

PFI: the UK's best export?

Controversial at home, the Private Finance Initiative is rapidly catching on in the rest of the world – especially in former Communist bloc countries. DAVID HARDING investigates

Less than half an hour's drive from Helsinki is Espoo, Finland's second largest city. This southern coastal town is home to many of the high-tech companies, such as Nokia, that have fuelled the Finnish economic success story over the past decade. Now it is the site of another notable landmark – Finland's first municipal Private Finance Initiative project.

The city council turned to the PFI in response to the lack of decent education facilities and a rapidly growing student population – the number of pupils in Espoo is rising by an average of 700 a year. Under a £13m deal, a consortium including KPMG will develop a sixth-form information and technology college, Kuninkaantien lukio (King's Road College). Scheduled to open in August 2003 – Kuninkaantien lukio is being built along traditional DBFO (design, build, finance and operate) lines – it will eventually house 500 students aged between 16 and 20.

'There are many organisations and parties that are interested in our project – because it is the first one,' says Maija Daavittila, who oversees the scheme for Espoo's department of education.

It is unlikely to be the last. Opponents of the PFI may wince at the prospect, but the initiative is turning into a successful British export. Many countries across Europe and beyond are taking the PFI route.

In the Netherlands, more than 40 such projects are either under way or are being considered by the Dutch government of Wim Kok, a former trade union leader and chairman of the Socialist International. The country has also established a sort of Treasury Taskforce unit, the Kenniscentrum PPS (PPP Knowledge Centre), in its Ministry of Finance.

In Ireland, 18 PFI projects totalling £2bn and spanning education, housing, water and waste treatments are under way and the government has set aside £2m worth

It is not, says Lemmink, that the public sector has failed Holland, just that services can be improved with cash and expertise from the private sector

of approvals for local government schemes this year. Among these is the £45m Cork School of Music, whose preferred bidder is a name familiar to many UK PFI deals, the construction group Jarvis.

Portugal has 16 road projects in the pipeline; Spain is considering three schemes, two involving transport.

Italy, like Holland, has set up its own pseudo Treasury Taskforce in its finance department, and – certain to raise a British eyebrow or two – it is intending to replicate the London Underground PPP to develop Linea C, a main line on the Rome tube at a cost of £400m.

Over in the East, Japan has almost 30 local government PFI projects on the go, with the promise of many more as the newly elected government of Junichiro Koizumi struggles to

meet its election promise of slashing public expenditure by 10%. Japanese officials visited Colfox School in Dorset – the first completed PFI education project in the UK – to see for themselves how the initiative works.

In Australia, the government of Victoria is showing increasing signs of interest and has set up 'Partnerships Victoria', a body for 'integrating private sector investment into public infrastructure'.

But one of the biggest potential markets, of which the surface has hardly been scratched, is central and eastern Europe. Several projects here are already under way, especially in those countries, such as Poland and the Czech Republic, that are desperate to join the European Union – from communism to PFI in just 12 short years. Other countries showing interest include Croatia, Bulgaria and Slovenia.

'The government and the voters are happy with PFI in a number of central European countries,' says Richard Temple, a partner at international law firm CMS Cameron McKenna.

Even the unions do not seem too anxious. Wim Bergans, spokesman for the European Trade Union Confederation, says it is up to individual countries whether they use the PFI or not, as long as they remember that service users come first.

And, of course, the private sector – banks, law firms, consultants et al – is licking its lips. This is a market that will run into billions of pounds.

'We are certainly very interested in trying to develop it [the PFI market],' says Jonathan Cripps, part of an Everheds team that oversees the development of international PFI projects.

There is no definitive list of how many countries have so far signed up to the PFI experience. Even if one were compiled, it would probably be out of date by the time it was published – such is the international clamour for a scheme that in this country still sends a shiver down the spines of a large number of politicians, finance directors and trade unionists.

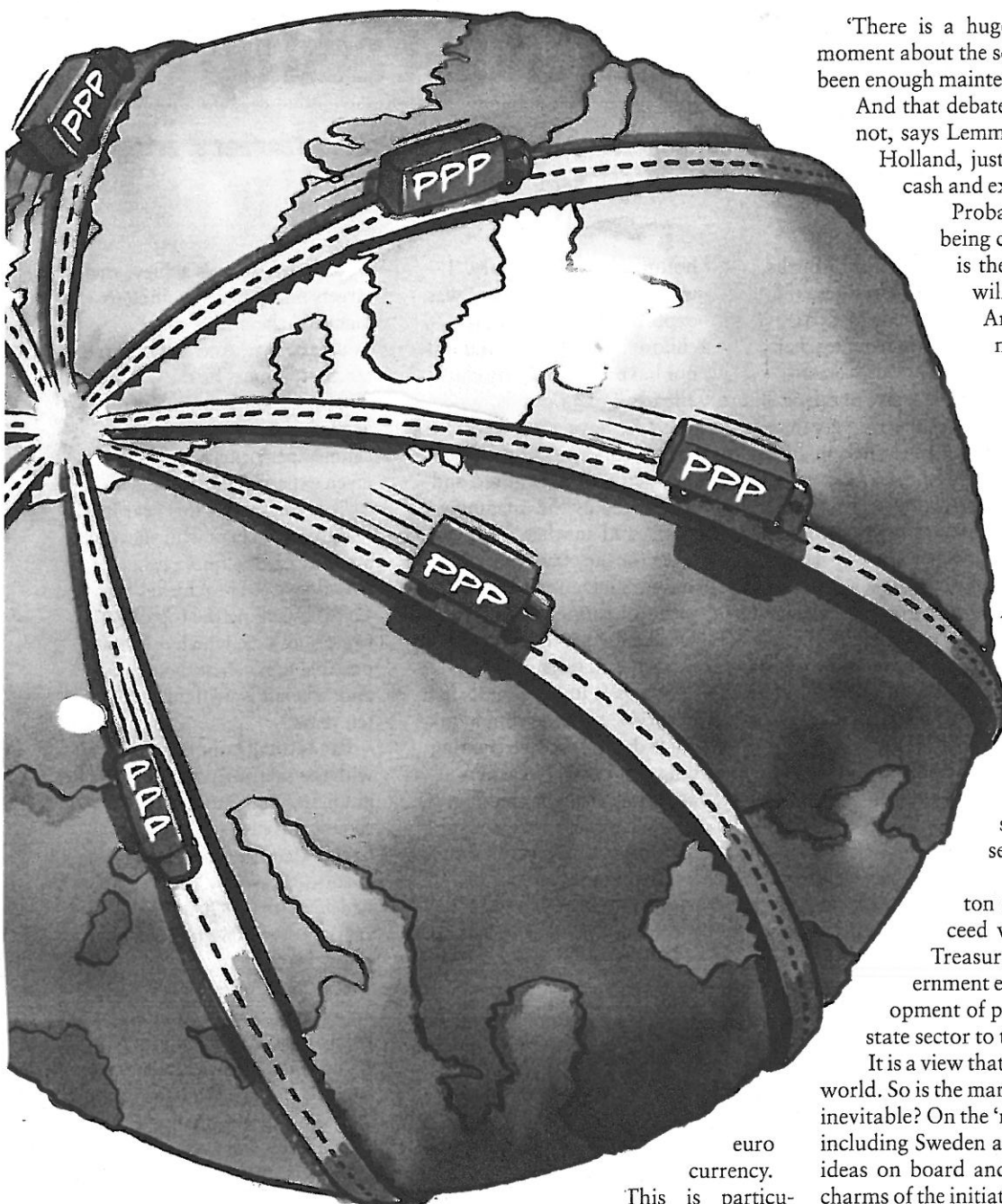
'We have noticed a major change that is taking place,' says Geoffrey Hamilton, regional adviser for trade and investment promotion at the United Nations Economic Commission for Europe. 'More and more governments are understanding that this is something they have to take very seriously, and is important for development reasons. The PFI was seen as a one-off thing for financial reasons. Now it is seen as critical for development.'

There seem to be three major reasons for this global drive. The first is globalisation itself, with an increasing number of countries worldwide adopting increasingly similar policies.

The second, especially in Europe, is governments' need to clamp down on spending to meet the European Union's Maastricht Treaty convergence rules for adopting the



ILLUSTRATION BY SIMON FAIR



'There is a huge debate in the Netherlands at the moment about the service level to the public. There hasn't been enough maintenance in the past couple of years.'

And that debate has the backing of Dutch MPs. It is not, says Lemmink, that the public sector has failed Holland, just that services can be improved with cash and expertise from the private sector.

Probably the most important PFI project being carried out in Holland at the moment is the HSL-Zuid high-speed rail link that will connect the capital Amsterdam with Antwerp in Belgium. Contracts have now been signed and the link is scheduled for completion by 2005. Other Dutch projects include the Kenniswijk (Knowledge District), a project to provide a high-quality information technology infrastructure for Eindhoven, and the redevelopment of a former dockyard in Den Helder.

But the Netherlands is alert to the PFI problems that have been going on in the UK. Lemmink says the Dutch have sought to improve on the British version of PFI by developing tighter contracts with enhanced penalty and intervention systems should the private sector get it wrong. Control of the service must remain with the public sector as well, he adds.

Back at the United Nations, Hamilton says the countries most likely to succeed with PFI are those that replicate the Treasury Taskforce approach, where the government establishes a body to oversee the development of projects in that country and allows the state sector to tap into business acumen.

It is a view that seems to be shared by many in the PFI world. So is the march then to an international PFI utopia inevitable? On the 'no' side is the fact that some countries, including Sweden and France, seem reluctant to take the ideas on board and have so far proved resistant to the charms of the initiative. Others, such as Belarus, may miss out because their international credit rating is so bad that the banks will see them as too high-risk.

Drawing up the complex contracts needed could also be hindered by national laws. For example, there are around 170,000 laws on the Italian statute book, but only 9,000 on Germany's.

However, on the 'yes' side, the spread of PFI seems inexorable. It appeals to governments because it is not ministers who are spending the money – at least in the first place. It appeals to the private sector, as many businesses appear well placed to take advantage of an ever-increasing number of desirably large contracts.

And, in time, it may appeal to those who end up using the services, though as most PFI projects are still being completed, the international jury remains out on this.

And governments worldwide are showing an interest. Later this month, the Irish Taoiseach Bertie Ahern will give the keynote address at the grandly titled 'Second Annual Public-Private Partnerships/Private Finance Initiative Global Summit' in Dublin. Delegates are coming from Argentina, Chile, Bulgaria, Romania, Germany and South Africa.

It seems that everywhere you look in the global village, the PFI has caught on. Those who oppose it will also have to take their struggle worldwide. □

euro
currency.

This is particularly true of aspirational countries such as Poland and the Czech Republic, which are trying to meet public spending conditions set down by Western European leaders for membership of the European Union.

Paul Haley, director of the International Project Finance Association, an organisation that promotes private sector work across the globe, says the controversial 'off balance sheet' appeal of PFI is proving increasingly attractive, as is bringing in 'private sector management and expertise'.

The third reason is that countries that are further along the PFI route claim that it really does provide value for money.

To these reasons could be added a cynical fourth – that, as in the UK, PFI is increasingly becoming the 'only game in town' on an international scale, especially for impoverished countries with few or no resources to develop their infrastructure.

However, those who have tried it appear to like the taste. 'We don't have severe budget problems,' says Frank Lemmink, deputy director of the Dutch Kenniscentrum PPS. 'There is no budget need for PFI but we are looking for ways to provide efficient public services. It is all about value for money.'