

Possible PFI/PPP implementation in a Variety of Greek Industrial Sectors

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Abstract

This paper addresses the location of possible economic sectors of the Greek National Economy where the PPP/PFI scheme can be implemented. It presents all those possible public sector investments, the implementation of which can be undertaken by suitably selected bodies of the private sector. Specifically, as PPPs can embrace a wide range of structures and concepts, both in 'hard services'-such as the execution of roads, bridges and airports- and in soft services'-like hospitals, prisons, defence and IT services' projects – the research examines the degree of investment attractiveness by the private sector taking into account a number of primary and secondary value for money drivers applied to the Greek market and culture. The methodology process follows a certain structure, relevant to the Arthur Andersen and LSE Report. The paper concludes with the findings of the most prosperous PPP projects and the barriers to be overcome regarding value for money drivers in the Greek market.

Keyword

Private-Public Partnership, economic sectors, value for money drivers, investment attractiveness, Greece.

1. Introduction

The steady removal of trade barriers associated with the implementation of the Single European Market and a number of Directives specifically orientated towards the wider governmental policy to encourage successful public – private partnerships have opened up the market of industrial sectors and especially for construction services in the European Union (EU). Until recently, the national construction industries of the 15 existed by developing separately their own distinctive national contracting system adapted to their own particular needs and traditions. Protected by the site-specific nature of production and the role of the state as a predominant client, there was little mobilization in the sector's services across EU frontiers. This practice is now dissolving rapidly as the European Union needs to formulate a common approach due to its expansion with the ten new member states and as construction activity is subject to influences resulting from the pace of technological change in

relevant sectors of the economy, increasingly stringent regulations, and changing client desires as a result of variations in tastes, aspirations and purchasing power. In relation to aspirations, the concern with quality and environmental –soundness are relevant issues. Partly, as a response to these external influences, competition within the construction industry is increasingly more intense and sophisticated. In this dynamic situation the European Commission attempts to ensure fair competition throughout the EU, to open up public procurement and to standardize the regulatory framework.

Nowadays, the development of ‘competition’ is being encouraged by the introduction and strong promotion by governments of the concept of Public-Private Partnerships (PPPs). This mechanism is all about delivering governments’ objectives securing improved value for money in partnership with the private sector by negotiating deals that are good for both sides. Its primary activity has been on private sector’s services sold to the public. The private sector, responsible for the upfront investment in capital assets, offers projects to the public sector and the public sector pays only on delivery of the services to the specified quality standards (HM Treasury Taskforce, 1996). The private sector wants to earn a return on its ability to invest and perform. The public sector wants contracts where incentives exist for the private sector supplier to deliver services on time and to specified standards year after year. In that, the public sector shares an absolute identity of interest with private financiers whose return on investment will depend on these services being delivered to those standards (HM Treasury Taskforce, 1999).

The main objective of the PPP solution is to deliver better value for money by switching away from asset – based projects to more service - orientated activity as savings can result from (Arthur Andersen and LSE Report, 2000):

- Integration and synergies between design, build and service operation
- Innovative design, value engineering processes, avoidance of over-specification, efficient management
- Efficient allocation of risks to the parties able to manage them at least cost and
- More extensive exploitation of assets

As PPPs can release states’ resources which can be used for other purposes, following the success of their implementation in the UK, the rest of Europe has began to take up the idea and more and more countries, like Ireland, Portugal, Italy and the Netherlands are using the private sector to provide public goods and services (United Nations, 2002). The Greek Government has also become increasingly as an advocate of PPPs, especially during the last two years. This was due to the fact that the implementation of PPP projects consist a pre-requisite in achieving funding by the 3rd Community Support Framework. Although there is no European homogeneous PPP model, as countries like the UK, Ireland and Italy have appointed a PPP unit, a centralized government office to establish, implement and facilitate the PPP techniques, and by contrast, countries like France and Spain have tradition behind of co-operation between the state and the private sector, Europe is at the beginning of a new dynamic era of PPPs (United Nations, 2002). Greece, has formally launched a PPP program in November 2000 as well as adopted a similar British model by setting up a central PPP Unit (Mixed Steering Committee, 2000).

Although the Greek PFI notion is currently at its early stage, the Greek public and the private sector are both on learning curves, and therefore there are no records of successfully applied PPP projects as well as it does not still exist a clear and concise legal framework of its application, as the four PPP contracts currently under way have been granted by means of statute and any alterations on the initial agreement can only be made through further legislation ratified by a presidential decree. This paper aims at addressing and presenting possible areas of the Greek national economy sectors where the PPP can be implemented. In addition, key purpose of this research is to investigate the degree of the investment attractiveness of the aforementioned addressed areas in order to evaluate the challenges and opportunities of the PPP scheme in the Greek business market and its effects by promoting and adapting it.

The research methodology has been based on the following elements:

- a thorough literature review and survey on the implementation of PPP projects worldwide and especially the HM Treasury Taskforce Series on ‘Guides to PFI’, a thorough study of the Arthur

Anderssen and LSE Enterprise Report on 'Value for Money Drivers in the Private Finance Initiative' as well as of the construction of Public Sector Comparators.

- a survey in a form of interviews and questionnaires of public sector project managers' in the Ministry of Finance and Economy as well as of private sector project manager's of the joint Ventures implementing the four PPP large scale projects in Greece, on what drives value for money in Greek PPP projects.

2. The PPP Implementation in Greece

The adaptation by the Greek government of the use of PPPs as an alternative public procurement method was set as a pre-requisite by the European Commission in order the relevant funding from the Third Community Support Framework for the period 2000-2006 to be awarded to Greece (Mixed Steering Committee, 2000).

With the initialization of the Third Community Support Framework (CSF) of period 2000-2006, the Greek government actively encourages the private sector to take the lead in joint ventures with the public sector. Thus, the public sector would have greater opportunity to use leasing where it involved significant transfer of risk to the private sector and offered good value for money.

During the first semester of 1998, the Greek government, via the Ministry of National Economy, has initiated the procedure of an international competition for the selection of a Financial Consultant with international experience aiming at supporting the State in launching and shaping the design and nature of PFI in Greece. TENs Hellas, a consortium of banks, technical and legal companies led by Bank of America and ETEBA (Greek Investment and Industrial Development Bank) and supported by the consulting firms Planet, KPMG and Marsh, was selected and appointed as the only Financial Consultant of the Greek state. TENs Hellas role is to perform feasibility studies and cost estimations in the planning stage of a project before its tendering and it has been working on that issue since May 1999 (Mixed Steering Committee and TENs Hellas, 2000).

The Ministry of National Economy moved on to the formation of a Private Finance Taskforce which was consisted of the Mixed Steering Committee for Public Works and TENs Hellas in order to control and organize the structural arrangements of the PPP procedure. Actually, the intension was a mixture of centralization the standardizing control of practice by the Ministry of national Economy and the Ministry of Public Works and the decentralization through encouraging Government Departments to build up their own expertise in PPP schemes by implementation. It was proposed by the consultants that the Taskforce would have similar organizational structure to the British HM Treasury Taskforce. This means that the Taskforce will consist of a separate 'projects team' and 'policy team'. The projects team, a small group of leading PPP experts recruited from the private sector, would provide support for individual Departments and agencies on significant transactions ensuring high quality proposals, avoiding unnecessary bidding costs and signing off the commercial viability of significant projects before the procurement process commences. The policy team, consisting of high caliber public state staff, would have an on-going responsibility for the rules governing PPP and other public/private partnerships. To prevent repetition, overlap and inconsistency, the policy team in conjunction with the project team will continually develop and publish 'standardized' models for key stages of the PPP procurement process. However, this sort of model has not worked yet due to the dismissed Mixed Steering Committee and to lack of regulatory context and legal framework concerning the PPP schemes.

3. The Determination of Possible PPP Projects in the Greek Market

Since the success of the 2nd Community Support Framework (CSF), the European Commission has granted approximately 28 billion Euro to the Greek State in order to support a great number of projects and activities in all sectors of the Greek economy for the period 2000-2006. The EC financial resources cover both the national needs, as well as the country's regional needs, and in many cases, their distribution has already been agreed between the Greek state and the European Commission.

The national needs are described in Sectorial Operational Programs under the responsibility of the relevant Ministries and include actions and activities which concern a specific field. In the meantime, the regional needs are described in Operational Programs of the Regional authorities and include specific regional priorities and activities in different fields. Hence, the whole country is divided into 13 geographical regions and 12 sectors. Each of the operational Programs includes analytical information concerning the development needs of the 13 regions emphasizing on their special geographic characteristics, demographic trends, education status, economy, resources and employment, and it also presents a description of benefits and activities realized during the 2nd CSF. The same applies for the sectorial programs reflecting to country's horizontal needs and requirements for each of the sectors.

Although Greece has no record in PPP projects apart from launching concession contracting in form of DBFO or BOT by promoting the implementation of four large scale complex infrastructure projects (the New Athens International Airport, Rio – Antirio Bridge, Attiki Odos and Thessaloniki Metro), the response of the public and private sector project managers has shown more or less a positive acceptance of the Arthur Anderssen and LSE Report value for money drivers.

After a detailed analysis of the Programs and the discussions followed with the responsible authorities and governmental staff, it was concluded that the prioritization list reflects the list of the sectorial operational programs. The structure of the projects' division is presented in the table below (Mixed Steering Committee and TENs Hellas, 2000):

Sectorial Operational Programs	Regional Operational Programs of:
Road Axes, Ports, Urban Development (MEPPW)	Attiki
Rail, Airports and Urban Transport (Ministry of Transport)	Peloponnesos
Culture (Ministry of Culture)	Crete
Information Society (Ministry of national Economy)	East Macedonia
Environment (MEPPW)	Central Macedonia
Competitiveness (Ministry of Development)	West Macedonia
Health	North Aegean
Education and initial professional education (Ministry of Education)	South Aegean
Employment (Ministry of Employment)	Thessaly
National Technical Assistance	Epirus
Fishery (Ministry of Agriculture)	Ionian Islands
Agriculture Development (Ministry of Agriculture)	West Greece
	Stereia Ellada (Continental Greece)

Both sectorial and operational programs include a plethora of axes and a variety of activities with differentiation in size and scope of works. However, from the research, it was derived that projects like the main infrastructure facilities of the transport industry such as road transport (highways, tunnels, bridges), railed transport (railway, subway, or light rail transit systems), airports and ports as well as hospitals, telecommunication systems in addition with the development of students residency halls and sewage networks consist a highly preferred group for successful PPP implementation as they may produce a return for Greek private sector by satisfying the primary value for money drivers indicated by the Greek private sector (Arthur Anderssen and LSE Report, 2000). The aforementioned projects' selection and evaluation were based upon the following quantitative criteria:

- Financial feasibility
- Project maturity in terms of design, technical viability, land expropriation, required permits and environmental licence, quantity of skills
- Legal issues – estimation of required changes in the legal framework in order the concessionaire to function according to the Greek and EU legislation

4. Barriers to be Overcome Regarding Value for Money Drivers in the Greek Market

However, the interesting part in the research concerned the holistic view expressed by the vast majority of managers, both in public and private sector, on the importance of the need to overcome barriers relative to special cultural and economic features that characterize the Greek market. It was clearly stated that PPP projects will reflect investment attractiveness and will become reality only when these are going to be eliminated.

Hence, from the survey, the following barriers have been identified in descending order of perceived importance:

- Adequate legislative context and regulatory framework: Experience in countries using the PPP procurement method demonstrates that this kind of formula becomes workable only if a strong legal basis and regulative framework exist plus adequate risk allocation between host government and project company (Ozdogan,1996). Since the development of a central PPP Unit in the Ministry of Economy and Finance, public authorities have a difficulty in establishing a regulatory framework for the PPP implementation determining the obligations and rights of both the involved parties. Hence, the result of such inefficiency has led to a lack of providing horizontal guidelines. Therefore, since the Greek government and the private sector are both on learning curves and there is a limited provision of structured procedures, lengthy negotiations are the norm rather than the exception in the promotion of PPP projects during the procurement stage. Even if the various government departments do become more efficient in their procurement function, contractors and concessionaires are concerned about the high cost of preparing bids as well as the usual lengthy negotiations involved in the process. Such costs are normally not reimbursable and therefore the actual capital required, in case of successful bidding, must include the amount of large preparation costs on top of the equity stake. However, these costs are expected to be decreased as the firm becomes more experienced in bidding for particular types of projects.
- Change of culture: Greece is a country where the public and private sector have had little experience of working together. Thus, a change in culture should be made by both in order to form an effective partnership. The public sector has to accept that commercial business is essentially profit – driven and will want significant returns from the operation of infrastructure, whilst on the other hand, the private sector has to acknowledge that many features of operating public infrastructure are not profitable. Issues like organizational culture and structure may play an extremely important role concerning risk measurement and management. Experience from the past, in the construction sector, has shown that for example, the Greek construction companies are not compatible with the functions of facilities' operations and of service provision. The Greek construction sector, in the recent past, was extremely fragmented. However, during the last three years, due to the relative scarcity of work compared to the amount of contractors, which in turn cultivated intense animosity especially among larger contractors leading to destructive competition, contractors themselves started to structure permanent coalitions with each other. This change was encouraged by the Government by making all the necessary legislative adjustments to support this effort. Also, the emerging markets of Balkans accelerated the process of Joint Ventures formation due to strategic purposes. PPP activity requires longer term involvement and commitment in a particular venture as well as revision acquirement of specialized resource utilization. In addition, the public sector is still quite
- Guarantees against risks by governmental bodies: It was noted from the survey that the unwillingness of the government to provide guarantees against country risks, the lack of adequate legislation, the inexperience of the public sector in packaging PPP projects, the ineffective tendering and award mechanism, and a high level of bureaucracy result in delays, and therefore, the associated risk is extremely high. A characteristic example of such inefficiency is that in general concession contracts in Greece are granted by means of statute. The first serious complication is obvious: any alterations to the initial agreement can only be made through further legislation ratified by a presidential decree. Another possible complication (which is not the case when concessions are granted under a private contract) concerns the third party action. If a contract is granted by means of statute, third parties may potentially appeal to courts 'for an order requiring the government to comply with the provisions of statute or to perform certain public duties' (Walker & Smith, 1996). Third party intervention has occurred in Attiki Odos project (appeal of Athens American College against the State Council concerning environmental issues) and in the project of Thessaloniki Metro when a disqualified bidder appealed against the State Council and later the case

was proceeded to the European Court of Justice. Those interventions, of course, did not cancel the contracts, but obviously it seriously delayed their progress.

- The adjustment of the private sector in PPP requirements: Adapting the six Critical Success Factors of Tiong et al.,1992, the feel in the Greek Contractors' market is that although they consider the concession market as an opportunity there is an entry barrier due their relatively low experience in concession schemes. Also, taking into consideration the requirements and demands of a concession contract regarding the multi-disciplinary know-how and the aspect of finance, it is crucial for them to form a strong team of stakeholders in order to come up with innovative and competitive proposals. However, their local knowledge of administrative and economic technicalities helps them in having a more realistic approach in evaluating risk and negotiating the risk allocation between them and the State.

5. Conclusion

This research confirms that the most attractive projects for successful PPP implementation in the Greek market are those of the transport mode like the development of road and railway infrastructure as well as projects related to the society of information and to sewage networks. However, despite the projects type and size, the PPP success largely depends upon the change of culture for all the involved parties. Contractors must restructure their organizations and their scope of works otherwise they may find themselves increasingly excluded from the construction demand arising from concession schemes and perhaps may limit themselves to subcontracting activities. On the other hand, the public sector must take all the necessary actions in order to provide proper institutional environment for the satisfactory and unobstructed operation of the private sector in the PPPs implementation.

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