Yannis Stournaras: Building public-private partnerships

Speech by Mr Yannis Stournaras, Governor of the Bank of Greece, at the 30-year Anniversary Conference, IMD World Competitiveness Center "30 years of competitiveness: The challenges ahead", Lausanne, 4 October 2019.

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Ladies and Gentlemen,

It is my great pleasure to take part in this highly interesting discussion on the subject of building public-private partnerships at the 30-year Anniversary Conference held by the IMD World Competitiveness Center.

In my speech today, I will briefly talk about the importance of establishing effective partnerships between the public and the private sector and how governments can create the conditions for their success. But first let me highlight some of my own views on the key features of Greece's performance and its current state of play.

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As I will outline, the 2019 IMD World Competitiveness Yearbook makes for sobering reading as far as Greece is concerned, given the indications that the country so far failed to make headway in areas on which sustainable economic growth increasingly depends. Greece also has so far shown signs of slippage in key dimensions against a group of advanced high-income economies that have already managed to make a transition to a development that is based more on factors related to efficiency and productivity. And all these, despite the impressive progress that Greece has made since the beginning of the crisis in 2010 in the fiscal front, in the banking sector, in social security reform, in unit labour cost competitiveness, and in labour and product market liberalization.

Looking at the 2019 Yearbook, my first observation is that little appears to have changed in the last five years. In all five main pillars covered by the IMD Competitiveness index, Greece has been trending downwards, falling by a cumulative 8 ranks in the overall index, from 50th place in 2015 to 58th place in 2019. At the same time, the country continues to lose ground in the "knowledge", "technology" and "future readiness" dimensions, as reported in the IMD World Competitiveness Digital Ranking 2018. These three factors are considered key to meeting long term objectives. Still, there is room for optimism, given (a) the strength of Greece's "skilled workforce" and "high educational level", as reported in the Executive Opinion Survey and in the IMD World Talent Ranking 2018, and (b) the fact that a new government was elected last July with a programme to invest in the so called "knowledge triangle" (education-research-innovation), to liberalise further product and services markets, to promote Public-Private Partnerships (PPPs), to attract foreign direct investment, to promote privatisations, to bring back to life large investment projects that had been "frozen" for a number of years and to tackle the problem of Non-Performing-Loans (NPLs), which is one of the most serious legacies of the crisis.

The 2019 Yearbook and other similar reports show that, despite the progress made so far, Greece still needs to address major challenges and crisis-related legacies.

The multi-year recession has left an investment gap and risks permanently impairing the productive capacity of the Greek economy through a hysteresis effect. Estimates by the Bank of Greece indicate that the net capital stock of the Greek economy (at constant 2010 prices) declined by €67.4 billion in the period 2010–2016, to €622.2 billion in 2016. In order to raise the net capital stock over the next decade to pre-crisis levels, gross fixed capital formation at constant prices, excluding residential investment, needs to increase by about 5% per year. Although this is a high growth rate, it is deemed achievable for the Greek economy based on historical experience, so long as suitable investment and business-friendly policies are pursued.

Foreign direct investment (FDI) is necessary, as domestic savings are insufficient to match the investments needed for high growth rates. Up to now, the business environment had not been considered investment-friendly, in fact it had discouraged investment. This was mainly the result of high tax rates, weak public sector efficiency, red-tape and delays in court proceedings and rulings. If Greece wants to attract more FDI, it must step up the pace of structural reforms and privatisations.

Meanwhile, an important conclusion that can be drawn from the international rankings concerns innovation, supported by investment in human capital. Factors related to human capital can be divided into the ability to attract talent, the determination to maintain and enrich it, and the capacity to disseminate knowledge. So it is not hard to see where Greece's main problems lie. Greece has high-quality human resources and enclaves of excellence both in public research institutes and in the private sector. However, Greece lags behind in its transition to a knowledge-based economy. The high-quality research output does not translate into growth output, leading to a paradox of non-commercialisation. Strengthening the linkages between industry and universities would enhance the so-called "knowledge triangle" and lead to the digital transformation of the economy, an increase in the stock of knowledge and productive capital, the development of outward-oriented sectors and, more generally, to a knowledge economy and society.

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Public-Private Partnerships

Four decades ago, inequality started to rise in the OECD member-states. The 21st century ushered in new challenges like the prospects of powerful new technologies that gave rise to higher productive capacity but, also, concentration of economic power and inequality of opportunities. The key role of governments was to create a well-functioning market economy, which can be perceived as synonymous with a competitive economy. The top priority was, and still remains, to restore economic dynamism through appropriate supply and demand policies as well as to ensure equality of opportunity for all. In this vein, establishing partnerships with the private sector is no longer a matter for theoretical discussion, it must become common practice.

Greece, in the past ten years has had a rather good track record in building PPPs. Across a range of sectors, PPPs have played a significant role in facilitating the delivery of important projects. Currently, Greece is involved in 14 public-private partnerships of various types and sizes, which translate into an investment of €822 million over the years 2009 to 2019, of which €318 million financed by EU grants and €504 million by private resources.

Let me elaborate on some of these projects. The "Attica Urban Transportation Telematics System" project, signed in June 2014, involved 1,000 smart bus and trolley stops, providing passengers with real-time information on the schedules and routes of 2,500 vehicles. The social and economic benefits of the project were significant: (a) upgrading of public transport infrastructure; (b) improvements of passenger experience and quality of life; (c) reductions in traffic congestion, fuel consumption and, therefore, air pollution.

In December 2014, another partnership was signed to provide broadband infrastructure coverage and affordable connectivity services to the residents of remote, disadvantaged and border areas of Greece with no connection to the digital world and corresponding to roughly 45% of Greek territory. This particular project was the winner of the European Broadband Awards 2017.

In June 2015, a new public-private partnership was established to develop the first integrated waste management system in Greece. This new waste treatment unit encompasses the previously existing waste management system of Western Macedonia, and creates a waste management model in full conformity with the environmental strategy of the EU.

All 14 public-private partnerships adhere to high standards, as regards both financial reporting standards and technical features, and have received wide recognition, not to mention a number of international awards. Importantly, they have been evaluated by Eurostat and classified as ‘off-balance sheet’ (meaning that they do not affect the government deficit and public debt) due to the good risk-sharing between the entities.[1]

An additional 12 public-private partnerships are presently in the pipeline and have already been approved. Their emphasis is on areas of high social priority for local communities, such as waste management, energy saving (for example, street lighting projects), social infrastructure (for example, schools and hospitals) and ICT (for example, the “Ultrafast Broadband” project) and on concession projects that do not burden the Public Investment Programme.

But even more important could turn out to be in the future PPPs that have to do with large investment projects. The Greek state, for historical reasons, owns land to a much larger extent than other OECD or European member-states. This land could be used to initiate large investment projects (and attract foreign direct investment) where the state leases the land for long periods and private investors develop it. For example, the “Hellinikon” project, an 8 bl euros giga project, concerns the development of a large area (three times the size of Monaco) in the southern suburbs of Athens by the sea, which used to be the national airport of Greece. The ambition is to create there a new “Riviera” with large multiplier effects through the construction of luxury residencies, hotels and a casino.

The benefits of PPPs.

First, public-private partnerships enable the public sector to leverage more financial resources. And since there is no immediate disbursement of public funds, this in turn allows government funds to be redirected to other important uses.

Second, in any public-private partnership scheme, the private sector assumes a significant part of the risks involved. Thus, it has a keen interest in ensuring the project’s diligent and efficient design and implementation. The use of private funds, complementary to public ones, can then contribute to a faster completion of the project and provision of services.

Third, the private entity involved is responsible for the proper maintenance of the work or service. Specific performance indices are used to monitor the projects and are linked with the terms and conditions of payment specified in the contracts. In other words, if certain performance targets are not met on time, the penalty typically entails payment reductions, retentions, or credit to the owner, thus ensuring a strong incentive for the long-term maintenance of a sound technical project and high-quality services.

Fourth, the long-term nature of contracts has the indirect effect of creating financially stable firms. The objective is to secure not only additional funding but also to leverage on private sector’s know-how, human resources, innovative approach and ability to efficiently manage complex projects for the public benefit.

Last but not least, public-private partnerships have the potential to play a fundamental role in achieving the United Nations Sustainable Development Goals.

According to the United Nations, a sustainable future hinges on the achievement of 17 goals by 2030, including global prosperity with no poverty and zero hunger, quality education, equality, decent work, access to clean water, affordable energy, justice, strong institutions and climate action. Achieving these goals will, however, require substantially more investment, both public and private, and a reorientation of that investment. In particular, it is estimated that the financing required to achieve the sustainable development goals by 2030 amounts to about $5-7 trillion per year globally. Global infrastructure (water, road and rail transportation, airports and ports, energy) could require up to $94 trillion of investment by 2040, which corresponds to 3.5% of global GDP.[2]

Given the limited government resources, a considerable amount of private finance will be required to fill the gap. More importantly, to meet the Sustainable Development Goals, partnerships at every level will be required. The 2030 Agenda for Sustainable Development calls for a new partnership or a "revitalized global partnership for sustainable development" and, as Goal 17 states, "effective public, public-private and civil society partnerships" will be required to strengthen the means of implementing the Sustainable Development Goals.

I would like to seize this opportunity to stress how strongly Greece is committed to the implementation of the 2030 Agenda for Sustainable Development and its Goals, while ensuring that "no one is left behind" is a high policy priority. In 2017, Greece endorsed eight National Priorities for adapting the 17 Sustainable Development Goals to national needs and circumstances. The 8th priority was "enhancing open, participatory, democratic processes and promoting partnerships".

Given that on the path to sustainable development lies the environmental challenge, the Bank of Greece has committed to invest significantly in Goal 13, i.e. climate action, a horizontal goal that contributes to the achievement of all others. As addressing the challenge of climate change calls for coordinated efforts, the Bank of Greece, through its Climate Change Impacts Study Committee (CCISC), is currently involved in an eight-year programme with the Greek Ministry of Environment and Energy and other partners for the implementation of the national adaptation strategy for Greece. The Bank of Greece is also building a stakeholders' network to bring together academia, the public and the financial sectors in stepping up the collective effort to address issues of climate change and adaptation.

Let us now examine what makes a public-private partnership successful.

Public-private partnerships need to be commercially viable schemes in order to attract private sector investment, and there is already good guidance on how public-private partnerships can deliver the value-for-money approach when selecting projects.

Public-private partnerships are just one way to deliver public infrastructure and services. This means that they should not be seen as a "deus ex machina", only stepping in to make up for limitations in public funds to cover investment needs, but also as a way to increase the quality and efficiency of public services. When well designed and implemented, public-private partnerships increase access to capital, foster innovation and produce more efficient public services. They also bring into the projects a business culture oriented towards efficiency, quality and economic viability.

Public-private partnerships are gaining a solid foothold, but face quite a few impediments and challenges. According to the United Nations, public-private partnerships serve as an instrument for financing key economic infrastructure projects and deliver value for money, but only if countries have in place the institutional capacity to create, manage, evaluate and monitor them. These four interrelated capacities ensure that public-private partnerships are undertaken for the "right" reason.[3] The design of a proper legal framework and of contractual arrangements is crucial to make public private partnerships live up to their potential.

This brings me to the next question: what actions can governments take?

Ultimately, building successful partnerships is equivalent to building trust between public and private entities. It is often said that successful partnerships require both parties to have "shared goals". However, since this is very hard to achieve when it comes to public-private partnerships, the focus should rather be on "complementary goals". Misalignment, which includes conflicting goals and incentives, is identified as one of the three major reasons for failure of strategic partnerships.[4] This is where governments have an important role to play. Governments must create the enabling environment in which partnerships can emerge, and moreover, they must develop sufficient regulatory and assessment capacity to ensure that projects actually provide a public good. The more transparent the objectives, targets, and impacts of the projects are, the more effective the partnership will be. In this context, policy actions should focus more than ever on good governance, sound institutions, respect for property rights and legal predictability. It is the responsibility of the public sector to establish a reliable and credible institutional framework.

All around us, we see the power of technology to challenge, disrupt and improve the status quo. Today, the use of Information and Communication Technology (ICT) is expanding public-private partnerships beyond all previous limitations and boundaries. The relationship between public-private partnerships and ICT can be described as symbiotic. The deployment of ICT has the power to improve the services that matter most to people’s lives: education, transportation, public safety, healthcare and social services. In order to transform the way these public services are delivered, governments can collaborate with private corporations to develop such initiatives as e-government, remote healthcare, and intelligent transport.

A transformative innovation policy is essential to sustainable growth. Fostering linkages in the national innovation system has in recent years become a major policy focus, and public-private partnerships can become a major policy instrument. Providing education services and improving learning outcomes is just one area where the public and private sectors can join forces to complement each other’s strengths. For one, making high-quality education accessible to all, calls for innovative programmes and initiatives, in addition to public resources and leadership. In higher education in particular, partnerships with the private sector can, when undertaken properly, benefit all parties. For instance, the curriculum, which is at the core of higher education, when developed by education experts and with input and feedback from the social partners, stands a better chance of leading to better career prospects.

As a final remark, I would like to stress that SMEs are the backbone of the European economy and that the 2030 agenda places micro, small and medium-sized enterprises (SMEs) at the heart of the partnership debate. Not only do they employ the vast majority of people in most EU countries, but also their role as incubators of innovation and inclusive growth is increasingly recognised. These SMEs need support to build their competitiveness.

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In closing, isolationism is not a viable option. The interdependence of economies, value chains, production processes and the increased use of technology have made obsolete the notion of going it alone. Collaboration with the private sector will be critical to bringing additional capacity and transformation on the ground. It can also play an important role as a source of innovative technologies, management and organisational skills and enhanced capabilities.

Private sector, the academia and institutions are all needed to build a compact of active partnerships. Smart partnerships can bring multiple wins for all involved in the medium and long term, where efforts of today can create opportunities for tomorrow.

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1 Eurostat (2019), “Manual on Government Deficit and Debt — Implementation of ESA 2010”.

2 Global Infrastructure Outlook, Oxford Economics.

3 United Nations (2016), “Public-Private Partnerships and the 2030 Agenda for Sustainable Development: Fit for Purpose, DESA Working Paper No 148.

4 Henderson, J., Dhanaraj, C., Perrinjaquet, M. and Avagyan, K. (2019). *Strategic Partnerships*. [online] IMD business school. Available at: www.imd.org/research-knowledge/articles/strategic-partnerships.