

Public Sector’s Organizational Structure for Successful Public-Private-Partnerships in Construction

Yiannis Xenidis, Nektarios Oikonomou
Aristotle University of Thessaloniki, Thessaloniki, Greece
ioxen@civil.auth.gr, nektarios21@tellas.gr

Abstract

Depending on the type of the project, the type of the partnership, and the particularities met in the host country, Public-Private-Partnerships (PPPs) present different characteristics, which despite, a certain level of procedural similarities lead to worth-noticing differences in the implementation of Public-Private-Partnerships and consequently to various levels of success. This paper investigates the parameter of the organizational structure of the public sector involved in PPPs in construction aiming at: a) identifying and collectively present the critical properties that public sector organizations should possess, and b) determining the minimum requirements that it must satisfy, in order to achieve successful PPPs. A thorough review of public sector agencies involved in PPPs is conducted and presented including application examples and data that prove deficiencies and best practices, worldwide, in order to define the respective strengths and weaknesses in delivering construction projects through PPPs. One of the main conclusions is the essential role of a PPP Unit to the delivery of successful PPPs. Based on this finding, an organizational structure for the public sector is proposed that corresponds to the basic requirements that should be met, in order to succeed in developing PPPs.

Keywords

Public-Private-Partnerships, Public Sector, Procurement, Construction, PPP Unit

1. Introduction

Public-Private-Partnerships (PPPs) can be beneficial in multiple ways for the public entities involved. While the primary goal is the delivery of a project or service at a specific level of quality with a reduced participation of the host government in the funding and developing scheme, PPPs may, also, provide: a) technological innovation, b) mutual cooperation with the private sector, c) economic growth and raise of investments, etc. Therefore, successful PPPs are more than projects or services executed on time and within budget with less risks for the public partner; they are rather a tool for development in multiple levels.

In order to gain the benefits from PPPs, the public sector needs to: a) have a clear plan and specific expectations from the partnership, b) cooperate closely and successfully with the private sector, c) be organized appropriately, in order to facilitate the delivery of the project, and d) have a central organization that coordinates and supervises the public agencies involved. Furthermore, successful PPPs are based on: a) transparency of procurement procedures, b) political and governmental support, and c) clear allocation of risks and responsibilities to the stakeholders involved (EASSD, 2007).

In EASSD (2007), it is argued that no single approach for a successful PPP can be applied with regard to the public sector’s organization, because each country’s deficiencies or failures are largely due to the

different needs, capacity, culture and administrative traditions it presents; therefore there is no single “best practice” that can be applicable to all cases. On the other hand, once these “failure factors” are properly identified, it is possible to propose an organizational structure that shall possess the appropriate properties to successfully treat with the sources of risks and potential failures.

This paper constitutes an attempt to: a) identify through a review of various public sector agencies and case studies, the critical properties that public sector organizations involved in PPPs should collectively possess, in order to form an efficient organizational structure for the successful delivering of PPPs, and b) propose such an efficient organizational structure.

2. Identification of Critical Properties in the Public Sector’s Organizational Structure for the Development of PPPs Based on Case Studies

Projects and services delivered through PPPs is an alternative that is selected depending on the country’s fiscal conditions. Since the early 90’s when PPPs were implemented as a main instrument of policy for the management of infrastructure and services in the United Kingdom, several countries adopted this method. The Asian financial crisis in 1997 led to a downward trend in the PPP projects until almost 2005 when a new period started, which, however, was not meant to last due to the global financial crisis that started in 2008 (The World Bank Group, 2010). In this whole period of twenty years many countries, worldwide, adopted the PPP project delivery scheme, however not always successfully. A few characteristic examples of such failures are:

- The case in Jamaica, a country that implemented PPPs even from the mid 80’s, for which the current evaluation of the value added to the country’s development due to this specific project delivery scheme is rather negative (EASSD, 2007). This can be attributed to the political system that allowed for non-transparent procedures and transactions as well as irrational government interventions for political reasons. Poor governance resulted to an inefficient public sector that could not support the viability of PPP projects, which in many cases returned to the state’s ownership with deteriorated quality standards (EASSD, 2007).
- The case in Bangladesh where there is a hybrid model in the organizational structure of the public sector with regard to PPPs that prevents from full exploitation of the knowledge and experience gained since 1999 when the Infrastructure Investment Facilitation Center (IIFC), the main public agency for PPPs, was established. The IIFC provides advisory and technical assistance in the development of related policies, while the designs are conducted by several governmental agencies depending on the project in hand (EASSD, 2007). The IIFC although possessing considerable expertise lacks of any kind of power, which, on the contrary, is given to several other governmental agencies that do not have any commitment to abide by the IIFC’s recommendations (EASSD, 2007). The poor exploitation of the public agencies is the main reason for a considerable downturn, since 2000, in the investments in PPPs in Bangladesh.
- The case in Greece, where the performance in delivering PPP projects is very poor. In 2005, there was a reform of the legal framework that enabled the implementation of PPPs in a wide field of infrastructure sectors and public services. Up to that year, PPPs were developed only for major infrastructure projects of national importance and were managed directly by the Ministry of Public Works. Therefore, when the legal framework was reformed the public sector was neither ready nor trained to manage a complicated project delivery scheme; hence the results were: a) long-lasting negotiations with the private sector, b) inefficient designs, c) unattractive to the private sector tenders, and d) bureaucracy related problems.

The few examples presented above clearly indicate some critical requirements that the public sector needs to meet for the successful development of PPPs. These are: a) a certain level of independence of the public agencies from the political environment and the governmental control, b) a clear organizational chart of the public agencies involved and a clear definition of roles and responsibilities to avoid overlaps

between agencies, and c) a well designed and well staffed organizational structure that offers multiple services and training to the private and public sector with regard to PPPs.

3. Organizational Structures of the Public Sector Involved in the Development of PPPs

While, inefficient public sectors prevent from sufficient exploitation of PPPs, well-organized ones contribute to the country's growth and development. Out of a number of cases where the public sector has been really efficient in preparing and managing PPPs (e.g. Australia, South Africa, etc.) (EASSD, 2007), two different examples of the organizational structures of the public sector involved in the delivery of PPPs are presented in the following subsections.

3.1 The Example of the United Kingdom

The United Kingdom is the country that has actually revitalized PPPs in the modern era. It is the country that has implemented PPPs extensively and in a systematic way for all types of infrastructure and services. Although it experienced many project failures, the United Kingdom had a positive outcome of the implementation of PPPs (EASSD, 2007) and this has been managed through a regulatory framework and organizational structure of the public sector that have been considered as prototypes for many other implementations of PPPs worldwide.

The organization of the public sector in the UK that manages PPPs comprises (HM Treasury, 2011):

- The Infrastructure UK (IUK) unit that mainly provides assistance in the planning of long-term investments in infrastructure. This is the core unit within the Treasury's Public Services and Growth Directorate that provides advice to the Commercial Secretary to the Treasury. The IUK is supported by a Senior Management Team and the Advisory Council, which is consisted of Permanent Secretaries from the key infrastructure departments and representatives from the private sector.
- The PPP Policy Team is a core module in the organization that develops the policy for the Operational Taskforce and the Infrastructure Finance Unit (TIFU), while at the same time is the major advisor for those undertaking or wishing to undertake PPP projects. It develops and publishes key policies, guidance and statistics for PPPs and assists in the scrutiny of business cases, as well as it provides input to the Major Projects Review Group.
- The Operational Taskforce that resides with the IUK and supports the public sector managers of PPPs in the operation phase.
- The Infrastructure Finance Unit (TIFU) that resides with the Treasury and provides financial support through loans to PPPs.
- The Major Projects Review Group (MPRG) that scrutinizes and approves the large and complex major infrastructure projects. The MPRG process is owned by the Treasury.
- The Assurance Team that resides with the IUK and ensures that infrastructure projects have the appropriate level of commercial assurance.

The organization of the abovementioned agencies is presented in Figure 1.

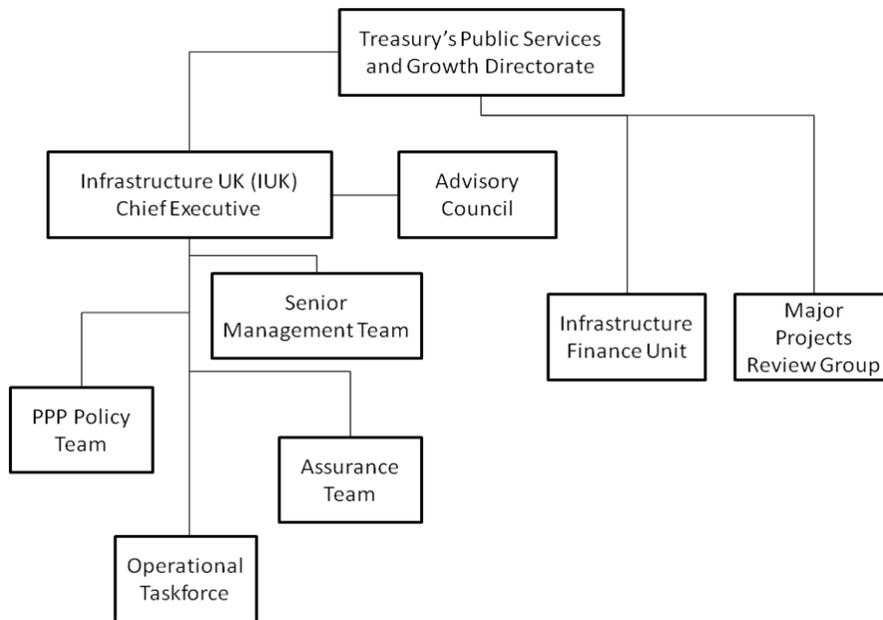


Figure 1: The Key Organizational Structure of the Public Sector for PPPs in the UK

Those stakeholders, either private or public entities, who are interested in participating in a PPP are directly guided, coordinated and regulated by the agencies presented in Figure 1. Another organization that provides commercial expertise and know-how to the public sector is Local Partnerships, a joint venture between the HM Treasury and the Local Government Association in the UK (Local Partnerships, 2011).

3.2 The Example of India

India has a rapidly developing economy, which, both, requires and generates the need for infrastructure and high quality services. Based on the data of the Private Participation in Infrastructure Projects Database (The World Bank Group, 2010), since 1990 a total amount of \$158.397 millions has been invested in 380 PPP projects with a 60% of them being greenfield ones, a fact that stresses the importance of PPPs for India's development.

The core unit of the public sector for PPPs is the Public-Private-Partnership Approval Committee (PPPAC), which is serviced by the Department of Economic Affairs of the Central Government. The PPPAC is chaired by the secretary of the Department of Economic Affairs (DEA) and is staffed by the secretaries of the Department of Expenditure, the Department of Legal Affairs, the Planning Commission and of the respective Department that sponsors the project. The PPPAC approves the eligibility of proposed PPPs.

Different approval procedures exist depending on the budget of the PPP project (Department of Economic Affairs, 2011): a) Projects of budget between the range of, approximately, \$23 million and \$56 million are approved by a Committee of Appraisal that is staffed by the secretary of the DEA and the secretary of the Ministry or the Department that sponsors the projects, b) Projects under the National Highways Development Project (NHDP) that fulfill certain specified conditions and have a budget between \$56 million and \$112 million are approved by a Committee of Appraisal that is staffed by the secretary of the DEA and the secretary of the Department of Road Transport and Highways.

With regard to the financial assistance provided to projects that meet the requirements of the Viability Gap Funding Scheme (VGF), two committees are established (Department of Economic Affairs, 2011): a)

the Empowered Committee that is staffed by the secretaries of the Departments of Economic Affairs, Expenditure, and of the Ministry that sponsors the project and the secretary of the Planning Commission, and b) the Empowered Institution, which comprises representatives from the same Departments as in the case of the Empowered Committee, however of lower ranking in the hierarchy.

In order to facilitate private investment in infrastructure a Panel of Transactions Advisers (PTA) for PPP projects has been established by the central government that assists the public agencies at the central, state and municipal level to access to appropriate advisory support for the implementation of PPP transactions (Department of Economic Affairs, 2011b).

All the agencies mentioned above belong to the central administration and are established to approve projects and support public authorities that are involved in PPPs at the state and municipal levels. At these levels, the core unit is the PPP Cell, which is chaired by an officer who participates in the PTA, linking, in this way, the local with the central authorities. The organization of all the above mentioned agencies is graphically presented in Figure 2.

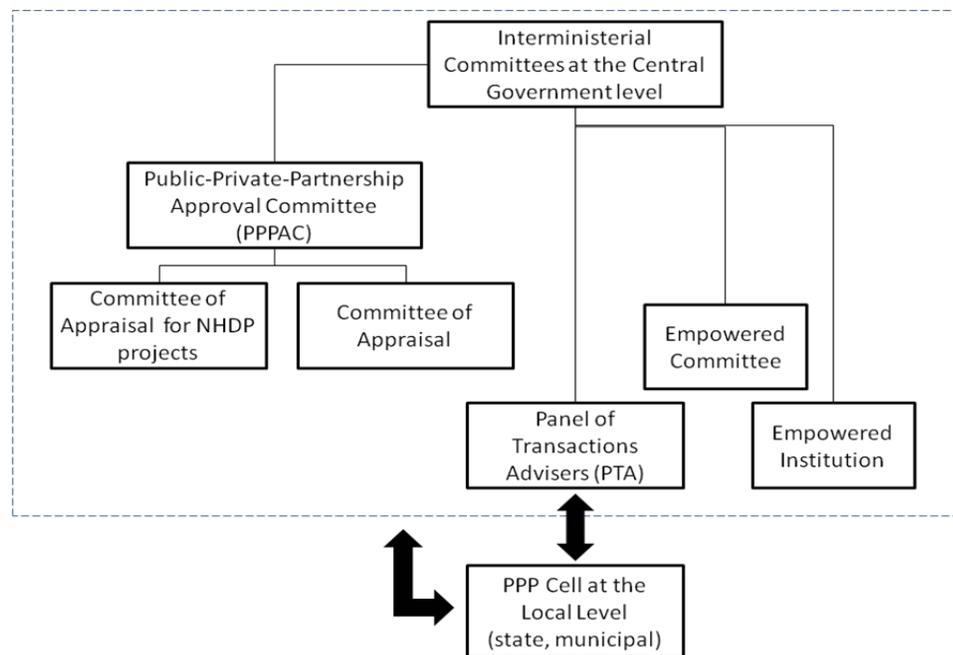


Figure 2: The Key Organizational Structure of the Public Sector for PPPs in India

As shown in Figure 2, the PPP Cells at the local level are connected to the central government's organization both through the approval or funding procedures for the proposed PPPs and directly with the PTA that plays an important role in the development of PPP projects.

3.3 Comments on the Organizational Structures of the UK and India

The two examples that were presented in subsections 3.1 and 3.2 can be considered both as successful for the implementation of PPPs judging from the performance in these countries in delivering projects through PPPs. Therefore, they can constitute an example for developing a model of an efficient organizational structure for implementing PPPs. What can be inferred from a rough comparison of the two structures is that:

- They both offer the services of project's approval, financial support for the implementation of PPPs and advisory services to the public and the private sector. The UK's structure contributes also

significantly to the planning of infrastructure, while the Indian structure leaves that responsibility to the authorities at the local level. This difference is justified from the different governance structure of the two countries, i.e. a unitary state vs. a federation.

- They both include an office solely responsible to support the public sector (i.e. the Operational Taskforce and the Panel of Transactions Advisers respectively).
- The top management level of both structures is in the central government. In the case of the UK the top management resides with the Economics and Finance Ministry, while in the case of India the top management has the form of an Interministerial Committee wherein the Department of Economic Affairs plays a central role.
- The UK's structure is more at an administrative level compared to the Indian structure, which is more at a political one.

Judging from the above, it can be inferred that a central structure in the public sector that is strongly connected to the central government is required to provide a minimum of services to the local or lower level public administration for the successful implementation of PPPs.

4. A Proposal for an Efficient Organizational Structure of the Public Sector for the Development of PPPs

Having examined both the inefficiencies and the successful examples of the public sector's organizational structures, it is concluded that they must demonstrate: a) Political support, b) Transparency, c) Clear roles and responsibilities of the public agencies involved, d) Provision of advisory services, e) Provision of financial support, f) Close cooperation with the central government, g) Flexibility, and h) Control of the project procurement procedures.

In order to meet these requirements a public sector could be organized as presented in Figure 3. The organizational structure presented there, extends to the public agencies at the local level and includes, also, the relations between the public and the private sectors. In the figure, the one way arrows represent a relation of input provision from one module of the structure to another, while the two ways arrows represent an exchange of inputs. The straight lines represent a hierarchical relation in the organization.

The core public agency of the organizational structure is the Ministry of Economics and Finance (MEF), which actually has the responsibility to launch or terminate a PPP project. The Ministry is supported by a comprehensive structure that comprises units which provide legal, financial and procurement support. The Ministry cooperates to the planning of PPPs for infrastructure by determining the fiscal policies through the Budget Department.

The second core agency is the PPP Unit that has a central role in the development of PPPs by: a) offering advisory services to the public agencies (i.e. regions and municipalities) that are directly implementing the PPPs in the whole life cycle of the projects, b) providing training to the staff in these public agencies, c) attracting investment funds from domestic and external investors, and d) planning PPPs for infrastructure. The PPP Unit cooperates directly with the Interministerial Committee and through the Budget Department and the Contract Management Department with the Ministry of Economics and Finance.

The Government has a significant role in the development of a PPP, because it undertakes the responsibility to ensure political support and transparency of the procedures and establish a climate of trust for the public agencies that implement its policy.

The Interministerial Committee is formed in an "ad hoc" basis depending on the ministries involved in each case and is staffed from higher executives of these ministries. It provides the PPP Unit with the necessary approvals and guidelines for the planning and development of PPPs and it can exercise mild

control to the Unit's actions. The Interministerial Committee makes certain suggestions to the MEF for potential PPPs and closely cooperates with it for their implementation.

The Technical Chamber acts as a valuable advisor that can transfer to the PPP Unit the knowledge, experience and concerns of the technical society with regard to the implementation of PPPs. It can also act as a contributor of unsolicited proposals that derive from experts in the industry.

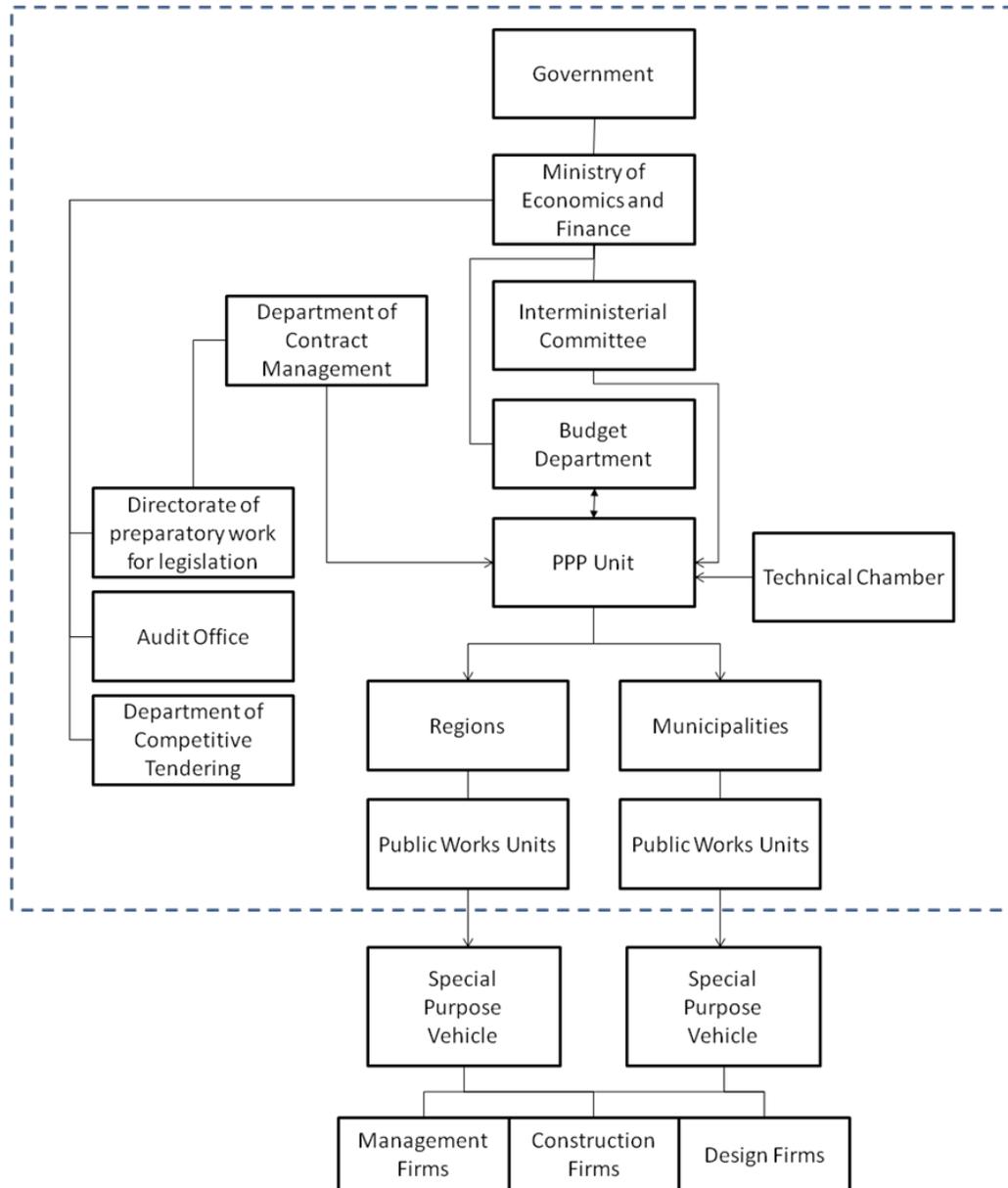


Figure 3: A Proposed Organizational Structure for the Delivery of PPPs

Figure 3 includes also the relation between the public (included in the dashed line framework) and the private sector in the case of regional and municipal projects. The Units of Public Works of the Regions and the Municipalities are those who actually cooperate with the private sector for the implementation of a PPP. Depending on the country's governance model, in some cases, they may even form independent PPP Units that manage PPPs at the local level. Therefore, they consist a vital element of the public

sector's organizational structure that must be continuously kept updated concerning PPPs policies and implementation practices.

5. Conclusions

A vast literature and experience gained after an over 20 years implementation of PPPs in infrastructure, worldwide, indicates the public sector's organization as one of the main reasons for failing to deliver successful PPP projects. The complexity of these projects and the great number of stakeholders involved require a robust public sector that must be able to: a) plan in the long-term, b) attract investment funds from the market, c) procure viable projects, and d) cooperate and monitor the proper implementation and operation of the projects in their whole lifecycle, which normally lasts for decades. These are hard tasks to accomplish even for country's with mature public agencies and experience in PPPs.

A thorough review on both the successful and unsuccessful examples of implementation of PPPs indicates that the public sector is required to ensure: a) transparency in the procedures, b) close cooperation with the central government, c) sufficient control of the project procurement procedures, and d) flexibility in decisions and negotiations with the private sector. Other critical requirements are the political support from the government, the provision of advisory services to the stakeholders involved and the clear definition of roles and responsibilities in the partnership. In order to fulfil these requirements, the public sector is proposed to be organized based on two pillars, i.e., the performing and the supporting one. For the performing pillar a robust public agency that can exercise full power in the planning and implementation of PPPs is the Ministry of Economics and Finance. For the supporting pillar a PPP Unit is suggested that can facilitate the implementation of PPPs by providing advisory services to the stakeholders involved and constitute the interface between the several public agencies that must cooperate towards a successful PPP project. The strength of such an organization is that it involves the public sector throughout the whole life cycle of a PPP project, both as a consultant and as an active stakeholder and partner for the private sector, thus ensuring better control and performance in PPP projects delivery.

6. References

- Department of Economic Affairs, Ministry of Finance, Government of India (2011). "Approval Committees". Online at: <http://www.pppinindia.com/approval-committees.php>. Accessed on April 14, 2011.
- Department of Economic Affairs, Ministry of Finance, Government of India (2011b). "Panel of Transaction Advisers for PPP Projects". Online at: <http://www.pppinindia.com/transaction-advisers.php>. Accessed on April 14, 2011.
- HM Treasury (2011). "Public-Private-Partnerships". Online at: http://www.hm-treasury.gov.uk/ppp_index.htm. Accessed on April 14, 2011.
- HM Treasury & Local Government Association (2011). "Local Partnerships". Online at: <http://www.localpartnerships.org.uk/PageContent.aspx?id=9&tp=Y>. Accessed on April 14, 2011.
- Sustainable Development Department in East Asia & Pacific (EASSD) (2007). "Public-Private Partnership Units: Lessons for their Design and Use in Infrastructure". Washington DC, U.S.A.: The World Bank Group & Public-Private Infrastructure Advisory Facility (PPIAF).
- The World Bank Group, Public-Private Infrastructure Advisory Facility (PPIAF) (2010). Private Participation in Infrastructure Projects Database. Online at: <http://ppi.worldbank.org/explore/Report.aspx>. Accessed on November 1, 2010.