

Examples of public private partnerships economics essay

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This paper deals with the analysis of the issue of whether government stockholding in private organizations is beneficial for the citizens of the country or state. In doing so, Team Charlie will analyze the following factors among others: Environmental impact, Building and construction of the facility, Safeguards, Economic impact, The political process, Employment, Regional and national impact, Communities, Liability, Sustainability. The team will also take into account the current mining crisis at the Talvivaara mining facility and discuss the above factors for the particular case as well.

Introduction (Ganguly, Turya)

To begin the case study, it must be first described, what a stockholder is. It is defined as " A person, group or organization that has interest or concern in an organization ([http://www. businessdictionary. com](http://www.businessdictionary.com))". More appropriately, it is a person, group or an organization that has interest or concern in another organization. Often the interest is related to the own interest of the organization. The main topic revolves round the benefits of government stockholding in private bodies or organizations. There are different levels and degrees of partnerships in different countries as well as environments, and they have different terminologies. Government Owned Corporations (GOCs) are often visible more where there is a natural monopoly. Solid decision making and quick results are the expected results of the same. They operate in the same fashion as the State Owned Enterprises (SOEs) and often cannot be distinguish in the case of small countries. But such cases are the ones in which the control is solely or mostly in the hands of the government, and that in today's world is quite rare.

Examples of Public-Private Partnerships (Ganguly, Turya)

Now let's see the situation of the same in some of the leading countries of today and how they work when it comes to this field of operations.

United States of America

The most powerful country in the world has a group of financial services corporations called Government sponsored enterprises (GSEs). They are private corporations owned by their stockholders, part of which is government owned. Their primary utility is to generate profits for their stockholders by enhancing the availability of assets and reducing the use of credit in the organizational operations, being controlled directly by the central government.

China

Public private partnerships (PPPs) were first introduced in China in the year 1970. Eventually, since 2000, the most effective way of dealing with market mechanisms have been PPPs. PPPs are used in China for providing public facilities and services as well. The government maintains strict vigilance using monitoring and controlling techniques. As a result of the increase of private organization, there has always been a fist-fight between private and foreign parties regarding the investment.

India

Government-owned corporations in India are called Public Sector Undertaking (PSU). There is a definite share of stocks or equities by the government in these organizations, which is greater than or equal to 51 % to be specific. In a recent survey conducted in 2012, it was found that the <https://assignbuster.com/examples-of-public-private-partnerships-economics-essay/>

country has more than 250 PSU companies. The government maintains a stronghold over these companies and an important feature of these partnerships is the restricted entry of foreign investors in the market.

Advantages of PPP

The main purpose for the discussion of the present scenario in these three different countries is not based on any specific criteria of comparison. These countries are also not a benchmark or standard for defining the policies in other countries since the political framework, economic situation and social system among other factors are different in different countries. It can, however, define a distinct trend that started in most of the leading countries of the today post world war II. That trend is the increasing number of public private partnerships in the last few decades. There are many advantages of government stockholding in the organizations, some of which are mentioned below:

- Provide financial support to organization;
- monitory stability
- Prevents rash decisions which can be taken by inexperienced management
- Helps prevent sell out of stocks in extreme financial crisis;
- bailout functions
- Co-ordinates activities of delivery teams;
- helps systematically estimate work effort, resourcing requirements and project costs, if any
- Brings new ideas and perspectives from both sides of the table
- Creation of consistent, useful and new age methodologies possible
- Historical data from various projects done by the government can help a lot and be used as template for conducting future endeavors of similar nature
- Training material can be developed from previous data as well
- Involvement of government often provides greater transparency

Environmental issues in the Talvivaara Mining Crisis (Ganguly, Turya)

Environmental factors act as a huge influence over decisions taken on whether there should be government's influence over the stockholding in private companies.

History of the organization

The advantages of PPP can be easily identified from the recent developments at the Talvivaara Mining Facilities. Talvivaara is a newly developed establishment founded in the year 2004 and its primary operation is nickel mining. Though the mineral deposits used today were discovered as early as in 1977 and was quite huge in amount, mining could not be started initially as there were no tried and tested technique to take out the minerals and refine them from their existing crude form. The first mining rights were obtained by Outokumpu Corporation and they sold these rights for a nominal price of two euros to a former employee, Pekka Perä. The establishment of the present Talvivaara mining facility in 2004 was a direct result of the attainment of mining rights at Sotkamo, Eastern Finland from Outokumpu though actual permission to commence was obtained as late as 2007 and production started in 2008. It deserves mention that the construction of the mine cost around 560 million euros. The first metal recovery trial was completed in 2006 and after necessary funds were arranged Perä listed the company to the London Stock Exchange in the year 2007 and Helsinki Stock Exchange in the year 2009. The company started its uranium production in 2010. These operations started to reap huge rewards for the corporation as the uranium was produced in the form of a yellowcake as a byproduct of the

normal mining operations in the facility. The facility, till recently, was responsible for 80% of Finland's total uranium production, and was slated to double the production of uranium in the EU in the coming years.

Government Participation

The Finnish government has a stockholding of 8.89% in Talvivaara which is managed by the ministry of economic affairs. Government support to the facility included 60 million euros of funds for infrastructure development. The board responsible for the startup included three ministers from the ruling party of the country, one of whose family member owned €270,000 worth of Talvivaara stock.

Present Crisis Scenario

The current crisis in the facility started when a leak was discovered on the 4th of November'12. Finland has more than 187,000 lakes which are interconnected and are in danger of being contaminated with the uranium deposits. The founder Perä had to return to duties as the CEO of the company just 6 months after his retirement in April 2012 after almost 9 years of duty. The resurrection of the present situation is expected to cost more a few million euros and majority of the costs and responsibility has to be borne by the CEO. Though the leak has stopped, an uphill task remains hovering since the magnitude of labor and cost to be employed for clean-up seems to be quite huge. Perä, a twenty percent owner in the company's share promised to employ as much money and effort as required for the project. The primary investigations have shown that the leak in the gypsum pond has been caused due to heavy rainfall in the region which forced the

labors to pump acidic overflowing water into the same, as a result of which the leak was more severe as the acidic water dissolved more metals. Figure : Demonstration against Talvivaara Mining Company in Helsinki (<http://www.demotix.com>)The future of the company is in doldrums after the largest selling newspaper of the country, Helsingin Sanomat, termed the company as one of the biggest failures of recent times and criticized the officials for not taking required preventive actions for the mishap. The ministry of health and various other organizations have provided their feedback into the issue. The fishes present in the water bodies are in danger because the aluminum content in the water body is concentrated enough to kill them, according to the Finnish Environmental Institute (SYKE). But till now, no impositions have been done on fishing since the part of fishes on which the Aluminum and Cadmium deposits adhere can be taken out as waste product. The Finnish radiation and Nuclear Authority (STUK) have concluded that though the amount of uranium levels is much higher than before, but still do not pose acute danger to the life of human beings. Investors expect them to discuss the possibility of new regulations or more government investment.

Inferences available from the information gathered

It can be supposed from the turn of events that government influence in terms of stockholding can provide the organization with stability in political, social as well as in economic grounds. In the beginning of last year, a worker was killed at the site, the reason of which was found later on to be fatal concentration of hydrogen sulfide (H₂S) gas. These sorts of issues have less chances of occurrence if the facility is monitored and controlled by government officials bestowed with the power of authority. The government

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has less chance to blame the board of directors if they are more involved in the decision-making of the organization. At present, the Finnish government has only around 9% of stockholding in the company which provides them very less control. Government can always help provide support via funding in extreme cases like this. The government is always better equipped to handle such situations rather than a private organization with very less amount of industry experience, which is the case here. Involvement of a powerful government can often provide an aura of calmness over the media as well as the different social bodies. A chaotic situation can never be good for any organization or the society as a whole and affects the citizens of the country in more ways than one.

Economic impact public private partnership (Kanoj, Geeta)

Public private partnership is a co-ordination between the government and private sectors, where the infrastructures based service is provided to government by private sectors. This kind of conjunction is attractive to both government and private sectors, additional financing by private sectors add to improved infrastructure and good managerial skills. This saves government from debt and borrowing from financial institutes, this also adds to revenue from users, transferring all the significant risks to private sector. This in turn results in innovative and better quality, cost effective service. Hence creating significant impact on economy; we will analyze the components of the economic impact by public and private partnership.

Salient features impacting economy:

Transfer of public functions to private sector has potential benefits for both government and citizens. Public and private partnership has burgeoning impact on efficiency in service provision, competition between the private sectors and reduced cost delivery. It allows superlative risk distribution to the organization that can competently manage it. The private sector usually is competent to manage the supply chain, finances, procurement, service and distribution more efficacious way than can public agencies. The public agency can avoid the expenses of design and specification of private assets. Government organization can benefit from attractive incentives from private sectors for low cost operation. The outsourcing can avoid bureaucratic problems and delays, again adding to cost and time. Private sectors can invest in sophisticated technologies for rapid international trade, which with changing time become obsolete. The co-operation between the government agency and the private sector can reduce the fiscal pressure on government. This is effective way to mobilize the private and foreign investment, there by increased productivity and economic output. The scarce capital is accelerated in effective way and there is lot of space for developing and growth of private sector.

Analytical approach

The issues concerning economy in public and private partnership are as follows:

Ownership and Contracting

The private ownership is suited where there are competitive market prices, for instance the private sector is motivated by the goods price in the market. The marketing strategy should involve the price and quality assured services that are acceptable to the consumers and who are willing to pay and private sectors earning profits at the same time. Various market failure can be attributed to the government failure, like influence of external components, monopoly etc. In this scenario the private sector is preferred due to the fact that, there is no political bias, the government strength and private sector services will serve the market failure. There by reducing the risk of government downfall. The analytical justification for public private partnership is provided in the following lines, a trade facing the government to provide a particular kind of service between quality and efficiency. Government is strong enough to provide the service and achieve desired quality but it is difficult to do so due to high cost. Therefore it is necessary for the private sector to step in, for its superior managerial skills and low cost operation by sheer competition, innovation and diligence in providing services. The public private partnership is suitable if the government has a well-designed contract for the private sector, because there can be liabilities for the government in future, for example if there is public private partnership in a construction of a monumental building or government building like military bases or rail services etc, the private sector compromises on the quality of the material or some other mistake which can be seen at the moment. This results in serious flaws in functioning of building which may come forth later, which causes liabilities and renovation cost on

the government. This again fails to deliver the advantage of public private partnership, therefore the ownership and contracting is very important aspect for economic advantage for public private partnership.

Risk Analysis

Public private partnership involves various risks, these are listed below:

Construction risk, involving building cost overruns, design problem, technology, building operation cost and delay in project. Financial risk, involving high interest rates, variations in exchange rates and other factors affecting the financing costs. Availability risk, involving continuity and quality of service provision. Demand risk, involves the demand for services. Residual value risk, which includes the value of asset in future. Some of the risks present in the public private partnership need to be transferred to private sector, in order for government to get full benefit from inflow of capital and change in management. The government should transfer the risk on financing cost and risk pricing to address the potential risk involved.

Risk Transfer and financing cost

A project in public private partnership should be independent of whether the project is financed by public agency or public sector. The cost of project depends overall on the potential risk involved, the cost of the project should not be affected by the risk transfer on private sector. Project risk depends upon how well is the risk can be distributed or widely spread; government can spread the risk on taxpayers. Private sector can also spread the risk on financial markets, by doing this they are not at significant loss and moreover private sector risk managers may be more skilled at it than government

officials. Thus the project risk is lower in private sector. This is an added advantage of public private partnership in terms of economy. Another important aspect in borrowing the capital from institutions is that the private borrowing is expensive than the government borrowing. If private sector borrows money for a project then the rate of interest may be high however, government borrowing may be cheaper and the financial investors are ready to lend the money to government due to the fact that it has tax powers. The investors trust government body because it can give returns with interest, even if it is risky project, investors are interested to invest. Now here the government is efficient in borrowing at lower interest rates than private sectors. While comparing the cost the government should consider the public investment and the services provided by the government in public private partnership. In order to get high efficiency and performance by the private sector risk transfer is the key factor to effectively deal with it. The governments relieve itself from the risk by transferring it to the private sector, which it believes private sector is more efficient in dealing with it. The government can achieve the transfer of risk and achievement of efficiency from private sector is by paying the attractive price which private sector willing agrees to it. There are two kinds of risks project specific risk and market risk. Project specific risks are very diversified risk, for example, risks involved in construction of road or highway are material supply, labor supply, transportation of goods, weather conditions etc. Project risks may change according to situation and type of project. The market risks are not diversified, they are underlying economic developments and therefore they are to be properly priced. The government and private sectors have different

approach for market risk pricing, the government may adopt some risk free rate for future cash flow while appraising project. Unlike government agency the private sectors include risk premium in discount rate. Taking this difference into account the government may reject the public private sectors and favor public investors which may create bias. If there are lower pricing of risks then, private sector may end up employing cheap designs simply because the risk involved is not much and the private sector might not turn up due underpricing the risks. Finally if the government compensate for underpricing by extending the guarantees then it is going to cost a lot to government in long run. The private sectors use Capital Asset Pricing Model which measure the income on assets and risk free rate of return plus risk premium.

Competition, Efficiency and Regulation:

The success of public private partnership depends upon the efficiency of the private sector. In order to get the productivity from the private sector is awarding the contract to public private partnership on competition basis, to make sure that there is no monopoly or even if exists at least it is competent enough. The activity undertaken by the public private partnership is limited because they tend to undervalue infrastructure assets, and single use asset may create monopoly. Competition is crucial to realize the maximum benefits of public private partnership, improve management and innovation. Incentive based regulation for the maximum output of public private partnership is necessary. However the challenge lies in tailored regulation which brings increased output, lower prices minimizes monopoly and at same time preserve incentive for private sectors to be efficient and cost

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friendly. Finally profit sharing between private and government sector is the effective way of regulating the incentives.

Inference for economic impact

The public private partnership holds good in many ways, it is effective way of mobilizing the private funds in order to increase the economy of the country, by providing service in return of revenue at low cost operation prices. The role of private sector in managing the task, distribution of risk, increased productivity by skilled workers and financial investment are all attributed to the economic impact of the country. The public private partnership also reduces the fiscal pressure on the government as it mobilizes the private and foreign funds. However for any public private partnership to be successful, the potential risk area of the project should be assessed. Ownership, contracting to get efficient output should be considered, risk analysis, risk transfer and financing cost should be taken into account in order to make it economical.

Political process for Public Private Partnership (Zeeshan Ali, Muhammad)

Public Private Partnerships, design and its application between the purely public and private task accomplishment in public service is, in practice and subject to political involvements and processes. The participants who are involved in the making of decision and rules of political processes have greater influence on whether, in what areas and form of public private partnership are recognized. What role does the political process contribute in the actual design, realization and performance of Public Private

Partnerships? Here we will analyze the chances of success of Public Private
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Partnership have given the essential encouragements and existing decision making setup to the participants and how political involvement will be brought to bear in the first place. The political science characteristics are also considered in Public Private Partnership field. The political process has greater role in the design, implementation, formation and performance of public private partnership solutions: At the beginning a decision is made on the institutional framework within which public as well as private sector provision of goods must be organized. In the mean while framework establish the level to which public private partnerships make it probable to aid individual interests. The political system will be more beneficial to public private partnership solutions if their arrangement deals with the specific interests of political decision makers comparatively better than typical public services a political suction effect will arise. In the last the application of the political system points to expectations of very specific result, outcomes and arrangements from the realization of permitted Public Private Partnerships.

Political Drivers:

The new aspect is seen in the Public Private Partnership dialogue is not as much similar as the long cooperation between private and public participants but also next to institutionalization of public private partnerships, for political mechanism increased public demand. This increased demand is unlikely to be attributable to the objective superiority of Public Private Partnerships, especially since empirical and theoretical studies would suggest that they are highly controversial. Political possibility of the mixed forms of task fulfillment of public private is a result of following two points: Controlling the current challenged of public sector by only the political problem solving

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aptitude of Public Private Partnership. The exceptional allocation of specific benefits of the decision makers involved in the political process.

Challenges of Public Sector:

Success of public private partnerships in meeting the current challenges of public sector are. For the improvement of public administration the importance of Public Private Partnerships is: The public sector is straightaway opposed with the new management procedures with the use of Public Private Partnerships. Variation in the approach of public managements from formerly governmental setup to management ideas as a new public management is the basic requirement of joint performance tasks. The character of Public Private Partnerships is growing international competition as a surviving instrument and specifically in the European Union competition model. Then it means that the traditional public task zones that formerly comes in the services of overall interest with controlling supply organizations are expose to competition. For example it includes the following fields' energy, telecommunications, and public transport as well as other task areas currently under discussion like water supply. Mostly at municipal level the usual providers of supply and disposal services have to adjust to this competition with completely new approaches. The situation of Public Private Partnerships against the conditions of important change in public administration understands of its function and role: we are discussing the conversion to a guaranteeing state. Now the public and the state will not be themselves responsible for the provision and production of public facilities but they will be only responsible for the tasks performance. So

Improvements are politically effective when policy maker will make a user friendly proposal that grip existing schemes.

Public Private Partnership participants interests

The solution in PPP in the decision making helps in getting significant individual interests. The individuals are as follows: The private sector Political entrepreneur Voters Bureaucrats and management Private interests, public welfare and third party detrimental contracts

The socio-political dimension

From the economics of Public Private Partnerships, political decisions and involvement has a key role in the socio political dimension. This will lead to the need of change of Political decision making setup and this relates on the one hand to changes in the political decision making setup and preferences resulting from the practice of Public Private Partnerships. Within the scope of Public Private Partnerships it is connected with the lawful matter of the input of public assets. Also it is not possible to make assumption that public service in Public Private Partnership can be directed, controlled and organized in the similar manner as in an organizational unit which is in Public possession. So it is essential to carry out a difference in lawful matters and control options for various different kinds of Public Private Partnerships. As we are talking about the social political perspective here we have a question about the democratic theoretical nature in relation with Public Private Partnership. How come the political instrument application is democratically legitimated? So it is required to discuss legitimation as per the criteria of inclusivity, responsibility and consideration. They mention to the issues of

legitimation, state power and political control. Within the limitation of Public Private Partnership solutions the private interest participants participate in decision making on Public tasks for example public budgets. Since within the scope of PPP-solutions private interest groups participate in decision-making on public tasks, i. e. expenditure on spending of public budgets, important spreading effects are dreaded: A de privatization of interests that are weakly expressed or declared could go against important public task accomplishment aims. The energetic contribution and participation of private contractors for their personal profit interest can rise and increase the chances of a tendency towards de regulation because in actual regulation result with decrease for example less security, less environmental safety are the main points of fear. The forces Public Private Partnerships finally can come to play its role on the initiative of private contractors and as discussed project which cannot be implemented legitimately will actually be realized. A certain tendency towards self-service in the private business sector is the main concern here.

The political economy

Now to discuss about the weaknesses of the tax state is generally described and explained by using the political economy model just because of the following major factor which are the self-interests of the participant's, the influential accuracies of the coordination procedure through voting markets, the political process of democratic decision-making is barely in a situation to secure the essential coupling of public services to citizens preferences. The outcome of the result will be effectively losses in state achievement. Other than this it can be observed that political economy can contribute to

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assessment the probabilities of political recognition of Public Private Partnership improvements which are dependent upon the user free financing and therefore they are contributing to converting the state revenue system. Here the Public Private Partnerships political gratitude touches on problems of the benefit principle for public incomes. All the public spending and the income are multiplied by means of user free financing, in this way it will destroys the relaxed economic impression in tax funded budgets and changes the political support for projects again irrespective of the financial benefits. The political awareness of user financed Public Private Partnership solution, now the major concern is that whether political business persons have interest in the loss of their optional room for movement and the potentials of distinct serving of spending wishes and confrontation to problem sharing as transfer brokers.

Inference for political process

Now to benefits, interests and the resources of the participants who contributed in the political decision making process and also they made the rules of the political process have a strong and influential effect on whether and in what form Public Private Partnerships are realized. Now the outcomes and solution and the goals and the distance between them can be categorized as political bias. Above all Public Private Partnerships with user financing are likely to be held up, on the other side the tax financed Public Private Partnerships give great political net benefits by avoiding outdated accounting debt and budget limits. The respectively selected budget rules and the form of enforcement control affect the political cost benefit calculation and thus the level and direction of the political bias. As long as

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inefficient Public Private Partnerships are realized for political reasons this can on the one hand be at the expense of the actual indicated public task fulfillment but also at the expense of efficient privatization going realized. Well now on the other side the political scientists, are interested in changes in statehood, particularly changes in the legitimation of decision-making about public tasks and the possibilities of democratic control. Political involvement has a significant encouragement on the extent, success, and design of Public Private Partnership solutions so it is important that influences of this type be included in the analysis. A broader perspective of the political and economic barriers that stand in the way of successful PPPs is now needed: A combining agenda that has yet to be developed might cope with public authorities (political) involvement in designing Public Private Partnership arrangements and could provide a more in-depth insight into political decision-making about public services.

Regional and national impact (Mohsen, Nazar)

There is a very big different between the private corporation and the privat corporation include stock own by the government the most important issue that the trust for the citizen. There are many people believe that the corporation with stock own by the government has safe situation or has same balance for a while and they believe in this kind of company because it has a strong partnership. This believes come from the bad and good experience in their life for such company.

The regional and national influence on the market

The regional and national impact is one of the important factors and it has directly influence when the things happened or something globally changed and this influence or the impact depend on the corporation situation if the corporation 100 percent private will be big change in the strategy of the corporation through the deals or the trade or any other activity because their resistance against any Changes depend on the personal decision of the administration and any attempt to enhance their policy in a very critical situation need more fund or more other challenges. In case the corporation with stock owns by the government the possibility make change easier and the decision can be made with a high confidence because the mentality of the people who works with the government sector differs or the way to think is differs.

The benefit of Public-Private partnership

They think about the country and about the citizen then they think about the profit and they do their best to save the cooperation and this issue totally different if we compare it with the corporation with 100 percent stock own by private people. This condition makes this kind of cooperation more trustable and has acceptable for the regional and national and this is totally positive impact. This kind of cooperation it can be more successful because the support that they get it from the government and it has low general risk. The more institutions regional or international want to be relations with companies the most sedate and strong and these companies are companies that rely on the principle of partnership with governments. In the U. S. A was the best witness when he struck a disastrous financial crisis hit large

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companies own by the private corporation and stocks own by government.

The government supports this corporation by the fund to return their balance again to keep them away from the bankruptcy.

Regional and national impact on the Governance Corporate matters

A great deal for economic. Social and environmental outcomes. Some necessary conditions for good governance are inclusiveness. Accountability. Participation. Transparency. Predictability and responsiveness.

Potential impact on PPP

When the governing system does not fulfill these conditions we talk in terms of poor governance Corporate. Poor governance Corporate leads to increased political and social risk, institutional failure and rigidity and a deterioration in the capacity to cope with shared problems. Of course, governance systems should facilitate action and not create an obstacle to development. Getting the right balance is a source of constant debate and an ongoing process that will be continually changing over time. Social analysts have shown that there is a strong causal relationship between better governance and Corporate better development outcomes such as higher per capita incomes, lower infant mortality and higher literacy.

Regional and national impact is enhanced by a stable and just social order founded on clear institutional rules and effective and equitable markets.

Governance Corporate is thus essential to poverty reduction and can help the poor to help themselves by the justice rule. A poor governance privat corporation is a barrier to development and hurts the poor through both

economic and non-economic channels, making them more vulnerable and <https://assignbuster.com/examples-of-public-private-partnerships-economics-essay/>

unable to adapt to changes. As a result, markets will be weak and distorted thus holding back growth and employment opportunities. Structural and institutional reforms are needed to turn poor governance into more effective governance, including measures such as creating accountability in the use of public funds, building national capacity for better policy formulation, implementation, and enforcement mechanisms. It includes converting decision-making and implementation into more inclusive processes where civil society and the private sector have clear roles to play with shared responsibilities on the basis of public-private partnerships. The division of labor between the different actors and the sharing of responsibilities and balancing power relations are all part of the same process, that of defining the governing system. To avoid all these kind of influence we see at the government be in partnership with private corporations to include owning stock in those corporations can be the suitable for such kind works. The historical context of governance varies in time and space. In Europe and North America, for example, industry and capital investment backed by a strong State have been the dominant background forces that have shaped governance systems. However, the traditional bases of political power have been eroded in the last 20 years or so and the institutional strength of the State is being challenged. Some recent changes in society have facilitated this weakening of the central State.

Some of these changes include:

Fiscal crises within the State (limitations on raising taxes). Technological advances that facilitate networking and subsidiarity. The globalization process, including deregulation of financial markets and volatility of capital,

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which restricts the State's ability to govern/ control the economy. A more assertive sub-national democracy in cities or semiautonomous regions.

Excessive workload and responsibilities on smaller government bureaucracies. Large concentrations of people and political power in urban areas.

Hierarchical governance

Part of modernization is generally seen as the evolution of political systems from top-down, hierarchical government systems with centralized institutional settings, to more decentralized administrative forms and one of the important forms that's the government be in partnership with private corporations to include owning stock in those corporations. There is no evidence that more decentralized systems are necessarily more effective than centralized ones. The real test here is, " what works in the particular setting?" There is, however, a perceived ever-widening gap between those countries that have managed to move toward subsidiarity - or the performance of functions at the lowest effective level - and those that remain centralized and stagnant. The forces for change listed above have an even greater impact in poorer countries as expectations rise for a better quality of life. There is a growing dissatisfaction with ineffective but costly State machinery, lack of vision or leadership, weak financial discipline and political dictates crippling administrative functions. With respect to distributed governance, rich and poor countries are generally growing apart. More mechanisms exist in developed countries to establish the required new government be in partnership with private corporations to include owning stock systems than is the case in most of the less developed countries.

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Partnership with private corporations to include owning stock in those corporations has regional and national influence to distribute the governance and the need to involve civil society and the private sector is promoted, the key role of government and public sector workers is recognized as critical for the proper stewardship of as a common resource.

Inference of regional and national impact

The main regional and national impact on the government be in partnership with private corporations to include owning stock in those corporations.

Sequencing

Institutions, laws, and management systems develop slowly and adapt to often rapidly changing environmental conditions. It is important that countries tackle critical issues first and adopt a pragmatic approach accepting what is politically feasible rather than theoretically the best solution.

External environment

Government is in partnership with private corporations depends to a large extent on the underlying political and cultural conditions as well as economic factors and there is no one prescribed approach to governance that will work in all cases.

Simultaneity

The current rapid pace of economic, social, and environmental Change threatens to overwhelm the capacity of developing Countries to develop laws, institutions, etc. at a more measured Pace.

Liabilities (Katsenos, Christos)

Contingent liabilities

" Governments that use public-private partnerships to build infrastructure usually assume contingent liabilities relating, for example, to early contract termination and to debt and revenue guarantees. Deciding whether to assume these liabilities and, if so, working out how to value, monitor, and limit them is difficult for most governments". (Timothy Irwin and Tanya Mokdad, 2009) Those governments that want to improve management of the above mentioned contingent liabilities which are linked with PPPs, will maybe have to apply some policies like multistage review of proposed PPPs by employees working for the ministry of finance (experts in PPPs and fiscal management). On the other hand contingent liabilities may bring management issues for governments. They come always with a cost, which is unfortunately uncertain, so it is not easy to judge whether it is worth incurring. Moreover a contingent liability rarely requires approval on its budget or to be mentioned in the government's financial statements. Thus a government may prefer contingent liabilities instead of other obligations. In the common case that PPPs cause contingent liabilities then there are several organizations that take action (e. g. IMF, the World Bank) to advice and to warn of the risks. At an early point a cautious ministry of finance may of course seek to avoid all contingent liabilities. At this point it should be mentioned that also management problems arise when the state has incurred a contingent liability. Because of that projects need to be monitored so that risks will be reduced if possible. At last all expenditures should be forecasted, even though that is difficult.

Management of liabilities

In order to manage contingent liabilities created by PPPs several sources of recommendations could be mentioned. An idea is that the rules followed by PPPs should make sure that the people with the given responsibilities have incentives, information, and the capability to consider the costs and risks of contingent liabilities. Some proposals could be the following: Use of cost-benefit and value-for money analysis to choose from projects between PPPs and public finance. Quantification of costs and risks of contingent liabilities. Government or minister of finance should approve PPPs. The ministry of finance should also review the proposed PPPs. Governments should take risks can be managed, meaning those that they can control or influence. Adoption of modern standards for financial reporting, to reduce the temptation to use PPPs to evade fiscal issues. PPP contracts along with information on the costs and risks of the financial obligation should be published. There should be a reform in formation of budgets so that they can include potential liabilities. A guarantee fund should be used. Governments should charge fees for guarantees. (Timothy Irwin and Tanya Mokdad, 2009) In order to manage well PPP-related contingent liabilities skills in finance and quantitative analysis are required along with good understanding of infrastructure projects. There are similarities between PPP-related contingent liabilities and financial guarantees. Some aspects of the management of financial guarantees have close connection to the management of PPP-related contingent liabilities.

Risk management

A risk management should be conducted in order to support the Group's strategic and operational targets while protecting the company against loss, uncertainty, and lost opportunity. Risk management principles should be updated for each project to reflect the current status. Briefly they could be categorized as above:" Risk management principlesRisk management is integrated into strategic decision making and management system. Risk management is a proactive, ongoing and comprehensive process consolidated to cover all critical risks, but also business opportunities when feasible. Risk management training and communications create a risk aware culture with focus on reaching business objectives." (Talvivaara, 2011)Risk management will take into account all possible risks (environmental risks, occupational health and safety risks, and risks of damage, financial and economic risks, strategic and operational risks) in order to minimize the negative effects linked with the action of PPPs.

Inference for liabilities

Regarding possible liabilities it is clear that it is not an easy case to conduct a PPP especially in developing countries, where there are a lot of risks to be taken into account. Those governments should have to apply some policies like multistage review of proposed PPPs by employees working for the ministry of finance (experts in PPPs and fiscal management). They should try to perform an effective liabilities' management. Towards this direction, people with the given responsibilities should have incentives, information, and the capability to consider the costs and risks of contingent liabilities.

Employment of PPP (Maulana, Aufi)

Privatization has not changed the structure inside labor relation. This labor which already privatized will always be represented by the unions. Considering about the impact in world-wide, it seems various between countries to country especially if we talk about developing countries and developed countries. In some particular privatized company, the level of employment seems not affected but in the other hand, it has already increased or even has fallen. The trend in some of developed countries which has mature economy is more likely creating more jobs. But somehow, in developed countries where there are a lot of expansions in the infrastructure will result in against the job creation. Therefore, PPP is considered as good tools in job creation in some particular conditions. (PPP and its implications page 6) PPPs are extensively implemented in many countries especially in developing countries. There are many reasons why this happens. In developing countries, having a big project such as transportation project such as free way or toll road or even in housing since the situation in developing countries always have a demands in housing sector. If the government do all of this projects himself, you can imagine how it will affect the economic sector. The government will spend too much money at the same time. This is not a good way to solve this matter. That is why they use PPPs by partnering with the private sector or the investor to deal with this condition. And of course, this will lead into each other advantages. Not only sharing risk but also sharing profit.

Impacts PPP on the employee in general

In other hand, PPPs could also improve the quality of the employees. In many case, the government will find the best partner in order to manage the project. Normally they will assign a good and competent company which has good employees by finding it from the portfolio or even an auction. As we know that PPPs is a two way relationship. From the government part, usually they put some of their men in the private company or in the opposite. In many good companies, most of them train the new employee therefore they will have a same vision and same mindset. And also, by partnering with the company, the men from the government will gain a lot of skills in managerial capacity or infrastructure provision. So in the end, this will improved the employee's quality in both side. (Raymond E. Levitt, 2007)It is not only increased the quality of the employee, but this also lead to the employee's happiness. The public employee as the author mentioned before, will get many training as a new employee in the private side. Intuitively the employee will get a chance in increasing their career. This will be a good opportunity for them to gain much experience as they could. If they are willing to improved their career, this condition can lead them to see chances from two side, public and private part. Or even more if the public side can assure them about the company's economic stability. If the happiness level of the employee is high, so the quality they give to the company also the best. This will create satisfaction in both sides. (National Presskit pp. 4)In some particular cases it is possible that PPPs will to lead the job losses. These happen if public private partnerships take various forms ranging from management contracts, leases and concessions to full privatization. Virtually

all of these processes have some impact on existing employees of local government who are currently providing the service that would be subjected to a PPP exercise. (PPPs and their Implication for jobs and Employment, pp. 3) Which means the employee from the government side will have a difficult position. If the requirements of from the private side are high and in the other hand it is not owned by the employee so they will replace this employee with a better one. This can happen because the private side holding more risks than the government. (PPPs and their implication for jobs and Employments, pp. 3) In terms of management contract the private company has no role in financing the asset. And also the employees will be managed by the contractor who has a power to hire and fire employees. There will be not so many changes in the terms of employment. Nevertheless, the working method is possible to change according to the management skill of the contractor. For an instance the contractor can find that the job can be done by less people. This surely may cause deployment or even unemployment. Because manager always thinking of an efficiency. (PPPs and their implication for jobs and Employments, pp. 3)

Impact PPPs in different cases

In USA, the atmosphere among the PPPs employee began to not conducive since the 9/11 terror attacks. The federal anti-terror required the private sector to compare the list of the employees to the terror watch list. Even in 2004 there was a campaign that required the private sector participating to check their employee's name against the federal terror. This has to be done in order to recover the situation in the USA itself. And of course this situation will not suitable creating a good atmosphere among the employee. (Morris, <https://assignbuster.com/examples-of-public-private-partnerships-economics-essay/>)

2005 pp. 2) In different case, a close partnership between the public (government) and private sector will affect the asset or the employee itself, in some particular condition. In USA, for an instance, after the terrorism happened in 2001, the private sector considered to conduct risk assessment to protect their key asset. This means that the private sector should secure their economic assets for shareholder, employees and the nation. In some condition, it is possible that the employee will feel in that they are not in a good situation. Especially for employee who are not an US citizen. (Morris, 2005 pp. 2) In general, especially in Europe, PPP is considered as a vital source of employment in the Regional Innovation Strategy (RIS) of the European Union (EU). Moreover it is happened in small and medium-sized enterprises (SME) which where this rapid employment happens. Furthermore, compare to the big firms, SME is more affected while providing share of employment in an economy. (Tiwari, 2007, pp. 33)

PPP and employment in Finland

Talking about public support in private sector, in Finland, their government is supporting the private sector for exploration and mining since Finland has a stable society with low risk and also local people which are positive towards mining industry. Mining sector is one of important sector for the economy especially for rural area and low employment area. It has stated starting in 2008 that the Finnish government supports the mining industry. They intend to balance the influence of local communities and environmental impact issues since the impact on regional economy and employment are significant. (Finnish Mineral Policy: FEM, 2009) In Finland, there was a different story concerning these PPPs which involving the government to own

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the stock in the private sector, Talvivaara company. According to Wikipedia, Finnish government owns 8.89% of Talvivaara. This situation also creates many kinds of opinion among the local people in Finland. (Wikipedia: Talvivaara Mining Company) Despite the pros and contra about the Talvivaara company, on the other hand Talvivaara company succeeded in order to employ more employees. After improving co-operation with the local community it has been proved that after getting a permit in 2007, according to the Talvivaara annual report in 2007, increasing from 26 employees to 64 employees in the end of 2007. And in the following years they never stopped employing more workers. In 2010 they have already 461 workers. (Talvivaara, 2007, pp. 30)

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Figure : Talvivaara's Employees (source: Talvivaara Mining Company Annual Report 2007)

In order to improve its long-term business situation, Talvivaara has tried to improve the co-operation with the local community. The company realized that their projects affect the environment which will make a negative response from the local people. Therefore, by doing good co-operation with the society and local people it will lower the tension among them. And in the longer term, Talvivaara will do the pay back for the local communities by employing them in their projects. It might sound political, but it is the fact that Talvivaara has increased their profit by expanding the works and gain more employees at the same time. (Talvivaara, 2011 pp. 44)

Inference of employment

PPPs in many cases has proved to enhance the quality of the workers. Even though in some particular case this will lead out to job losses, but it has more

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positive effect to the worker. In some certain condition, since the government taken part as the closed partner with the private sector, this will support the employee to realize their position as the insider between them. Many opportunities will occur after the privatization. Even more challenging since normally the private company will replace a good contractor in order to lead the projects. The employee should be more competitive than before. At the end, if the project didn't go well, the employee has already gained their quality as a worker in that project. Even more, if the government has their self-interest, their share, they will be more responsible and could assure the employee's situation in building good working environment. And also the main reason to do the PPP is to develop the interest between these two sectors. And there are a lot of example of a success PPP happened in many countries which are lead to job creations.

Sustainability (Tegegn, Temesgen)

In this section of this paper it will be explained the essence of this very partnership between government/public and private sectors in ensuring sustainable development." We have no time to lose, and much to gain, in spreading the benefits of renewable energy far and wide. We must find a more sustainable pathway to growth, one that provides for the needs of today while preserving the planet and its resources for future generations."UN Secretary General Ban Ki-moon [online] Available at: <http://www.un.org/News/Press/docs/2013/sgsm14759.doc.htm>, Secretary-General SG/SM/14759 [accessed 15 January 2013]. It is a well-known fact that lately the idea of sustainability has been given lots of emphasis all around the world. Although its theoretical frame work has started to get <https://assignbuster.com/examples-of-public-private-partnerships-economics-essay/>

awareness in 1970's, sustainable development has been given a great deal of attention in the last twenty years. Figure : Sustainable Development " Triple Win"(Source: United Nations development Programme, triple wins for sustainable development, June 2012, P. 5)It can be seen that the concept of sustainability is quite vast and encompass lots of issues as socio economic, environmental and also political aspects with the dynamic linkage of all these concepts to each other. It is understood that creating a sustainable environment is the responsibility of everyone who is living in it so as to make it suitable for living and pass it in a better and more convenient way for the coming generation. A particular environment is meant to be sustainable if it can ensure the above stated facts for its inhabitants and this can be expressed in not only ensuring self-sustaining developments (both economically and socially) among the community but also making sure of the manufacturing and production processes do not overexploit the natural resources and give a due care to the quality of the environment where they operate more over it gives the privilege that people have basic human rights and freedoms to participate in the all-round activities of the community in which they are residing. For ensuring sustainability it is believed that apart from the Governmental institutions the private sector has also got an important role to play together with the community who actually is the one who is going to be benefited from a sustainable environment. As one of the major goals of governments is providing a comfortable and well suited environment in which citizens are to live in, practicing the principles of sustainability is believed to be main tool towards these goals of governments. Some governments have also started to integrate the concept

of sustainability within their central policies. Sustainability provides challenges for governments pursuing competing policy goals and balancing the interests of present and future generations. Engagement within and between government agencies helps to embed a culture of sustainability and improve the effectiveness and efficiency of policy and program delivery, reduce duplication of expenditure and improve sustainability outcomes. State, territory and local governments play a major role in delivering education for sustainability. (Australian Government Department of the Environment, Water, Heritage and the Arts, Living sustainability, 2009, P. 13). Sustainability, being one of the principles of corporate social responsibility has become organization's concern in building an ethical behavior and concern for people and the environment have been shown to have a positive correlation with corporate performance of companies which not only helps in gaining benefit from the business from socially responsible behavior but also will greatly may ensure in building a very good image of the company within the community in which it operates (Corporate Social Responsibility; Crowther & Aras, 2008, P21)It was stressed that the contribution of private sector for sustainable development is quite important by Ambassador Le Hoai Trung, Vietnam during Governments and business representatives discussion on the role of private sector for sustainability during UN Intercessional meeting in New York " The private sector should contribute to sustained economic growth, decent job creation, more sustainable production processes and technologies and enhance accountability, in particular regarding corporate social responsibility" (The guardian Thursday 12 April 2012 17. 07 BST). Furthermore it was pointed out

that the private sector especially the business sector around the world has incorporated the idea of sustainable development as one their prior agendas, realizing the mounting importance and urgency of the global environment, socio economic challenges by making use of innovative technologies for ensuing green growth thereby leading to substantial contribution to sustainable development (The guardian, The role of the private sector in sustainable development, Thursday 12 April 2012 17. 07 BST). As it is tried to show above both governments or public sector and private sector have got a very important role to play in ensuring sustainable development which actually is the best interest of the citizen. It can be understood that the special characteristics and qualities of each of these sectors can bring about a more effective and efficient out puts in the walk to achieve sustainability as citizens desperately need to live in a place which is economically and socially developed and also ecologically balanced. The Australian government stresses the importance of such partnerships of government and private sector stating the fact that such kind of Partnerships are a key feature of successful sustainability initiatives in such a way that these coalitions provide opportunities for learning and should be fostered within and between government, non-government, business, industry and other organizations. More over effective partnerships value diversity and the new perspectives and opportunities they provide (Australian Government Department of the Environment, Water, Heritage and the Arts, 2009, P13). In this part of this paper it is believed to have a look at the experience of two countries (USA and Finland) where partnership between government/public and private sector gives a great deal of emphasis towards sustainable

development in taking into consideration the best interest of the citizens whom they are serving. In this paper it will be tried to have two different perspectives on the case in question meaning that there will be one case where a company is established with direct coalition of government and private sector (Finland's case) and a case where a joint venture is formed for one big particular project between public sector and private sectors in which parties agreed to share revenues, expenses and assets (USA's case).

Case 1. Talvivaara Mining Company; Sotkamo, Finland

Talvivaara Mining Company PLC is Finnish based company that produces base metals with nickel and zinc being its primary focus and also copper and cobalt as byproducts of its mining operations. It is located in eastern part of Finland, Sotkamo. This company was established in 2004 when it acquired the right to mine the site. The Finnish state has equity of 8.9% of this company and the rest privately owned. Talvivaara therefore is one form of a public private partnership. As being the administrator and leader of the country and also having prime responsibilities in ensuring the safety and wellbeing of its citizens, the government has a great deal of influence in Talvivaara in creating a socially responsible company in conjunction with the its private partners. Infrastructure construction was carried out by the public partner. Due to the fact that the private sector now a day's believed to have more of expertise and technology, it plays an important role in ensuring the sustainability through the production process of the company According to reports it was revealed that for the month of September 2012 odor emissions were largely addressed and also there were no complaints from the public more over by installation of new dust removal system dust emission were

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able to be addressed properly furthermore Talvivaara manages to decrease sulphate and sodium discharges and also a new leading technology is commissioned for reverse-osmosis based water treatment system (TALVIVAARA, TALVIVAARA Q3 2012 RESULTS, 8 NOVEMBER 2012, P. 13). In this company the collaboration of the two sectors is believed to bring about promising results in achieving sustainability. As per the reports it is showed that Talvivaara is also actively engaged in the development of new products and technologies that allow more efficient use of natural resources, materials and energy, and reduce the environmental impacts of mining operations there by enhancing sustainable environment. It was noted also that Talvivaara promotes sustainable development by providing its customers with high-quality products that improve energy and eco-efficiency. More over the involvement of public sector in this company makes it to be open and transparent when disclosing information on its operations and their impacts and also corporate reports are being produced with no biasness and in full honesty to enable the company to meet the growing expectations of its stakeholders (Talvivaara, Great challenges big improvements, annual report 2011, P. 24).

Case 2 Chicago Lakeside Development project; Chicago, United States of America

This is a redevelopment project which has been carried out by the joint venture between United States Steel Corporation based in Pittsburgh (which is the public partner) and Mc Caffery Interests (the private partner). This project was approved in September 2010 and is estimated to take 25 to 45 years to fully reach its completion. According to Chicago Mayor Emanuel this

project has aimed at creating a big sustainable, a well socially developed community on the southeast lakefront of Chicago which will provide huge economic impact in the area, in addition to helping to decrease unemployment in creating job and opportunity on the South Side and the importance of their long-term commitment in forming a well-balanced (Mc Caffery Interests, For immediate release, Oct 2012 P. 1). It is pointed out that by "Sustainia" the implementation of this project will reduce the water pollution and improve waste management due to the fact that each year 2.05 billion gallons of storm water and wastewater are sent from the Lake Michigan water basin to the Gulf of Mexico, and 85% of consumer waste in Illinois ends up in landfills (Sustainia, A guide to 100 sustainable solutions, 2012 P142). The whole master plan and concept of the development and also its sustainable strategies are presented by the private sector partner and firms under it and the public sector here play a role in taking a major step forward in September of 2010 when it gives \$98 million tax increment funding grant that is going to be used to construct infrastructure for the development's first phase (The New York times, Chicago to redevelop US steel site on Lake front, Robert Sharof, 28 Dec 2010). Even though it has not been so long since it started this joint venture already begins to address the main pillars of a sustainability through minimizing the energy cost by changing the energy usage mix, by creating an accessible city with places to play, relax and exercise to the community it serves (addressing its social issues) and also by reducing water pollution and improve management of wastes. These special natures of this joint venture project made it won global sustainability award given by "Sustainia" global alliance of international

partners (Sustainia, A guide to 100 sustainable solutions, 2012 P142; McCaffery Interests, for immediate release, Oct 2012 P. 1).

Inference for Sustainability

As it has been pointed out above, it is believed that the public private partnership has got an important role to play to achieve sustainability. In both of the cases that were assessed it was witnessed that the parties involved has got their own special qualities which was directly reflected on the way a corporation or a particular project is being carried out giving proper response to ensure sustainable development. In such partnerships, it is quite obvious that the problem solving capacity will be much more powerful as there exists multidimensional and creative ways to face with the setback which are actually arise from the collaborated qualities of the parties' partnered. More over in happening of such partnerships there will be a technological and knowledge sharing which are basic tools to tackle the increasingly growing and dynamic sustainability matters within a particular community or country. All the above stated facts and analysis make it reasonable and more sensible that the capacity to address the issues in sustainable development is much more effective and efficient than it would have been if the parties were to run separately which makes this very partnership to have all the right ingredients that will lead to creat an environment which is economically strong, socially developed and also ecologically balanced which indeed align with the best interest of the citizens whom they are serving.

Conclusion (Ganguly, Turya)

The case study makes an honest effort in improving our outlook towards the issue of government stockholding in private organizations. These arguments strengthen those voices and opinions that claim Mussolini was right when he said: " Fascism should more properly be called corporatism since it is the merger of state and corporate power." In the mind of team Charlie, this statement is completely viable since in today's world there has to be an understanding between the government (state or country) and the private (corporate) organizations. While private organizations often feel more flexible in their approach when they operate alone, it is very true that government involvement often provides the correct amount of stability and solidarity to the system. The extent of involvement, though, is very important and varies from country to country. The government often has control over the media and this helps in unnecessary publicity that may have adverse effect on the society in the long run. This kind of system also helps prevent monopolies and virtual takeover of the market by a sole player. Another advantage is the safety measures followed by the private organizations if kept under strict government vigilance. Government stockholding helps in creation of jobs in the market as well financing functions which often help bailout companies in dire circumstances. What's more, the skillsets of employees as well sustainability is seen to improve in PPPs more than that in a private setup. Government stockholding also helps in providing transparency to the community as a whole and gives the citizens of the country with a clear picture of the situation. Moreover, the citizens feel much more relaxed if the promises to bring betterment to the

society are made by the government, rather than a private organization. Though today communities still have a reservation against accepting the doctrines of fascism, it could easily be understood that though privatization is necessary, government stockholding helps bring changes and gives the organization a positive outlook which is often absent in a 100% privatized institution.