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Challenges of PPP Financing to Digital Projects: Empirical Evidence in Greece

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Abstract

Public-Private Partnerships (PPPs) is a modern tool of financing and efficiently implementing public projects (especially infrastructure projects) that supports a country's development prospects and promotes social welfare by reinforcing entrepreneurship and confining public expenditure. The present study evaluates the implementation of PPPs as an Innovative Financing for Development Mechanism (IFDM) in times of crisis. Greece was chosen due to its prolonged state of emergency since 2010 financial crisis, which subsequently was followed by the COVID-19 pandemic. As digital innovation is considered amongst a country's most important key success factors for effectively facing the challenges of the 21st century, the present study focuses on digital transformation PPP financing. This study presents the empirical qualitative research conducted using taylor-made questionnaires to critically assess all digital projects financed by PPP in Greece.The results are evaluated, and a SWOT analysis is presented, concluding to significant practical consideration to design appropriate PPP policy measures

Keywords: Public-Private Partnerships (PPPs); Innovative Financing for Development Mechanism (IFDM); Digital Transformation; Crisis.

Definitions

Public Private Partnerships (PPPs) are contracts of collaboration between the public and the private sector aiming at providing an infrastructure or a service to the public sector, where

- The **private sector** covers all or part of the project implementation costs and a significant part of the risks associated with its construction and operation.

- The **public sector** focuses on defining the design, technical and operational requirements of the project and repays the private sector either by partial payments from the public sector linked to the availability of the project and compliance with its operational specifications, or by direct payments from the end users.

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Evolution of PPPs in Greece

Benefits of PPPs:

- Despite the increased financing costs, it becomes possible to implement projects that would otherwise not be possible to be implemented.
- More projects can be implemented at the same time
- The implementation period becomes shorter.
- The delay caused during design/procurement is compensated by the shorter start-up time of the project.
- This type of supervision, coupled with the payment mechanism, ensures a more effective and efficient control of the public sector in terms of quality of services.
- Allows for the possibility of re-designating what was proved not to work efficiently over time.

Additional reasons for the development of PPPs in Greece:

- By 2018, EU funds were under-utilized.
- Increased risk of insufficient competition & of weakening the negotiating position of the Contracting Authorities.
- Construction delays & significant cost increases.
- Failure to apply a comparative analysis of alternatives.

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Research Question

Aim: to analyze the Greek experience in the implementation of PPP projects.

Focus: IT and telecoms sector → particularly dynamic due to the COVID pandemic.

- The pandemic acted as an "accelerator".
- In 2020, digital transactions exceeded 94,000,000.
- The percentage of prescriptions and referrals issued in paperless form ranges from 30% to 34%.
- Political priorities:
  - **National Recovery and Resilience Plan.**
  - **Digital Transformation Plan.**

Empirical Research

Period: from 15 December 2021 to 15 January 2022.

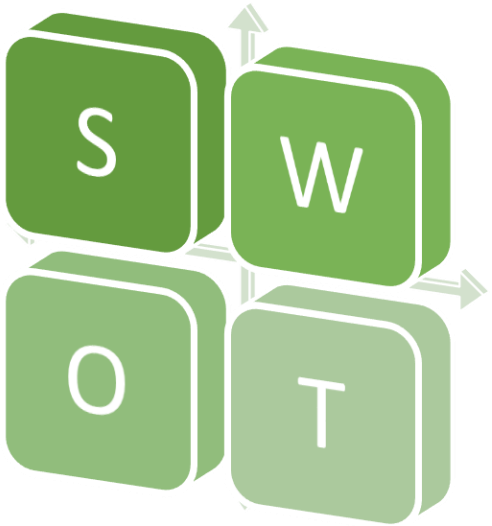
Sending and receiving questionnaires: by e-mail (preceded by telephone contact).

Sample: The set of all completed PPP projects in the field of information technology and telecommunications in Greece:

- Digital recording, storage and availability of court proceedings.
- Development of Broadband Infrastructure in rural "white" areas of the Greek Territory and Infrastructure Exploitation Services (3 projects per one for each geographical unit).
- Implementation of an Integrated Telematics System for the information of passengers of "Odikes Syginonies S.A." (public transport: buses, tram, trolleys) and the management of its fleet.
- Implementation of an automatic fare collection system and toll management services for the OASA group.

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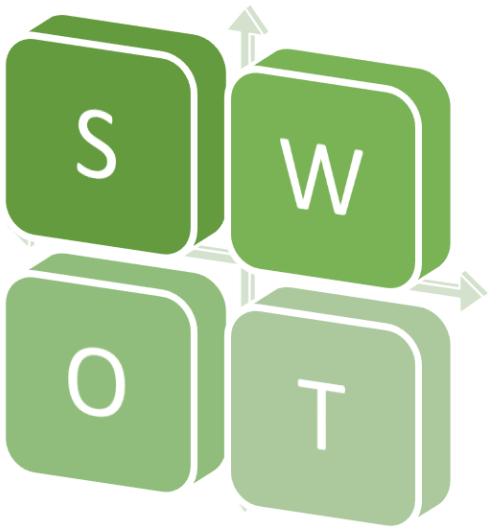
SWOT Analysis/ STRENGHTS



- **Stimulating entrepreneurial spirit/enhancing entrepreneurship.**
- Contributing to the wider development of the State.
- **PPPs is a solution to fill gaps in state funds.**
- Contributing to improving the quality of public works and services.
- **Efficient risk sharing between the public and private sectors.**
- Satisfactory private profitability.
- Significant influence of the projects on society.
- Good cooperation between private parties and contracting authorities and PPPs.
- **High level of expertise of the staff of the PPP Secretariat.**

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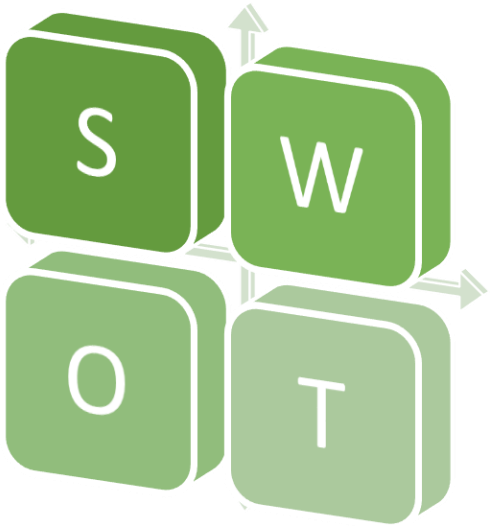
SWOT Analysis/ WEAKNESSES



- Slow project procurement procedures / more speed and brevity.
- The breakdown of projects is not based on realistic business plans that ensure sustainability.
- **Financial burden on the public sector from the recruitment of special consultants for the preparation - monitoring of contracts.**
- Lack of qualified staff in the public administration.
- Lack of a stable legislative, regulatory and fiscal framework / several and frequent changes in standards.
- Lengthy dispute resolution and decision-making by the institutions involved.
- Lack of coordination between central and local government.
- Licenses are issued by various bodies rather than by a central body.
- The issuing of permits by public bodies is not based on specific deadlines, causing delays in projects / there are no relevant clauses.

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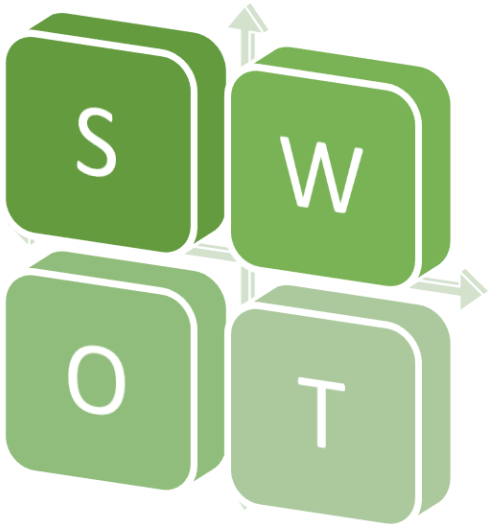
SWOT Analysis/ OPPORTUNITIES



- **Extending the scope of projects to other sectors.**
- **Carrying out training activities for the public administration officials involved - now that the necessary experience is available - in order to reduce the financial burden on the public sector.**
- Contributing projects to the further development of disadvantaged and remote areas with a small commercial market.
- Infrastructure projects with a concession period of more than 15 years (ideally more than 25 years) are suitable for implementation through PPPs.

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SWOT Analysis/ THREATS



- The continued public sector practices that delay the smooth and rapid completion of projects for delivery to citizens.

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Conclusions 1/3

General Evaluation of PPPs

- PPPs is a great solution for filling gaps in the use of state resources.
- Helps to stimulate entrepreneurship.
- Digital projects → "much" better implemented through PPPs.
- PPPs allow for investments that favor the development of less developed regions of the country.

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Difficulties Implementing Projects of PPPs

- Lack of infrastructure in public buildings (lack of space, electrical equipment, internet lines) & reduced familiarity with IT.
- Long delay in the response of government mechanisms (Municipalities) to the licensing procedures (archaeology and forestry).
- Coordination problem between central and local government.
- Existence of different funding bodies within PPP projects, which operate independently, with their own rules adding complexity and delays.
- Difficulty for stakeholders to accept the different way of working that a new project entails.
- Significant lack of support from the government, especially in areas where there is a need to make the operation of the project viable & several and frequent changes of specifications on the part of the public sector.

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Risk & Liability Management Assessment of PPPs

Strikes

- Affect the State →
  - *incorporated into the contract where it is finalized.*
  - *it is the State that determines through legislation the way of working and consequently the strike procedure.*
- Note: distinction between legal and illegal strike action →
  - *the State: illegal strikes (responsibility for the legal framework & compensation/support of the individual).*
  - *the individual: legal strikes (expected & within the business risk).*

Outdated Technology

- Affects the State →
  - *provision in the contract at the request of the individual.*
  - *it is the State that has the obligation for central planning in the commissioning phase, where it checks whether the solutions proposed by the private party are technologically up-to-date or not.*
- Note: distinction according to the origin of demand reduction →
  - *the State: if the State has failed to meet the criteria it set for the private party before awarding the project.*
  - *the individual: if a reduction in demand is not the responsibility of the State / this relates to expected business risk.*

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Implications 1/2

Suggestions for Improving the Institutional Framework

- Opening up the scope of projects to other sectors in relation to existing ones.
- Accelerating the project tendering procedures.
- Organization of workshops and training activities for public executives → possibility to reduce the additional cost of hiring special consultants.
- Online database of PPP projects and Concession Contracts & project implementation guides and specific simulation tools for the development of tenders, risk analysis.
- Segmentation of projects based on realistic business plans that ensure the sustainability of projects over time.
- Setting strict participation criteria - only - for companies that have a proven ability to implement projects and make them operational in the long term.
- A stable regulatory, legislative and fiscal framework that will not change the business plan for the worse.
- Quick dispute resolution and decision-making.
- Coordination between central and local government.
- Issuing permits (Archaeology & Forestry) based on specific deadlines & provision for clauses.
- The existence of a single funding body with fixed rules, which will be known to the private party in advance.

Suggestions for Further Research

- Extend the study on all Greek PPPs, cover all sectors of activity and compare the results obtained
- Conduct a similar study on PPPs implemented in other EU countries in the same sector (digital) and compare the results obtained

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