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PPP as a Tool for Stimulating Investments in ICT Infrastructures

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INTRODUCTION

Public private partnerships (PPP) have in the past few years gained in importance as a model for stimulating investments in broadband as well as other kinds of ICT infrastructures. Both national governments and international organizations such as the International Telecommunication Union (ITU) and the European Union (EU) see PPP as an important policy tool.

One reason is the need for new fiber based high-speed communication infrastructures. Policy makers are concerned with the speed of this development – especially in less favored regions.

However, the role of PPP goes beyond mere infrastructure development. PPP can be applied in any area, where there is a need to involve the private sector in fulfillment of public sector policy objectives. Such objectives could be any of those formulated in the European Digital Agenda (http://ec.europa.eu/digital-agenda/) plan or in any national plan for developing the information society.

BACKGROUND

Public private partnership has become increasingly popular as a model for organizing government and business relations (Helby, 2010). The PPP model has been applied both in Europe and in other regions as a means of organizing major construction and infrastructure projects (Helby, 2011). Since the 1980s, many different types of public sector activities in Europe, which formerly were produced in-house, have been outsourced to private companies through public procurement or relational contracting. Within the EU over 1,400 PPP deals representing a value of € 260 billion have been initiated over the past two decades (Kappeler and Nemoz, 2010). The new airport in Athens established in 1996 is so far one of the biggest European projects of this kind (Roumbutsos, 2008; Cruz & Marques, 2011).

Also within the ICT sector, PPP as a concept has attracted more attention within the past few years - the reason being the need for new fiber based high-speed communication infrastructures. Coverage of such infrastructures has indeed been expanded during the past few years. However, policy makers are concerned with the speed of this development – especially in less favored regions. The issue is whether the free market will be able to satisfy the communication needs of the future or whether government intervention is needed in order to stimulate investments.

The PPP model has also been applied for the provision of public Wi-Fi in cities. Many municipalities have supported the development of city-wide coverage of public Wi-Fi access in order to promote ICT usage within their area (Barroso & Feijoo, 2010; Tapia et al., 2006).

In telecommunications, cooperation between public and private sectors is not a new thing. Both sectors have been actively engaged in the telecom sector right from the beginning of the history of telecommunications at the end of the 19th century. However, the concept of PPP has a more recent origin. PPP was first used as a way to reduce the size of the public sector by outsourcing and by inviting private companies to participate in the creation of public services (e.g. Sadka, 2006; Falch & Henten, 2008). A prominent example is the privatization of public transport facilities in the UK in

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the 1980s. The idea was to increase efficiency through privatization while keeping a certain level of government control at the same time.

This kind of PPP projects can be compared with the telecom sector reform initiated by the EU Green Paper in 1987 (http://ec.europa.eu/green-papers/pdf/) leading to the privatization of most of the former state owned telecom monopolies. The whole idea of liberalizing the telecommunications area was to leave it to the market forces to develop the telecommunications sector. However, governments wanted to keep a certain level of control with telecom markets through sector specific regulations such as price control and universal service obligations.

Since the wave of liberalization in the telecommunications area began in the 1980s and forcefully made its way all around the world in the 1990s, investments in telecommunications infrastructures have mainly been seen as the prerogative and responsibility of commercial operators. Following the privatization of the incumbent telecom operators, the provision of ICT services is primarily taken care of by private companies. In this situation, PPP implies public sector involvement in activities, which currently are outside the scope of the public sector. The purposes of a PPP arrangement can in this case be to promote public sector objectives such as regional development and enhancement of ICT competencies. Recently, PPP has been put on the agenda in the ICT sector in order promote development and provision of ICT services. ITU, for instance, has initiated several activities within this area. This includes an expert meeting conducted Geneva in December 2012 (http://www.itu.int/ITU-D/eur/rf/ppp/).

The idea of liberalization has certainly not been abandoned, but the latest developments in putting public money into the extension of broadband infrastructures could well be interpreted as a degree of distrust in the ability of market forces to deliver in terms of a universal broadband infrastructure.

In this sense, the present discourse on PPP in the telecommunications area is turning the PPP models formerly applied the other way round. Now, the issue is the involvement of public money in building out the ICT infrastructures in a sector that, to a large extent, has become privatized.

Defining the PPP Concept

Public Private Partnership (PPP) involves the cooperation of two parties, the public sector and the private sector, and either refers to private sector entities carrying out assignments on behalf of public-sector entities or to fulfill public policy goals or public sector activities helping private sector entities. Traditionally, the PPP term has been used to denote that private sector entities, at different levels and scales, take care of activities traditionally performed by public sector entities.

The concept of PPP includes a number of different models for the roles of public and private participation. Regulation in general is a usual task for the public partner, while the implementation most often is executed by the private partner. Funding, however, can be private as well as public, and the public partner can also be involved in the design, monitoring, and management of a project.

Cruz and Marquez (2011) emphasize in their definition of PPP the aim of using PPP. Since the concept was introduced in 1992, the sustaining principle has been that the purpose of using PPP is to partially transfer the risk of service provision from the public to the private sector, and to make use of private sector capabilities (capital or skills) in order to expand services or to upgrade efficiency (Cruz & Marquez, 2011). The EU Green Paper on Public Private Partnership (European Commission, 2004) applies a more institutional approach in their definition of PPP. PPP is here characterized by four different elements:

1. A long term relationship between public and private partners.
2. Funding includes at least some private participation.
3. The role of the public actor is mainly to define objectives and monitoring, while implementation is left to the private actors.
4. The private actors assume at least part of the financial risk

A similar definition is applied by OECD (Fausch, 2008). OECD underlines that PPP is based on an alignment of objectives of the government with the profit

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