrangement can last and the rules for making deposit of some of the money is very different between Scandinavia and the USA and even within both geographical areas as well. Other institutional forms of public-private partnerships would include partnerships between local governments and non-profit or voluntary organization. But although these kinds of partnerships exist and they are common in countries like the USA (see Salamon, 1995), they not referred to as public-private partnerships as the infra-structural and financial arrangements mentioned above.
Scandinavian countries are experimenting with public-private partnerships. But it is only in certain areas, and it is only certain innovative local governments that have actively tried on the new concept in practice. Among the innovators are local governments in Denmark and in Sweden. Stockholm, the Swedish capital, is moving towards public-private partnerships as an alternative to contracting out, and Stockholm is one of the local governments that have experimented most with market-type mechanisms. At the state level, the central governments’ development contracts with private providers and companies also get a mark for establishing new partnership deals. But on the whole, the local governments in Scandinavia that pursue public-private cooperation mostly prefer competitive contracting for public services.

The services that are in focus in public-private partnerships are also of a special kind. The services include wastewater-treatment, financial investment, building of roads, construction of sports arenas, and developing new concepts and prototypes that can be used in future production schemes (the development contracts). There remains work to be done if the PPP idea shall be transformed further and extended into more mundane service delivery systems.

The two characteristic points of PPP – risk sharing and the long duration of the contract – are perhaps also the most controversial for Scandinavian local governments. First of all, local governments are not usually in the business of taking risks. On the contrary, government – and local governments in Scandinavia are no exception here – have been known to be risk adverse or be prone to risk. Why should a mayor be allowed to “gamble” with taxpayers’ money and future income? There is no obvious answer to this, and the arguments by mayors who enter these arrangements are shrouded in technical terms of tax regulations and interest rate extrapolation. Although risk may be a more visible feature in other social areas, it is not clear why mayors should take particular risks on behalf of their citizens. Second, the duration period of these public-private partnerships arrangements tend to be up to 30 years. That is a very long time frame in local government when one considers that local politicians normally only have eyes for the next election. What is in fact happening is that mayors who enter into 30-year contracts will bind their constituency and the local government with obligations for a long period into the future. The effect is that future local governments will be restricted in their policy choices and in their own decision-making options. A 30-year duration of a contract may be an aim for a mayor who plans to be mayor for the next 30 years, but in politics this is something you cannot usually hope for and certainly not plan for.

Nowhere has these controversial points played out more vividly in the “Cities of tomorrow” network member, Farum local government, in Denmark. Farum is not even a big local government by Scandinavian standards; it is a middle range local government with a reasonable tax base from its citizens, but nothing special in terms of size or population. The move towards embracing the PPP framework has been special. Farum both took risks on behalf of its citizen, what a paper called a “billion kroner gambling” back in 1999, and the mayor entered long term contracts with private organizations of up to 30 years. The result can be witnessed in 2002 where the mayor has been expelled from office, taxes are on the rise sharply and could mean an increase for an average family with two kids of up to 18,000 DKK a year (2000 USD), and a future restraint on the new local council and mayor in terms of this person’s ability to
take new initiatives and propose new investments. For the next years in Farum local government, the name of the game is retrenchment policies.

Of the more constructive and evaluated experiences, we can count the Stockholm experience where public sector organizations in Stockholm negotiate with private sector service providers to find more cooperative arrangements build on partnership and trust (PLS Ramboll, 2001).

Cooperative arrangements without any check of competition can be a lethal route to take by local governments. The accountability mechanisms are also not clear in the PPP arrangements. Partly, this is because the central government has been too slow to make any well-thought legislation in place. The innovative local governments have been moving too fast for the central government to follow suit. Therefore, a huge task awaits the central government and the Scandinavian parliaments in the next few years to try to put adequate and robust legislation in place that acknowledges the existence of public-private partnerships.

CONCLUSIONS

This article has examined the experience of public-private partnerships as alternatives to contracting out in Scandinavia. We have showed that public-private partnerships have different meanings and institutional forms, but they can be understood as cooperative arrangements between formal public and private organizations with some kind of risk sharing and lasting for a longer time period. public-private partnerships emphasis on cooperation is generally regarded in the literature as being an alternative to competition normally associated with contracting for public services. In Scandinavia, public-private partnerships have been implemented in limited areas of public service delivery, and most notable within local governments. The local governments that have experimented with public-private partnerships have been “innovative” local governments. The results of entering into public-private partnerships are too soon to evaluate properly, but we have examined some standout cases. First, a case where public-private partnerships have gone wrong, in the local government of Farum in Denmark where the PPP deals have been declared illegal and where they mayor has been expelled from office. Farum was also a member of the Cities of Tomorrow network of local governments around the world, which included Phoenix, Arizona in the USA. The more constructive case has been Stockholm in Sweden where partnerships are regarded as a way forward to remedy a more fierce competitive approach. However, we raised the points that both risk sharing and long-term contracts may not be in the interest of local governments as a whole and that these arrangements have potentially grave implications for democracy in the future as they restrict the actions of future local governments severely.

What are the lessons for the USA from the Scandinavian experience? Much of the same discussion on the pros and cons of public-private partnerships take place in America. In 1993, Kettl noticed how much of the post war history of service delivery in the USA was a history of public-private cooperation.

However, concerns remain also in the USA to extend of these partnerships. In a recent article, Ghere (2001) worried about the effect on public administration ethics in an age of public-private partnerships. And cautious optimists have discussed upper time limits of long-term contracts for wastewater-treatment (Johnson & Waltzer, 2000).
Partnerships exist, however, and they are perhaps nowhere as prominent as with non-profit service delivery on behalf of government as studies by Millward & Provan (2000) have shown. The non-profit and government relationship tend to be more about partnerships and networking than about adversary relationships and competition if they are to work (Johnson & Romzek, 2000). Therefore, what the USA chiefly can learn from the Scandinavian experience is not so much that partnership matters – scholars and public administrators know this all too well – but that partnerships that are non-transparent and are mostly entered for financial and tax reasons alone are not worth pursuing. And Scandinavia has got some examples and lessons about those kinds of public-private partnerships ready for others to learn from.

What research in the USA and Scandinavia could aim at together would be to explore if there is a well-thought out process in pursuing with public-private partnerships that is similar to the ones that exist for contracting for public services (see Cohen, 2001). So far research has tended to concentrate on the difficulties with public-private partnerships. If there is a way forward for public-private partnerships that is democratically accountable, but preserves room for local government innovation, then the future could be a future for public-private partnerships also.

Carsten Greve is Professor, Institute of Political Science, University of Copenhagen: cg@ifs.ku.dk

REFERENCES


From, Johan. & Torsøe, Elisabeth. 2000. Konkurrenceutsettning av bydelenes pleje- og omsorgstjeneste i Oslo Oslo: Handelshøyskolen, BI.


Linder, Steven. “Coming to Terms with the Public-Private Partnership. A Grammar of Multiple Meanings” The American Behavioral Scientist. 43/1: 35-51.


Salamon, Lester M. Partners in Public Service Baltimore: John Hopkins University Press.

# ABOUT IPMR

**IPMR**  
The International Public Management Review (IPMR) is the electronic journal of the International Public Management Network (IPMN). All work published in IPMR is double blind reviewed according to standard academic journal procedures.

The purpose of the International Public Management Review is to publish manuscripts reporting original, creative research in the field of public management. Theoretical, empirical and applied work including case studies of individual nations and governments, and comparative studies are given equal weight for publication consideration.

**IPMN**  
The mission of the International Public Management Network is to provide a forum for sharing ideas, concepts and results of research and practice in the field of public management, and to stimulate critical thinking about alternative approaches to problem solving and decision making in the public sector.

IPMN includes over 600 members representing sixty different countries and has a goal of expanding membership to include representatives from as many nations as possible IPMN is a voluntary non-profit network and membership is free.

**Websites**  
IPMR: [http://www.ipmr.net/](http://www.ipmr.net/)  
(download of articles is free of charge)  
IPMN: [http://www.inpuma.net/](http://www.inpuma.net/)