FULBRIGHT UNIVERSITY VIETNAM

FULBRIGHT SCHOOL OF
PUBLIC POLICY AND MANAGEMENT

Public Management

SESSION 13

Private Sector and Government Contracting

Session 13

- Declining Role of Government in Public Service and Infrastructure Delivery.

- Rise of Private Sector

- Contracting and Public-Private Sector Partnerships

A Question

- What were the problems of the national government in terms of public service provision and infrastructure procurement?

- Why did public-private partnerships (3Ps, or PPPs) become popular in the provision of public service?



Contracting out

- PPP and Contracting out is often used synonymously (in particular, U.S.)
- Contracting is normally associated with **saving money** through the competitive tendering process.
- As an instrument of public sector reform (achieving better value for taxpayers)
- But PPP is more than producing an asset or a service (it is not overriding consideration).

What is public-private partnerships

- “Public-private partnership is a cooperative venture for the provision of infrastructure or services, built on the expertise of each partner that best meets clearly defined public needs, through the most appropriate allocation of resources, risks, and rewards.”
- Main idea: how to utilize private sector’s expertise and resources to address public needs or to meet political goals.
- No standard forms: a variety
- Keywords: Cooperative Venture, Expertise, Allocation

continued

- “PPP can be seen as one of component of a rearrangement of the public sector with a management culture that focuses on **the centrality of the citizen or customer, accountability for results, investigation of a wide variety of alternative service delivery mechanisms**, and **competition** between public and private bodies for contracts to deliver services, consistent with cost recovery and achievement of value for money”

- Government → the *enabler* coordinating provision and actions by and through others.

Why PPP?

- From controller to the partner (governance concept, new public management movement)

- **<u>Internal impetus</u>**: a. Fiscal deficit/ b. Extensive cuts & public services / c. New ideas about public service

- **<u>External pressures</u>**:

  - Information technology weakened government's power over individuals

  - Necessity to develop private sector's capacity in response to global competition

Why PPP? - 2

- Change of values: Relates to the role shifting of the government

- The term **partner** conveys a sense of empowerment, flexibility, collaboration, consultation, proactivity, efficient and a service orientation

- Evaluation of policy instruments
  - Effectiveness
  - Political & administrative feasibility
  - Efficiency
  - Equity

PPP Matrix

Parameter	Components
What is the purpose?	• **Aim**: range from employment creation to employment redistribution • **Range of activities**: from single to long-term program • **Level:** range from strategic-oriented one-off collaboration
Who is involved?	• **Range of actors**: From public to private sector • **Structure**: range from legal binding contracts to general agreements • **Process of mobilization**: range from top-down approach to bottom-up approach • **Power Relations**: From unequal to fair relations

Is PPP New?

- **Private sector involvement in provision of public services is not new** – e.g., the private sector has frequently provided:
  - Basic supplies (e.g. paper, pens, toilet paper, etc.)
  - Equipment (computers, medical, etc.)
  - Construction services
  - Consultation services
  - etc.

- **The increased scope of the private sector's participation is relatively new!*****
  - Provision of financing
  - Provision of operation services
  - Ownership of assets

Typical applications

- Transport (road, rail, ports, airports)
- Fixed links (bridges, tunnels)
- Water resources (filtration plants, irrigation, etc.)
- Tourism (facility development)
- Health (hospitals and specialized health services)
- Specialized accommodation facilities (courts, museums, libraries)
- Education facilities (schools, etc.)
- Correctional services (prisons, etc.)
- Arts, sports, and recreational facilities

Range of government business models

- Shift towards separately managed corporatized units'
- A trend towards *greater competition*
- Greater use within the public sector of management practices drawn from the private sector
- Emphasis on parsimony in resource use, and on the active search for finding alternatives
- More 'hands-on' control by top managers, not by top bureaucrats
- More explicit and measurable performance

Discussion

- Two examples: 1. Express Railway; 2. Army’s Dorm
- Discuss: Government budget and technology are limited. What would be the best PPP types?
- How would you guarantee certain level of profit to private partners? (e.g. lump sum payment)
- Is there any danger/risk?

- **Public provision of collective goods**
- **Service provision contract**
- **Outsourcing / Contracting**
- **Design and Construct (D & C)**
- **Sale and leaseback**
- **Operate and maintain (O & M)**
- **Operate maintain and manage (OM & M)**
- **Build transfer operate (BTO)**
- **Build operate transfer (BOT)**
- **Build lease transfer (BLT)**
- **Build lease transfer maintain (BLTM)**
- **Build own operate remove (BOOR)**
- **Build own operate transfer (BOOT)**
- **Lease renovate operate transfer (LROT)**
- ***<u>Design build finance operate (DBFO)</u>***
- **Design construct finance operate manage (DCMF)**
- **Design build finance operate manage (DBFOM)**
- **Build own operate (BOO)**
- **Franchise**
- **Concession**
- **Joint venture**
- **Outright privatization**

Gov't-market as a continuum

Concessions

- The government defines and grants specific rights to an entity (private firm) to build and operate a facility **for a fixed period** of supply of the services.
- The concessionaire pays to government for the concession rights.
- Government payment: may be necessary to make projects commercially viable and reduce the level of risk (developing countries or untested PPP market).
- 5~50 years of concession, usually

Type A: Build-Transfer-Operate

- Concessionaire makes investments and operates the facility for a fixed period of time (c.f. BOT).
- Ownership of the infrastructure is transferred to the government upon the completion
- Concessionaire gain return on investment (ROI)
- Risk: High or Low?
- Importance: Commercial viability (feasibility text)**
- **Transport: roads, railways, and seaports**

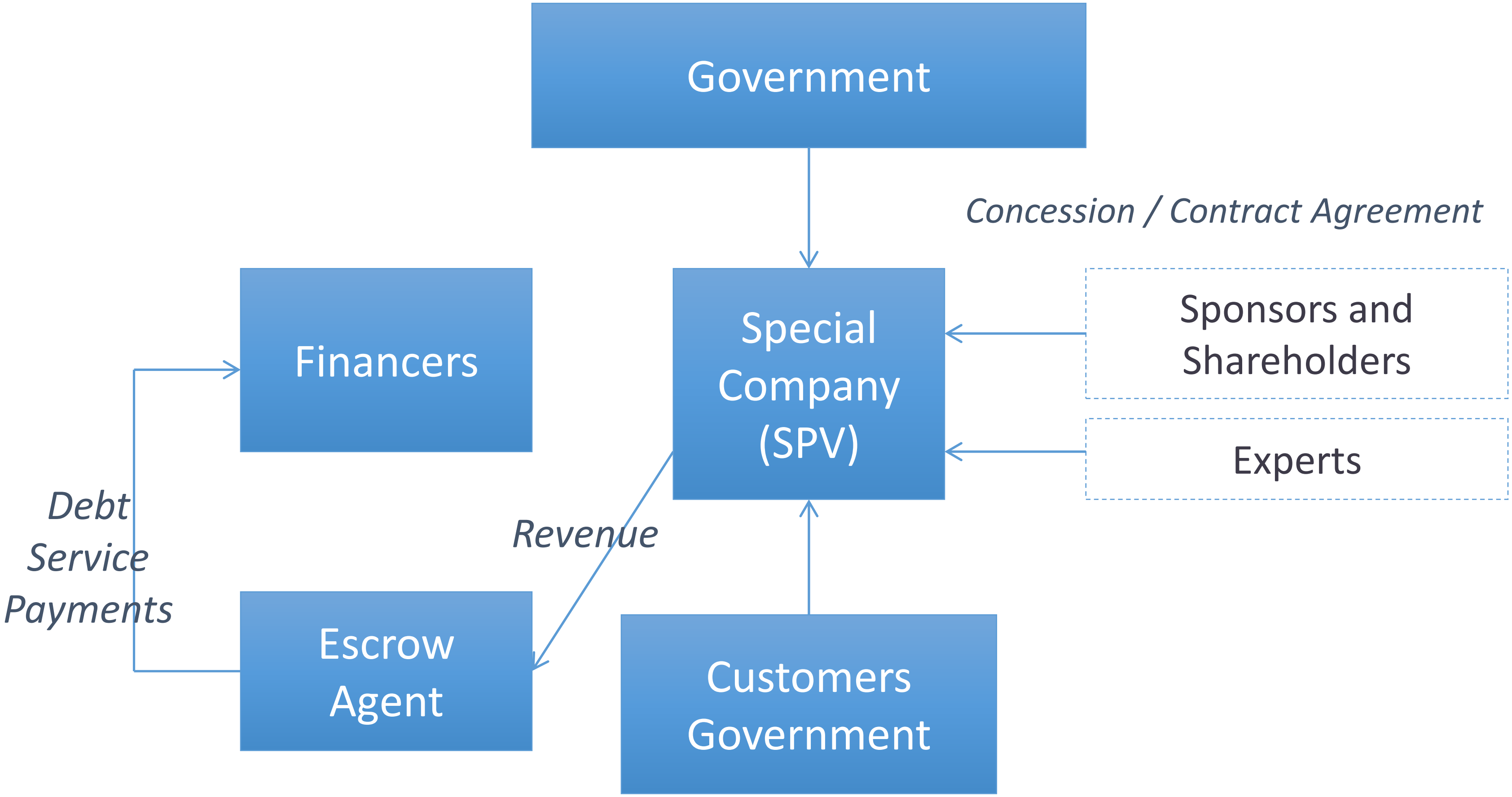
Type B: Build-Transfer-Lease

- Ownership of the infrastructure facilities is transferred to the government upon the completion of construction.
- The concessionaire is granted the right to operate them and **receive government payment** (lease payment plus operational cost) based on operational performance.
- Used when the concessionaire has difficulty recovering its investment cost through user fees.
- Schools, welfare facilities, environmental facilities, military residences, etc.

Type C: Design-Build-Finance-Operate

- Arguably most common business model.
- Concessionaire will secure its own financing to build, maintain and operate the facilities to meet the government's requirement.
- Concessionaire will be paid according to the services delivered, at specified performance standards throughout the entire contract length.
- No actual ownership transfer
- Infrastructure development such as Toll roads

Typical PPP Structure



PPP and Privatization

- The question of whether, and how, PPPs differ from privatization (normally interchangeable).

- Regulation through contract (c.f. privatization – regulation does not come from some statutory regulatory agency).

- Government engagement: the outcome is required, the prices paid for the services along with the general rights and obligations of the various parties

- **Case of SingTel** – State involvement in early period, but gradual privatization but ST was distinctive from others.

“Optimism Bias”

- Political Commitment to a project at too early a stage (before there can be an appraisal at sufficient depth).
- An inability to obtain good data on factors like actual traffic routes used, bus and rail usage, etc.
- Overestimating external factors such as population growth, income, economic activity or car ownership.
- Forecasting errors resulting from specification errors in models.
- Systematic appraisal optimism: benefits overestimated / costs underestimated.

“Politics” matter

- The various reports on PPPs in many countries commonly identify the same problem: “**over-commitment** of political prestige at an early stage.”
- Short political tenure
- Rent-seeking behavior
- Project promoters appear to think that a degree of deception and delusion is necessary to get projects started, and they are aided by engineers with politicians with access to public funds.

Then, is PPP an answer?

- Mott McDonald’s report (2002) – 11 of the 50 projects examined and the result was striking.

- On average the PPP (or Private Financing Initiative) came in under time (compared to 17% over time under conventional methods), capital expenditure resulted in a 1% cost overrun on average for PPP projects.

	PFI Projects (2002)	Government procurement (1999)
% on time	76%	30%
% on budget	78%	27%

UK National Audit Office (2003)

Benefits of PPPs

- A long-term, market-driven approach to public sector asset construction and service delivery which is designed to:
- Allocation of risks
- Increase cost-savings
- Enhance the quality of services
- Generate reasonable profits
- Free up government fiscal funds for use

Motives

Public Sector	Private Sector
Efficiency	New Market opportunity
Private skills and knowledge	Reduction of long-term uncertainty
Creation of added values and innovative solutions	Public contribution to unprofitable project parts

Q&A

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