

Gauging Global Reactions to the UK PFI Debate

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The PFI model has been under fire in the UK for the past 12 months. Its reputation took a fresh hit at the end of April 2011 when the National Accounts Office published a report suggesting that the UK look at alternative funding mechanisms for healthcare and other social infrastructure projects.

Since the UK is considered to be one of the pioneers of public private partnerships (PPP), and has advised numerous other governments on the adoption of PPPs, it is no surprise that investors and officials in other markets have been keeping tabs on the debate. However, the global reaction has been varied. While the UK's PFI woes have been calmly noted in developed markets such as Canada, but have made little impact on public discussion, more soul-searching is taking place in emerging markets that have adopted the model more recently.

Safe Havens for PPPs

Events in the UK, it seems, have caused barely a ripple in Canada. "Has the PFI debate in Britain impacted on the discourse the Canadian market? The short answer is no. There is a strong drive for PPPs in Canada, and it's a model that has been tested at all levels of government," says Brad Watson, Global Infrastructure Partner at KPMG Canada.

But he believes that there has been one knock-on effect: seeing the freeze in the UK, there are signs that developers and concessionaires are starting to explore opportunities elsewhere, and with its strong track record for PPPs, Canada is a natural safe haven.

"We've been seeing interest from new entrants to the market in the last six to twelve months. I wouldn't say that this is one hundred per cent related to recent events in the UK, as some of these companies might have been looking at Canada anyway, but I do think there is a correlation," said Watson. However, he stopped short of saying who these new entrants were, but told IJ that they were 'the usual suspects'.

Furthermore, public discourse on PPPs in Canada has remained largely favourable, in contrast to the consistent bad press it has received in the UK over the last four quarters since April 2010. While there has been concern about specific projects, the Canadian public has generally been receptive to the use of PPPs.

Experiences at the provincial level in British Columbia, for example, show that the public have generally been more concerned about whether projects are completed on time and within budget than with the procurement model, according to Sarah Clarke of BC government-owned company Partnerships BC.

“The BC public is not as aware of PPP as a mode of project finance as perhaps may be the case in UK. This does permeate into the wider discussion at times, and some of the confusion or negativity may not necessarily be based on facts – one common perception or rather a worry is that it is a mass privatisation of BC’s public services. Simply put, it’s not. We try to counter this sentiment when challenged locally,” Clarke says.

Meanwhile, in Australia, public opinion has been considerably less kind to PPPs than it has been in Canada. A number of high-profile projects that have run behind schedule or over budget have had a negative impact on public opinion and generated a more heated debate in the media, such as the Eastlink toll road in Melbourne [[Project Database](#)].

However, Australia’s infrastructure deficit – exacerbated by widespread damage to infrastructure by devastating floods in Northern Australia at the beginning of 2011 – means that PPPs are more necessary than ever before. The question of how Australia will fund its infrastructure requirements in the near future remains a contentious one, but given the urgent need to rebuild or upgrade infrastructure, it looks as though PPPs are here to stay. Public distrust of PPPs in Australia certainly bears a resemblance to the current discourse in the UK, but the challenges that Australia currently faces in rebuilding its infrastructure after a slew of natural disasters make it harder to argue the case against involving the private sector.

Cautionary Tales

It comes as no surprise that senior officials in the Philippines have been keeping a close eye on recent events in the UK. PPPs have been taken up enthusiastically by President Aquino since the beginning of his term in office mid-2010, and are quickly becoming a hallmark of his Liberal government. Aquino announced five PPP projects at the launch of the PPP Centre in Manila in March this year, including the Manila Light Rail Transit line O&M privatisation and the Daang Hari-SLEX Link Road.

“We are monitoring the situation in the UK very closely, because the Philippines PPP model is effectively a combination of the Australian and British models,” Cosette Canilao, Deputy Executive Director of the PPP Center, told IJ. “We’ve also been looking carefully at the NAO report to see if there is anything that we can learn from it.”

The UK has also been a close collaborator with the country since it embarked on its PPP adventure – representatives from the country’s Treasury visited the newly-appointed PPP Center in March 2011 in order to advise the Philippine officials on the use of the model. Amid the hype surrounding the opening of the PPP Center in Manila, it seems that the British delegation were able to provide some sober advice based on their experiences.

"We discussed the pitfalls of British PFIs during the visit, but it is difficult to make a direct comparison between the two countries as the UK is a much more developed market' Canilao told IJ. 'We talked about lessons that the Philippines could learn from the UK's mistakes, for example by choosing the right projects, ensuring value for money, passing on savings and promoting accountability."

The Philippines is still going full steam ahead with rolling out its PPP program, but has discretely taken the opportunity to learn lessons where it can from the UK.

Legislation, legislation, legislation

The UK's PFI debacle seems to be doing little to dampen enthusiasm for PPPs in Turkey, one of the most buoyant markets globally. A combination of a strong economy, an infrastructure deficit, rapid population growth and a firm government commitment to infrastructure development across sectors means that the outlook for PPPs has never been better. Turkey emerged from the financial crisis as one of the world's most robust economies, with GDP growth rebounding to a solid 7.3 per cent in 2010 and none of its banks failed during the credit squeeze.

"No matter what kinds of failures have occurred in other markets, Turkey is still keen on PPPs. We have national goals as part of Vision 2023, which requires over US \$375 billion worth of infrastructure spending. It is obvious that we cannot finance this from the government budget, therefore we definitely do need to continue using PPPs," Dr Ahmet T Kesli, partner at Group Law told IJ.

Dr. Kesli believes that the model itself is not the issue, but the way that PPPs are used and how they are regulated. He believes that an emphasis on strong legislation is a key factor in the Turkish PPP success story thus far and one that other markets would do well to take note of in the wake of the UK PFI debacle. "The problem in most of the other countries is that they do not have a PPP law, whereas, the situation in Turkey is just the opposite- we have more than enough laws in the country," he concludes.

The good news for international proponents of PPPs is that the furore in the UK seems to have done little to cast doubt on the model itself. The real questions raised are over responsible use and regulation.

Rapidly growing markets with infrastructure bottlenecks such as Turkey and the Philippines have little choice but to use PPPs in future, as public funds alone are nowhere near adequate for meeting their needs. Since there is no question of going back to public financing of major infrastructure projects in these markets, events in the UK essentially serve as a cautionary tale. For maturing PPP markets such as Canada and Australia, the UK debate has ultimately done little to impact on the discourse. This has been an embarrassing moment for the UK, but not for PPPs as a model.