Assessing the Perceptions of Regional Stakeholders on benefits of PFI for Infrastructure Provision

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Abstract. The Private Finance initiative (PFI) has been touted as providing value for money (VFM) than any other form of public procurement. While it cannot be denied that PFI has helped provide infrastructures faster than would have been possible relying solely on public budget, the VFM argument which is the most claimed benefit has continued to be elusive. This study which sought the perceptions of stakeholders attending two (2) PFI-focused conferences held in Malaysia through survey questionnaires, on the benefits of PFI in infrastructure since its introduction into the public sphere found, consistent with earlier commentators, that among the major benefits achieved so far, value for money fails to rank among the most important benefits of PFI procurement strategy. The delegates ranked 1) encouraging a more innovative public sector, 2) Improved business confidence, 3) Contribution to economic growth, 4) Better accountability, 5) increased investment in infrastructure, and 6) helping government spread payment over life of the asset, as the most important benefits derived so far from PFI procurement strategy out of 20 identified benefits, with value for money coming a distant 14th place on the list.

Keywords: PFI, Benefits, Strategy, Value for money, Public procurement

1. Introduction

The involvement of private participation in infrastructure provision has been on-going for a long time under the traditional procurement method. However, their involvement was limited to advisory roles/consultancy, design, planning, environmental impact assessment, representing the client as an independent umpire, construction and maintenance. However, since the advent of the public sector reform tagged ‘New public Management (NPM), which is the attempt to implement management ideas from business and private sector into the public services (Haynes, 2003); there has occurred a dramatic change in the form and substance of private involvement in the provision of public infrastructure. Faced with increasing external debt, shortage of funds, population explosion in developing countries, there evolved an urgent need for other means of providing public services so that government can turn its attention to more critical areas requiring funding. This urgent need for an alternative source of financing infrastructure led to the evolution of what is today known in many climes as Public private Partnerships (PPP) or Private Finance Initiatives (PFI). In some jurisdictions, the PFI is synonymous with the PFI (CBI, 2007) but in the UK, the PFI is considered a special case of PPP where all finances for the asset including the design, construction and maintenance thereof is included in the contract arrangement for the duration of the contract in return for a service charge (Fewings, 2005, p. 280); also see (Hodge & Greve, 2007) for five different ‘families’ of this partnership between government and the private sector.

It is difficult to really say which is a total privatisation or a partnership in the sense in which governments want the electorates to understand them. However (Broadbent & Laughlin, 2003) provide a simple measure to differentiate between core privatisation and the present day partnerships being bandied around the globe, “a regime of state price regulation”. The loss of democratic control and exorbitant increases in service fees due to privatisation led to takeovers by various governments wanting to avoid the political backlash that ensued. In response to how citizens viewed privatisation (Hodge & Greve, 2009)
observed that a number of governments have tried to avoid using the term ‘privatisation’ or ‘contracting out’ in favour of speaking about ‘partnerships’. The push for market mechanism in the provision of infrastructure were also as a result of particular interest groups like the multi-lateral financial institutions who made the involvement of private operators a condition for extending loans to governments. For example, the world bank provided a $20 million loan to the government of Bolivia on the condition that it privatised its water and sewerage utilities in La Paz and Cochabamba, this the government did but due to exorbitant rate hikes the residents took to the streets and eventually the concession was revoked (Bonnardeaux, 2009). Latin America has been the most active in term of private involvement in network infrastructure, however, they also contain the most amount of renegotiated contracts which (Guasch, 2004) puts at about 50%. Lobbying pressure and support for Private involvement in infrastructure also come from interest groups likely to benefit from the policy, including, banks (Dombkins, 2006), lawyers and contractors (Parker & Hartley, 2003). “Other forms of procurement have the potential to deliver many of the benefits claimed by the PFI, however because of the insistence and pressure by the central government to use only the PFI for new capital projects there has been little opportunity to develop these” (Cartlidge, 2004). A situation was reported by (Cohn, 2008) where a regional government had to create a self-inflicted financial crisis just to get the public to support the use of PFI. In spite of the horrid experiences, PFIs are “attractive to governments because they provide for the construction of the essential infrastructure without direct capital outlay and the delivery of related services without the need for the public sector employees to maintain and operate infrastructure projects” (English & Guthrie, 2003). Therefore following on the heels of (Hodge & Greve, 2009) question on ‘how have Long Term Infrastructure Contracts (LTIC-Type) PPPs performed according to historical evidence till date? And the assessments of (Estache, 2005) ‘s questions if we are switching to Private Participation in Infrastructure Divorces? This paper seeks to assess, from the perceptions of stakeholders across five regions that filled out survey questionnaires, if the main benefits promised by PFI are being achieved?

2. The state of the practice

The public sector has always been criticised for its inefficiency in providing public services efficiently, this resulted in ‘outsourcing’ to the private sector in the form of Public private partnerships (PPP) or Private Finance Initiatives (PFI). A number of reasons have been advanced to support private involvement in infrastructure, (Hodge & Greve, 2009) observed that some of the reasons presented under John Major’s government for adopting the PFI include 1) get around public sector debt restrictions, 2) reduce pressure on public sector budget, 3) better value for money for taxpayers, 4) Better accountability, 5) Better On-time and On-Budget delivery, 6) Greater Innovations in service delivery, 7) Encouraging a more innovative public sector, 8) Improved business confidence and 9) Boost sales of professional PPP services abroad. In Singapore the (MOF, 2004) also claims that the main aims of implementing PPPs in Singapore include: (a) allowing the public sector to get better value for money in the delivery of public services; (b) offering the private sector more business opportunities and more room to innovate and offer efficient solutions for public services; and (c) combining the expertise of the government and the private sector to meet the needs of the public effectively and efficiently. Other studies observed that the PFI was adopted to reduce pressure on public finances (Asenova & Beck, 2010), faster provision of services than would have been possible relying solely on the government (Parker & Hartley, 2003), private sector expertise, innovations and operational efficiency (Zhang & Kumaraswamy, 2001) & (Siang, 2008), value for money (VFM) (Cartlidge, 2004), helps manage the twin risks of time and cost overruns (Fewings, 2005, p. 280). However, under the traditional procurement these two risks (Time & Cost overruns) are taken care of under the Liquidated and Ascertained Damages (LAD) clauses in the conditions of contract. Therefore, the claims are not specific to the PFI alone.

As the PFI became more and more used in practice, problems and failures have been observed in the management of many projects like the Eurotunnel, Railtrack, motorways concessions in Mexico or Urban motorway TEO in Lyon (Meunier & Quinet, 2010). The problems and criticisms being encountered has resulted in reduced adoption of the PFI approach. (Estache, 2005) Cites a PriceWaterHouseCoopers’ report (PwC, 2005) where it is claimed that there appears to be a significant drop in private involvement in
infrastructure from a peak of $131 billion in 1997, to less than $50 billion in 2003. The situation has seen large infrastructure projects which would otherwise have been contracted to the private sector being retained in-house, for example the state of California in the U.S recently approved a whopping $68 billion of public funds in the form of bonds for the provision of a proposed high speed rail (Lin, 2012), this is coming from a country that has been at the fore of pushing for private involvement in infrastructure provision. While governments keep harping on value for money provided through private involvement in infrastructure, (UNISON Scotland, 2007) argue that obsessive secrecy and claims of commercial confidentiality has made it difficult to obtain figures to properly assess the validity of value for money (VFM) claims being espoused by the government. Relevant documents have frequently either not been published or have had key financial information withheld. (Shaoul, Stafford, & Stapleton, 2012) Also support this view by arguing that there is a need for information to be accessible to the public. (Mehra, 2005) Has also presented a list of 100 PFI projects (in Canada, Australia and the UK) which have faced at least one of the risks the PFI was said to prevent (time overruns, cost overruns, service cuts, design problems etc). The best reading of the situation according to (Budds & McGranahan, 2003) is that private involvement in infrastructure has achieved neither the scale nor benefits anticipated. This leads to the question, has the PFI delivered on its promises?

3. Research methodology

A literature review was carried out to identify the basic assumptions upon which governments have decided to adopt the PFI procurement strategy in the belief that “knowledge accumulates and one can learn from and build on what others have done in the past” (Webster & Watson, 2002). In total 20 benefits of PFI were identified from the literature and included in the survey questionnaire. The survey questionnaires were targeted at delegates at 2 PFI/infrastructure-focused conferences in Kuala Lumpur, Malaysia with a combined total of over 300 delegates from 28 countries. 165 questionnaires were successfully distributed, but only 44 were returned resulting in a return rate of about 26.6%. This is comparable with (Proverbs, Holt, & Olomoaiye, 1999)’s 21% achieved in the UK. The collected data were entered into SPSS statistical software version 17.0 and analysed to draw inferences, while the relative importance index (RII) was used to rank the benefits as perceived by the respondents. The index generates values between 0 to 1 and the closer to 1 a value gets the more important it is perceived to be. The relative importance index (RII) has been used in the past by (Odusami, 2002); (Enshassi, Mohamed, & El Kariri, 2010) & (Fugar & Agyakwah-Baah, 2010).

4. Results and Discussion

The analysis reveal that 8 of the respondents were delegates from Africa, 27 from Australasia (a grouping of Asia and Australia), 6 from the Middle East, 1 delegate from Europe and 2 delegates from North America. In terms of sector, 28 of the delegates work in the public sector while 16 work in the private sector. The reliability test carried out on the data returned a Cronbach’s alpha of 0.947, using the guide provided by (George & Mallery, 2003, p. 231) an alpha Greater than 0.9 = Excellent; this shows that the data collection instrument was reliable. In terms of validity, the average extracted value obtained was 0.76; according to (Hinton, Brownlow, McMurray, & Cozens, 2004) a validity test score of more than 0.90 is statistically considered excellent; 0.70 - 0.90 is high, 0.5 - 0.7 is moderate while below 0.50 indicates a low validity rate of the variables. However, for this data, value obtained (0.76) indicates a high overall validity of the data; hence, a clear indication that the questionnaire measured what it was constructed to measure (Dewberry, 2004).

The Spearman Rank Correlation Coefficient is used as a test statistic to test agreement between pairs of measurements from two populations. The spearman’s rank correlation coefficient between the ranking of African/Australasian delegates was found to be (rho) \( \rho = 0.31 \) which suggests a moderate/medium positive correlation; that between Australasian/Middle East delegates was (rho) \( \rho = 0.48 \) which indicates strong/large positive correlation while between Middle East/African delegates was (rho) \( \rho = 0.07 \) indicating a weak/small positive correlation according to the guide provided by (Cohen, 1992) which was employed in explaining the results of the spearman’s correlation coefficient tests. However, (Corder & Foreman, 2009, p. 123) observed
that “the correlation strength assignments vary for different types of statistical tests and that the r values are not based on a linear scale”.

Table 1 below shows the benefits which have been ranked using their relative importance index (RII) values. The responses by the delegates from the various regions were assessed and ranked differently, and later an overall ranking was carried out. Europe and North America were excluded due to the low number of delegates. A cursory look at the ranking shows that African delegates had more consensus among their ratings, followed by Middle East delegates while the Australasian delegates had the least convergence within regions. As can be seen from the table, the overall ranking shows that ‘Encouraging a more innovative public sector’ was ranked as the most important benefit that has been achieved through the use of the PFI with an RII=0.80. However this benefit was ranked in 7th place by African delegates, 10th place by Australasia and 2nd place by Middle East delegates. The reason is not far-fetched, the advent of the PFI has brought out the inadequacies in the public sector and governments across the globe have responded by funding training programmes to enhance public sector skills hence the rating given to that factor.

In 2nd place was ‘improve business confidence’ which actually tied in RII values with the above benefit (RII=0.80). The spate of foreign participation in infrastructure contributed to this factor’s ranking, because most PFI projects are executed by foreign contractors with the technical know-how for complex projects. The costs incurred are mostly in relation to hiring of consultants and in contract management. The respondents’ ranked ‘increased investments in infrastructure’ in 4th place overall, while Africa delegates ranked it in 11th place, Australasia 3rd place and 7th place by Middle East delegates. Generally, using PFI, the government can afford to approve multiple contracts running into billion since they are not required to make any contributions to the project in ‘theory’, hence the favourable ranking. In 5th

Table 1. RII of the perceived benefits of PFI as ranked by Respondents

<table>
<thead>
<tr>
<th>Benefits from adopting PFI</th>
<th>Africa Ranking</th>
<th>Aus/Asia Ranking</th>
<th>M/ East Ranking</th>
<th>Overall Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Encouraged a more innovative public sector</td>
<td>0.83</td>
<td>0.73</td>
<td>0.83</td>
<td>0.80</td>
</tr>
<tr>
<td>2 Improved business confidence</td>
<td>0.85</td>
<td>0.75</td>
<td>0.80</td>
<td>0.80</td>
</tr>
<tr>
<td>3 Contribution to economic growth</td>
<td>0.80</td>
<td>0.75</td>
<td>0.83</td>
<td>0.79</td>
</tr>
<tr>
<td>4 Better accountability</td>
<td>0.85</td>
<td>0.72</td>
<td>0.80</td>
<td>0.79</td>
</tr>
<tr>
<td>5 Increased investments in infrastructure</td>
<td>0.80</td>
<td>0.76</td>
<td>0.77</td>
<td>0.78</td>
</tr>
<tr>
<td>6 Help government spread payment for asset</td>
<td>0.83</td>
<td>0.78</td>
<td>0.73</td>
<td>0.78</td>
</tr>
<tr>
<td>7 Greater innovation in service delivery</td>
<td>0.78</td>
<td>0.74</td>
<td>0.80</td>
<td>0.77</td>
</tr>
<tr>
<td>8 Improved efficiency through competition</td>
<td>0.78</td>
<td>0.74</td>
<td>0.80</td>
<td>0.77</td>
</tr>
<tr>
<td>9 On-time delivery of assets</td>
<td>0.85</td>
<td>0.76</td>
<td>0.70</td>
<td>0.77</td>
</tr>
<tr>
<td>10 On-budget delivery of assets</td>
<td>0.85</td>
<td>0.72</td>
<td>0.70</td>
<td>0.76</td>
</tr>
<tr>
<td>11 Reduce pressure on public budget</td>
<td>0.88</td>
<td>0.71</td>
<td>0.70</td>
<td>0.76</td>
</tr>
<tr>
<td>12 Helped achieve technology transfer</td>
<td>0.75</td>
<td>0.74</td>
<td>0.77</td>
<td>0.75</td>
</tr>
<tr>
<td>13 Helped overcome design and constn risks</td>
<td>0.83</td>
<td>0.74</td>
<td>0.67</td>
<td>0.75</td>
</tr>
<tr>
<td>14 Provide better value for money</td>
<td>0.88</td>
<td>0.65</td>
<td>0.67</td>
<td>0.73</td>
</tr>
<tr>
<td>15 Boost sale of professional PFI services abroad</td>
<td>0.70</td>
<td>0.17</td>
<td>0.77</td>
<td>0.72</td>
</tr>
<tr>
<td>16 Better access and affordability for end-users</td>
<td>0.70</td>
<td>0.69</td>
<td>0.77</td>
<td>0.72</td>
</tr>
<tr>
<td>17 Improves governnace</td>
<td>0.75</td>
<td>0.76</td>
<td>0.70</td>
<td>0.72</td>
</tr>
<tr>
<td>18 Help get around public sector debt restriction</td>
<td>0.70</td>
<td>0.73</td>
<td>0.70</td>
<td>0.71</td>
</tr>
<tr>
<td>19 Contribute to fiscal stabilisation</td>
<td>0.78</td>
<td>0.71</td>
<td>0.63</td>
<td>0.70</td>
</tr>
<tr>
<td>20 Helps eliminate corruption</td>
<td>0.70</td>
<td>0.62</td>
<td>0.70</td>
<td>0.67</td>
</tr>
</tbody>
</table>

‘Contribution to economic growth’ RII=0.79 ranked 3rd, this is not surprising because the link between infrastructure availability and economic growth have been established by researchers in economic development including (Thanh & Dapice, 2009) & (World Bank, 2007.). But in terms of region on this benefit, it was ranked by African delegates in 10th place, Australasia 5th place and Middle East delegates ranked it in 1st place.

‘Better accountability’ tied in 3rd place with an RII=0.79, this points to the fact that PFI has helped achieve better accountability owing to the limited amount of money spent by the public sector to get such complex projects. The costs incurred are mostly in relation to hiring of consultants and in contract management. The respondents’ ranked ‘increased investments in infrastructure’ in 4th place overall, while African delegates ranked it in 11th place, Australasia 3rd place and 7th place by Middle East delegates. Generally, using PFI, the government can afford to approve multiple contracts running into billion since they are not required to make any contributions to the project in ‘theory’, hence the favourable ranking. In 5th
place is ‘help government spread payment over the life of the project’, this is especially through of the UK and some countries in Europe where for example Shadow Tolls are used on tolled motor ways. But African delegates ranked this benefit in 8th place, Australasia 1st place and 11th place by Middle East delegates. The ranking given to this benefit by the Australasia delegates seem to reflect their longer experiences with the PFI. The most surprising ranking on the table is the benefit ‘Provide better value for money (VFM)’, while the overall ranking placed it at a distant 14th place in spite of the fact that it is the most cited reason for PFI by its proponents. On a regional basis, Australasia and Middle East delegates both ranked VFM in faraway 19th place. It would appear that their experiences with failed PFI projects like Indah water Konsortium in Malaysians which changed ownership 3 times in seven years before the government took it over and Sydney Airport rail, La Trobe Hospital and the Cross Sydney tunnel in Australia may have influenced their perception of Value for Money in PFI. This finding is consistent with the arguments put forward by (Pollock, Shaoul, & Vickers, 2002) & (Hodge & Greve, 2009) that so far the evidence of value for money on current PFI projects cannot really stand up to public scrutiny. But from the response of the African delegates ‘provide better value for money’ and ‘reduce pressure on public budget’ tied in 1st place. This is not surprising though, considering that Africa has not had much experience with PFI and tend to have a high optimism bias with regards to foreign ideologies. The 3 regions surprisingly only tied on one ranking only, that is benefit number 17, ‘improve governance’ which they all ranked in 16th place. Interestingly, the least ranked benefit of the PFI was ‘help eliminates corruption’ RII=0.67, this was also the position the African and Australasian delegates consigned the benefit to-20th place while the middle East delegates ranked it in 17th place. This seems to suggest that new channels of corruption have evolved to replace the ones which existed under the traditional procurement era.

5. Conclusions

The PFI procurement strategy was said to promise a lot of benefits for the adopting government and its citizens and hence achieved great growth in the last two decades. However, recent experiences seem to show that the promised benefits are not being achieved and the various governments across the globe have learnt a new trick of shifting emphasis on some benefits more than others while the rate of adoption is declining in some areas. The value for money being emphasized as the most important benefit of the PFI is being shown not to exist from the view point of many professional and academic analyses. The findings from this study have further reinforced that position. Therefore, it has become pertinent for governments to reappraise their reasons for adopting the PFI procurement strategy. The purported benefits of the PFI can be provided by other procurement methods if well implemented. As for practitioners, it is high time, they re-asses the rationale for the PFI as all its selling points have been erased leaving a battered procurement strategy open to ‘credible’ criticism from even the most unlearned.

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7. References


Programme.


