

The challenges of PPP in an enlarged Europe

The annual European Economic Forum is an opportunity for political, economic, social and cultural influencers from over 40 countries (especially those in central and eastern Europe) to engage in serious debate about developing a strong and sustainable economic market place.

The over-arching theme for this year, the XV1th annual event to be held in Krynica, Poland, was: "The Question of Europe's Identity." However a strong stream of interest was evident in exploring the mechanisms and relative merits of public and private sector working as a way of accelerating regional development. Speakers ranging from policy-makers to practitioners, suppliers and advisors, shared their insights and differing experiences of PPP as a way of short-circuiting the learning experienced by other countries.

It was immediately apparent that the opportunities for Public Private Partnerships in the enlarged European Union are substantial. The availability of financial support through the Union to develop infrastructure and public services is equally significant and attracting the interests of global investors. The drive to accelerate development and deliver sustainable progress presents a challenge i.e. to ensure that expertise and practical knowledge available in existing member states can be appropriately transferred to the new-joiner states. The appetite for information exchange is most keenly exhibited in the utilities, infrastructure, technology and communications sectors. However, the ability to transfer learning is exacerbated by the brain-drain from emerging economies of the very professional skills necessary to support rapid and sustainable development.

The cultural, political and financial frameworks of the newer states are markedly different. Conference delegates from former socialist states reported on the steep learning curve presented by a lack of fundamentals to create a stable environment in which PPP can thrive. In states such as Romania, where there is no history of public sector procurement (the state simply commissioned what it needed when it needed it), it is difficult to envisage how a rapid movement to a climate supporting private sector investment and freedoms of a competitive market can be achieved. A fundamental building block of public-private partnering agreements is to be able to move beyond the rigidity and complexities of procurement and establish behaviours and contract management arrangements which foster a common vision, open and transparent communications which are underpinned by mutual trust. It has taken more than a decade of trial and error in the UK to establish a robustness and confidence in PPP which is only now developing a maturity that pushes the boundaries of mere contracting into real delivery of joint outcomes.

It is perhaps an equally tall order to expect new democracies to engage in robust stakeholder consultations – between government, industry and advisors - where such engagement is not easily ingrained within the developing democratic practices. Yet without this ability to objectively discuss market constraints, often of financial or procurement process, many of the issues in developing the Private Finance Initiative within the UK would never have been resolved. Indeed only this summer, after a prolonged period of stalled investor support for development of the waste sector, did it emerge that an industry misinterpretation of HM Treasury financial regulations was actually the root cause. A meeting of government and industry stakeholders, brokered by sector advisors, was able to finally unblock the issue and free the log-jam. However to facilitate such three-way discussions requires a level of confidence and trust between industry, investors and commissioning bodies that cannot be replicated simply by understanding the experiences or processes of others.

Whilst simply belonging to an enlarged European community does not place all states at the same point of evolution in economic development, membership of the EU does provide the basis of assimilation into common frameworks and regulatory environments. It cannot be assumed that being European, means that the attraction to investors and operators has an equal balance for all. The German investment community already benefits from procedural familiarity knowing that the legal system of the Czech Republic has been adapted to the Austrian one such that the underlying framework is well known. However if the founding principle of many European procurement directives is to create a level playing field where effective, open competition drives out value in the delivery of public services, then understanding the inevitable latitude driven by different cultural and political backgrounds of the member states exhibits the greatest hurdles to the potential for future PPP activity.

Essential as understanding the language and legal frameworks are, it is clear that a grasp of the culture under-pinning business relationships and governing arrangements is also of paramount concern. Lack of transparency of administration, corruption and organised crime, poor protection for creditors and lengthy jurisprudence where protection does exist, are all real barriers to the entry of investors. Without a strong

stream of investors PPP opportunities cannot gestate let alone thrive.

The willingness to share and, perhaps more importantly a willingness to learn, is a clear positive. It is evidenced by the burgeoning events and organisations over central and Eastern Europe to promote PPP as a viable solution. The standardisation of regulation and process represented by the European union's many directives and instruments of harmonisation assist to further support the cause of a common language (of process at least).

The determination of self-help is also already in evidence. Take for example the Regional Framework for Investment in South Eastern Europe (an agreement brokered in Vienna in June of this year to enable senior government officials of participating countries and private sector representatives from SEE and OECD countries to undertake peer reviews and develop recommendations on investment opportunities). The framework signals a new era in co-operation between member states as well as a clear intention to be more open and accessible in the European market.

Europe has never been without its challenges but the scale of current and future opportunity must surely outweigh these challenges. The climate for change and learning is ripe. The interest shown at Krynica supports this. The challenge for the founding states is to understand the enlarged environment, promote use of the common language and processes and support the change in business culture required to foster success in public / private sector relationships.

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