Ensuring alliance success: Public-private partnerships

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The emphasis on public-private partnerships (PPP) has grown rapidly in recent years. Yet, more than half of these alliances turn out unsuccessfully. The cause of these failures can be traced to factors such as: disagreements between organisations over control, inadequate management support and a lack of cooperative behaviour.

Traditionally, governments outsource the design and construction of major infrastructural developments (roadworks, utilities, etc.), while still maintaining overall control and financial responsibility for these projects. Here, the public sector retains both the ownership and the right to operate the asset.

The public-private partnership (PPP), on the other hand, seems to be a viable alternative in both high-income and lower-income economies. This is where a governmental body, who lacks adequate funds for a major development, cedes project ownership to a private entity or consortium for a given period.

The purpose of establishing a PPP is to benefit *both* the public and private parties to the same extent; nonetheless, there have been many cases where PPP arrangements fail to deliver satisfactorily. Hence criticism has arisen over the equitability of PPPs; the implications of which are pertinent to the formulation of public procurement policies.

In this article, we review the measures of success and look at power imbalances that impede the success of PPP arrangements. But first, let us examine how PPPs are currently being justified, and why these reasons aren't always foolproof.

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Justifying PPPs, or not

Whatever its origins may be, the justification for utilizing a PPP, rather than more traditional approaches, are typically stated in terms of the following:

1. Government-owned entities are sometimes inefficient when compared to private entities, hence forming PPPs would promote a more efficient use of resources.

While that is true, the competitive-tendering process prior to establishing the PPP encourages monopolistic behaviour in the private sector partners. Since private sector firms are primarily concerned with bottom line, these new monopolies might resort to cost-cutting measures and hence compromise on quality. Such rent-seeking motives could therefore conflict with public interests.

2. The public sector sometimes lacks the right expertise and personnel to execute their projects; on the other hand, these are found easily within the private sector.

However, this also means that the government is not well equipped to evaluate companies (from the private sector) who bid for the project.

3. A "private sector discipline" is usually incorporated into a PPP contract; this intends to protect the interests of the public and prevent time and cost overruns.

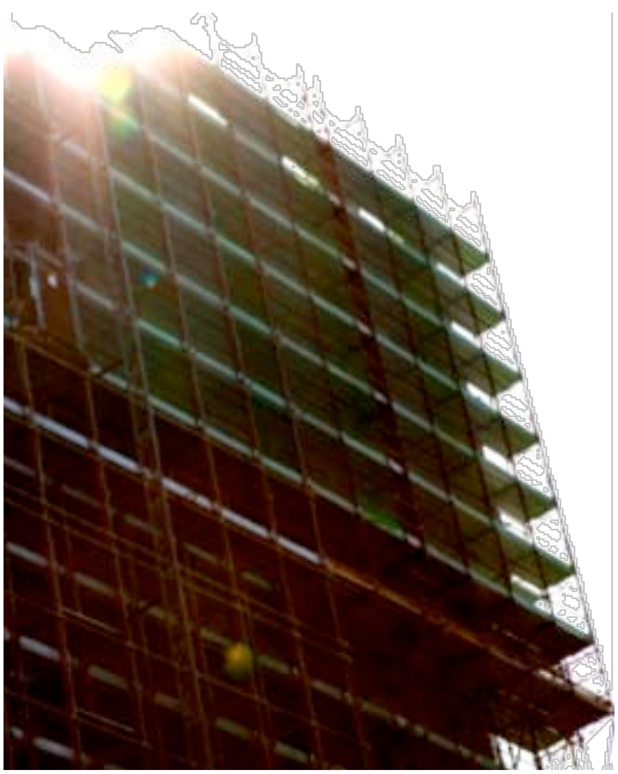
Also, where the private sector is acting *in loco* government, a high standard of transparency is expected. Despite such supposition, the evidence presented is quite different. Beneath the ostensible, the private partner is sometimes able to hide its financial and operating behaviours.

4. Risk is transferred from the public sector to the contracting private entities, therefore the burden of public debt is reduced, especially with threats of unexpected events (e.g. strikes, unforeseen costs, lock-outs and inaccurate financial modeling).

Evidence suggests otherwise though. Contracting firms are likely to assume that the public will fund any increase in cost that result from unforeseen circumstances, which implies that the transfer of risk will not necessarily protect public interest.

Measuring alliance success

Assessing the success of an alliance is a



complex task. Often, the question is: from whose perspective is "success" measured? While the project could be an engineering success, is it necessarily an operational success? For one, it is unclear if a PPP is indeed a more cost-effective alternative to traditional project outsourcing. Secondly, it is difficult to measure success monetarily - especially if the private entity withholds information about actual financial returns. At best, these figures can only be estimated.

Power imbalance

There is an overwhelming consensus that there exists a power imbalance in PPPs, which sways towards the more astute and experienced private sector firms. Here are some explanations that have been offered by experts:

- When ownership rights (of infrastructural assets) are ceded to the private sector, issues relating to “commercial-in-confidence” arise. These problems conflict with the need for transparency and public accountability.
- In PPPs, the operation of infrastructural assets is subject to market-driven imperatives, often at the expense of the general public, who are the users of new infrastructure.
- The public sector may have lacked experience in negotiating favourable contract terms before the PPP.
- Within the public sector itself, insufficient debt-financing support systems would lead to hasty PPP arrangements. Consequently, objective cost-benefit analyses are often neglected in the decision-making process.

Several studies have uncovered two startling results: First, there is scant evidence that PPP arrangements will deliver its intended benefits - are they necessarily effective cost-cutting alternatives? Can risk really be transferred from the public? Second, it is almost always true that PPPs *do not* result in favourable outcomes for the general public, who are the intended users of new infrastructure.

Implications for SMEs

While SMEs are not necessarily the focus of this article, their position needs to be considered as well. These companies are often disadvantaged by virtue of size and financial ability, making them ineligible to enter into PPPs. However in the course of the projects, work is often being outsourced to SMEs by principal contractors. Therefore, the role of and impact on these entities should not be undermined in future measures of PPP success.

A need for greater transparency...

Unfortunately, it is clear from research that the needs of the polity often come in second to the financial needs of the state and the private sector provider.

We do not however suggest that PPPs should cease being adopted. Rather, we propose that adequate regulatory framework must be in place at the policy level. For example, governments should impose a requirement that tendering companies must be publicly listed as they have a more transparent corporate structure. While this solution may be far from perfect, it certainly ensures that due diligence is being carried out in their yearly audits, and shareholders also have the ability to challenge any contentious company policies.

The level of transparency expected should in fact mirror that of the government agencies involved in the PPP, where both financial and operating behaviours are disclosed to the general public – the main beneficiaries of these projects. Rent-seeking motives of private entities should neither supersede the interests of the governments nor compromise with that of the general public. ■

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