



Governments' use of Public Private Partnerships: Looking for Debt Hiding or Efficiency?

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Motivation



Practitioners: PPP is political

- Main criticism for PPP: hiding the public debt
- Even with the Eurostat rule 2004: some PPP are used for this reason



Economic theory: PPP's efficiency

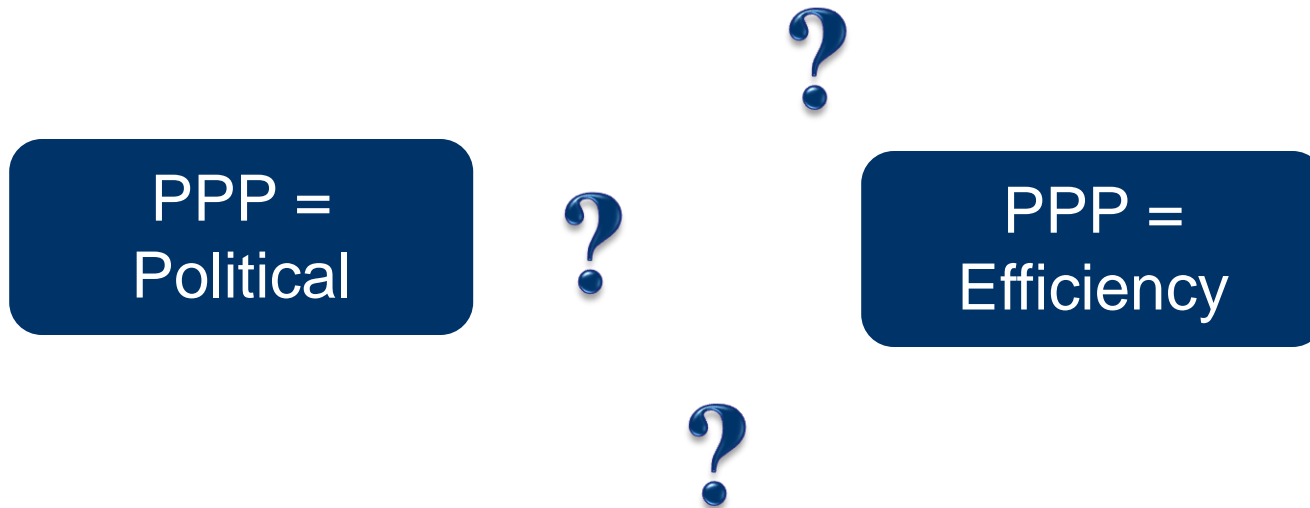
- PPP with higher financial cost
- BUT
 - Risk transferred less costly
 - Less cost overruns
 - Lower operation cost



Empirical works: Debate

- Gap for PPP
- Privatization:
 - Not clear !

Our paper's goal



Context: French PFI contract at the local level

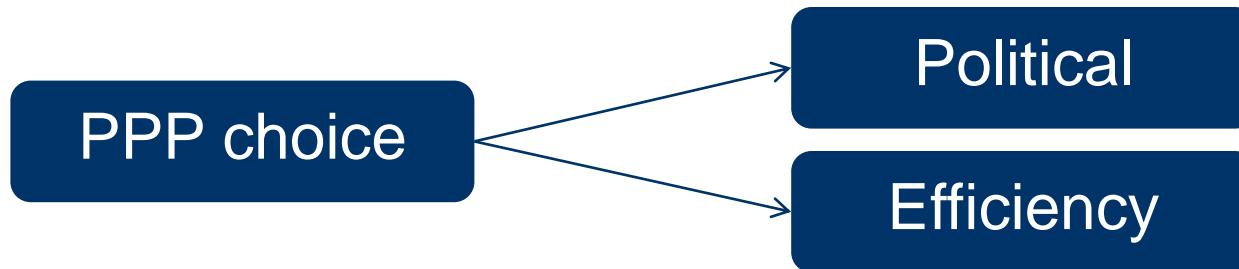
-71% of the totality of PFI

-Work with the French Ministry of Finance

-Local PFI is accounted as on balance sheet since 01/2011

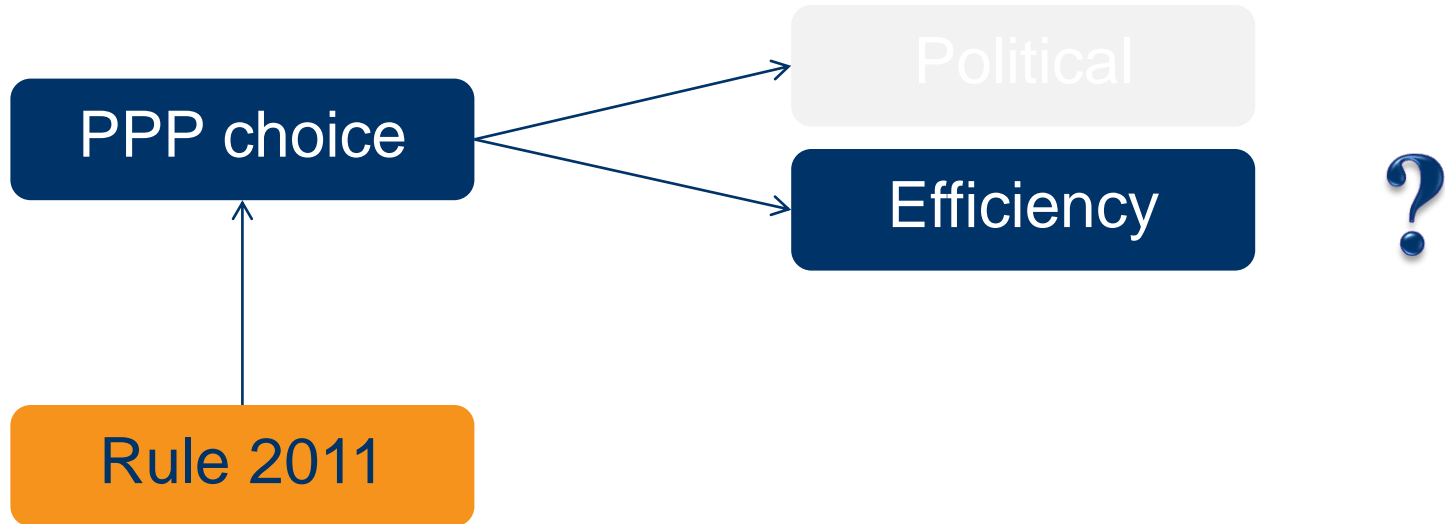
Article's steps

First step : Theoretical model



Article's steps

Second step : Empirical analysis



Related literature review

- **Theoretical literature**

- Engel et al. (2007, 2010): From public finance point of view: there is no difference between PPP & traditional procurement

- **Empirical literature**

- Krumm and Mause (2012): fiscal pressure is an important driver of local governments' PFI activities in the UK

The theoretical model

Bundling vs. Unbundling

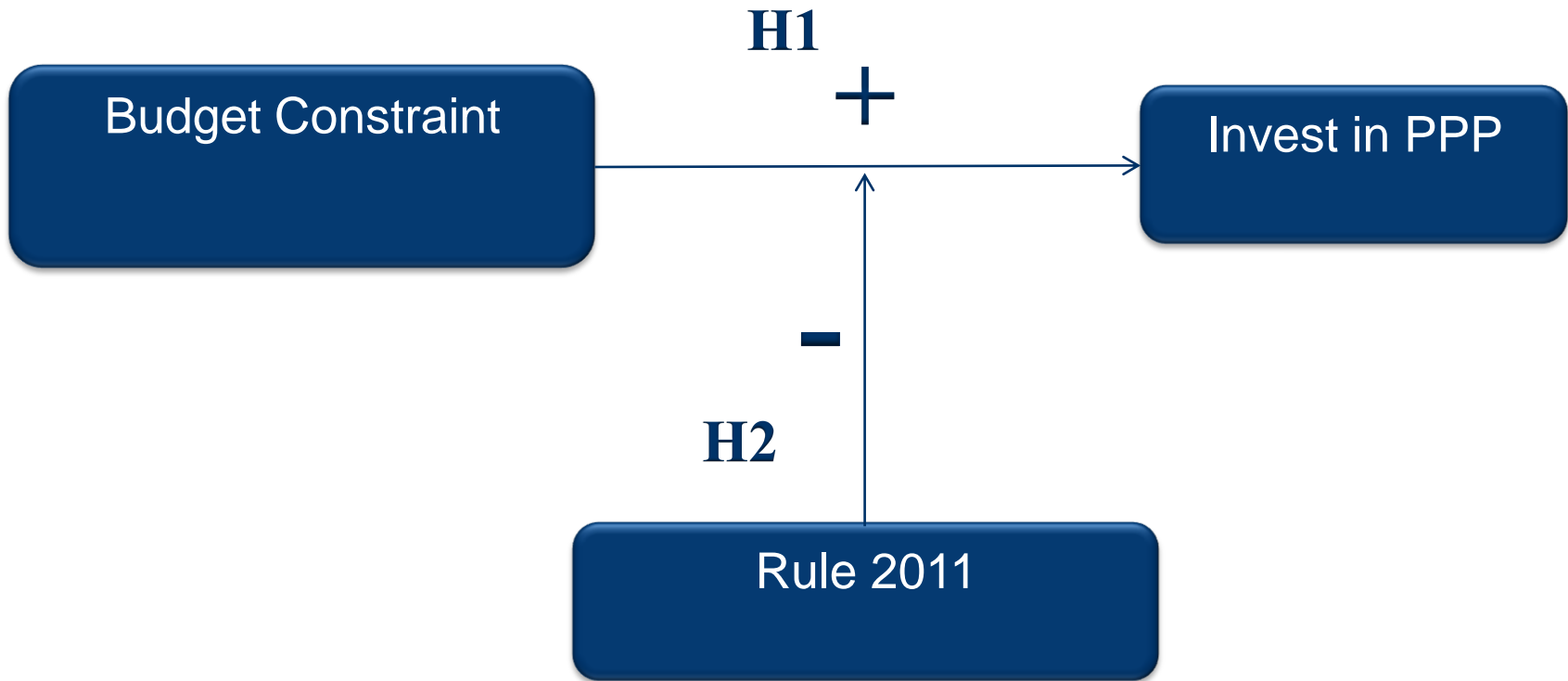
- Under budget constraint



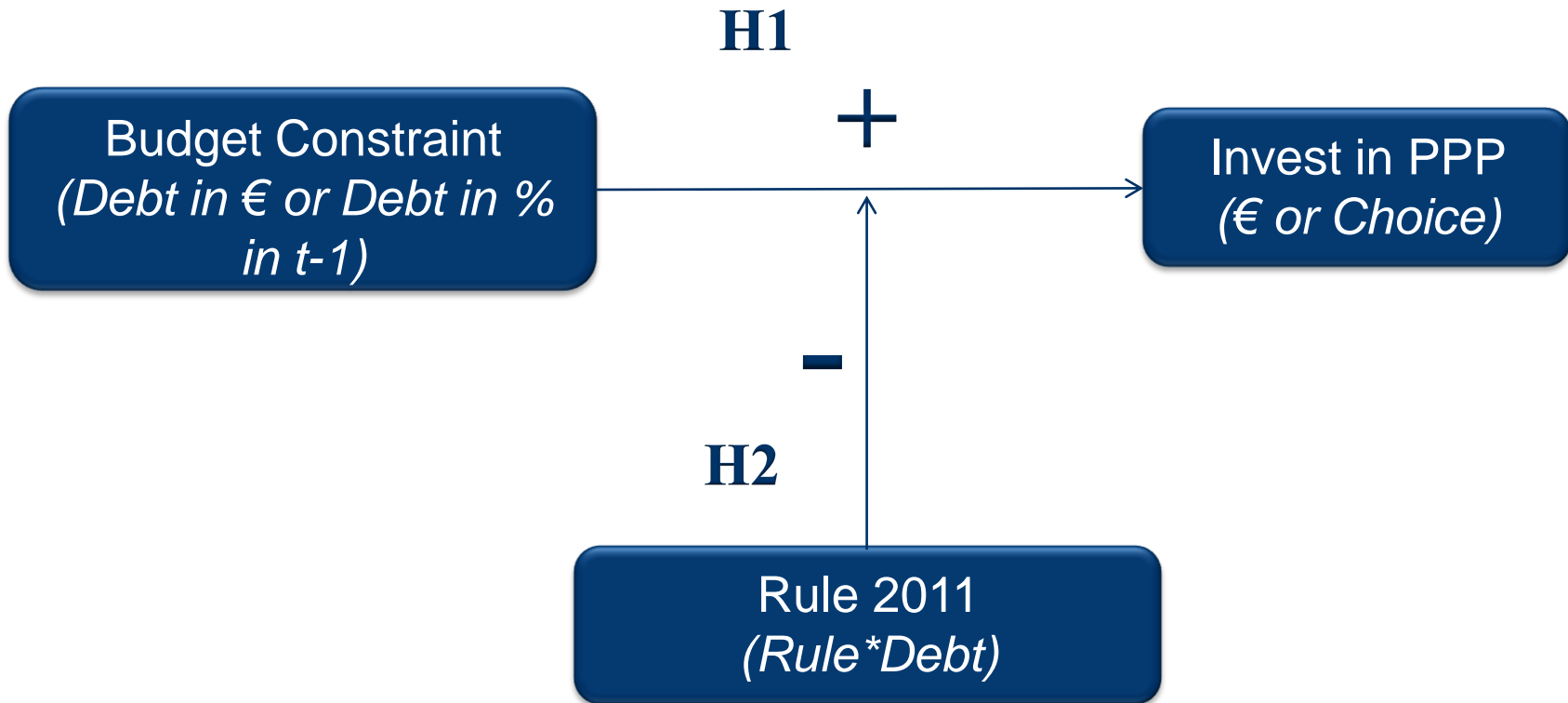
- Explanation



Hypothesis Overview (1/2)



Hypothesis Overview (2/2)



Control variables for each municipality

-budget, investment

-population, income

-Political party, Quality of Government Index

Empirical Strategy

1st sample

111 municipalities with 121 PFI
(totality)

Matching by propensity score (Leuven & Sianesi 2012)

- Controlled on the « demand » side: nb tax households & income level
- Classified per year
- 3 levels of administration: City, department, region

Final sample

222 municipalities

Data description

	Group « PFI »	Group « No PFI »
Nb obs	111	111
2005	1	1
2006	5	5
2007	13	13
2008	12	12
2009	14	14
2010	18	18
2011	28	28
2012	20	20
City	85	85
Department	20	20
Region	6	6
PFI_invest (€ mil)	0.5 – 280 (mean = 27)	0
PFI_choice	1	0
Debt€ (€ mil)	188	139
Debt over budget	81%	66%
Investment (€ mil)	122	132

Results (1/2)

Budget constraint = Debt in €	TOBIT (1)	TOBIT (2)	PROBIT (3)	PROBIT (4)
	<i>pfi_invest</i>	<i>pfi_invest</i>	<i>pfi_choice</i>	<i>pfi_choice</i>
<i>Debt</i>	2.279***	2.214***	0.386***	0.371***
	(0.822)	(0.837)	(0.149)	(0.153)
<i>Rule</i>	-0.121	-2.070	0.005	-0.401
	(1.080)	(5.515)	(0.201)	(1.005)
<i>Rule*debt</i>		0.188		0.040
		(0.520)		(0.097)
<i>Population</i>	0.000	0.000	0.000	0.000
	(0.000)	(0.000)	(0.000)	(0.000)
<i>Income_capite</i>	-0.402	-0.398	-0.057	-0.056
	(0.921)	(0.921)	(0.176)	((0.176)
<i>budget</i>	1.239	1.184	0.236	0.223
	(1.303)	(1.310)	(0.236)	(0.238)
<i>Investment</i>	-2.457*	-2.419*	-0.493**	-0.484**
	(1.310)	(1.312)	(0.240)	(0.240)
<i>_cons</i>	-29.338***	-28.037***	-4.088***	-3.816***
	(6.857)	(7.703)	(1.211)	(1.371)
<i>N</i>	222	222	222	222

Results (2/2)

<i>Budget constraint = debt/budget</i>	TOBIT (1)	TOBIT (2)	PROBIT (3)	PROBIT (4)
	<i>pfi_invest</i>	<i>pfi_invest</i>	<i>pfi_choice</i>	<i>pfi_choice</i>
<i>Debt_budget</i>	3.078**	1.542*	0.599**	0.285*
	(1.449)	(1.767)	(0.278)	(0.339)
<i>Rule</i>	0.139	-2.933	0.052	-0.531
	(1.084)	(2.340)	(0.199)	(0.431)
<i>Rule*debt_budget</i>		3.866		0.776
		(2.612)		(0.509)
<i>Population</i>	0.000	0.000*	0.000	0.000
	(0.000)	(0.000)	(0.000)	(0.000)
<i>Income_capite</i>	-0.466	-0.469	-0.064	-0.060
	(0.930)	(0.924)	(0.176)	(0.176)
<i>Investment</i>	-1.766	-2.056	-0.364*	-0.432*
	(1.238)	(1.245)	(0.218)	(0.223)
<i>_cons</i>	-34.265***	-34.083***	-4.926***	-4.914***
	(6.920)	(6.927)	(1.224)	(1.238)
<i>N</i>	222	222	222	222

Implications

- Contributions for the literature
 - Emperically test our theoretical model
 - Fill the gap in the literature on the determinants of PPP choice
- Contributions for field practice:
 - Breaking the myth about PPP choice's motivation is ONLY for political reasons
 - Debt hiding
 - Leftwing vs. Rightwing
 - Corruption

An ongoing 2nd version

- Improve the quality of the control group
 - Focus only on the cities, with more matching variables
 - Have a larger control group
- Another control group
 - 228 municipalities declaring as well-informed about PFI procedure

THANK YOU!