

PPPs and Innovation: wasteful subsidies or catalysts for innovative success?



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Position in a nutshell

- PPPs are becoming commonplace
- PPPs can improve service delivery but governance is important
- PPPs can boost innovation
- But 'go it alone' private sector driven innovation should be the ultimate goal
- Need for more research and study on topic

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WHAT IS A PPP?

- **The term PPP is used internationally with a wide variety of meanings, but for this purpose...**
 - PPP = private investment in public infrastructure
+ long-term service provision
+ risk transfer to private sector } = partnership
- **An old concept which has found a new life**
 - Concession model
 - ... the user pays (tolls, fares, *etc.*)
 - Based on legislation + contract
 - N.B Many PPPs outside UK are Concessions
 - **UK Private Finance Initiative (PFI) model**
 - ... the public sector pays
 - Contract-based (may be in legislative framework)
 - N.B In some countries only this model is called a PPP
- **PPPs v. privatisation**
 - No transfer of public ownership
 - Public sector remains accountable
 - Contract-based not regulator based

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WHY PPP?

- **Access to capital**
- **Certainty of Outcome**
- **Off balance sheet borrowing**
- **Innovation**
- **Transfer of risk**

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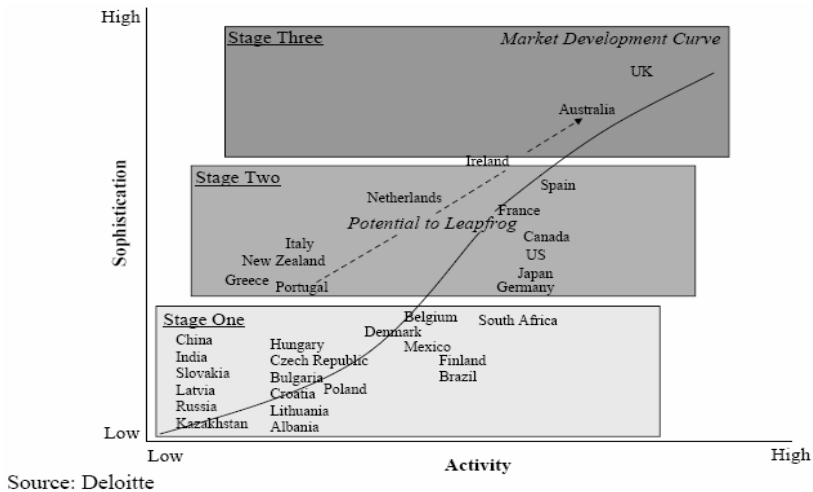
The Challenges

New Skills
New Institutions

*To avoid: conflict of interests, lack of transparency
and accountability*

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PPP Market Maturity Curve



UNECE Guidelines on Promoting Good Governance in PPPs

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- ① A coherent PPP policy
- ② Strong enabling institutions
- ③ Legal framework “fewer, better, simpler”
- ④ Cooperative risk sharing and mutual support
- ⑤ Transparency in partner section
- ⑥ Putting people first
- ⑦ Achieving sustainable development

PART II.

INNOVATION:

bad old days versus good new days?

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Europe in the 1980s

- Technology gap in new technologies (microelectronics, biotechnology, new materials and telecommunications)
- Europe worried about falling behind the US in high tech
- EU Policy: Mobilize public money through strengthening Europe's networks of private sector cooperation (PPPs)
- Raft of new publicly funded initiatives: SPRINT, CRAFT, EUREKA etc...
- Results: High tech sectors continued to fail. (although success in aerospace)

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In The New Millennium: different focus on commercialisation and catalytic role

- Case study 1. PPPs in drugs for neglected health areas
- Case study 2. Weizmann Institute, Israel

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PPPs and drugs for neglected areas

- Challenges: burden of disease continue, diseases are resistant to existing drugs
- No incentives for private sector to undertake R&D, liability issues, logistics and to close the 10/90 gap.
- PPPs have succeeded to attract private companies into neglected areas
- GSK, Novartis, Sanofi, Aventis
- PPPs have improved the research function: vast amounts of new learning, in HIV community education and prevention...

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Still challenges however

- Government funds limited
- In 2005 80 per cent of total funding came from philanthropic grants e.g. Bill Gates, only 16 per cent from OECD governments.
- Tip of iceberg: last 30 years only 21 of 1500 new drugs were for neglected treatment
- Critics say Governments are not accepting their full responsibility
- Are there however any real alternatives to PPPs?

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Case study 2. Weizmann Institute, Israel

- Success story in how to narrow the gap between the research laboratory and business
- 1,400 patents
- 17 spin-offs during 2001-2006
- 49 start up companies
- Annual sales of products USD 7 billions
- Many products of research go to clinical trials
- (E.g. treatment for MS)

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Challenges for the Weizmann Institute

- 1. Where to find 'know how' e.g. on patenting inventions
- 2. How to commercialize inventions?
- 3. Ethics: Where should the line be drawn between academic research and commercial development?
- 4. How to make academics interested in business and less in being an academic? How to give incentives so that academics think commercially?

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How Weizmann met the challenges...

- Established a Technology Transfer Company, (Yeda)
- Yeda identified the products, patented inventions and brought them to industry
- Commercial success bred success, e.g. Ferrari effect
- However need for guidelines on ethics
- Steep learning curve
- Phasing out government subsidies

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PART III

POLICY IMPLICATIONS

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Policy Implications

- Be targeted –not across the board, e.g. Darwinian approach
- Provide ‘Seed money’ but time limited and then withdraw
- Focus on improving public goods (e.g. health)
- Foster breeding grounds for new ideas (academic interaction)
- Keep the business separate
- More study required on best practices and role of PPPs in innovations leading to:
- Best practice recommendations

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UNECE work in PPPs: main challenge

- Huge interest in topic
- lack of knowledge, skills and governance to do PPPs
- focus on capacity-building
- Identifying best practice, guides and training modules

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UNECE work in PPPs: activities

- Guidebook on promoting good governance in PPPs
- Elaboration of PPP Toolkit for training
- PPP event in Moscow, October 2008
- Team of specialists on PPPs, first meeting in Geneva, February 28-29 2008
- Cooperation with international partners (EBRD, EU)

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Other activities on innovation

- Similar initiative on promoting innovation policies
- Team of specialists on innovation
- Focus on transition economies
- “Enhancing the competitiveness of firms”, February 14

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Thank You For Your Attention!

<http://www.unece.org/ceci/ppp.html>

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