Definitions and Different Aspects of Public Private Partnership

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Annotation: In this thesis, the authors studied the definitions and the history of the the public-private partnership. The public-private partnership (PPP) model has been increasingly popular in recent decades as a mechanism to support infrastructure related investment activity.

Keywords: Finance, public-private partnership (PPP), risk, economy

Introduction

Public Private Partnership (PPP) which is concerned as a business model that brings public and private sector together does not have a universal definition Principally, in a PPP model, both public and private sides may utilize their comparative advantage and contribute economy through investing the infrastructure projects, thus increasing the welfare of society. PPPs 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”. Several definitions of PPP are mentioned below.

Main part

World Bank PPP Knowledge Lab (World Bank, 2018) defines PPP as “a long-term contract between a private party and a government entity, for providing a public asset or service, in which the private party bears significant risk and management responsibility, and remuneration is linked to performance”. In this definition, particularly risk sharing is stressed and performance is put forward. In the case of classic form of delivery of public investment, government bears the full risk of the project from construction to the operation.

Delegating delivery of a public good to a profit seeking private sector agent without risk sharing or without appropriate performance criterion is not recommended by the definition of World Bank PPP Knowledge Lab (World Bank, 2018). However, PPP Knowledge Lab notes that transferring risk is not a goal on its own but rather an instrument to align public and private interests. The green paper by the European Union (EU) in which PPP was examined with its several dimensions (Commission of the European Communities, 2004), the following points were highlighted:

- Relatively long duration of the contracts.
- The important role of private party in financing the project.
- The different roles of private and public parties in which public sector is expected to take part in defining the scope of the project and monitoring the project at various stages, from construction to operation while private party is expected to take responsibility in design, finance, construction, operation and maintenance.
- The shared risks by private and public actors.

In an International Monetary Fund (IMF) paper by Hemming (2006), public-private partnerships (PPPs) is defined as the arrangements where private sector supplies the infrastructure assets along with infrastructure-based services that have traditionally been provided by the government. The focal concern of this definition is the emphasis on the roles that are transferred from the government to the private sector. Moreover, Hemming (2006) does not consider the use of PPP projects only from an infrastructure provision point of view but also from a more social service provision such as education and healthcare. Yet, since healthcare and education may be delicate areas for using PPP, maximum attention should be paid to the design of performance criteria and payment scheme in these sectors.

Similarly, PPP Handbook of Asian Development Bank (2007) presents a framework in which PPP "describes a range of possible relationships among public and private entities in the context of infrastructure and other services". This framework—while engaging the private sector—"acknowledges and structures the role for government in ensuring that social obligations are met and successful sector reforms and public investments achieved". According to the Handbook;

- A strong PPP allocates the tasks, obligations, and risks among the public and private partners in an optimal way.
- Effective PPPs recognize that the public and the private sectors each have certain advantages, relative to the other, in performing specific tasks.

The extant academic literature offers various PPP definitions despite the existence of a number of common points. Mu et al. (2011) suggest that "PPPs can be loosely deðned as cooperative institutional arrangements between the public and private sectors". Obviously, the authors indicate the participation of public and private parties as the most featuring point in PPPs. Yet, Mu et al (2011) also highlight that the provision and quality of public infrastructure services are subject to the ability and willingness of partners to bring their "best available skills, knowledge and resources and transfer them to the arrangement to strive for a value for money". In line, de Jong et al. (2010) claim that "PPP projects involve private actors in the design, construction, maintenance, operation and management of a public infrastructure on the basis of competitive tendering and long term contracts or arrangements".

Reflecting on the UK and Ireland experiences, Sheppard and Beck (2018) observe that PPP is under-stood as a long term partnership between private and public actors based on mutual benefit. Additionally, PPP is considered as a method that gives high priority to value for money and delivering quality public services in these contexts. According to a more recent paper where the definition of PPP is claimed as it is inherently broad, PPP refers to "long term contractual arrangements between public agencies and private partners that increase private participation and risk sharing in various stages of the project lifecycle, including facility design, construction, financing, operations, and maintenance". In summary, despite the existence of a universal definition of PPP, some key common points such as long term nature of the contract, specialization of public and private actors at different roles and risk sharing are mentioned frequently.

Conclusion

PPPs are acknowledged by the governments particularly with heavy debt burdens, as magical solutions for the shortcomings of traditional infrastructure provision. However, PPPs should not be considered as a panacea to address the infrastructure needs of countries. As presented in the previous chapters, there are failure cases as well as success cases in PPP implementations. From this point of view, PPP projects can be deemed as a Ponzi scheme on the way of financing certain needs of current world with suspicious earnings of future.

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