
PUBLIC–PRIVATE PARTNERSHIP AN OVERVIEW

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INTRODUCTION

Public-private partnership (PPP) describes a government service or private business venture which is funded and operated through a partnership of government and one or more private sector companies. These schemes are sometimes referred to as PPP, P3 or P³.

PPP involves a contract between a public sector authority and a private party, in which the private party provides a public service or project and assumes substantial financial, technical and operational risk in the project. In some types of PPP, the cost of using the service is borne exclusively by the users of the service and not by the taxpayer. In other types (notably the private finance initiative), capital investment is made by the private sector on the strength of a contract with government to provide agreed services and the cost of providing the service is borne wholly or in part by the government. Government contributions to a PPP may also be in kind (notably the transfer of existing assets). In projects that are aimed at creating public goods like in the infrastructure sector, the government may provide a capital subsidy in the form of a one-time grant, so as to make it more attractive to the private investors. In some other cases, the government may support the project by providing revenue subsidies, including tax breaks or by providing guaranteed annual revenues for a fixed period. Typically, a private sector consortium forms a special company called a "special purpose vehicle" (SPV) to develop, build, maintain and operate the asset for the contracted period. In cases where the government has invested in the project, it is typically (but not always) allotted an equity share in the SPV (Moszoro and Gasiorowski, 2008). The consortium is usually made up of a building contractor, a maintenance company and bank lender(s). It is the SPV that signs the contract with the government and with subcontractors to build the facility and then maintain it. In the infrastructure sector, complex arrangements and contracts that guarantee and secure the cash flows and make PPP projects prime candidates for project financing. A typical PPP example would be a hospital building financed and constructed by a private developer and then leased to the hospital authority. The private developer then acts as landlord, providing housekeeping and other non-medical services while the hospital itself provides medical services.

Origins

Pressure to change the standard model of public procurement arose initially from concerns about the level of public debt, which grew rapidly during the macroeconomic dislocation of the 1970s and 1980s. Governments sought to encourage private investment in infrastructure, initially on the basis of accounting fallacies arising from the fact that public accounts did not distinguish between recurrent and capital expenditures.

The idea that private provision of infrastructure represented a way of providing infrastructure at no cost to the public has now been generally abandoned; however, interest in alternatives to the standard model of public procurement persisted. In particular, it has been argued that

models involving an enhanced role for the private sector, with a single private-sector organization taking responsibility for most aspects of service provisions for a given project, could yield an improved allocation of risk, while maintaining public accountability for essential aspects of service provision. Initially, most public–private partnerships were negotiated individually, as one-off deals, and much of this activity began in the 1990's.

Britain

In 1992, the Conservative government of John Major in the UK introduced the private finance initiative (PFI),^[2] the first systematic programme aimed at encouraging public–private partnerships. The 1992 programme focused on reducing the Public Sector Borrowing Requirement, although, as already noted, the effect on public accounts was largely illusory. The Labour government of Tony Blair, elected in 1997, expanded the PFI initiative but sought to shift the emphasis to the achievement of "value for money," mainly through an appropriate allocation of risk. However it has since been found that many programs ran dramatically over budget and have not presented as value for money for the taxpayer with some projects costing more to cancel than to complete.

Australia

A number of Australian state governments have adopted systematic programmes based on the PFI. The first, and the model for most others, is Partnerships Victoria.

Canada

The federal conservative government under Stephen Harper in Canada solidified its commitment to P3s with the creation of a crown corporation, P3 Canada Inc, this in 2009. The Canadian vanguards for P3s have been provincial organizations, supported by the Canadian Council for Public-Private Partnerships established in 1993 (a member-sponsored organization with representatives from both the public and the private sectors). As proponents of the concept of public-private partnerships (PPP's), The Council conducts research, publishes findings, facilitates forums for discussion and sponsors an Annual Conference on topics related to PPP's, both domestic and international. Each year the Council celebrates successful public-private partnerships through the National Awards Program held concurrently with the annual conference in November.

The Importance of Public-Private Partnerships

Over the past two decades more than 1400 PPP deals were signed in the European Union, which represent an estimated capital value of approximately €260 billion.^[3] Since the onset of the financial crisis in 2008, estimates suggest that the number of PPP deals closed has fallen more than 40 percent.^[4] These difficulties have placed significant strains on governments that have come to rely on PPPs as an important means for the delivery of long-term infrastructure assets and related services.^[5] Moreover, this has occurred precisely at a time when investments in public-sector infrastructure are seen as an important means of maintaining economic activity during the crisis, as was highlighted in a European Commission

communication on PPPs.^[6] As a result of the importance of PPPs to economic activity, in addition to the complexity of such transactions, the European PPP Expertise Centre (EPEC) was established to support public-sector capacity to implement PPPs and share timely solutions to problems common across Europe in PPPs.^[7]

Controversy

A common problem with PPP projects is that private investors obtained a rate of return that was higher than the government's bond rate, even though most or all of the income risk associated with the project was borne by the public sector. It is certainly the case that government debt is cheaper than the debt provided to finance PFI projects, and cheaper still than the overall cost of finance for PFI projects, i.e. the weighted average cost of capital (WACC). This is of course to attempt to compare incompatible and incomplete economic circumstances. It ignores the position of taxpayers who play the role of equity in this financing structure. Making a simple comparison, however, between the governments's cost of debt and the private-sector WACC implies that the government can sustainably fund projects at a cost of finance equal to its risk-free borrowing rate. This would be true only if existing borrowing levels were below prudent limits. The constraints on public borrowing suggest, nevertheless, that borrowing levels are not currently too low in most countries. These constraints exist because government borrowing must ultimately be funded by the taxpayer. A number of Australian studies of early initiatives to promote private investment in infrastructure concluded that, in most cases, the schemes being proposed were inferior to the standard model of public procurement based on competitively tendered construction of publicly owned assets (Economic Planning Advisory Commission (EPAC) 1995a,b; House of Representatives Standing Committee on Communications Transport and Microeconomic Reform 1997; Harris 1996; Industry Commission 1996; Quiggin 1996). One response to these negative findings was the development of formal procedures for the assessment of PPPs in which the focus was on "value for money," rather than reductions in debt. The underlying framework was one in which value for money was achieved by an appropriate allocation of risk. These assessment procedures were incorporated in the private finance initiative and its Australian counterparts from the late 1990s onwards.^[citation needed] In 2009, the New Zealand Treasury, in response to inquiries by the new National Party government, released a report on PPP schemes that concluded that "there is little reliable empirical evidence about the costs and benefits of PPPs" and that there "are other ways of obtaining private sector finance", as well as that "the advantages of PPPs must be weighed against the contractual complexities and rigidities they entail".^[8] Nowadays, a new model is also being discussed, called the Public-Private Community Partnership (PPCP) model, wherein both the government and private players work together for social welfare, eliminating the prime focus of private players on profit. This model is being applied more in developing nations such as India. Success is being achieved through this model too. it mainly helps to ramp up the development process as the focus is shifted towards target achievement rather than profit achievement.

Privatization of Water

After a wave of privatization of many water services in the 1990s, mostly in developing countries, experiences show that global water corporation has not brought the promised

improvements in public water utilities. Instead of lower prices, large volumes of investment and improvements in the connection of the poor to water and sanitation, water tariffs have increased out of reach of poor households. Water multinationals are withdrawing from developing countries and the World Bank is reluctant to provide support.^[9]

The privatization of the water services of the city of Paris was proven to be unwanted and at the end of 2009 the city did not renew its contract with two of the French water corporations.^{[10][11]} After one year of being controlled by the public, it is projected that the water tariff will be cut to between 5% and 10%.^[12]

Health Public-Private Partnerships

A health services PPP can be described as a long-term contract (typically 15-30 years) between a public-sector authority and one or more private sector companies operating as a legal entity. The government provides the strength of its purchasing power, outlines goals for an optimal health system, and empowers private enterprise to innovate, build, maintain and/or manage delivery of agreed-upon services over the term of the contract. The private sector receives payment for its services and assumes substantial financial, technical and operational risk while benefitting from the upside potential of shared cost savings. The private entity is made up of any combination of participants who have a vested interest in working together to provide core competencies in operations, technology, funding and technical expertise. The opportunity for multi-sector market participants includes hospital providers and physician groups, technology companies, pharmaceutical and medical device companies, private health insurers, facilities managers and construction firms. Funding sources could include banks, private equity firms, philanthropists and pension fund managers. For more than two decades public-private partnerships have been used to finance health infrastructure. Now governments are increasingly looking to the PPP-model to solve larger problems in healthcare delivery. There is not a country in the world where healthcare is financed entirely by the government. While the provision of health is widely recognized as the responsibility of government, private capital and expertise are increasingly viewed as welcome sources to induce efficiency and innovation. As PPPs move from financing infrastructure to managing health care delivery, there is an opportunity to reduce overall cost of healthcare.

Market Potential for Health PPPs

The larger scope of Health PPPs to manage and finance care delivery and infrastructure means a much larger potential market for private organizations. Spending on healthcare among the Organization for Economic Cooperation and Development (OECD) and BRIC nations of Brazil, Russia, India and China will grow by 51 percent between 2010 and 2020, amounting to a cumulative total of more than \$71 trillion.^[13] Of this, \$3.6 trillion is projected to be spent on health infrastructure and \$68.1 trillion will be spent on non-infrastructure health spending cumulatively over the next decade. Annually, spending on health infrastructure among the OECD and BRIC nations will increase to \$397 billion by 2020, up

from \$263 billion in 2010. The larger market for health PPPs will be in non-infrastructure spending, estimated to be more than \$7.5 trillion annually, up from \$5 trillion in 2010.^[13] Health spending in the United States accounts for approximately half of all health spending among OECD nations, but the biggest growth will be outside of the U.S. According to PwC projections, the countries that are expected to have the highest health spending growth between 2010 and 2020 are China, where health spending is expected to increase by 166 percent, and India, which will see a 140 percent increase. As health spending increases it is putting pressure on governments and spurring them to look for private capital and expertise.^[13]

Product Development Partnerships

Product development partnerships (PDPs) are a class of public–private partnerships that focus on pharmaceutical product development for diseases of the developing world. These include preventive medicines such as vaccines and microbicides, as well as treatments for otherwise neglected diseases. PDPs were first created in the 1990s to unite the public sector's commitment to international public goods for health with industry's intellectual property, expertise in product development, and marketing. International PDPs work to accelerate research and development of pharmaceutical products for underserved populations that are not profitable for private companies. They may also be involved in helping plan for access and availability of the products they develop to those in need in their target populations. Publicly financed, with intellectual property rights granted by pharmaceutical industry partners for specific markets, PDPs are able to focus on their missions rather than concerns about recouping development costs through the profitability of the products being developed. These not-for-profit organizations bridge public- and private-sector interests, with a view toward resolving the specific incentive and financial barriers to increased industry involvement in the development of safe and effective pharmaceutical products.

International Examples

International product development partnerships and public–private partnerships include:

- The PATH Malaria Vaccine Initiative (MVI) is a global program of the international nonprofit organization PATH. MVI was established in 1999 to accelerate the development of malaria vaccines and ensure their availability and accessibility in the developing world.
- The Drugs for Neglected Diseases Initiative (DNDi) was founded in 2003 as a not-for-profit drug development organization focused on developing novel treatments for patients suffering from neglected diseases.
- Aeras Global TB Vaccine Foundation is a PDP dedicated to the development of effective tuberculosis (TB) vaccine regimens that will prevent TB in all age groups and will be affordable, available and adopted worldwide.
- FIND ^[1] is a Swiss-based non-profit organization established in 2003 to develop and roll out new and affordable diagnostic tests and other tools for poverty-related diseases.

- The Global Alliance for Vaccines and Immunization is financed per 75% (750 Mio.US\$) by the Bill and Melinda Gates Foundation, which has a permanent seat on its supervisory board.
- The Global Fund to Fight AIDS, Tuberculosis & Malaria, a Geneva-based UN-connected organization, was established in 2002 to dramatically scale up global financing of interventions against the three pandemics.
- The International AIDS Vaccine Initiative (IAVI), a biomedical public–private product development partnership (PDP), was established in 1996 to accelerate the development of a vaccine to prevent HIV infection and AIDS. IAVI is financially supported by governments, multilateral organizations, and major private-sector institutions and individuals.
- The International Partnership for Microbicides is a non-profit product development partnership (PDP), founded in 2002, dedicated to the development and availability of safe, effective microbicides for use by women in developing countries to prevent the sexual transmission of HIV.
- Medicines for Malaria Venture (MMV) is a not-for-profit drug discovery, development and delivery organization, established as a Swiss foundation in 1999, based in Geneva. MMV is supported by a number of foundations, governments and other donors.
- The TB Alliance is financed by public agencies and private foundations, and partners with research institutes and private pharmaceutical companies to develop faster-acting, novel treatments for tuberculosis that are affordable and accessible to the developing world.
- A UN agency, the World Health Organization (WHO), is financed through the UN system by contributions from member states. In recent years, WHO's work has involved more collaboration with NGOs and the pharmaceutical industry, as well as with foundations such as the Bill and Melinda Gates Foundation and the Rockefeller Foundation. Some of these collaborations may be considered global public–private partnerships (GPPPs); half of the WHO budget is financed by private foundations.
- The United Nations Foundation & Vodafone Foundation Technology Partnership, a five-year, \$30 million commitment, leverages the power of mobile technology to support and strengthen humanitarian work worldwide. Partners include the World Health Organization (WHO), DataDyne, the mHealth Alliance, the World Food Program (WFP), Telecoms Sans Frontieres, and the UN Office for the Coordination of Humanitarian Affairs (OCHA).

Similar public-private partnerships outside the realm of specific public-health goods include:

- Public–private partnerships for disaster management bring together the private sector for PPP models with a tool box of partnership opportunities towards resilience and sustainability goals.
- The public-private partnership for improving teaching and learning in schools in Abu Dhabi, United Arab Emirates.

Financing

A key motivation for governments considering public private partnerships is the possibility of bringing in new sources of financing for funding public infrastructure and service needs. It is important to understand the main mechanisms for infrastructure projects, the principal investors in developing countries, sources of finance (limited recourse, debt, equity, etc), the typical project finance structure, and key issues arising from developing project financed transactions.^[14] A number of key risks need to be taken into consideration as well. These risks will need to be allocated and managed to ensure the successful financing of the project. The party that is best placed to manage these risks in a cost effective way may not necessarily always be the private sector. However, there are a number of mechanisms products available in the market for project sponsors, lenders and governments to mitigate some of the project risks, such as: Hedging and futures contracts; insurance; and risk mitigation products provided by international finance institutions.^[15]

Specific Cases

While some PPP projects have proceeded smoothly, others have been highly controversial. Australian examples include the Airport Link, the Cross City Tunnel,^[16] and the Sydney Harbour Tunnel, all in Sydney; the Southern Cross Station redevelopment in Melbourne; and the Robina hospital in Queensland. In India, public-private partnerships have been extremely successful in developing infrastructure, particularly road assets under the National Highways Authority of India. In Canada, public-private partnerships have become significant in both social and infrastructure development. PPP Canada Inc. was created as a Crown corporation with an independent Board of Directors reporting through the Minister of Finance to Parliament. Its mandate is to improve the delivery of public infrastructure by achieving better value, timeliness and accountability to taxpayers, through P3s. The Corporation became operational in February 2009 with the appointments of a chair of the board of directors and a chief executive officer. PPPs exist in a variety of forms in British Columbia through the focused efforts of Partnerships BC, a company registered under the Business Corporations Act, that is wholly owned by the Province of British Columbia and reports to its shareholder the Minister of Finance. Projects include the Canada Line rapid transit line, the Abbotsford Hospital and Cancer Centre and the Sea-to-Sky Highway project.^[17] In Quebec, a number of notable PPPs include the McGill University Health Centre, the new western extension of Autoroute 30 and Université de Montréal's Hospital Research Center. In the UK, two-thirds of the London Underground PPP was taken back into public control in July 2007 after only four and a half years at an estimated cost of £2 billion and the remaining one-third was taken back into public control in May 2010 after seven and a half years for a purchase price of £310m.^[18] The Government had paid advisers £180m for structuring, negotiating and implementing the PPP and had reimbursed £275m of bid costs to the winning bidders.^[19] The 30 year PPP contract for the refurbishment of the MOD Main Building in London was estimated to give a saving of only £100,000 as compared to the £746.2m cost of public procurement.^[20] The refinancing of the Fazakerley Prison PFI contract following the completion of construction delivered an 81% gain to the private sector operator.^[21] The NATS PPP saw 51% of the UK's air traffic control service transferred to the private sector, however following the decline in air traffic after the September 11 attacks, the Government

and BAA Limited each invested £65m in the private sector operator in 2003.^[22] In Newfoundland Robert Gillespie Reid contracted to operate the railways for fifty years from 1898, though originally they were to become his property at the end of the period.^[23]

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