

Efficiency of interaction of the government and business within the PPP

JEL classification: H44 — Publicly Provided Goods: Mixed Markets, F41 — Open Economy Macroeconomics

Keywords: public-private partnership, government role in national economy, public goods, interaction of public and private sectors, risk

Słowa kluczowe: partnerstwo publiczno-prywatne, rola rządu w gospodarce narodowej, dobra publiczne, interakcja sektora publicznego i prywatnego, ryzyko w projektach PPP

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Abstract: The article presents the role of government in the development of the national economy and establishment of contract relations with economic entities. The mechanisms and forms of PPP such as renting, contracts, and concessions are described. In the article the basic concepts of PPP accepted in various countries of the European Union are examined. Both the risk associated with the PPP project implementation and some unsuccessful cases are described.

Abstrakt: W artykule została opisana rola rządu w rozwoju gospodarki narodowej i w ustanowieniu współpracy z podmiotami gospodarczymi. Przedstawiono mechanizmy i formy PPP. W artykule opisano podstawowe pojęcia PPP, które zostały przyjęte w różnych krajach Unii Europejskiej. Opisano także zarówno ryzyko w zależności od realizacji projektu PPP, jak i przykłady nieudanych projektów.

Introduction

In the modern world, an essential condition for the proper functioning of market economy is the constructive interaction between business and state structures. The nature of this interaction, methods, and specific forms can vary significantly depending on their maturity and national characteristics of market relations. Therefore the state is never free from its functions of social responsibility

related to national interests, and business, in turn; always remains a source and mover of development and increase in social wealth.

Partnership is a difficult phenomenon which includes variety of spheres: social, economic, political, legal and other. This applies especially to the public-private partnership, where interaction of public and private sectors should be positively reflected in social and economic changes of the state. This article is part of the research the aim of which is the development and substantiation of theoretical and methodological aspects of the determination of the legal and economic framework of PPP efficiency.

What public goods do we need government for?

Initially, the role of government in the developed countries has been limited and consisted in providing protection and justice. However, it is widely known that the financial activity of the government contributed to the sustainable growth of the state's influence on the national economy. Thus, the role of the government passed from the so-called Adam Smith's "cheap government" towards an omnipotent government.¹

Economic science teaches that under certain conditions market mechanisms singly provide the optimal allocation of resources. This is true for private goods in all areas of the so-called market economy. In such areas the government usually does not have enough capabilities for allocation of resources. However, there are many situations when market mechanisms cannot provide the achievement of optimal results. In this case, there is the question of how the government can intervene to ensure a more efficient allocation of resources.

In accordance with the public economic literature, public and private goods are distinguished. So-called pure public goods are out of the competition and cannot be excluded from society. Most services similar to this concept are those for providing protection and justice (for example, national defence). In contrast, the pure private goods are fully competitive, but can be excluded from consumption. In the described dichotomy each product may be classified as anything from the absolute public good on the one hand to the absolute private good on the other hand. The principal role of government is providing absolute public goods.

Certainly, there is a variety of other combinations of goods, depending on the degree of competitiveness and the possibility of an exception. Other combinations of products can be defined as mixed public goods. The private sector and the government have the opportunity to provide mixed public goods. The symbolic line between public and private sector (between private goods and absolute public

¹ A.T. Peacock, J. Wiseman, *The Growth of Public Expenditure in the United Kingdom*, National Bureau of Economic Research, 1961, No. 72, London: Oxford University Press, pp. 56–74.

goods) indicates situations in which the corrective action of the government should provide the allocation of resources in accordance with consumer preferences. Certain types of goods are provided by the market, but their consumption is incentive and should be supported by the state. Such goods (approved goods) include services such as free education, free medical care, subsidized housing for the poor, etc.²

Thus, we can distinguish several groups of public goods for providing and/or support of which the state is responsible:

Group 1 — absolute public goods (non-exclusive and non-rival goods) — national defence, judicial system, etc.

Group 2 — approved goods (merit goods) — medicine, education, culture, etc. Merit goods can be provided by the market, but their consumption is so worthy that they are provided by government too.

Group 3 — social goods — utilities such as water supply, gas, electricity and telecommunications and certain modes of transport such as railway.

The role of government in the social sector

In conditions of necessity to provide the population with public and social benefits the economic theory justifies the state intervention on the “inefficient market.” The state’s role includes the aspects described in Table 1.

Table 1. The proper role of the government

Government's role	Examples and comments
Overcoming market failures	Preventive services or disease control and vaccination/immunisation programs. The social benefits of services exceed the private benefits. In developing countries it is the education of girls. The welfare of infants depends heavily on the health status of the mother. The existence of co-ordination malfunctions induced by scale economies. There is the case of external economies that arise when a new highway is built or as the size of a telecommunication service increases.
Providing for the poor, the rural and under-served populations	Providing health care or education in rural areas. The public sector is best-placed to provide a safety net for citizens who cannot pay market prices for health or education.

² R.A. Musgrave, *The Theory of Public Finance*, New York: McGraw-Hill, 1959, p. 87.

Implementing appropriate regulations to ensure good quality of services and goods	The monitoring by evaluation and accreditation of education. The asymmetrical information exists. Governments can act as important providers of information for consumers. The publication of the list of universities which were accredited by the government. The government usually reacts taking steps to minimise the effects of asymmetric information, e.g. the official registration of health professionals and official recognition of drug quality.
Controlling costs	The government puts a ceiling on private sector fees. These restrictions may be necessary when there is little competition, no parallel public provision, or when consumers are relatively poorly informed about their needs and the quality of provision.

Source: own elaboration.

The described aspects of the state role are primarily theoretical, and in reality they are not implemented everywhere and not always have to be implemented. From a practical point of view it should be recognized that due to the inefficiency of allocation of resources, operational inefficiency and problems of equality, the state often creates more problems than it solves. Furthermore, if social security is free and available to the public, the quality is often so poor that people prefer to pay for the services of a private company.

Models, forms and mechanisms of PPP

Depending on the character of solutions within the limits of PPP specific goals all sets of existing and arising forms of partnerships could be subdivided into separate types (models). According to the purposes of PPP, there are different organizational models, models of financing and cooperation. In many cases the partnerships use the forms which use the advantages of different models and their combination.³

In case of organizational models deep intrusion into property relations as a rule does not occur, the cooperation of public and private partners is carried out at the expense of attraction of the third organizations, transmission of separate functions and contract obligations, using the possibilities of transfer of objects to external management. The implementation of organizational model is carried out through the most widespread type of PPP — the concessions. Financing models are implemented through the forms, such as commercial employment, rent all kinds of leasing, the preliminary and integrated project financing. The cooperation model represents every possible form and method of consolidation of efforts of some partners which are responsible for separate stages of the general process of creation of new value use as a public good. Often such cooperation demands the organization of difficult structures, including holding ones, on a construction of objects and their operation, especially in the sphere of an industrial and social infrastructure.

³ R.-R. Hoepfner, *Public Private Partnership: Ein Leitfaden für die öffentliche Verwaltung und Unternehmer*, Eschborn 2003, p. 10.

The classifications of PPP practice accepted in the world usually describe its forms as follows⁴.

Firstly, there are contracts as administrative agreements concluded between the state (body of local management) and a private firm on realization of certain socially necessary and useful kinds of activity. In the practice of PPP the contracts on performance of works, rendering of public services, management, delivery of production for the state needs, rendering of the technical help are considered the most widespread. In administrative agreements relations the property rights are not transferred to the private partner; the expenses and risks are born completely by the state. The interest of the private partner consists in that under the contract he acquires the right to a stipulated share of the income, profit or collected payments. As a rule, the contracts with the state or municipal body are a rather attractive business for the private entrepreneur as besides the prestige it guarantees him the stable market and income, as well as possible privileges and preferences.

Secondly, there is rent in its traditional form (the rent contract) and in the form of leasing. The feature of rent relations between authority structures and private business consists in that under the conditions defined by the contract there takes place a transfer to the private partner of the state or municipal property for temporary usage and for a certain payment. A traditional rent contract assumes a reflexivity of an object of rent relations, and competence under the ordering of property remains for the proprietor and is not transferred to the private partner. In specially stipulated cases rent relations may come to an end with the repayment of rented property. In case of the leasing contract the lessee always has the right to redeem the state or municipal property.

Concession (concessional agreement) is a specific form of relations between the state and private partners, gaining the increasing distribution. Its feature consists in that the state (municipal union) within the limits of partner relations, remaining as a full proprietor of the property making it an object of concessional agreement, authorizes the private partner to carry out for a certain term the functions stipulated in the agreement and allocates him for this purpose with corresponding competences necessary for the maintenance of normal functioning of the object of concession. For using the state or municipal property a concessionaire makes a payment under the conditions stipulated in the concessional agreement. The property right on production developed under concession is transferred to the concessionaire.

In the last years in the EU many documents have been created which mention the questions of PPP.⁵ The Green book *The public-private partnership and the community legislation under the state contracts and concessions*, published in 2004, states:

⁴ L. Sharinger, *Novaya model investicionnogo partnerstva gosudarstva i chastnogo sektora*, „Mir peremen” 2004, No. 2, p. 13.

⁵ Green Paper on services of general interest. COM (2003) 270, 21.05.2003. European Parliament Resolution on the Green Paper on services of general interest, 14.01.2004 (T5-0018/2004).

The term public-private partnership (“PPP”) is not defined at Community level. In general, the term refers to forms of cooperation between public authorities⁶ and the world of business which aim to ensure the funding, construction, renovation, management or maintenance of an infrastructure or the provision of a service.⁷

In certain EU countries their own definitions of the public-private partnership are given. In Great Britain where PPP has very frequent occurrence, this form of managing is treated as a

key element of strategy of the government on maintenance of modern, high-quality public service and increase of competitiveness of the country. Public-private partnerships have a wide range of business structures and association forms: from “Private Finance Initiative” to the mixed enterprises and concessions, outsourcing, selling of a part of the stock in objects of commercial activity belonging to the state.⁸

In Ireland PPP is understood as the

cooperation of the state and private sectors with a view of realization of the concrete project or rendering of services of social character to the population the duty of granting of which is assigned to the public sector.⁹

In this definition it is noticed that PPP may

have different forms, but at the heart of each successful project lays the concept that at the expense of attraction of experience of a private sector and redistribution of risk concerning the party which is capable to cope more effectively with such risk, it is possible to raise general efficiency of the project.¹

A number of definitions of PPP have a more concrete character. For instance, one of the largest consulting companies of the world, Deloitte, notices that PPP represents “the contract agreement between the government agency and the private company, allowing the last one to increase its participation in granting the public services.”¹⁰

PriceWaterhouseCoopers and C’M’S’ Cameron McKenna define PPP as any transaction “which structure assumes cooperative work of the state and private sector for overall aim achievement.”¹¹

In the Russian and Kazakh scientific literature and in statutory acts of the last years, various treatments of PPP are also cited. One of the successful definitions focusing attention on its legal sides is given by M.V. Vilisov:

⁶ The public authorities are usually understood as federal (national), regional and local authorities.

⁷ Green Paper on Public-Private Partnerships and Community Law on Public Contracts and Concessions, Brussels, 30.04.2004, p. 3.

⁸ *Public Private Partnerships — the Government’s Approach*. London: The Stationary Office, 2000, p. 6.

⁹ Seminar *Gosudarstvenno-chastnoe partnerstvo — novaya forma vzaimodejstviya gosudarstvennogo i chastnogo sektorov v finansirovanii infrastrukturyh i chastnyh proektov*, Moscow, Embassy of Great Britain, 2003, p. 27.

¹⁰ *Closing the Infrastructure Gap: The Role of Public-Private Partnerships*, A Deloitte Research Study, 2006, p. 5.

¹¹ Seminar *Gosudarstvenno-chastnoe...*, p. 26.

The public-private partnership is a legal mechanism of the coordination of interests and maintenance of equality of the state and business within the limits of realization of the economic projects directed on achievement of the purposes of the government.¹²

However, from our point of view, the definition would become more correct had it not contained the indication on “equality” of the state and business. Generally, the issue of equality of the parties in PPP contracts is quite difficult, ambiguously treated in the legislation and judiciary practice of various countries.

According to the World Bank classification, if all the risks and responsibilities are assigned to one of the parties, i.e. to the state or to the private sector, then such form of cooperation is not a PPP. Thus, according to the classification, PPP does not include, for example, service contracts or purchasing of services, where the risks are almost completely covered by the public sector, or contracts for privatization, where the risks are fully covered by the private sector.

Thus, the World Bank differentiates the kinds of PPP on three main types of contracts.

Table 2. PPP contracts according to the World Bank differentiation

Type	Description	Goal	State role
Contracts for management and maintenance These contracts typically run for a period of 3–5 years	They provide the implementation by the agent of the private sector of the functions of management and maintenance of state property facilities, making the administrative decisions on the current operational and production activity.	Low institutional changes in the managed facility. The main goal is improvement of the internal management system and operational activity of the facility. It is applied when the rates on consumption are below the rate of return.	The public sector retains the general responsibility to consumers for the provision of services, as well as responsibility for the tasks of the expansion, reconstruction and overhaul of the facilities.
Contracts for operation and maintenance	They provide the lease by the private sector of state property and execution of the functions of the operator. The private sector has a responsibility to consumers as a services operator.	The goal is increasing of operational efficiency and improving of quality of services, as well as raising funds from the private sector for financing the facility.	The state retains construction risks associated with modernization of the facility and its overhaul.

¹² M.V. Vilisov, *Gosudarstvenno-chastnoe partnerstvo: politiko-pravovoj aspekt*, „Vlast” 2006, No. 7, pp. 19–25.

Contracts for design, construction, financing and operation (concession)	They provide the implementation by the agent of the private sector of not only functions of management, maintenance and operation of the concession facility, but also its financing, construction or reconstruction.	The introduction of significant institutional changes of the transferred facility The purpose is improvement of the quality of services, reduction of costs and risks of the public sector, empowerment of infrastructure development.	The public sector reserves only the functions and rights of the regulator.
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Source: own elaboration, based on World Bank data, www.worldbank.org.

Analytic data of PPP development

According to the *PPI database*,¹³ between 1990 and 2011, there were over 5238 projects with private participation in infrastructure in developing countries, with total public and private investment in these projects amounting to 1,826,202 million US dollars (Table 3).

The analysis of the importance of PPPs in developing countries shows a concentration around a scarce number of sectors and a reduced number of countries. Table 3 illustrates the importance of PPPs in four sectors and six large regions together with the prevalence of each type of PPP by sector and region.

Table 3. Regions ranked by number of projects in the developing countries, 1990–2011

Region	Project Count	Project Investment (million USD)
Latin America and the Caribbean	1,586	672,494
East Asia and Pacific	1,564	336,753
South Asia	771	320,744
Europe and Central Asia	742	289,129
Sub-Saharan Africa	436	121,138
Middle East and North Africa	139	85,944

Source: World Bank, www.worldbank.org.

From 1990 to 2010, 1452 PPP projects were implemented in the EU amounting to 272 billion euros. In 2010 alone, there were 112 of them, and their value was 18.3 billion euros. A large proportion of the PPP projects is presented in the economy of France — the total amount of PPP agreements for 2010 was 1.8 billion

¹³ World Bank database, 2011, www.worldbank.org.

euros. In general, the volume of PPP transactions in the EU in the sectors of education and health in 2010 was 6.5 billion euros.

Speaking about the dynamics of development of PPP projects in the EU, the volume of such agreements rose steadily until 2007 (Figure 2). However, the global crisis that followed significantly slowed down the activity of interaction of the private sector with government agencies. However, the results from 2010 clearly demonstrated the willingness of the European PPP to restore the pre-crisis volumes in the short term to the maximum rates of 2007 — 29.6 billion euros, and in the future — to exceed them.

The United Kingdom is the undisputed leader by the number of PPP agreements, the economy of this country in 2010 accounted for 44 contracts out of 112 PPP projects in the whole EU. From 1990 to 2009 the proportion of the UK in all-European number of projects in the PPP was 39%, and in their value — 52.5%. The following results by the number and cost of PPP agreements in the total of the EU for the same period showed for Spain — 10.1% and 11.4% respectively. France is in the third place — 5.4% and 5.3%. As for the results in 2010, 19 projects were implemented within the PPP in France.

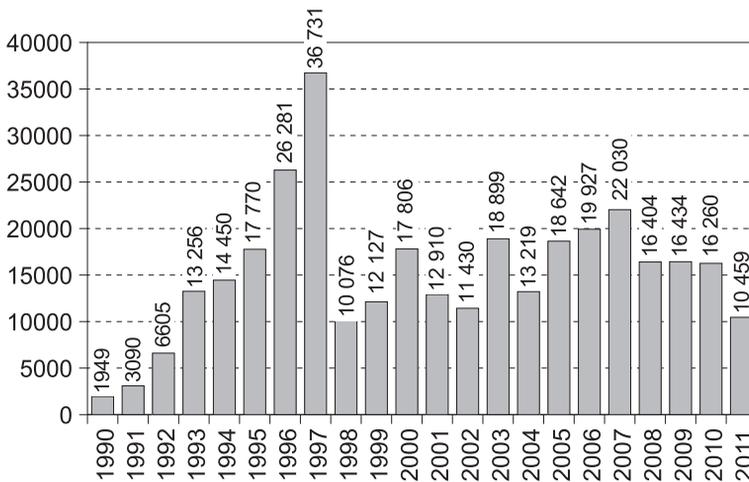


Figure 1. Dynamics of PPP arrangements in the EU since 1990

Source: EIB, www.eib.org.

It should also be mentioned the redistribution of sector priorities in the European PPP projects in recent years (Figure 4). As of 2010 the leader in the number of PPP arrangements in the EU is the sector of education (34%), significantly ahead of the traditional for the PPP transport sector (21%). Health care sector also takes a significant position in total volume of PPP contracts (17%). It is also important that by the volume of contracts in 2010 the “non-transport”

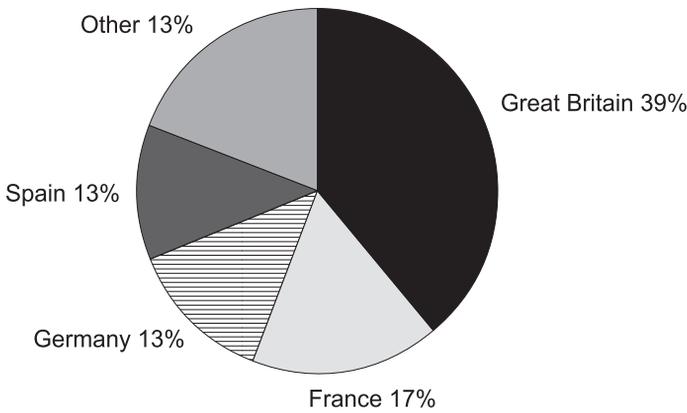


Figure 2. The structure of the PPP agreements by countries in 2010

Source: EIB, www.eib.org.

segments for the first time took more than half of the total cost of the PPP projects. And a total share of education and health care increased to 35% by cost and 51% by number of contracts.

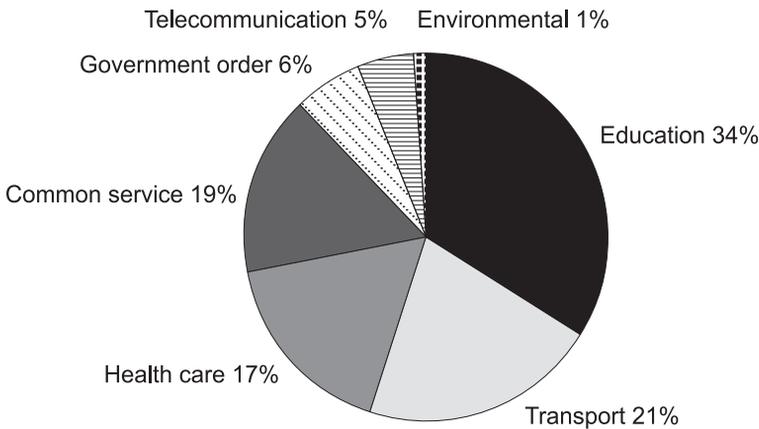


Figure 3. PPP contracts in Europe by sectors in 2010

Source: EIB, www.eib.org.

Some positive trends are observed in the states of **Eastern Europe**, which are just beginning to adopt experience from their western neighbors in the direction of PPP. In 2010 in these countries 6 PPP contracts were signed compared with two a year before, but at the same time their total value fell to 150 million euros from 2 billion euros in 2009.

Comparative analysis of the PPP centers

Evolution of the PPP development centers

The PPP development centers appeared in the early 2000s, first the Partnerships UK,¹⁴ then the Center of Development of the PPP of South Africa¹⁵ and the state of Victoria in Australia, although the predecessors as departments of governmental organizations existed, for example, in the UK since 1992. The PPP centers are markedly different from traditional governmental organizations that were common in the 20th century and in most countries — are common to this day.

The first centers of development promote the establishment of following structures. The *Partnerships UK* is still helping to develop new centers of the PPP in foreign countries. When government agencies establish centers, they often study the international experience in order not to reinvent the wheel. For example, the *Parpublica*¹⁶ has developed with the participation of the United Kingdom, Italy and the Netherlands. *Partnerships BC*¹⁷ was contributed to by the *Partnerships UK* and the *Partnerships Victoria*.

Ontario helped *Partnerships UK* and *Partnerships BC*. The assistance usually includes an interview with the executive directors of the leading centres, visits of delegations to examine the existing structure, or vice versa visiting by delegations from other centres of the PPP the countries in which there are plans to create such structures. Some countries in the process of creating the centres of PPP not only consult with the leading centres, but also copy and combine parts of existing structures for the development of the PPP of other countries. For example, *Partnerships BC* is a hybrid of *Partnerships UK* and the *Partnerships Victoria*.

Many experts agree that borrowing parts of existing structures can be a complex and inefficient solution due to the different structure of government, including the different legal and political environment. The structure of the centre should meet particular qualities of the PPP development in the state or region, because what works for one may not work for others. Many centres are the organizational departments of the Ministry of Finance or Treasury. The advantages of this arrangement lay in better coordination, reducing the number of conflicts of interests and wider access to decision makers. The drawbacks relate to the low confidence of private partners, limited salary scale, which makes it difficult to attract the best experts, bureaucracy and greater restrictions that require the use of traditional method of public purchases.

In recruiting staff the centres of PPP development first contact the members of the working groups on PPP. Many centers, such as *Partnerships BC* and *Infrastructure Ontario*, after that gain workers with the necessary experience from

¹⁴ Great Britain PPP center — Partnership UK, www.partnershipsuk.org.uk.

¹⁵ National Treasury PPP Unit (Republic of South Africa), www.treasury.gov.za/organisation/ppp.

¹⁶ *Parpublica* — PPP Centre in Portugal.

¹⁷ *Partnerships BC* — *Partnerships British Columbia* (Canada).

the private sector or governmental organizations. Other organizations, such as Parpublica, simply invite professionals from governmental agencies, rather than experts from the outside. When there was a question of attracting the most qualified employees at Partnerships UK, the best government employees were hired.

Classification of the PPP development centres

PPP development centres tend to hire highly skilled investment bankers, lawyers, and experts in the field of infrastructure, with the condition of direct communication with colleagues from international investment banks, law firms and infrastructure operators. Thus, through the best practices they can provide the best results for the state.

Then PPP development centres have a goal of achieving a steady stream of contracts that allows the private sector to learn the process of competitive selection. This approach helps to minimize transaction costs, as well as to attract international players to participate in the auction; as a result the competition, the number of innovations and attractiveness of the state to investors increase.

In addition, the centres accumulate experience and disseminate best practices, so that over time the state's ability to attract the private sector only increases. Of course, not all centres perform the above functions in full.

Experts identify three types of PPP development centers¹⁸:

— “Low-functional” centers: These structures are responsible for the evaluation of business plans and writing of recommendations for authorities making decisions (MAPPP, PSA, NTPPPU SA, Parpublica, PIMAC).

— “Multifunctional” centers: In addition to the authority of “low-functional” centers they deal with advisory support of governmental organizations, actively develop the market of the PPP projects and offer additional services (PUK, Infrastructure Ontario, PBC).

Centers of “competences”: These centers deal with neither a regular evaluation of business plans, nor advisory support of governmental organizations, their tasks exclusively related to the spread of best practices.

Many experts believe a third category is transition, i.e. existing on stage before becoming a “low-functional” or “multifunctional” center of the PPP.

As seen in Table 4, the development centers have no formal right to approve the PPP projects. An approval authority is usually held by the Treasury, the Cabinet or state authorities depending on the structure of government of a state or region. However, most of the studied centers are responsible for evaluating the feasibility studies and business plans, and then engaged in writing recommendations for governmental organizations.

¹⁸ Ch' Farrugia, T. Reynolds, R. Orr, *Public-private partnership agencies: A global perspective*, CRGP Working paper #39, August 2008, p. 43.

Most of the recommendations of the investigated centers serve as a basis for the government agencies making decisions, i.e. centers have great opportunities to indirectly influence the final approval of the project.

Some centers, for example Parpublica and Partnerships BC, also help ministries in developing business plans and performing the “price-quality” analysis. Others, for example, MAPPP, Partnerships SA and South Africa PPP Unit, deal only with the analysis of documents and feasibility reports written by the governmental organizations. Local ministry, which deals with the approval of the PPP infrastructure projects in Ontario, presents projects to the Infrastructure Ontario in a mandatory way.

Table 4. Comparative analysis of the functions of the PPP centers

	Partnership UK	National Treasury PPP Unit	PIMAC	MAPPP	Parpublica	PSA	Partnerships BC	Infrastructure Ontario
Business planning								
Feasibility analysis	+	+	+	+	+	+	+	+
Development/analysis of business plans	+	+	+	+	+	+	+	+
Approval of the PPP projects								
Writing advice for decision-making bodies	+	+	+	+	+	+	+	
Assistance in the selection of consultants	+	+	+	+	+	+	+	+
Procurement process								
Request for proposals for the contract	+	+	+	+	+	+	+	+
Consultation at this stage	+	+	+	+	+	+	+	+
Analysis of proposals to determine the best one	+	+	+	+	+	+	+	+
Assistance with a conclusion of contract	+	+	+	+	+	+	+	+
Realization of the PPP project								
Project management	+						+	+
Financing	+							
Technical support	+						+	+
Development of the market of the PPP projects								
Dissemination of best practices	+	+	+	+			+	+
Public relations	+	+	+				+	+

Working out policies for the development of the PPP	+	+	+			+	+	
Attraction of new investors	+	+	+	+			+	

National Treasury PPP Unit (Republic of South Africa)

PIMAC — Public and Private Infrastructure Investment Management Center (South Korea)

MAPPP — Mission d'Appui aux PPP (France)

Parpublica — PPP Centre in Portugal

PSA — Partnerships South Australia

Partnerships BC — Partnerships British Columbia (Canada)

Source: own elaboration, based on World Bank data, www.worldbank.org.

Typically, for most centers the analysis of projects is a core function delegated by the government, which implies the analysis and drawing conclusions on the PPP projects. Most of other functions are less structured and the features of work vary depending on the complexity of the project and experience of employees of governmental client organizations.

In general, the need for consultants to governmental client organizations does not decrease with the establishment of PPP development centers. In fact, most of the centers have a positive attitude to the use of consultants from the outside by governmental organizations.

Are the PPP models just about profits or risk too

The following are the main risks inherent in PPP projects depending on the phase of their implementation.

Table 5. Groups of PPP risk

Pre-investment	Investment	Operational
Legal risk	Political risk	Default risk
Tender risk	Construction risk	Commercial risks (risk of increasing operating costs, demand risk, management risks)
Regulatory risk	Technological risk	Financial risks (inflation risk, currency risk, interest rate risk, default of insurance companies)
Designing risk	Financing risk	Environmental risk (risk of environmental pollution)
	Currency risk	Social risk
	Environmental risk	

Given the versatility of the PPP projects, the risks cannot be fully avoided. One of the causes of risks at an early stage — the stage of coordination, are the so-called “inconsistencies.” These are “inconsistencies” of the interests of participants, the real requirements, opportunities and desires of the participants, etc. In other words, there

can be many sources of “inconsistencies” in the project. However, the sustainable management of the “inconsistencies” has a predetermining nature for the convergence of results. As the saying goes, a good start is half the battle. Sustainable management of inconsistencies is a qualitative approach, aimed at a better understanding and evaluation of reality in the PPP. The purpose is to encourage confident management of inconsistencies among the key project participants. “Inconsistencies” in the negative sense are the sources of risk. In PPP projects the key players are representatives of government agencies, entrepreneurs, banks, funds and other secondary members. By refusing to manage differences we limit the effective convergence of interests between the parties and, therefore, prolong the contracting process. Conflicting differences are especially destructive and are often the main causes of long delays and empty talks. For example, the attempt of foreign investors to apply the Western PPP model without proper criticism and adaptation in China has resulted in persistent delays and flopped at the stage of negotiations. In this example the representatives on the Chinese side were not sure what risks will be accumulated within the project and have been forced to look for other PPP models that meet their needs. The following are examples of unsuccessful PPP models mainly due to government policies.

Table 6. Unsuccessful cases

Name	The problem	Source of risk
Case 1 (Kafco Fertilizer Project, Bangladesh)	Government has refused to provide an export credit guarantee	The lack of political stability and changing expectations of the host government
Case 2 (Very Fast Train [VFT] Project, Australia)	Government has refused to provide tax exemptions and to change tax laws	The lack of political stability and changing expectations of the host government
Case 3 (Kumbulan Water Supply Project, Indonesia)	Local authorities did not have the power to reduce tariffs. The government tried to keep control	Lack of freedom of local authorities in decision-making
Case 4 (Skytrain Project, Thailand)	There was a lack of clear criteria for evaluating contracts. The government was not ready to provide investment guarantees	Political risk especially in the developing countries
Case 5 (Akkyku Nuclear Power Plant, Turkey)	Government was not ready to provide the classified documents	Political risk

Source: own elaboration, based on J. Neal¹⁹ and R.L.K. Tiong.²⁰

All these examples (Table 6) show that the main causes of failure of the project are: lack of political power in decision making, lack of political stability, lack

¹⁹ J. Neal, *Financing of BOT projects. M.Sc. Lectures*, Nanyang Technological University, Singapore 1993.

²⁰ R.L.K. Tiong, *Evaluation and competitive tendering of BOT projects*. Unpublished dissertation, Nanyang Technological University, Singapore 1993.

of understanding and support from the government, unrealistic demands of the project participants, lack of criteria and practice of evaluation of the project implementation. Difficulties may also be due to the fact that the state wants too much control and is not ready to provide the necessary guarantees.

Conclusion

Public-private partnership is a mechanism of interaction between the public sector and the private capital in the sphere of development, modernization, maintenance and operation of infrastructure objects.

The questions about the system equation and balancing of risks and a responsibility of the parties, management efficiency, support and implementation of the private initiative in objects of a state ownership through attraction of additional financial resources and administrative experience of a private sector deserve special attention.

The analysis of practice of the international experience in PPP area shows how exactly a private sector, having sufficient resources, can effectively organize financing, development and management of a state ownership under condition of the mutually advantageous conclusion of corresponding PPP agreement.

On the basis of the presented data it is possible to state that the special attention is given to legal bases of PPP formation. However, it is also important to research the costs arising from the establishment of partner relations and in particular social marginal costs.

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Efficiency of interaction of the government and business within the PPP

Summary

Today the PPP has already managed to enter the socio-economic life in the world. Cooperation in the PPP form includes potential benefits that public and private partners can achieve as results of the project. However, big risks remain that must be offset in the interaction.