



# Public private partnerships as a tool for stimulating investments in broadband

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## ABSTRACT

The paper is concerned with PPP in the telecommunications area and more specifically with the combination of public and private investments in upgrading broadband infrastructures. Following the liberalization of the telecommunications area, investments were primarily left to the private sector – though public investments have continued to take place in specific areas such as research and education networks and rural and otherwise underserved areas. Lately, however, governments have upgraded their public investment plans in broadband infrastructures. The question is whether we are witnessing a simple quantitative change or whether this quantitative change includes a qualitative evolution in the view on the role of the public sector in expanding broadband infrastructures. At the present time, the most likely answer is that increasing public investments in broadband infrastructures signal a combination of concerns raised by the economic crisis and the growing awareness of the social and economic importance of efficient broadband infrastructures.

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## 1. Introduction

Public private partnership (PPP) in broadband development is the topic of the paper. More specifically, the focus is on investments regarding broadband. Broadband is by governments around the world seen as an essential infrastructure for the present and future development of societies. Much emphasis is, consequently, put on extending the broadband infrastructure. During the past few years, the topic has come increasingly higher up on the agenda of governments culminating with policy initiatives in a range of countries lately.

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. The whole idea of liberalizing the telecommunications area was to leave it to the market forces to develop the telecommunications sector. This idea 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.

For a number of years, the general PPP discourse has been concerned mainly with involving private companies in publicly initiated activities (Sadka, 2006). This could, for instance, be outsourcing of care for the elderly to private businesses operating under public supervision or licenses. The liberalization of telecommunications can also, to some extent, be seen in this vein with commercial operators guided by public policy demands on the sector with respect to

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universal service requirements and other kinds of regulations. However, the present discourse on PPP in the telecommunications area is turning the other way round. Now, the issue is the involvement of public money in building out the broadband infrastructure in a sector which, to a large extent, has become privatized.

The main reason is that a universal broadband infrastructure is seen as a means not only to enhance service provision to the citizens and to improve communications among people in general but also to improve the productivity of other economic sectors and the efficiency of the public sector. Furthermore, a degree of urgency has entered the matter. Governments see broadband as a competitive tool in order to attract international businesses and to position their country in the hierarchy of countries internationally. In this competitive situation, the sentiment is apparently that the private sector is not moving ahead fast enough.

In addition, there is the issue of remote and difficult to reach areas where it may not be profitable for commercial operators to build broadband connectivity. This type of issue has generally been dealt with by means of universal service policies. However, universal service policies are mostly related to telephony services. This applies, for instance, to the European Union (EU) where the EU policies in the area deal with telephony and telephone networks. The extension of universal service requirements to broadband has indeed been discussed for some time but has until now been rejected as a general policy. Instead, the promotion of broadband in the EU has been made part of the Lisbon process including policy measures for advancing broadband deployment and penetration (Falch & Henten, 2008).

Such policy measures are not only related to the broadband infrastructure (core and access network). They are also related to applications, services and content such as e-health and e-learning, which are promoted by the EU Commission (EU, 2007). In order to develop the use of broadband, the infrastructure side as well as the applications, services and content aspects are in need of attention. They complement each other in the sense that capacity requiring applications raise demands on the infrastructure and that increased capacity will contribute to stimulate the development of 'heavy' applications. Attention has continuously been shifting back and forth and in the present broadband surge around the world some countries put more emphasis on the infrastructure side and others on the applications, services and content side.

Since the liberalization of the sector began there have been different initiatives with public investments in broadband infrastructures. This applies, for example, to research and education networks and it applies to local initiatives with city networks or networks in rural areas. The new trend is that governments have increasingly started on initiatives to fund broadband infrastructures. This applies, first and foremost, to Australia and Korea, but it also, for instance, goes for the Obama administration in the US and the latest EU initiatives in the area. As the financial crisis developed into a general economic crisis, governments have considered public investments as a way to curb the downturn (Reding, 2009). Investments in all kinds of infrastructures are high on the agenda in this regard – telecommunications being one of them. The question is whether this is just a quantitative change or whether it also signals a qualitative change in the general policy for the development of telecommunications infrastructures.

To examine this issue, the paper first includes a section on the PPP concept. Thereafter, the paper examines a selection of the latest larger scale types of PPP in the broadband area. Finally, conclusions are drawn.

## 2. PPP

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 and fulfilling 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. However, where many discussions on PPP, therefore, focus on policy failures and the need for the private sector to rectify such failures, PPP can just as well be concerned with market failures.

There are many different definitions of the concept of PPP. According to the EU Green Paper on Public Private Partnership (European Commission, 2004), PPP is characterized by the following 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 the OECD (Fausch, 2008). The OECD underlines that PPP is based on an alignment of objectives of the government with the profit objectives of the private partners. The IMF, on the other hand, uses a slightly more narrow definition as they stress that PPP refers to arrangements in areas, which traditionally have been served by the government (Fausch, 2008).

PPP can be implemented either on a purely contractual basis between public and private partners or by creating a new legal entity with shared ownership. Various arrangements for funding of universal service provision in disadvantaged areas may belong to the first category, for instance if a universal service provider is appointed to provide specific services in a specific region and receives public funding for carrying out this activity. An often quoted example, which later has been followed by other countries, is the reversed auctions for the provision of payphones in rural areas carried out in Chile in 1995 (Ulrich, 2004).

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