

**EXECUTIVE SUMMARY**

**FOR**

**PUBLIC-PRIVATE PARTNERSHIPS PRESENTATION**

**BY**

**PROF. ALAN M. TRAGER**

Prof. Alan M. Trager, Senior Fellow at the Mossavar-Rahmani Center for Business and Government at the Harvard Kennedy School shared his expertise on Public-Private Partnerships (PPP) at the roundtable meeting of TRIP<sup>1</sup>, an entity of TEPAV<sup>2</sup>, on 21 May 2010.

A PPP is collaboration among government and business or non-profit organizations in which risks, resources and skills are shared in the projects to benefit each partner as well as the community. Prof. Trager's presentation reviewed PPPs in terms of their challenges, benefits and the skills required for their success. He suggested an organizational approach to address several PPP problems.

PPPs can effectively overcome complex public policy problems by bringing together multiple stakeholders. They expand the set of resources by not only bringing together financial assets but also each partner's skills. A partnership tries to efficiently allocate the risks of the projects and address different issues from infrastructure to health care. These issues can require a PPP to cross borders of organizations and countries.

The scale and sustainability of a PPP depend on the strength of the alignment of public and private value created by the project. Public and private values differ in that the former aims to attain a desirable collective social outcome, while the latter aims to attain or exceed privately established benchmarks, such as returns and earnings. Political support and legitimacy in the public eye gives way to public value creation, while private value is driven by demand. For these differences, simply outsourcing when the government does not have the resources to perform a service becomes problematic. PPPs can accomplish what outsourcing cannot: creating and sustaining public value by leveraging combined assets.

PPPs are appropriate under certain conditions. Depending on the nature of the relationship between partners, the nature of the asset in question and the complexity of the factors involved, PPPs can fail or work well. For instance, having trust and credibility among partners and having a competent and committed chief executive are essential for the success of the PPPs. Ensuring accountability between partners is also critical. Moreover, neither of the parties should be able to complete the task on its own. If the government is able to carry out

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<sup>1</sup> Training and Research Institute for Public Policy

<sup>2</sup> Economic Policy Research Foundation of Turkey

the task better itself once the resources are provided, adding the private sector might complicate the management of the project, rather than being useful. Creativity in handling the project is also essential: the partners should be able to look creatively for solutions to problems where money is not the only answer. The PPP should not compromise the authority of the government by depriving it of its resources and eroding its performance. PPPs should not be formed only to use the strong management of the private sector. Instead of using PPPs as an excuse to lack strong management, governments should build up their management capacities alongside the PPP. Misshapen partner priorities and unsuitable projects where risks and decisions cannot be reasonably shared, such as national security, reduce the chance of PPP success. A lack of capacity to sustain multi-sector management models, especially for global projects, might result in the failure of PPPs. On the other hand, PPPs can increase the efficiency of the government operations when the private sector is involved. They can provide both politically and operationally sensitive performance measurements. Governments can extend their political reach by using this alternative organizational approach. With the opportunities they provide for both the public and the private sector, PPPs remain a very promising organizational approach.

The compatibility of the skill sets a PPP brings together is critical in achieving the partnership goals. In understanding the expectations, motivations, and the kind of support the partners have, stakeholder analysis provides important answers. This analysis helps to decide which partners are to provide political, financial or technical support to the project. To fulfill the different requirements of each environment and asset class, it is necessary to have the right stakeholders and understand stakeholders' incentives and motivations. The partners should also be skilled at political management. Knowing to listen and observe allows them to foresee pockets of support and opposition. If they can use political management well, they can deal with the crises encountered during the project; or adapt their attitudes, methods and objectives to changes as the partnership progresses. Negotiation is the process that reflects this evolution of the partnerships. PPPs require multiple stages of development. Negotiation helps improve communication and trust as well as manage expectations, compromises, wants and each side's effect on the partnership. However, successful PPP processes should not be considered as best practice cases to be implemented in other settings. Cultural unawareness or insensitivity can destroy the public support or legitimacy of a PPP. Another crucial skill set for PPPs is value for money analysis: If the estimated life-cycle costs associated with traditional methods of procurement are too high, an alternative method such as PPP can be considered. Value for money analysis involves the efficient allocation of opportunity and risk between the partners. Without it, the private sector often fails to share opportunity, and the public sector cannot efficiently allocate risk. In order to take all these factors into account, the partners should consider which of their strongest or weakest skills are the most relevant for the PPP.

Once the assessment of the PPP is done and the opportunity of public and private value creation is recognized, it is critical for the government to be involved as a partner. Particularly in global cases, whether it is a public health problem or a question of achieving environmental standards, lack of government involvement results in squandering the opportunity for a PPP. In such cases, it must be recognized that the private sector partner's role is often only that of a

catalyst, rather than the decision maker and the enforcer of change. Without government making the necessary regulations for the distribution of a drug, or granting the necessary subsidies for an eco-friendly delivery truck, for instance, these projects would remain incomplete. Realizing the importance of the communal or political environment is another key factor in the functioning of PPPs. Underestimating the role of political management or failing to ensure community involvement in the projects may result in the failure of PPPs. Hence, PPPs should be flexible, continuously adapting to the changing environments. Finally, the wealth effect of potential PPP assets should be recognized: apart from the traditional public value, great economic value can be created for different assets with different finances and uses of such assets. Whether by rebuilding a park or building a stadium, PPPs can contribute to the economic revival of both the public and private sectors.

To address many of the organizational problems in potential PPP cases, Prof. Trager suggested a specific approach used by New York State: a commission on state asset maximization. The expertise of the commission and the authority of the government allowed room for creativity. It enabled the careful screening, oversight and implementation of PPPs and accumulated knowledge and experience on these cases.

In the Question & Answer session, the application of PPP theory in Turkey was discussed in depth. Turkey's PPP cases usually involve infrastructure or energy assets. During the session, the importance of the political leadership of a country in creating an environment for PPPs was emphasized. The problems in the legislative process of Turkey were associated with its inexperience in achieving scale and in time management in case of a change during the PPP process. The role of law and legislature were underlined as critical in Turkey to establish credibility and transparency in PPPs.