



FULBRIGHT  
UNIVERSITY  
VIETNAM

FULBRIGHT SCHOOL OF  
PUBLIC POLICY AND MANAGEMENT

# Public Management

SESSION 14

**Accountability**

# Session 14

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- How to secure 'public accountability' amid increasing trend of public-private partnerships (or the role of partnerships)?
- PPP failures
- Challenges in developing countries



# PPP: Summary

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- PPP can be summarized as a long-term, market-driven approach to public sector asset construction and service delivery which is designed to:
- Allocate risks between public and private sectors
- Increase cost savings
- Enhance the quality of services
- Generate reasonable profits
- Free up government fiscal funds for use
- Etc.



# What general citizens get

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- Related to Accountability Issue
- PPP brings together the expertise of the government and the private sector to meet the needs of the public effectively and efficiently.
- Government is supposed to ensure public interests in PPP.
- Clear accountability
- Public security, health, safety should not be compromised.
- Confidentiality of information will be guaranteed by the government.

# Cases





# Case of China



## **1980s-the mid 1990s:**

Formation of initial legal and policy framework for PPP in China

## **China's Tax Reform in 1994:**

Financial pressure has pushed local governments to seek private investment

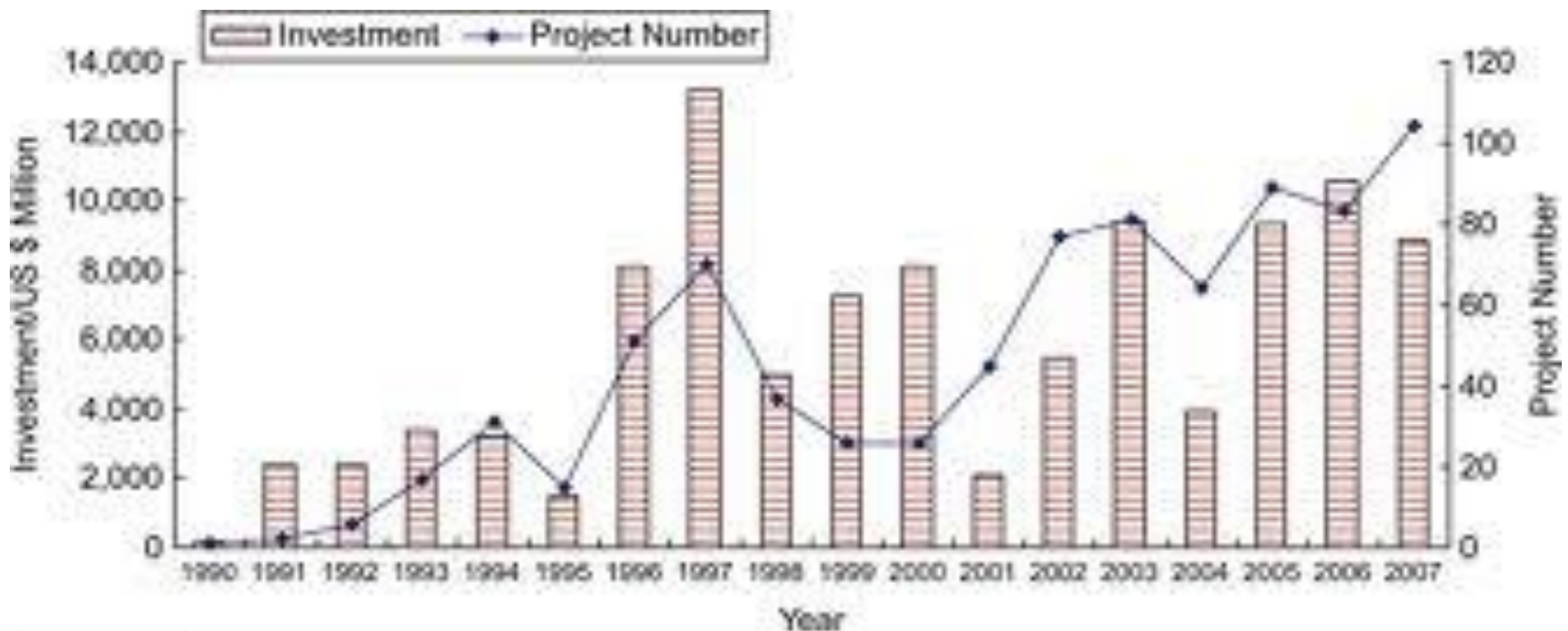
## **2000s onwards:**

PPP in China has been largely characterized by international projects and huge investment input

- In China, the tremendous economic growth has resulted in an immense demand for basic infrastructure like roads, ports and power generation facilities.



- To meet the development needs, the Chinese government has progressively promulgated a number of regulations for private investment in public utilities, and is moving towards adopting international contractual practices and working out an equitable risk-sharing scheme.



Source: World Bank (2010)





# Issues of China

- More importantly, the Chinese government announced on November 9, 2008 that **China will relax credit conditions, reduce taxes and embark on a massive infrastructure spending program in a wide-ranging effort to offset adverse global economic conditions by boosting domestic demand** (Chinese Government's Official Web Portal, 2008).
- **The legal framework** is still inadequate (no special law to deal with PPP – PPP have to rely on fragmented legal and administrative decisions at central and local levels).
- Discrepancy between local and central government (e.g. government guarantees in attracting private).

# Continued...

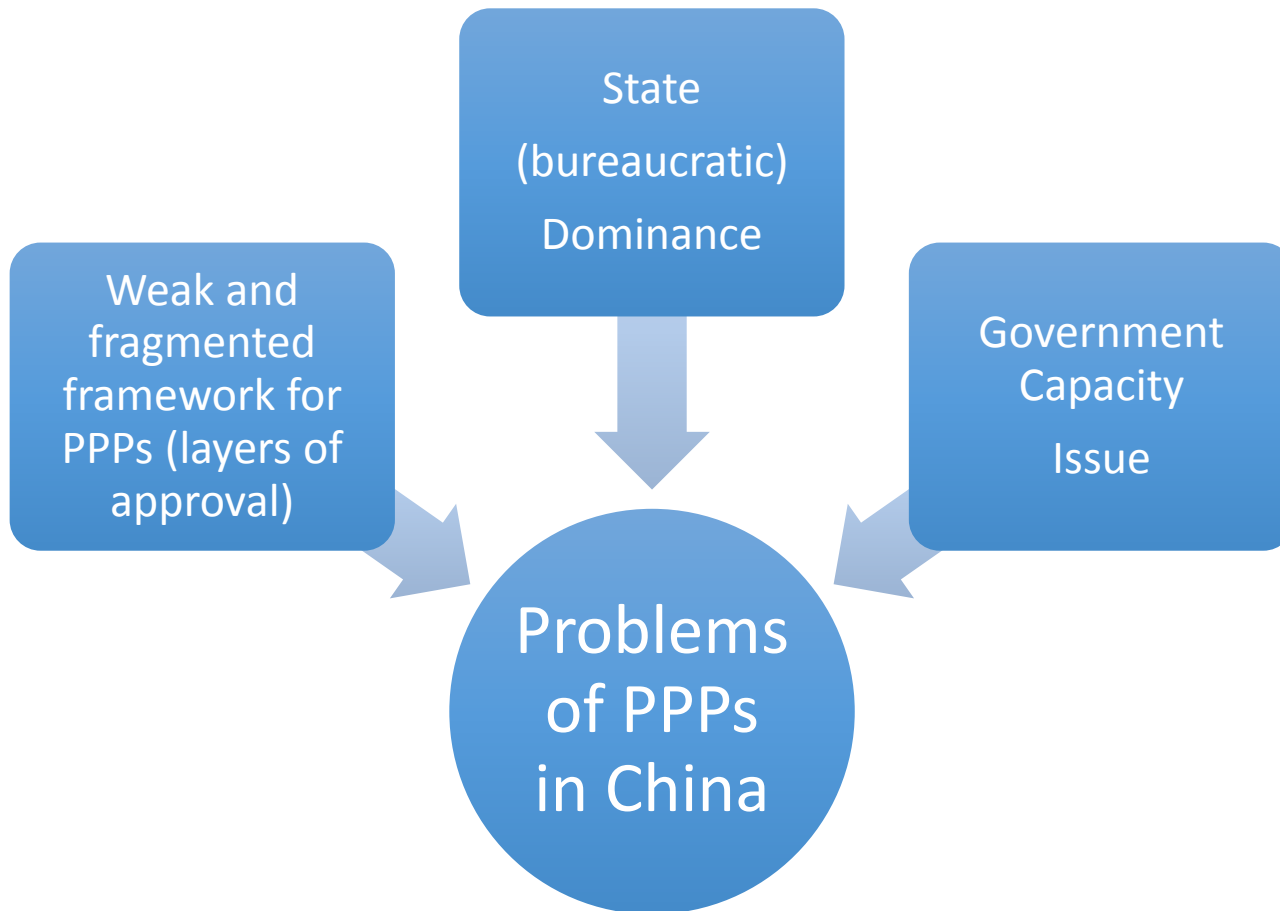
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- Superior powers of government in any project process – the legacy of “planned economy.”
- Bureaucratic power of policy decisions which overwhelm legislative and judiciary powers (law and the courts are still expected to be secondary to Party-State control).
- Growing webs of intimate relationship between businesses and local governments (personal ties and reciprocal exchanges of favors and benefits) → weaken the force and impact of legal rules.
- Government effectiveness, corruption, and trustworthiness.

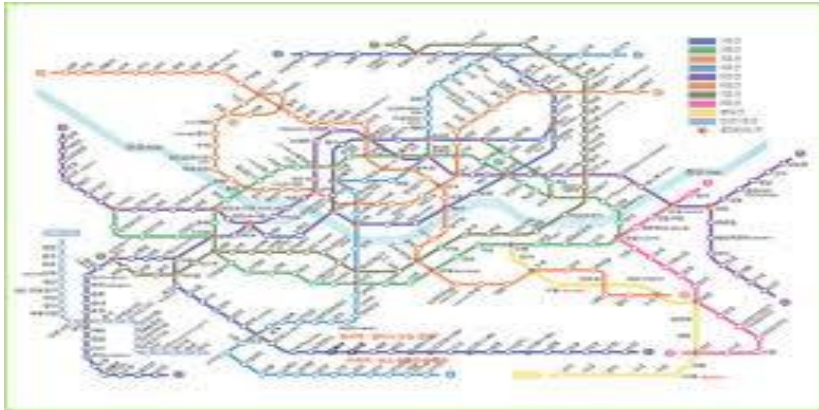


# Summary: China



- Regardless of these problems, the use of PPP in China will increase
- A comprehensive PPP law will be set up.
- More financial sources will be available within domestic market.
- Rescuing Public finance.

# South Korea: Seoul Metro 9



- Seoul Metro 9: First privately operated metro line in Seoul
- Foreign investor: **Macquarie**
- 90% of expected minimum revenue was guaranteed by the government (MRG)
- Million dollars has been spent for MRG compensation
- Group litigation by citizens

# Korea: Minimum Revenue Guarantee (Viability Gap Fund)



- The government provides an operational revenue subsidy through the MRG and redemption agreement (In case of BTO, BTL).
- The government share the revenue risk
- If operational revenue falls short of the lower limit, the government makes up the difference b/w lower limit and actual revenue.
- Usually 70%~90% of estimated demands
- Mainly used in developing countries or underdeveloped PPP market.

# Hungary M1/M15 Toll Motorway



- The first toll motorway tendered and implemented in Central and Eastern Europe (1995)
  - Finished within budget and on time
  - Traffic Volumes were about 40% lower than anticipated (independent experts prepared forecasts)
  - High toll gate as a solution?
  - Solution and lesson
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# Bolivia: Cochabamba Water System



- The Bolivia government privatized the water system in Cochabamba by granting a 40 year concession to an international consortium called Aguas del Tunari (1999)

- Rate structures were modified – resulted in increases of up to 20\$ in water bills for local families (avg. income 100\$/month).



- In October 1998, groups gathered in protests – an outbreak of violence (9 killed, hundreds injured)

- Finally withdrawing from the Project.

- Lesson? \_\_\_\_\_

# Typical Risks associated with PPP



- 1. Design and construction risks** – failure to complete construction within the agreed timeframe, cost overruns, and inability to meet specified design and construction requirements.
- 2. Technology Risk** – Common in projects involving IT/new technologies.
- 3. Revenue Risk** – Price/Demand. Prices cannot cover costs. Actual number of users of the project fall below forecast.
- 4. Force Majeure Risk** – Natural Disasters
- 5. Political Risks / Parent Company Risks**



# Conflicts

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- Various parties involved in PPP projects often have conflicting objectives that must be resolved in order for them to be able to participate in an effective partnership.
- Most obvious potential conflict: between government and the private sector consortium.
- Government – concern about increasing cost saving while ensuring high quality services.
- Private sector – participants are primarily interested in generating reasonable profits



# Success of PPP

- Careful planning of PPP projects
- Solid revenue and cost estimate
- User willingness to pay and communication plan
- Extensive feasibility study with use of PPP experts
- Compliance with contractual agreement
- Appropriate legal and regulatory framework
- Strong institutions with appropriate resources
- Competitive and transparent procurement
- Mitigation and flexibility in managing macro-risks



# Q&A



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