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### Public-Private Partnerships (PPPs): Potential Impacts and Critical Success Factors

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# Public-Private Partnerships (PPPs): Potential Impacts and Critical Success Factors<sup>1</sup>

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## Abstract

In recent years, PPPs have been increasingly used to implement projects and provide public services. The governments have made the necessary legislative and financial efforts in order to promote PPPs, given the need to acquire know-how from the private sector and the advantages they bring to the public sector and the citizens. However, the use of PPPs should be carefully planned as, in addition to the wider social and economic impacts, failures and negative results have been observed. This article attempts to present the main characteristics of PPPs, cite their possible impacts and quote their critical success factors in order to make PPPs more beneficial for the involved parties and the citizens.

**Keywords:** Public-Private Partnerships; governance; public authority

## Introduction

Over the last few years, especially in times of economic downturn and uncertainty, the question arises as to whether there should be "more state" or "more free market". That is to say, it concerns the degree of upgrade or limitation of the public and the private sector, which is not easy to specify, given the emergence of alternatives in the provision of public services and the constant shifting of the "border" of the two sectors (Kalogirou & Lymperaki, 1994). More and more people are arguing that the "border" is shifting to the private sector. The main arguments are the pursuit of government policies towards the increasing interaction of the public and private sectors in the provision of public services, the "fading" of the distinct character of the public services and the gradual evolution of the private sector as a model of organization and administration in the public sector (Academy of Athens, 2012; Corby & White, 1999).

Indeed, it seems that the public sector is gradually being reduced and the private and public sector employment models are converging towards the restriction of the public employment for the benefit of the private capital (Koinoniko Polykentro of ADEDY, 2012; Pritchett, 2013). Nevertheless, the public sector remains at the forefront, as is the case of tackling unemployment (Behar & Mok, 2013). Therefore, the answer to the question of what defines the "border" between the public and the private sector is still difficult to give and it actually depends on which sector actually exercises public power

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(Demmke & Moilanen, 2012). At the same time, there are still concerns, especially at the institutional level, about the search for a legal framework that balances between public and private law (Koutsouradis, 2002). One such typical case is PPPs, concerning the partnership of the public and private sectors with clearly defined responsibilities for the implementation of important projects and the provision of services for the benefit of the citizens, aimed at improving the quality of life, the healthy entrepreneurship and the public interest (Special Secretariat for Public-Private Partnerships, n.d.).

### **The conceptual approach and the main characteristics of PPPs**

PPPs are long-term contracts between public and private sector entities in order to implement projects and provide services with clearly distinct roles. The public sector maintains the ownership of the property and maintains a strong regulatory and supervisory role, utilizes the expertise and efficiency of the private sector, provides high quality services, stimulates economic growth and leverages private funds in development projects (Special Secretariat for Public-Private Partnerships, n.d.). Following the 2008 financial crisis, there has been a revival of interest in PPPs due to limited public resources, as an alternative funding source to fill the funding gap (The World Bank, 2020).

In addition, along with the implementation of PPPs the negative impacts observed in the exclusive government property or the full privatization are avoided, as it is achieved a balance between the private sector (with its resources, management skills and technology) and the public sector (through its regulatory actions and the protection of the public interest). There are different types of PPPs, reflecting the different needs for infrastructure and services, with emphasis on use of the conventional type, i.e. “the user pays”, as well as the Private Finance Initiative model where the “the public sector pays”. There are also PPP types that can be categorized based on the extent of the participation and the division of responsibilities and risks between the public and the private sector, such as: Buy-Build-Operate, Build-Own-Operate, Build-Own-Operate-Transfer, Build-Operate-Transfer, Build-Lease-Operate-Transfer, Design-Build-Finance-Operate, Finance Only, Operation & Maintenance Contract, Design-Build and Operation License.

PPPs should not be confused with privatizations, as the accountability for the provision of public service is maintained by the public sector and there is no transfer of ownership. Also, they should not be confused with public procurements, which concern the purchase, lease or rental of goods or services by the public sector. PPPs are more complex, with high and long-term funding requirements, where the contractor is provided with key responsibilities regarding design, financial and technical issues. PPPs have also emerged as an important tool for bridging the infrastructure gap, which can

offer benefits to the public, such as better value, access to capital, certainty of outcomes and innovation, and have offered new financing models and expertise in the public sector to administer projects (United Nations Economic Commission for Europe, 2008).

Furthermore, PPPs are of a more strategic nature and can expand into areas such as science, technology and innovation so that the public sector can meet global challenges, market failures and social challenges of the coming decades, such as climate change, green growth, sustainable development and energy efficiency (OECD, 2016). In any case, PPPs constitute a complex and politically sensitive interface between the public and the private sector that can offer very good value for money in the provision of public services, better public finance management and retention of control by the public sector. The common characteristics observed in the countries where PPPs have been implemented are the long period of cooperation, the assessment of different types of risk (e.g. economic, political), the increased certainty of the results (timely delivery of projects within the budget) and the strategic role and the assumption of significant risk from the private sector in the financing and provision of the projects or services (Bovis, 2011). It should be mentioned that the EU strongly urges its Member States to use PPPs as a means of providing public services, as they are considered important for the implementation of its policies (Burnett, 2007).

### **The potential impacts of PPPs**

There can be observed a growing interest in international organizations and academic researchers as to whether PPPs can contribute to the achievement of development goals. Many argue that PPPs have basically positive impacts, such as contributing to the economic recovery, tackling the financial and economic crisis and sustaining economic activity and economic growth (Commission of the European Communities, 2009). They can contribute to the mobilization of additional sources of funding for infrastructure, to attract foreign direct investments, to save public resources and to increase the efficiency of the provision of public services, while at the same time not increasing budget space for infrastructure. This increase of this efficiency results from the added value created by the private sector, the improvement of the production at a lower cost, the production of more output at the same cost and the improvement of labor productivity. Nevertheless, the degree of the impact depends on the sector and the size of PPPs (World Bank Group, 2016). Improved labor productivity also results from the use of technology and innovation of the private sector and the capacity building through joint ventures of large companies, which are motivated for the timely delivery of projects (The World Bank, 2020).

Also, major positive impacts arise for the users of the services. The users benefit from the faster construction of high quality and innovative infrastructure, as well as from the access to services that would be impossible to have without PPPs (Fabre & Straub, 2021). Besides, PPPs in science, technology and innovation help governments meet global challenges, for the benefit of the citizens (OECD, 2016), while the cost of providing public services becomes lower compared to the involvement of solely the public or the private sector (Moszoro, 2010). However, it is estimated that profits of PPPs do not imply lower tariffs for consumers, as the private sector retains most of the profits, although there are views that in the long run this negative impact can be largely offset (World Bank Group, 2016). Especially in services of general interest, studies have shown that there is no significant difference between the different forms of public service that exist, in terms of efficiency and quality of services provided to end users (AlKhuzam et al., 2018).

Additionally, PPPs ensure the transfer of skills and competencies from the private sector to the public sector so that it can increase its productivity in the future (The World Bank, 2020). They also provide additional leverage to important projects such as combating climate change, green growth, energy efficiency, promoting alternative energy sources, supporting sustainable transport, providing high quality affordable healthcare and implementing important research projects (Commission of the European Communities, 2009; OECD, 2016). Another impact of PPPs is about employment. It is generally argued that PPPs come with an increase in direct and indirect jobs, however, in some cases there have been observed negative short-term impacts on employment (due to increased employment efficiency), which can be offset in the medium term by the creation of indirect jobs (World Bank Group, 2016).

On the other hand, it is argued that PPPs have also negative impacts. These include the higher cost of PPP projects compared to other procedures, the transfer of labor from the public sector to the private sector, tariff increases for users to make projects sustainable, the avoidance of high risk by the private sector and the effort to transfer it to the public sector. There is also an imbalance in the possession of know-how as the public sector does not have sufficient expertise to adequately understand and monitor PPPs terms and has difficulty identifying potential risks due to the long-term nature of the projects, disruptions caused by force majeure or omissions by the private sector (The World Bank, 2020).

Moreover, European Court of Auditors (2018) argues that project management in PPPs is not always sufficiently cost-effective and often exist delays in construction, cost overruns and underutilization of projects, resulting in inefficient costs. Preliminary analyzes in PPPs are also based on overly optimistic scenarios about the future demand and use of infrastructure, while the PPP method is often

chosen without prior comparative analysis of alternatives, that is it is not always the option that ensures greatest economic efficiency, adequate competition and protection of the public interest. Lastly, during PPPs there is a possibility of interruption of the construction processes with consequential legal proceedings and the renegotiation of the contracts with additional costs for the State, whilst the construction schedules are often overturned due to archeological findings, environmental permits and expropriations resulting in problems regarding the resolution of accounting issues and the provision of state guarantees (Lienert, 2009).

### **The critical success factors of PPPs**

The critical success factors of PPPs have attracted researchers' interest worldwide. It has been noticed that the optimal risk-sharing between the public and the private sector, the involvement of large private and well-structured joint ventures, the political and social support and the transparent processes are the main keys to success (Osei-Kyei & Chan, 2015). According to The World Bank (2020), PPPs have to be well designed within a clear legal and regulatory framework foreseeing the possibility of renegotiating the contracts to cover unforeseen contingencies in order to achieve a viable solution. In addition, according to the United Nations Economic Commission for Europe (2008), good governance is required in order for a PPP to function efficiently, i.e. good functioning of the responsible parties, transparent and efficient rules and procedures and responsible and accountable public and private sector. In particular, PPPs require policies that set clear principles, goals and means to achieve them, have the support of the citizens, incorporate the principles of sustainable development, involve trained civil servants with expertise, have a clear legal framework and mutual support of public and private sector.

Furthermore, OECD (2012; 2016) recommends the creation of a clear and predictable legal framework, supported by authorities with enough resources, in-depth research on PPP method (in terms of value for money) and a transparent budget to minimize fiscal risks and ensure integrity. It also considers as success factors the optimization of the allocation of costs and risks between partners, the exploitation of the advantages of the partners, the overcoming of the obstacles regarding information flow and interactions between public and private sector, the viability of the project and the creation of value, the budget flexibility, a transparent accounting system, long-term commitment from the governments, the careful selection of the participants, the enactment of user service standards, a clear management structure, tax incentives and performance-based financing.

The European Commission (2003) has issued guidelines for successful PPPs, focusing on four issues: ensure open market access and fair competition, protect the public interest and maximize added value, determine the optimal level of grant funding for the implementation of a sustainable project and avoiding any opportunity for unexpected grant profits and evaluate the most effective type of PPP for a project. It is also emphasized the obligation of the contracting authorities to respect Community law, to follow a fair, transparent and competitive procedure in the selection of the partners and to apply the principles of equal treatment and non-discrimination. Equally important is the adaptation of PPPs to the changes in the economic, legal and technological environment (Commission of the European Communities, 2008). The European Court of Auditors (2018) argues that a successful implementation of PPPs presupposes administrative capacity, which is ensured by the existence of a proper institutional and legal framework, as well as long experience in the implementation of PPPs. It also recommends that the intensive use of PPPs should not be encouraged until the identified problems have been resolved, the financial impact of delays and renegotiations on PPPs costs borne by the public sector partner should be mitigated, the choice of PPP method should be based on comparative analytics and clear PPP policies and strategies should be established in order to enhance the effectiveness of PPP project. Furthermore, the European Institute of Public Administration points out the need for legal certainty, transparent and competitive procedures, case-by-case assessment of the need to use PPPs, clear risk allocation, active PPP management and attracting and retaining private sector interest, fiscal sustainability and clear roles in the design, procurement, management and control of PPPs (Burnett, 2007).

Other critical success factors of PPPs also mentioned are the creation of a central PPP unit and a compatible regulatory framework, the development of national PPP policies and strategies and the standardization and transparency of the processes (Amović et al., 2020). However, it is argued that critical success factors are differentiated and depend on the type, location and time of the project (Muhammad et al., 2016) and better results are achieved in PPPs as long as the public sector bears the financial costs and the private sector retains the project management (Moszoro, 2010). It should not be overlooked that state institutions, the leadership skills of the parties, the clarity of technical specifications and contracts and the possibility of contractual amendments play an essential role (Landow & Ebdon, 2012).

## **Conclusions**

During the last decades, governments have increasingly used PPPs to achieve economic growth and competitiveness and to improve their infrastructure. PPPs have emerged as an important tool in the

“quiver” of the public sector, which has wider implications for the society and the economy. However, governments face a number of challenges to the successful implementation of PPPs, as they can have both positive and negative impacts, which relate in particular to the management of PPPs and to addressing technical, financial, legal and other challenges. Also, in some sectors there is no broad consensus on the optimal type of public and private sector involvement in the provision of public services and in particular if PPPs consist a viable solution in terms of financial performance and service delivery and quality (United Nations Economic Commission for Europe, 2008). The boundaries between the public and the private sector have also become more blurred, raising questions about the adequacy of the law in matters of control, ownership and accountability (Lienert, 2009). It is also necessary to study the success factors identified from the use of PPPs to date and to design a relevant regulatory framework so that PPPs can function properly and increase production towards the socially optimal in a sustainable way, limit monopoly profit and keep the private sector motivated to be more effective. In any case, legal certainty, transparency, equal treatment and conditions of competition, close cooperation between the public and the private sector and long-term decision-making play an important role in the success of PPPs and in avoiding subsequent adverse consequences.

Proposals have been made in this direction, such as the establishment of a European PPP agency and the enhanced role of external auditors in order to ensure value for money (Bovis, 2011; Burnett, 2007). It is necessary to adjust the institutional and legal framework of PPPs, especially in the EU, in order to adapt to the needs of the co-financed projects and the rapid technological development, to develop a clear strategy by the states about the use of PPPs and not to encourage the wider use of PPPs until the problems are resolved and the expected benefits are achieved according to documented comparative analytics (European Court of Auditors, 2018). In any case, good governance and public leadership are considered essential success factors and more specifically the establishment of clear objectives and responsibilities for each participant, clear rules of operation, regular implementation, monitoring and evaluation, transparency, stakeholder consultation and settlement and exit strategies (OECD, 2016).

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