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A slice or the whole cake? Network ownership, governance and public–private partnerships in Finland

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ABSTRACT

This paper discusses and analyses public–private partnership (PPP) options within the framework of different ownership and governance (O&G) models of technical infrastructures. The O&G models in Finland are described and the market layers of ownership, operation, and services are studied. All infrastructure sectors have somewhat different O&G structures and they each have a different market context, not least because of ownership and the market structures that are "on" the infrastructure. Private companies, public companies, state and municipality owned enterprises and purely public-authority-type models can be found. Interestingly, the models seem not to affect too much the cash-based returns to the owners. However, the market structures will probably provide varying prospects for PPPs to be carried out, whether the PPPs are means of procuring projects or outsourcing of formerly public functions. The financial return capacity of the infrastructure is playing a key role. Some infrastructures have already a tradition of "good business" while others are considered as public goods on more or less sustainable grounds. The results imply that for some infrastructures there could be more natural markets for PPPs. The paper gives a topology for different market layers which can be identified for infrastructures and related services and businesses.

1. Introduction

Shortage of capital to finance society's infrastructure networks (roads, and streets, waterworks, ports, railways and airports) has resulted in new proposals for organising, governing and financing these networks all over the world. New ways of thinking, such as New Institutional Economics with its roots in Coase's work (1998), have inspired numerous studies on organisational arrangements of public institutions (see e.g. Eggertsson, 2005; Gruening, 2001).

Project finance is an example of pragmatic applications of institutional economics using public–private partnerships (PPP) and other unconventional financing models. Leviäkangas (2007) presents a good review on project finance and Välilä (2005) for PPP. There is copious literature on project finance, on whether PPP is more economical than conventional procurement, see for example Leviäkangas (2007), Blanc-Brude, Goldsmith, and Välilä (2006), Shaoul, Stafford, and Stapleton (2006), and Kain (2002), or Loxley and Loxley (2010) on Canadian PPPs. However, institutional arrangements have not previously been studied systematically, except some isolated privatisation cases. Privatisation has been analysed by many authors, e.g. Mees (2005) in Australia and Kay (1993) in the UK. Restructuring and institutional arrangements and their evolution have also been a major issue that has been discussed, but the discussion has been sector and mode-specific – see e.g. Talvitie (1996) for road sector and Leviäkangas (2000) for the railways.

Also in Finland, the State and municipal governments are seeking ways to reduce costs, improve efficiency and enhance customer orientation in public service delivery. Infrastructure networks in particular are experiencing strong pressures to reduce their costs. Various means and arrangements are attempted to lower the costs to administer, manage, provide access and supply the services. Governance can be seen as the common denominator for these development actions. Most of the infrastructure networks in Finland are owned and managed by local

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municipal governments or the State. Finland has not experienced liberalisation and privatisation comparable to the Anglo-Saxon countries. Organising some infrastructure services as companies owned by state or municipalities has, however, taken place. Infrastructure networks and services are often monopolies, but many services can be and are purchased from the private market, i.e. design, operation, construction, maintenance and management services.

Bell (2002) defines governance as "the use of institutions, structures of authority and even collaboration to allocate resources and coordinate or control activity in society or the economy." This is precisely the definition we would like to adopt: the institutions are here the network owners and the ownership model defines how the authority is structured and resources allocated to control the activities. Ownership is therefore an inseparable element of governance.

This paper analyses different ownership and governance (O&G) models of technical infrastructures from the financial profitability point of view. The O&G models in Finland are categorised and different market layers (or segments) of infrastructures are discussed. These market segments are explained in the next section. All infrastructures have somewhat different O&G structures, not only because of ownership, but also because the aforementioned market layers have different structures, e.g. in terms of number of actors, competition, market concentration, surrounding regulation system, etc. Private companies, public companies, state and municipality owned enterprises and purely public-authority-type models can be found. Interestingly, the O&G model does not have a clear effect on the cash-based returns to the owners.

However, the market structures will probably provide varying prospects for PPPs to be carried out, whether the PPPs are traditional project procurements or outsourcing of formerly public functions. The purpose of this paper is to analyse what type of market structures and O&G models could facilitate different types of PPPs, and which combinations might not work that well.

The paper relies on empirical material gathered in "C-Business" project financed by the Finnish Ministry of Finance, Finnish Ministry of Transportation and Communications, Finnish Transport Agency, Finnish Association of Municipalities, Helsinki City Transport, City of Oulu, Destia Ltd., Pension Fennia and European Investment Bank. The research was conducted during 2007–2010. The method of research is based on descriptive analysis on ownership models and market structures of different networks and an investigation of financial statements.

Due to its strict empirical nature and positivistic approach, the value added comes from the empirical observations and quantitative analysis of financial returns of different infrastructures. We believe this is the first time when transport infrastructures are compared in this way together with other basic technical infrastructures of the communities.

2. Basic models for infrastructure ownership and infrastructure market architecture

The variety of O&G models observable in Finland may well be the result of sector-specific thinking and due to long historical developments. Table 1 presents the existing O&G models, which can be categorised in six basic models:

1. Traditional O&G model: the ownership and governance is done within public administration following the public sector regulating legislation and accounting.
2. Municipality- or State-Owned Enterprise models (MOE/SOE): legislation is used to establish business or entrepreneurial entities and practices with the objective of self-sustaining cost recovery. MOEs or SOEs are not corporate tax liable. There are three variants: i) client MOE or SOE acting on behalf of a public administration; ii) supplier MOE or SOE, carrying out operational tasks for the public; iii) co-operative MOE (co-owned or merged unit of several municipalities)
3. Municipality- or State-Owned Company model: MOC or SOC can be either the client or supplier part of organisation, but usually the latter. These entities, legally established, are self-supporting and pay full corporate and value added taxes and follow established accounting practices as any limited company.
4. Private Cooperative or Association (P): This is an entity formed by a group of autonomous legal entities (persons, companies, municipalities, etc.) to meet certain service needs of its members.

Table 1
Ownership and governance models of Finland's infrastructure networks (Leviäkangas et al. 2011).

Network or node		Ownership	Governance model
Transport	Public roads	State	Mandated infrastructure administrator and manager; from 2010 onwards Finnish Transport Agency (before the Finnish Road Administration)
	Streets and communal roads	Municipality/city/private road co-operative	Mandated department of the municipal government, a private road co-operative, or a municipal-owned enterprise.
	Rail network	State	Mandated infrastructure administrator; from 2010 onwards Finnish Transport Agency (before the Finnish Rail Administration)
	Ports	Municipality/city/private	Municipal-owned enterprise or municipal-owned company or department in the municipality administration/private limited company
	Airports	State	State-owned company
Municipal infrastructure networks	Water & sewage	Municipality/city	Municipal-owned enterprise or municipal-owned company or department in the municipality administration, or a cooperative
	Local electricity	Municipality/city or private	Municipal-owned enterprise or municipal-owned company or private limited company
	Local telecommunications	Private	Private limited company or a cooperative
	Heating	Municipality/city or private	Municipal-owned enterprise or municipal-owned company or a private limited company
National transmission grids or networks	National electricity gridlines	Private (the state has a minority share)	Private limited company
	Telecommunications	Private (the state has a minority share in some)	Private limited company

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