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Corporate Governance in Public- Private Partnerships

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Development

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*Στην μαμά μου που με ανέχεται
και στον μπαμπά μου που μου λείπει*

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1 Abstract

Η παρούσα διπλωματική εργασία έχει ως αντικείμενο την Εταιρική Διακυβέρνηση (Corporate Governance) στις Συμπράξεις Δημόσιου Ιδιωτικού Τομέα (PPP: Public-Private Partnerships). Στο πλαίσιο αυτής, θα αποσαφηνιστούν οι όροι που αφορούν την Εταιρική Διακυβέρνηση, τις Συμπράξεις Δημόσιου Ιδιωτικού Τομέα και τέλος θα υπάρξει μια μελέτη περίπτωσης του Διεθνούς Αεροδρομίου Αθηνών, ενός χαρακτηριστικού παραδείγματος έργου ΣΔΙΤ όπου παρατηρείται και Εταιρική Διακυβέρνηση. Η εργασία περιλαμβάνει 7 κεφάλαια.

Πιο συγκεκριμένα, στο πρώτο κεφάλαιο δίνονται οι ορισμοί βάσει βιβλιογραφικής ανασκόπησης της εταιρικής διακυβέρνησης, οι βασικές αρχές που ακολουθούνται, οι διάφορες θεωρίες ανάπτυξης της Εταιρικής Διακυβέρνησης στις σύγχρονες εταιρείες καθώς και οι βασικοί μηχανισμοί που παίζουν καθοριστικό ρόλο στην σωστή διεκπεραίωση της.

Στο δεύτερο κεφάλαιο δίνονται οι ορισμοί βάσει βιβλιογραφικής ανασκόπησης των Συμπράξεων Δημόσιου Ιδιωτικού Τομέα, ο ρόλος που έχει ο Δημόσιος και Ιδιωτικός Φορέας για την δημιουργία της Σύμπραξης, τα μοντέλα των Συμπράξεων που παρατηρούνται στην Ευρωπαϊκή Ένωση και τέλος τα πλεονεκτήματα και μειονεκτήματα τους.

Στο τρίτο κεφάλαιο γίνεται μια ανάλυση της Εταιρικής Διακυβέρνησης στις Συμπράξεις Δημόσιου Ιδιωτικού Τομέα καθώς και οι διαφορετικοί τύποι διακυβέρνησης που παρατηρούνται στις Συμπράξεις.

Στο τέταρτο κεφάλαιο περιγράφεται αναλυτικά ο τρόπος χρηματοδότησης των Συμπράξεων Δημόσιου Ιδιωτικού Τομέα στην Ευρωπαϊκή Ένωση αλλά κυρίως στην Ελλάδα.

Στο πέμπτο κεφάλαιο υπάρχει μια αναλυτική περιγραφή των Συμπράξεων στην Ελλάδα και ο τρόπος όπου υπογράφονται τα έργα ΣΔΙΤ.

Στο έβδομο κεφάλαιο παρουσιάζεται η μελέτη περίπτωσης του Διεθνούς Αεροδρομίου Αθηνών. Πιο αναλυτικά υπάρχουν γενικές πληροφορίες για το Αεροδρόμιο, ο τρόπος της δημιουργίας της σύμπραξης, η χρηματοδότηση, η δομή των

Μετόχων αλλά και της Διοίκησης και τέλος συγκρίνονται οι Βασικές Αρχές της Εταιρικής Διακυβέρνησης με την Εταιρική Διακυβέρνηση του Διεθνούς Αεροδρομίου καθώς και το πόσο καθοριστικό ρόλο στην σωστή Εταιρική Διακυβέρνηση παίζουν το Διοικητικό Συμβούλιο, ο Γενικός Διευθυντής και ο Πρόεδρος του Διοικητικού Συμβουλίου.

Τέλος, στο όγδοο και τελευταίο κεφάλαιο παρουσιάζονται τα συμπεράσματα που προέκυψαν από το περιεχόμενο της εργασίας.

2 Corporate Governance

2.1 Literature Review in Corporate Governance

Corporate governance is one of the key elements in improving economic efficiency and growth, as well as enhancing investor confidence. Corporate governance includes a set of relationships between the management of a company, its Board of Directors, its shareholders and other stakeholders.¹ It is about creating a balance between economic and social goals and between individual and communal goals while encouraging resource efficiency, accountability in the use of power, and managing and aligning the interests of individuals, companies, and society. Managers are primarily accountable to shareholders who are at stake wealth and property and are responsible for employees, suppliers, customers, and communities whose investments in the company are equally important in other important points. It also includes the creation of an appropriate legal, financial and institutional environment that will allow companies to thrive as institutions for promoting the long-term value of shareholder and maximum human-centered development while at the same time being aware of their other responsibilities to the stakeholders, the environment and the society in general. Governance thus sets the tone for the organization, defining how to exercise power and how to make decisions.

The need for corporate governance arises due to the separation of management and ownership in the modern company. In practice, the interest of those who have effective control over a company differs from the interests of those who supply the company with external financing. The 'principal-agent' problem is reflected in management that seeks activities that may be harmful to the company's shareholders. The agency problem can usually only be reduced only through the protection that has emerged from good corporate governance.

¹ Sounik Kajal Kumar Dash and Dr. P. Yesudoss, Corporate Governance, 1

Corporate governance also deals with honesty and transparency, which is increasingly expected by the public both in corporate transactions and disclosures. Corporate governance also provides the structure through which the company's objectives are defined and the means to achieve these goals and performance monitoring are controlled. Good corporate governance should provide appropriate incentives for the Board of Directors and management to pursue objectives that are in the interests of the company and its shareholders and should facilitate effective monitoring. The emergence of an effective corporate governance system, in an individual company and in an economy, contributes to providing a degree of confidence that is essential to the smooth operation of a market economy. Thus, the cost of capital is lower and companies are encouraged to use resources more efficiently and, as such, will stimulate growth.

While the above concerns mainly the mechanisms and principles of internal governance, a holistic view of Corporate Governance should also address the mechanisms of external governance, including the takeover and the legal system. There is no universally accepted definition of corporate governance. In general, corporate governance refers to private and public companies, including laws, regulations and accepted business practices, which govern the relationship between corporate managers and entrepreneurs (corporate insiders) and those who invest resources in the business.

2.2 Principles of Corporate Governance^{2,3,4}

1. The Board's supreme mission is to select a Chief Executive Officer and supervise the CEO and senior management in the sufficient operation of the company business because, although corporate strategies are designed to build sustainable long-term value.

² Noam Noked, Principles of Corporate Governance 2012, 2

³ Business Roundtable, Principles of Corporate Governance, 2

⁴ Principles of Corporate Governance 2016, 3

2. It is the responsibility of management, under the direction of the Board of Directors, to operate the company in an effective and ethical way to produce long-term value for shareholders. The Board of Directors, the CEO and senior management should set a "tone at the top" that will adopt a culture of legal compliance and integrity. Directors and management should never put personal interests ahead of or in conflict with the interests of the business. "Tone at the top" is a term that it is found in the field of accounting and is used to describe the overall ethical climate of the company, set up by the Board of Directors, the audit committee, and the senior management.
3. It is the responsibility of management, again under the supervision of the Board of Directors, to develop and implement corporate strategic plans and to identify, evaluate and manage the risks built into the corporate strategy. The Board of Directors should understand the company's strategic plans, the associated risks, and the steps that management should follow to monitor and manage these risks. The aim of these actions is to produce sustainable long-term value creation.
4. The Board of Directors and the senior management should agree on the suitable profile for the company and should be comfortable to ensure that the strategic plans are consistent with that risk profile.
5. It is the responsibility of the management, under the supervision of the audit committee and the Board of Directors, to prepare financial statements that fairly present the financial condition and results of the company's activities so that investors are informed in good time of their economic and business prosperity and company risks and overseeing the company's risk management and compliance programs.
6. It is the responsibility of the Board of Directors, through its Audit Committee, to hire an independent accounting firm to audit the financial statements prepared by management and express an opinion that these statements are accurate and also oversee the relationship of the with the outside auditor.

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7. It is the responsibility of the Board of Directors, through its Corporate Governance Committee, to play a leadership role in the form of the corporate governance of the business but also in the composition and leadership of the Board of Directors. The Corporate Governance Committee should regularly assess the backgrounds, skills, and experience of the board and its members and undertake succession planning for the Board of Directors.
8. It is the responsibility of the board, through its compensation committee, to adopt and supervise an executive compensation philosophy, to set targets for performance-based compensation, and to determine the compensation of the CEO and senior management. Compensation policies and goals should be aligned with the long-term creation strategy of the company, which they try to create incentives to innovate and produce long-term value for shareholders without excessive risk. These policies and the resulting compensation should be clearly transferred to the shareholders.
9. It is the responsibility of the corporation to engage with long-term shareholders in a meaningful way on issues and concerns that are of widespread interest to long-term shareholders, with appropriate involvement of the Board of Directors and management. Shareholders who engage with the Board of Directors and Management in a manner that may affect corporate decision-making or strategies are encouraged to disclose appropriate identifying information and assume some accountability for the long-term interests of the company and its shareholders. As part of this responsibility, shareholders should recognize that the Board of Directors should continually weigh both short-term and long-term uses of capital when determining how to allocate it in a way that is most beneficial to shareholders and building long-term value.
10. In decision-making, the Board of Directors may examine fairly, directly and effectively to build long-term value creation the interests of all constituencies of the company, such as employees, customers, suppliers and other constituencies.

2.3 Strategic Management Approaches to Corporate Governance

Corporate governance relies heavily on the impact of the agency theory.⁵ It mainly concerns the separation of tasks between principals-shareholders and agents-managers.

2.3.1 Agency Theory

Agency theory claims that agents may be tempted to take action and make decisions that are not in the best interest of the principals. Generally, companies can be considered as a matrix contracts between equity owners in this company. These actions could take the form of maintaining costly pay packages to their advantage, avoiding mergers and acquisitions in the fear of losing their own privileges or, on the contrary, encouraging merger and takeover plans that could only serve the benefits of agents with large allowances and stock options rather than the long-term interests of shareholders. In practice, it is a rule that managers or executives make all the operational and strategic decisions in an organization. In most cases, if not all cases, the managers who make decisions in the organization do not own shares in the company. In this way, the role of management incentives programs, such as stock options, has been analyzed as potential mechanisms for aligning the interests of stakeholders and agents. Although managers are working to maximize shareholders' or owners' wealth, it is reasonable to expect that they will not only make decisions that maximize shareholders' wealth all the time but also their own wealth. They often focus on their own interests before the interest of the shareholders. This is the background for problems in the agency theory. Agency theory is created by managers who maximize their own wealth at the expense of shareholders' wealth, through excessive self-employment. Making decisions focusing on short-term performance rather than long-term growth (capital budgeting), but also avoiding long-term risky projects, thus increasing agency costs and influencing investment assessment decisions.

⁵ Groce Chris et al., 371

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Corporate governance policies aim at minimizing the agency costs and maximizing the value of the company. A company uses commitment and monitoring measures to reduce agency costs- the deviation from the main goal of maximizing shareholders' wealth. These measures are sometimes referred to as 'the carrot and the stick', which means rewarding good performance and being punished for poor performance. One of the ways to minimize the ability of managers to avoid investing in risky projects, thereby increasing agency costs, is to develop a corporate policy that entrusts decision-making to the managers and control over shareholders, which helps shareholders determine their own level of risk which they can control.

The Agency Theory determines the relations in which the shareholders assign specific tasks and specific responsibilities and powers within the context of an entity's action to the agent.

2.3.2 Stakeholder theory

A stakeholder in an organization is (by definition) any group or person who may be affected or affected by the organization's goals.' Initially, stakeholders were identified as those in whom an organization could not survive, those in which the organization was involved. Now, on the contrary, stakeholders are more often recognized as individuals participating in an organization. This represents a radical change from those that affect the organization to those affected by it. Freeman and Reed (1983), define stakeholders as: 'any identifiable group or individual who can influence an organization's goals or is affected by the goals of an organization. The theory is also defined as "the extent to which managers give priority to competing claims of stakeholder"'.

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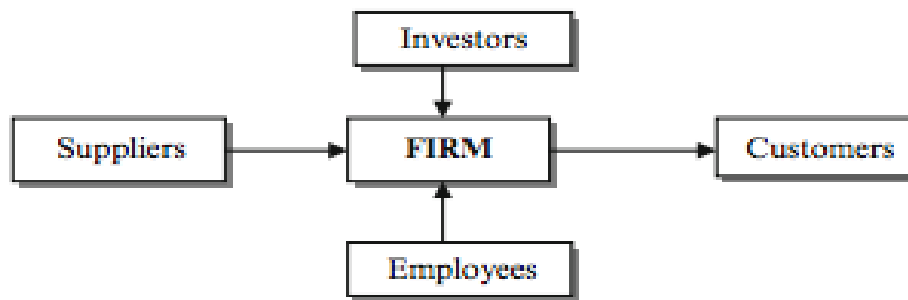


Figure 1: Contrasting models of corporation: the input-output model (Donaldson and Preston 1995)

Figure 1 shows the relationship between the company and its stakeholders. The number of stakeholders has grown since corporate governance became a rebellion after the collapse of high-level companies and the recognition that companies with trapped corporate governance perform better than companies with poor corporate governance. The success of organizations depends more on simple players with explicit contracts and financial interests such as investors, shareholders, suppliers, employees, customers as in Figure 1. Now it depends on all stakeholders with explicit and indirect contracts, such as government agencies, local communities, trade unions organizations, political groups, etc.

Deegan (2009) clarified the stakeholder theory, adding that the stakeholder theory protects the interests of stakeholders in two ways. The first one is ethical (moral) or normative and the second is the positive (managerial). The normative one stakes that stakeholder management should lead to improved and efficient financial management and that benefit all stakeholders and deal equally with stakeholders. There is an obvious conflict between stakeholder theory and agency theory, which claims that the only important relationship the organization must cherish and protect is that between the shareholders and the managers (Psaros 2009). Stakeholder theory examines an organization from a broad perspective and not from a narrow focus because there are many common factors that make an organization a successful entity. For example, unhappy employees, suppliers, customers, government departments, local community, etc., may force a company to fail in its efforts, which could lead to the collapse of the organization. These various stakeholders have an impact on the organization and the

organization has also an impact on them. It is a symbiotic relationship. The organization benefits from stakeholders and the stakeholders benefit from the organizations.

2.3.3 Shareholder Theory

The shareholder theory was originally proposed by Milton Friedman and states that the sole responsibility of business is to increase profits. It is based on the assumption that the management has been hired as the agent of the shareholders to run the company for their benefit and is therefore legally and morally obliged to serve their interests. The only requirement for the rule to make as much money as possible is “compliance with the basic rules of society, which are incorporated into the law and those embodies in the moral.”

The shareholder theory is now seen as the historic way of working with companies that realize that there are disadvantages to focusing solely on the interests of shareholders. Focusing on short-term strategy and greater risk-taking are just two inherent risks. The role of shareholder theory can be seen in the decline of many corporations, where continued pressure on managers to increase returns to their shareholders has led to manipulation of company accounts.

2.3.4 Stewardship Theory

Psaros (2009) states that as the stakeholder theory, the views of stewardship theory differ from agency theory. For example, stewardship theory does not support the view that individuals are utility maximizers and does not support the claim that all business decisions are based solely on economic reasons. It argues that some business decisions are based on non-economic returns such as those related to social status in the community. Donaldson and Davis (1991) estimate that some individuals are motivated to make decisions with an inherent satisfaction in taking up a task that causes them and/or gaining trust from peers and supervisors. The core of stewardship theory is how individuals classify their social needs in a community, such as their acceptance

and exploitation by peers and supervisors. Like executives' fees or compensation, they need help in aligning individual interests with the goals of their organization. If the organization maintains a good relationship with the stakeholders, including the local community, individuals rank social status high on their list of needs, then it would help them to further enhance the organization's goal. Psaros (2009) argues that stewardship theory states that managers do not start with the intent to maximize their own utility to the detriment of other stakeholders' interests. To support the stewardship theory, Kiel and Nicholson (2003) state that 'underlying this rationale is the assertion that since managers are naturally trustworthy there will be no major agency costs'.

Acceptance of stewardship theory has an adverse effect on a widely-accepted theory, that holding the Chairman of the Board of Directors independent of the CEO gives the organization the legitimacy to claim that it has effective or sound financial management and therefore improves the return on equity (ROE) to the shareholders. In the case of high-end companies, for example in the humble principles of Microsoft and the Internet companies, the Chairman-CEO duality can send a positive message to the market because it supports stewardship theory and strengthens the social status by reducing the agency cost. It can also lead to a clear leadership that can lead to better corporate performance.

2.3.5 Resource Dependent Theory

In addition to the studies exploring the relationship between board composition and business performance, sociologists have focused on the relationship between the company's social network and the business performance. These studies formed the resource dependency theory. The resource dependency theory explains how the success of the business is linked to its ability to control its external resources. The board of a company plays many vital roles, such as providing management advice on operational and strategic issues and monitoring management. In addition, it is also an important link between the organization and the external resources that an organization needs to maximize its performance. The more control the organization has on external

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resources, the lower the costs of resources and the greater the chances for the company to minimize agency costs. The firm can then maximize resource usage to maximize the value of the business. It will also help in making strategic plans more workable and mitigate agency costs. If the success of the organization depends on external resources, then its members on the Board of Directors of the resources company that can help to create a relationship between the organization and the external resources, improves the financial efficiency and management of the organization, reduces agency costs and hence maximizes the value of the firm. It also reduces the uncertainty of accessing the resources and external dependencies. It is believed that agency theory, stewardship theory and resource dependence theory all play a vital role in determining what should be appropriate corporate governance policies and structures.

2.4 Other Corporate Governance Mechanisms

Other corporate governance mechanisms suggested are the inclusion of outsiders in Board of Directors by introducing the idea of independent non-executive members to the Board of Directors. Alternatively, it is proposed to represent minority shareholders. Non-executive membership is requiring, amounting to levels, taking into account the local laws applicable to each capital market. The introduction of specialized committees operating within the Board of Directors is an alternative measure that underlines the need for corporate decisions. These mechanisms are combined, believed to limit the size of the agency problem, even though policy makers accept the failure of these mechanisms to completely abolish it.

The use of incentive schemes for agents is based on the premise that if managers are satisfied with the level of compensation, they will align their decisions in the best interests of the shareholders they represent. Incentive contracts could be found in the form of stock options that derive their value from accounting goals or performance measures in relation to the overall market. The best contract derives its value from the avoiding the risk of the manager and the extent to which his decisions affect the well-being of the company and hence of the shareholders as well.

2.4.1 Board of Directors

The Board of Directors has a vital role in overseeing the company's management and business strategies to achieve long-term value creation. Choosing a well-qualified chief executive officer (CEO) to lead the company, monitor and evaluate the performance of the CEO and supervise the CEO's succession planning process are some of the most important functions of the Board of Directors. The Board of Directors gives to the CEO- and through the CEO to other senior management- the authority and responsibility for operating the company's business. Effective directors are diligent monitoring, but not managers, of business operations. They exercise vigorous and diligent supervision of the affairs of the company, including key areas such as strategy

and risk, but they do not manage –or micromanage- the company’s activities by conducting or duplicating the duties of the CEO and senior management team. The distinction between supervision and management is not always accurate and some situations (such as crisis) may require greater involvement of the Board of Directors in business matters. In addition, in some areas (such as the relationship with the external auditor and the executive’s compensation), the Board of Directors has a direct role instead of a supervisory role.

In addition to the executive’s compensation, a further mechanism used to mitigate the agency problem is to strengthen the role of the Board of Directors. The Board of Directors represents the second tool of corporate importance that incorporates government power. The Board of Directors is the primary direct factor affecting corporate governance. Directors are elected by shareholders or appointed by other members of the Board of Directors and represent the shareholders of the company. The Board is in the charge of making important decisions, such as corporate appointments, executive compensation, and dividend policy. In some cases, the Board’s obligations extend beyond financial optimization when shareholder’s resolutions demand that priority is given to certain social or environmental concerns. Boards are often comprised of internal and independent members. Internals are major shareholders, founders and executives. Independent directors do not share the ties of the shareholders but are selected because of their experience being managed by other major companies. Independents are considered useful for governance because they mitigate the concentration of power and help align shareholders’ interest with those of the stakeholders. The more independent the Board is, the greater its monitoring power. In addition to their degree of their independence, Boards must consist mainly of non-executive members. This will in part ensure greater autonomy and compliance with decisions that are not harmful to main shareholders. Boards of Directors should also meet with such frequency as will ensure maximum possible monitoring and control.

Boards should judge the required frequency of meetings by balancing between costs and benefits derived from them. A further feature of Board’s efficiency is its leadership structure, which cannot be ensured by simply increasing the number of non-

executive members. Some degree of executive membership participation is necessary and a strong appointment committee can ensure that only the most capable and committed individuals will be part of it.

The Board of Directors is responsible for a number of key matters, including the relationship with the external auditor and the executive indemnity, such as:

- Selecting the CEO
- Setting the “tone at the top”
- Adopt corporate strategy and monitoring the implementation of strategic plans.
- Establishing the company’s risk appetite, reviewing and understanding the major risks and overseeing the risk management processes.
- Focusing on the integrity and clarity of the company’s financial reporting and other disclosures about corporate performance
- Allocating capital
- Reviewing, understanding and supervising annual business plans and budgets.
- Reviewing the company’s plans for business resiliency
- Nominating directors and committee members, and overseeing effective corporate governance
- Monitoring the compliance program

2.4.2 Chairman VS CEO

Another important disincentive against a person’s extended power is the separation of roles between the Chairman of the Board of Directors and the Chief Executive Officer of the company. In the business world, before the introduction of corporate governance ideal practices, this duality phenomenon was considered to be common. In addition, companies in Europe, where family business have been and still are a large proportion of public companies, can find companies where the same person is also the main shareholder. Gathering all these powers is considered undesirable for the well-being of small shareholders and the real long-term interests of the company itself. In the case of overcoming this problem, the Board of Directors has an increasingly

important role in controlling the managers' decisions, aligning them with the objectives set by General Assembly, with the subsequent benefit of economic performance. However, it can be argued that non-acceptance by companies to reward their good performance the CEOs with the Chairman's position is an obstacle to the policies that do not follow the separation of these two roles does not hold, and the risks incurred from the need to replace the person holding these positions in the case of bad performance, it becomes clear that firms should consider it very seriously before allowing with this situation to be extended.

When examining the structure of Boards, it is argued that the degree of non-executive members of the Board of Directors of a company guarantees a more effective follow-up of the management team's actions, and this Board is also more likely to make changes in the management team if necessary. Boards that are controlled by non-executive members are also more likely to buy objective data on their decisions on the best choice for a management position among candidates. This is part of the responsibilities of the Remuneration and Human Resources Committee, which will keep a short list of potential leaders of all major management as well as the position of the Board of Directors. Another positive aspect of the Board is the positive reaction of the market, as the general idea is that will prevent negative performance from the managers.

Corporate governance describes all influences affecting institutional processes, including those relating to the appointment of the controllers and/or regulatory authorities involved in the organization of the production and sale of goods and services. This describes how corporate governance includes all types of companies or whether they are incorporated into civil law. Companies can operate either as joint or civil law companies, partnerships, joint ventures, limited liability partnerships, cooperatives, mutual associations, building societies, friendly societies, trading trusts, etc. Companies, can also trade publicly, privately held, for-profit, or not-for-profit.

2.4.3 Management ⁶

The management team, headed by the CEO, is responsible for setting, managing and executing the company's strategies, including but not limited to operating under the supervision of the Board of Directors and advising the Board on the status of the company's operations. Management's responsibilities include strategic planning, risk management, and financial reporting. An efficient management team directs the company with an emphasis on executing the company's strategy for a significant time horizon and avoids unnecessary emphasis on short-term measurements.

The CEO and management, under the direction of the CEO, are responsible for the development of the company's long-term strategic plans and the effective execution of the company's business in accordance with the strategic plans, such as:⁷

- Business operations
- Strategic planning
- Allocation of capital
- Identifying, evaluating and managing risks
- Accurate and transparent financial statements and disclosures
- Annual operating plans and budgets
- Selecting appropriate management, establishing an effective organizational structure and ensuring effective succession planning.
- Business flexibility
 - Identification of the Risk
 - Preparedness of the Crisis

⁶ Principles of Corporate Governance 2016, 5-6

⁷ Principles of Corporate Governance 2016, 9-10

2.4.4 Shareholders⁸

Shareholders invest in a company by purchasing its stock and earning financial benefits in return. Shareholders are not involved in the day-to-day management of business operations, but they have the right to elect representatives (directors) and receive information material for investment and voting decisions. Shareholders have to expect corporate boards and managers to act as long-term stewards of their investment in the company. They also should expect that the board and management will be responsive to issues and concerns that are of great interest to long-term shareholders and affect the long-term value of the company. Companies are speculative businesses that are designed to provide sustainable long-term value to all shareholders. Therefore, shareholders should not expect from the public companies in which they invest as platforms to promote their personal agenda or to promote general political or social causes.

Some shareholders may seek a voice in the strategic direction and decision-making areas of a company, which traditionally fall under the responsibility of the Board of Directors and management. Shareholders seeking this influence should recognize that this type of empowerment necessarily implies taking responsibility for the long-term value creation goal for the company and all its shareholders.

⁸ Principles of Corporate Governance 2016, 6

3 Public-Private Partnerships

3.1 Literature Review in Public-Private Partnerships

Public-Private Partnerships (PPP) are long-term contracts between private and public sector entities, with the aim of implementing projects and providing services.⁹

The private and public sector have distinct roles:

- The ownership of the property remains in the Public, which also has a strong supervisory and regulatory role.
- Construction of quality projects while providing high-quality services to citizens/end users
- Utilizing the expertise and efficiency of the private sector
- An important tool for stimulating economic growth, utilizing private funds in development projects.

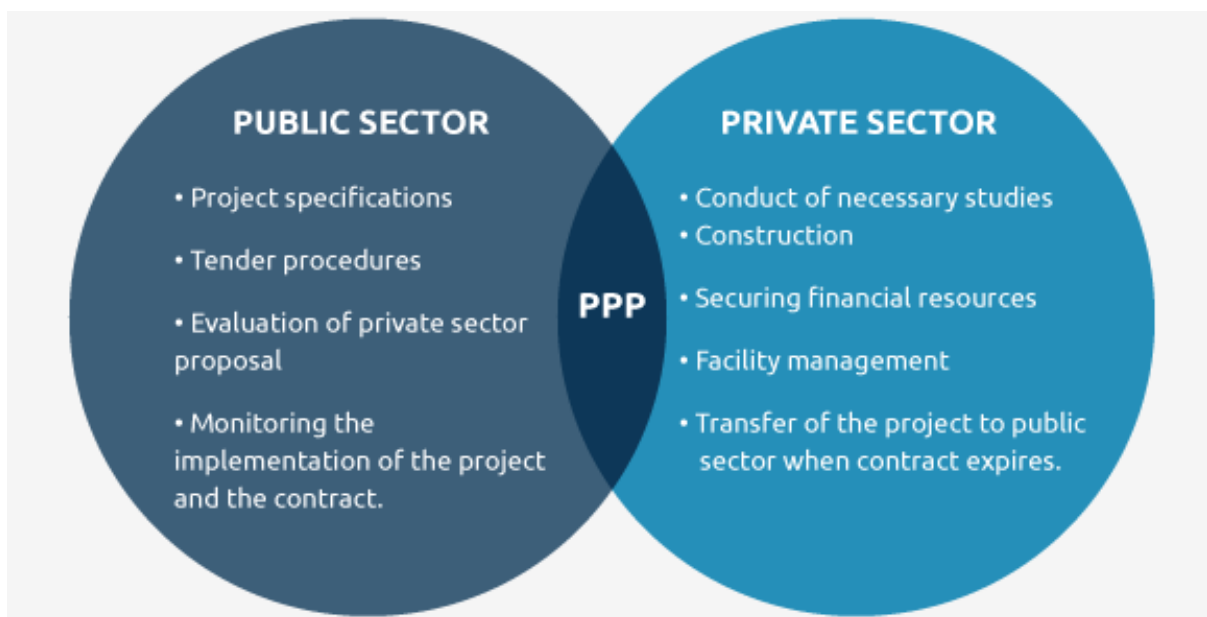


Figure 2: Public-Private Partnership (SDIT website)

A Public-Private Partnership is an agreement between a public sector and a private sector enterprise to conclude a long-term contractual agreement for the design,

⁹ www.sdit.gr

construction and operation of capital intensive projects while trying to obtain value for money by the appropriate allocation of risks.

In a PPP scheme, the private sector bears, in whole or in part, the cost of implementing the project, as well as a significant part of the risks associated with its construction and operation. The public sector, on the other hand, defines a set of output specifications for the design, technical, and operational characteristics of the project and determines the private sectors' payment mechanism, either through partial (e.g. annual) payments linked to the project availability and compliance with production specifications or through direct payments by the end-users through fees (e.g. tolls).

The objective of PPPs is the involvement of private partners in the implementation of projects or the provision of services, not only to provide additional financial resources but also to use their know-how, human resources, innovative approach and ability to efficiently manage complex projects for the public benefit. The main benefits of PPPs are the following:¹⁰

- **Ability to finance more projects**

The Government, together with the local authorities, should respond to the ever-increasing needs and demands of the citizens for the modern and high-quality provision of infrastructure and services. The use of private funds, complementary to the public, can contribute to the faster implementation of projects and the provision of services. PPP schemes are a means of achieving the strategic priorities of public entities, complementing not only traditional public works, which by no means will be limited, but also to other forms of partnership between the public and the private sector, such as the concession agreements of the Ministry of the Environment and Public Works or the partnerships of Local Authorities with private partners, which are still in place. Under PPP schemes, public entities are implementing and offering to citizens more works and services in a faster and more efficient way.

¹⁰ www.sdit.gr

- **Transfer of risks to the private sector**

Incorporating, depending on the structure chosen, the design, financing, construction and operation of a project within a PPP structure, along with the transfer of relevant risks to the private partner, creates incentives for a more diligent and efficient planning and implementation of the projects. This, in fact, results in significant reductions, if not abolishment, of cost and time overruns. In addition, the fact that the private partner also assumes responsibility for the maintenance of the projects results in higher quality services with greater functionality throughout the project's lifecycle.

- **Enhancement of the investment environment**

PPP schemes mobilize more funds than those that the public sector has to mobilize, thus allowing various parties and private sector investors to participate in infrastructure projects, innovate and develop new activities. The long-term nature of PPP projects has the effect of creating economically stable businesses with predictable cash flows. These cash flows feed the market and thus promote the growth of the economy.

3.2 Role of Public and Private Sector and Main Stakeholders

In a PPP scheme, the roles of the public and private partners are clearly determined.

The Public Sector is committed to defining the overall PPP project by evaluating the private sector proposal by supporting the implementation of the projects, monitoring the implementation of the projects and respecting the contractual obligations of the private sector.

The Private Sector undertakes the studies according to the general plan of the notice, the construction of the project, to ensure the required financing of the project, the management and operation of the project or its maintenance and the return to the project after the end of the contract period.

The success of a PPP depends on effective cooperation between all the actors involved, both the Private and Public Sectors.

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In general, the Private Sectors are mainly construction companies, financial institutions, management companies with experience in operation and exploitation and consultants' companies.

On the Other hand, the involved parties in the Public Sector are Joint Ministers' PPPs Committee, a Contracting Authority company and the Special Secretariat for Public-Private Partnerships from the Ministry of Economy and Finance

3.3 Models of Public-Private Partnerships in the European Union¹¹

This section contains a brief overview of the main types of PPP ranging from the most sophisticated modes of private sector involvement in the most complex forms of PPP involving higher risk transfers from the public to the private sector. The main models are:

- **Service contracts** are agreements between a public sector and the private sector, which are particularly suited to simple, short-term business requirements. It is a very limited form of PPP, where the private party procures, operated and maintains an asset for a short period of time. Management and investment responsibilities remain in the public sector, which carries the risk of financial risk and residual value but benefit from the technical expertise of the private sector without cost control without transferring the quality control of the results. Service contracts are commonly used for toll collection, vehicle maintenance or other technical activities.
- **Operation and management contracts** are agreements in which the responsibility for asset operation and management is transferred to the private sector. The duration is generally small but can normally be extended. The private sector is remunerated on a fixed fee basis or on an incentive basis, with premiums linked to specific performance targets. The public sector still has the investment risk and the financial risk. This type of contract allows for significant returns on profits and investments in technological complexity as the private sector has a keen interest in improving service quality to reduce both overall costs and the demand risk during the operational phase. This type of agreement is particularly appropriate during the transition phases that eventually lead to privatization. It can also be used to stimulate greater private participation in the provision of services, setting the conditions for a greater involvement of the private sector at the secondary stage.

¹¹ IP/A/IMCO/NT/2006-03, 8

- In **Leasing agreements**, the private sector buys the revenue streams generated by the public sector in the form of a fixed lease and the obligation to operate and maintain the asset. Since the commercial risk and the demand risk are transferred to the private sector, the private sector has an incentive to achieve operational efficiency. The private sector will only make a profit if it succeeds in reducing operating costs while meeting the specified service level. On the other hand, the public sector has the risks associated with network expansion (construction), capital improvements and financing. Leasing is particularly suited to infrastructure that generates independent revenue streams, as in the case of public transport. More complex leasing schemes such as the BBO, LDO or WAA distribute a greater construction risk to the private sector, thus reducing the burden on the public sector.
- **Turnkey procurement or Build-Operate-Transfer (BOT)** is a complete type of partnership in which the private sector is responsible for the design, constructing and operating the asset. The combination of these different responsibilities under a single entity increases efficiency gains and eliminates important maintenance issues from the public budget. This integrated scheme obliges the private sector to take into account the cost of designing and managing the service itself. And here, the public sector bears the financial risk. However, unlike other types of PPP, the public sector has waived control on the significant life-cycle phases of the asset. Since the ownership of the asset generally remains in the public sector, the specification of the quality of production is necessary to achieve the desired results. The BOT scheme is particularly well suited for water and waste projects and can be reduced to various variants (BOOT, BROT, BLOT and BTO) depending on the specific needs.
- In **Design-Build Finance-Operate (DBFO) schemes**, the private sector designs the service or the asset in accordance with the requirements set by the public sector, secures and finances the construction/implementation of the asset/service after the design phase and installation. At the end of the PPP contract, the service or asset may be granted to the public sector under the terms of the original PPP

contract. In the alternative, the agreement is renegotiated. DBFO is the most complex type of PPP, as it guarantees all the application and operational efficiency of previous models but also provides for new sources of capital. The most common model is the DBFO concession where the private sector designs, finances, constructs and operates a revenue-generating infrastructure in return for the right to collect the revenues over a certain period of time, generally for 25-30 years. Ownership of the asset remains in the public sector. This model is particularly suited for roads, water and waste projects and, in general, for services where user charges may apply. On the contrary, in a variant called a private assignment, the asset is sold partly or wholly to the private sector, while the government retains only a regulatory role aimed at protecting consumers from monopolistic prices and production constraints. The divestiture may also be partial if the government retains the ownership of one of the assets to ensure a certain level of service while transferring a significant part of the total cost to the private sector. The DBFO model can be rejected and adapted in many ways to respond to the peculiarities of the service provided.

Schemes	Modalities
<p>Service contracts</p>	<p><i>The private party procures, operates and maintains an asset for a short period of time. The public sector bears financial and management risks.</i></p>
<p>Operations and management contracts</p>	<p><i>The private sector operates and manages a public owned asset. Revenues for the private party are linked to performance targets. The public sector bears financial and investment risks.</i></p>
<p>Leasing-type contracts</p> <ul style="list-style-type: none"> ○ <i>Buy-build-operate (BBO)</i> ○ <i>Lease-develop-operate (LDO)</i> ○ <i>Wrap-around addition (WAA)</i> 	<p><i>The private sector buys or leases an existing asset from the government, renovates, modernizes, and/or expands it, and then operates the asset, again with no obligation to transfer ownership back to the government.</i></p>
<p>Build-operate-transfer (BOT)</p> <ul style="list-style-type: none"> ○ <i>Build-own-operate-transfer (BOOT)</i> ○ <i>Build-rent-own-transfer (BROT)</i> ○ <i>Build-lease-operate-transfer (BLOT)</i> ○ <i>Build-transfer-operate (BTO)</i> 	<p><i>The private sector designs and builds an asset, operates it, and then transfers it to the government when the operating contract ends, or at some other pre-specified time. The private partner may subsequently rent or lease the asset from the government.</i></p>
<p>Design-Build-Finance-Operate (DBFO)</p> <ul style="list-style-type: none"> ○ <i>Build-own-operate (BOO)</i> ○ <i>Build-develop-operate (BDO)</i> ○ <i>Design-construct-manage-finance(DCMF)</i> 	<p><i>The private sector designs, builds, owns, develops, operates and manages an asset with no obligation to transfer ownership to the government. These are variants of design-build-finance-operate (DBFO) schemes.</i></p>

Table 1: Summary of different PPP schemes and their main variants according to the modalities and characteristics.

(Source: Elaboration on IMF (2004) and European Commission (2003))

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The various PPP models presented above can be selected and adapted flexibly depending on the application domain. Some areas are more suited to risk transfer to the private sectors than others, as the different models involve different levels of control from the public sector. Generally speaking, the private sector has proved to be a better risk manager of construction and quality standard risk, while regulatory risk is more suited to the public sector. The correct assessment of the management skills and capabilities of each sector has a direct impact on the choice of the PPP model and the probability of success or failure of the project.

3.4 Advantages and Disadvantages of PPP ¹²

The appropriately constructed PPPs entail the advantage of delivering better value for money compared to the traditional procurement approach. Two of the most important advantages on PPPs is the delivering projects on time and on budget set and they are hidden under the concept of value for money. It is important to mention that the majority of the PPPs projects (70%) were delivered late and 73% with costs exceeding the initial budget. Also, only 22% of Private finance initiative projects were late and only 24% of the delivered project are more than the budget. The reason for such difference is that the risks transferred in line with additional responsibility and accountability attached to the private partner in the case of PPP, what incentivizes the private partner to operate in the most efficient way. In addition, due to the long-term characteristic of the partnerships, partners that take place tend to act in a more cooperative way to each other and in this case creating additional synergy benefits. Private partner manages complex financial arrangements as well as highly technical tasks more efficiently by using its innovative skills, on the other hand – the public sector preferably controls the legal system, regulation and policies. As a result, a combination of the leading features of both partners produces a higher value.

A key feature of PPPs is the complexity and diversity of international experience from their application to various areas of social and economic life. These efforts, like any social event, are not clear. They contain positive and negative elements, advantages and disadvantages that their knowledge could be of particular help in countries like Greece with limited experience. PPPs provide benefits by allocating responsibilities to each partner involved in the partnership that can manage them more efficiently and flexibly so as to control the activity in such a way as to produce the desired result.

Benefits of contracts are many and involve both parties that are involved in the partnership, both in the private and public sectors. The benefits of the public sector from the implementation of a PPP can be identified.

¹² Vrakatseli A. Maria, “Public-Private Partnership (PPP) in Health Department”, 82-84

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- Reducing public debt and releasing large resources from the public investment program. This is due to the fact that the necessary funds for the construction and operation of the infrastructure are drawn from private bodies rather than from public resources or taxes or from state borrowing, which does not burden the public debt but is a valuable tool for Fiscal consolidation. Payments from the other side of the private sector for the devaluation of the project come either from the proceeds from its own income generated by its own exploitation or from the availability payments recorded as the expenditure in the state budget.
- Appropriate draft design by designers working in close collaboration with manufacturers as well as services to integrate their needs from the beginning and according to the technical specifications, thus increasing the resource efficiency of the project throughout and promoting the development of innovative studies in realistic timetables.
- The fastest construction time, without undue delay, because in this way the private entity also benefits from it and also because of the the completion of the project starts with the time of exploitation of the project and the payments respectively. Any delay will be charged to the project's financial plan.
- The reduction of costs, without overruns, neither financially, nor the time that occurs in conventional public work contracts because the enterprise that has undertake the work for its lenders and at the same time jeopardizes their goal is common, although based on different reasons. The public sector wants immediate delivery at a pre-agreed price to meet the needs of its citizens directly, while the individual wants to start the pay-flow of his earnings to pay off the costs. The figure shows the cost difference in a PPP contract and the traditional method of implementing a project.
- To achieve cost-effectiveness as the project follows the rules of the economy and is based on cost reduction, increase profitability and create a larger profit margin throughout its operation by the private operator who, after the expiry of the contract, delivers it to the public.

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- In the application of market rules, by creating benchmarks for the comparability of the quality and cost of production of the services provided by the market in order to improve productivity and profitability.
- Competitiveness, as the individual has adopted modern financial models with alternative ways of financing, longer duration, and payback.
- The quality of the project, as the public pays the full amount of the payments only when the services provided fully meet the required level and specifications, and therefore the private sector under the responsibility of the project maintenance adopts innovative organizational and maintenance systems to achieve cost reduction while maintaining unchanging quality.
- To mitigate the risk, as the government shares with the private sector the risks of both overruns and the probability that the revenues will not be able to cover the capital and operating costs of the project.
- Increase revenue, as the actual cost is presented, resulting in revenue growth opportunities being identified using the traditional method that could not be identified by the traditional method.
- Other economic benefits such as increasing employment, economic prosperity and profitability.

On the other hand, the benefits to the private sector are equally strong, so the signing of the contract is sought by both sides. It initially paves the way for a private initiative to participate in public projects and to have "common ownership" with fixed assets. In this way, the private sector contributes to the growth of the economy and to the increase of employment. Also, for the private sector, profit margins are becoming very attractive as economies of scale can be exploited. Long-term contracts, the spread of risk and the expansion of lending capacity, which is directly related to securing the loan, the expected profitability and the creditworthiness of the participants, lead to more efficient capitalization of their funds.

Another advantage for the private sector for its participation in a PPP, is the lowest, in general, the cost of capital. When the creditworthiness of the private sector or the incorporated company is better than of the main project, then the borrowing of the

project is done in better terms and at a higher borrowing rate. So, the result for this is that the profit margin from the borrowing contract has an increase. Another advantage of PPPs has to do with free cash flow. Free cash flows are the cash flows that remain in the company after operating expenses, repayment of the loan and all necessary improvements to the project. In a traditional public project contract, free cash flows end up in the cash flows of the financial statements of the financier, and they are either able to stock or be distributed to shareholders by the decision of the company's Board of Directors. In the case of PPPs, they end up with project fund investors who decide on how to absorb, distribute or reinvest.

A final chapter of the benefits of PPPs in the private sector relates to the financial benefits that arise from the allocation of the donor's own funds from the borrowed funds. This results in:

- To avoid showing the loan in its financial statements in order not to affect its financial ratios,
- To avoid appearing as a footnote in the financial statements
- To avoid including borrowing contracts in restrictive terms,
- To not be included in mortgages
- To not treat the loan as a cash-flow liability that will reduce the interest rate on the sponsor's interest and reduce its creditworthiness,
- To reduce the direct obligations that would have occurred both during the construction phase and at the start of the project, but also for the remainder of the project life,
- To not be in the financial statements during construction or even during the period until it generates income.

The following table presents, according to the international literature, the reasons for the application of PPP methods and their relative advantages and disadvantages. It is worth stressing that many of the advantages can easily be turned into disadvantages inversely. For example, as it mentioned above, the main advantage of the method is to alleviate public finances due to the use of private capital and non-to burden the public budget, as PPP costs are not included in the budget of the public sector. On the other

hand, the implementation of PPPs is at the expense of limited public scrutiny and the avoidance of democratic control, such as the parliamentary control to which public projects are subject.

Advantages of partnerships	Disadvantages in the implementation of PPP
<p>Financial</p> <ul style="list-style-type: none"> • Relief of Public Financial Issues • Non-Charge of Public Budget 	<ul style="list-style-type: none"> • Reduced Control of Public Sector • Diffusion of Responsibility, Potential Evasion of Democratic Control
<p>Political</p> <ul style="list-style-type: none"> • Greater Involvement of The Private Sector 	<ul style="list-style-type: none"> • Political risk • Selective treatment in the selection process
<p>Economical</p> <ul style="list-style-type: none"> • More Economically • More Efficient Projects 	<ul style="list-style-type: none"> • Inability to exploit competition • Increased costs
<p>Technological</p> <ul style="list-style-type: none"> • Use of know-how of Private Sector 	<ul style="list-style-type: none"> • Reduced efficiency and quality in service provision
<p>Legal</p> <ul style="list-style-type: none"> • Flexibility • Risk Transfer to the Private Sector 	<ul style="list-style-type: none"> • Failure to implement, stoppage of the project

Table 2: Advantages and disadvantages of partnerships in the implementation of PPPs

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The reasons for using the partnership method are usually the lack of the necessary capital for public investment or the limited borrowing capacity and also the desire to avoid lending as well as the low technological level. But they may be linked to the perception that the funding and exploitation of the project by private sectors will be more effective. According to liberal ideology, greater involvement of the private sector in the production of public projects and services is considered a prerequisite for their better and more efficient provision. However, there are examples of poor social acceptance of PPP projects, as well as cases of selective contractor selection with corresponding political costs.

In addition, international experience has shown that in many cases the financial cost of PPPs is particularly high due to the large pre-contractual and contractual requirements as well as the high contractor's profit. The private sector is interested in partnering only in cases where return and return on investment are particularly high. In addition, few companies are enterprises that qualify for competitiveness.

On the other hand, the PPP model should be prevented or treated at an early stage because the cost may offset any benefits derived from a PPP. The disadvantages of a PPP are:

- The loss of full control by the public, which may lead to controversy over who controls the delivery of the project. In a PPP project, decisions are made by both parties, and are included in the terms of the contract. Administration is run by the private sector but there is the possibility of public sector to intervene in the management of the instruments, but usually with high costs.
- The increase of fees for end-users of the project due to the lack of real depiction of overheads and depreciation costs. This causes a gradual increase in fees for specific services, as there are no pricing policies.
- The underlying political risk due to the inexperience of the majority of governments in PPPs and the lack of familiarity with all stakeholders in this partnership model. It is a fact that whenever a contract is signed, there is a perception that the government is driven to privatize social benefits to the detriment of citizens.

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- The liability, which is not very clear to the public about who ultimately has and who is responsible for any problems and omissions that may arise. This in most cases leads to public criticism of PPP as opposed to the traditional method of providing public services.
- The unreliable levels of service provided in the event of non-observance of the terms of the contract by the private sector due to financial difficulties.
- The lack of competition, which usually occurs because companies with little experience and knowledge in PPPs are minimal, resulting in monopoly of bids and weakening the public sector advantage for competition between companies bidding for a PPP project.
- The time consuming and costly selection process of the contractor, although based on a well-structured and detailed analysis of the project specifications prior to the commencement of processes and leads to a better selection of the contractor. The timetable from the beginning and the signing of the contract is relatively long and costly. It is worth noting that rapid auction of public works with the traditional method can lead to the poor design of the project with subsequent PPP excesses, the experience of schedules varies across European countries. Some of them have managed to achieve more competitive timetables than the traditional auctioning.
- The bias for the selection process, which will highlight the contractor of the project. The possibility of accusing the government of bias in favor of a participant is increasing in the case of PPPs because it is different from the most economical offer that is qualitative and difficult to evaluate by the general public.
- The large transaction costs, compared to the conventional method, resulting from the complexity of financing in the form of the PPP model. More specifically, the legal costs of researching and preparing all the terms and conditions of the contract may be excessive.
- The higher cost of financing the private sector, which increases the total cost of a PPP, compared to the traditional method, unless the cost-effectiveness it achieves compensates for this additional cost. The weighted cost of financing the

private sector may be 1 to 3% higher than the cost of borrowing in the public sector, and it take into account that the risk is involved. The cost of financing the private sector concerns both the loan capital required for the implementation of the project and the own funds. It is higher because it includes the inherent risks of the project, which in most cases absorb all the equity to cover them. Also, in the cost of financing the private sector is added the risk premium that exists due to the long duration of the contract with the public. On the other hand, the cost of financing the public sector does not include any equity, but only loans, and the interest rate calculated is essentially the government's borrowing rate at no additional costs, such as the risk premium that does not exist in a traditional public contract Projects. If these risks arise during work, then the government must find additional funds or refinance the completion of the project. However, the fundamental value of PPPs was lost. The purpose of the contracts is timely quality guarantee, execution of projects so that the cost-effectiveness to be achieved will cover any additional costs that will amount to the cost of financing a PPP in relation to the full public sector.

4 Corporate Governance Applications to PPPS

4.1 General Information

As it is mentioned in previous chapters, a PPP is a contractual agreement between a public sector i.e. national, state or local and a private company, for the procurement of infrastructure assets or services traditionally provided by governments. In addition, PPPs are particularly interesting for local and urban authorities and the majority of those projects cover all kinds of infrastructure, energy, transport, telecommunications and also education, health, security and defense. It is important to clarify that local infrastructure can be too expensive to develop and local authorities often try to mobilize private funds where the size of the capital investment requires compared to the local authority's ability to authority's ability to incur debt renders projects unfeasible. The use of PPPs involves changes in the role of government. This often involves moving from a supplier to a service buyer. An important feature of the PPP approach is the sharing of risk for the partner i.e. a private or public institution most able to manage that risk. For example, a public agency will be responsible for environmental clearance, conceptual engineering, agency permitting and any necessary regulation, while the private partner is immediately equipped to handle the financial risk due to its ability to manage construction procedures, incorporate technological innovations and attract financial investment capital. In addition to the risk sharing between the partners, there are also other reasons why governments are being attracted by PPPs. They include the potential for value for money, timely delivery of project, gains from innovation, eliminating the need to borrow to finance infrastructure investment and access to improved services. The PPP provides a unique opportunity for public sectors to work with private organizations for government initiated projects. The key features of a PPP infrastructure have been identified as:

- a private partner investing in public infrastructure and providing related non-core services.
- the government retaining responsibility for the delivery of core services.

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- the government and private party working together under long-term arrangements.

There are many reasons for developing partnerships with the private sector in the making of a PPP. Some of these reasons are:

- possibility of cost-sharing projects, with a possible return on investment for the private sector,
- tapping the invaluable expertise of the private sector by government in the areas of customer satisfaction, work productivity gains and personnel efficiency,
- possibility of technology transfer from the private sector to the public sector,
- possibility of risk reduction using other business models such as build, operate, transfer (BOT) and build own, operate (BOO). Government personnel may not have the chance to learn about the technology or work processes and as such, the project remains with the private entity,
- risk transfer to private sector in terms of commercial know-how and managerial skills, best-practice technologies and innovation,
- enhancing government accountability and performance,
- promoting entrepreneurship and local enterprise promotion,
- reducing need for public sector borrowing,
- giving incentives for replication in other contexts

On the other hand, governments should overcome several challenges with the PPPs including developing and establishing:

- There are strong legal and regulatory frameworks than can clarify the legal competence to grant concessions, the procurement process, the public authority's assets that can make the project viable and the rebalancing of tariffs that will make the project economically viable.
- Political commitment to give confidence to the partners to make investments
- Effective public administrations: this usually means setting up a special central PPP unit within governments that can oversee the entire PPP process and have cross-cutting authority in all Ministries.

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Furthermore, private sector participation in PPPs services can help in promoting better governance since they are:

- better organized and better managed,
- more customers focused,
- entrepreneurial and innovative,
- more efficient and effective,
- better in financial management, and
- possess better corporate governance practices.

Good governance is also a key prerequisite for sustainable economic stability and security, as well as an essential component of sustained economic performance, especially nowadays, where the economy is in transition all over the world. Governance in PPPs should follow the next key ingredients.

- **Transparency:** A guideline for project planning and start-up, procurement and selection procedures and the way in which the interests of all stakeholders have to be taken into account and at least the restriction of the use of bribes and other forms corruption benefit and approval for government plans.
- **Public accountability:** Is the specific cost-benefit ration of PPPs? Are the objectives of the project clearly defined? Is it fair for both sides? The funding of the projects involves subsidy from the state, the size of the subsidy will be known to the citizens? (it is important to mention that the public sector must create obligations of payment over 20-30 or more years of their project life, taxes, transfers of funds, etc.)
- **Public management:** The Government must establish an appropriate legal and regulatory environment for the PPPs, clearly and publicly defined objectives for the project. Track performance after project completion.
- **Sustainable development:** Sustainable development refers to a process where comprehensive consideration of economic, environmental and social processes ensures the long-term viability of a project.

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- Dispute resolution: The multiplicity of parties in private finance projects makes the conflicts predictable.
- Security and safety: Safety and security are paramount requirements in the delivery of infrastructure services

4.1.1 Benefits of PPP Model and for Good Governance

Good Governance in PPPs can give great benefits in countries which involved in the precision of PPP, such as:

- Increasing the probability of success of the project: In case of an appropriate legal/regulatory framework with clear laws, bond to property rights, contracts and liability can speed up PPPs and also reduce the risk to all stakeholders. Also, projects that are well planned and follow the line of full agreement signed by the two sectors can be timely without time delays and extra costs.
- Building trust and confidence: A public administration increases confidence of suppliers in the reliability of the administration as a business partner.
- Lowering costs
- Increasing foreign direct investment: Good governance can have better risk investment by foreign and national investors.
- Heightening social acceptability
- Aid funds: Public sector/ governments often rely on aid funds even donation in the beginning of the planning a PPP.

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Benefits to Government	Benefits to Citizens/Users
<ul style="list-style-type: none"> • Financial participation from outside sources • Better risk management • Government can concentrate on core business • Better feedback from the users • Eased technological hassle 	<ul style="list-style-type: none"> • Time and cost savings • Greater confidence in the service delivery • Best of the state-of-the-art delivery • Empowerment of citizens • Better customer care
Benefits to Private Partners	Benefits to Society/Community
<ul style="list-style-type: none"> • Exposure and learning experiences • Knowing government-customers, who are different • Serving wider community • Development of additional competencies and skills • Boost employment opportunities • International trade 	<ul style="list-style-type: none"> • Better utilization of government funds • Close relationship with government and community of users • Better quality of life • Development of a competitive IT industry • Improvement in e-readiness • Promotion of knowledge society through e-government

Table 3: Benefits of PPP Model

4.2 Models of Governance in PPP

4.2.1 Legal Governance

PPPs can receive a significant number of legal forms.¹³ Each sector has an impact on the distribution of roles and responsibilities between the sectors in the PPP, the PPP entity itself, but also the state the citizens in general. The form of legal governance will depend on the legislative framework and constituent models of individual nations and their respective provinces. Instead of being separate corporate entities, they are usually used as a form of legal governance for PPPs. The contract defines the obligations of the two or more sectors involved in the PPP, including what needs to be delivered or the overall achievement of the payment schedule, the confidence of the agent, and the principal's oversight rights. Some countries have common forms of ownership of legal governance, for example cooperatives and mutual societies, in other words non-state public interest companies. The advantage of this form is that it relaxes some of the legal requirements that apply to normal profit-seeking companies, because it is recognized that a public interest company is working for the wider public benefit not from a narrow private interest. This may help to overcome some of the limitations for directors to companies, who usually are required by company legislation to put the interests of the company first. This can cause problems where the directors are representatives of participating organizations, and thus may not be able sufficiently to reflect their interests. The decision on the legal form to utilize will be influenced by two factors. The first factor is the type of PPP. Each type of PPP is better suited to one of the forms of legal governance that suits better. Thus, long term infrastructure contracts would normally be best suited to a company form of legal governance, while in institutional co-operation for joint production a public corporation model could provide the necessary framework. Second, the choice of legal form reflects the extent to which the constituent parties agree to integrate their activities into a separate entity. PPPs can be loose associations in which partners maximize their autonomy consistent with undertaking some collective activity,

¹³ Chris Skelcher, *Governing Partnerships*, 2

or agree to combine their resources into a new entity of which they are members but not necessarily in a controlling position.

4.2.2 Regulatory Governance

Regulatory governance is about the system of rules that connect the PPP to the public client.¹⁴ It covers the legal and contractual obligations on sectors, the procedures through which they are enforced, and the softer norms that operate around these. At the most basic level, the public sector will have to concern about the process to be followed but also the criteria have to be applied in the procurement of private actors to participate in a PPP, under the appropriate legal requirements. The logic for such overarching legal frameworks is to provide transparency for the process of determining the selection of the private actor to participate in a PPP, and the way in which public and private resources will be applied to the PPP. Given the scale of infrastructure PPPs, those frameworks should limit the risk of corruption and opportunism. Relational contracting occurs where the sectors preconcert in dialogue about issues that will be as a result from the explanation of contracts, unexpected events, changes in operating conditions, or external possibilities that will affect the implementation of the PPP. Private actors can develop negotiating and commercial relationships skills for which public actors are unprepared, including the practice of offloading less profitable parts of the operation to third sector, in which the control is very hard to achieve and attempting to renegotiate aspects of the contract as it is being implemented.

¹⁴ Chris Skelcher, *Governing Partnerships*, 4

4.2.3 Democratic Governance

PPPs raise important issues of democratic governance due to the changed nature of the state when it transfers public responsibilities in whole or in part to third parties, or engages in cooperative activities with third parties.¹⁵

4.2.4 Corporate Governance

Corporate governance concerns about the processes that relate to the decision-making, performance and control of organizations, with providing structures to give overall direction to the organization and to satisfy reasonable expectations of accountability to those outside it.¹⁶ Its focus is on the organization's board, the roles of chief executive, the chair of the board, directors and senior management, in the context of structures and systems for strategy, financial and risk management. Essentially, corporate governance concerns itself with ensuring that the enterprise is managed in a manner that does not put the future of the business and investors funds at undue risk.

So, in this study we will try to give some response in questions such as “What is the role and how we select the CEO of a PPP?” or “How do we compose an effective Board of Directors in a PPP?”. In this way, we will try to give a better option that Corporate Governance in the best option to control a PPP Project.

¹⁵ Chris Skelcher, *Governing Partnerships*,6

¹⁶ Chris Skelcher, *Governing Partnerships*,7

5 Project Finance for PPP

5.1 Basic ways of financing PPPs

PPP funding differs significantly from classic business financing and it is known internationally as project finance. In the financial and legal sectors, these funds are treated as an investment rather than as borrowing. Project finance is defined as the financing of long-term infrastructure, industrial projects and public services based upon a non-recourse or limited recourse financial structure, in which project debt and equity used to finance the project are paid back from the cash flow generated by the project. Project financing is a loan structure that relies primarily on the project's cash flow for repayment, with the project's assets, rights and interests held as secondary security or collateral. Project finance is especially attractive to the private sector because companies can fund major projects off balance sheet.

Project finance is linked to the establishment of an autonomous legal economic unit, such as a Special Purpose Vehicle-SPV ¹⁷(or Special Purpose Company-SPC), which undertakes to carry out an operation-activity. This company is funded by the involved either with itself or with foreign capital. The repayment of funds is not the same as in the case of classical corporate financing through the corporate presence of the special purpose entity or its stakeholders, but mortgaging the project's own assets, if it is equity financing or if it is financing with loan funds, the cash flow of the project itself and sometimes partial use of the lender's flows from other fixed assets or projects are used to repay the loan. As a result, it is a major concern of lenders to ensure, through a careful study, how the management and exploitation of the project can ensure the return of the invested financial capital. In this assessment, it is important not so much the creditworthiness and solvency of those involved in the venture as the flow of capital generated by the exploitation of the project.

The features of project finance can be summarized as follows:

¹⁷ www.sdit.gr

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- The existence of an agreement with the completion of the project, as well as the provision of all the necessary funds for its achievement.
- Ensuring the form of an agreement between the parties that the cash flows that will arise during the operation of the project will be sufficient for the repayment of the loan and to cover its operating expenses, regardless of any problems that may arise due to force majeure or other bad debts.
- Ensuring that funding for the reopening of the project in the event of disruption will result from insurance coverage, advance payments of future sales or other means.

Project finance is also characterized by the spreading of the risk of an PPP in virtually all participants.¹⁸ So, the risk distribution must be based on each party's ability to evaluate, control and manage them. It differs from other forms of financing, such as the traditional corporate financing and asset-based financing, which are listed in the company's balance sheet and are tied to corporate cash flow and asset valuation. In PPPs and in other forms of such partnerships, the parties involved only presenting their balance sheet, the amount that is take place in Special Purpose Vehicle (SPV). The parties have not had passive role because they are not the debtors, but the SPV are, because they have separate legal identity.

The ways that PPP projects are financed may vary and this results a greater flexibility and adaptability of funding conditions. To achieve the best financing plan of a project, sufficient resources should be provided to complete the project and with the required funds at the lowest possible cost and to maximize the tax benefits from ownership of the project. In addition, the exposure of the equity investors to the credit risk should be minimized, as well as a dividend policy that maximizes return on funded investor funds, with the limitations that may be imposed by the lenders and the cash flows that the project can create. Finally, it is considered necessary to achieve the best possible handling of institutional issues. It is natural that all the above cannot happen at the same time and some compromises will necessarily occur.

¹⁸ Vrakatseli A. Maria, "Public-Private Partnership (PPP) in Health Department", 35

Types of funding are essentially categorized into three basic forms, in accordance with Article 18 of Law 3389/2005¹⁹:

- Funding based on the equity of the Special Purpose Vehicle
- Funding based on foreign capital
- Financing by capital inflows from the exploitation of the object of the partnership

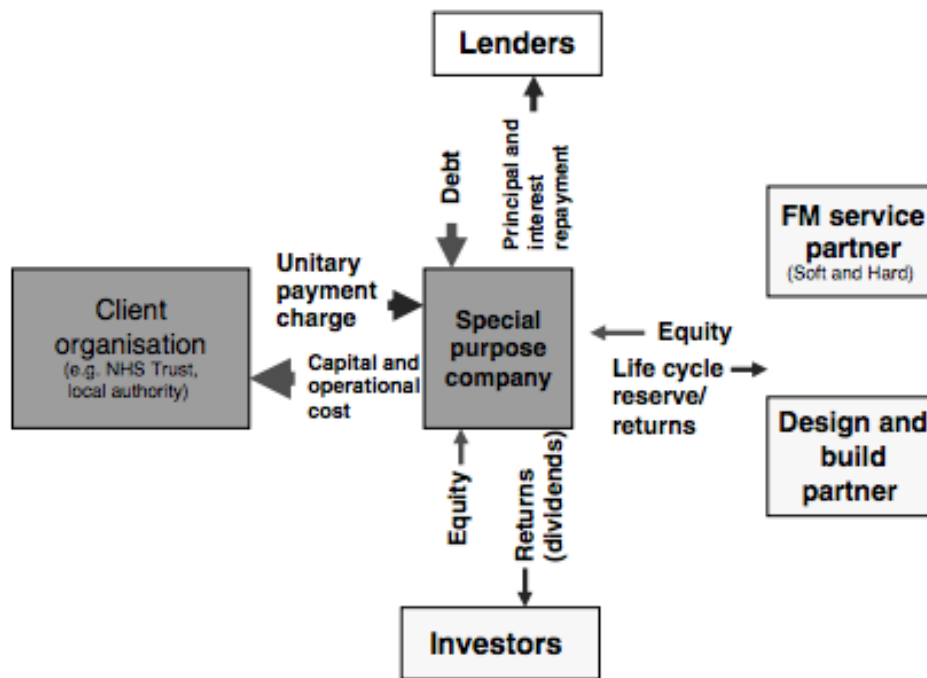


Figure 3: Funding Structure ²⁰

5.1.1 Funding based on the equity of the Special Purpose Vehicle²¹

Special Purpose Vehicle funds, in the form of SA company, come either from their founding members or from other persons who become members of the company after the start of the partnership. The members of the consortium, which became a contracting authority from the competition, become members when establishing the

¹⁹ Private Public Private Partnerships and Concession Agreements, 450

²⁰ Governance & Knowledge Management for Public-Private Partnerships, 34

²¹ Private Public Private Partnerships and Concession Agreements

Special Purpose Vehicle. This type of capital inflow into the partnership process is called financing based on equity and is usually not the main source of funding for the partnership process due to the requirement for direct outflow of funds from stakeholders. The persons who constitute the equity fund are called international sponsors and can be divided into 2 categories:

- Private stakeholders, who are long-term investors in the PPPs, and their participation in the Special Purpose Vehicle is a business move to achieve greater business profits and are separate from their remuneration for the performance of their obligations under the contract,
- Those who participate in the share capital of the Special Purpose Vehicle with pure investment criteria and objectives. They aim only at the cost-effectiveness of their participation in the partnership process, without undertaking other business activities in the direction of meeting the objectives of the PPP in question. Their choice to invest equity aims at higher business profitability and a corresponding right to earnings. Such participants are usually insurance companies, insurance funds, institutional investors with a capital market and money market.

The equity injection is made either through an increase in the share capital of the Special Purpose Vehicle, or through capital injection from existing members or through new members in the share capital. The share capital increase can be done either on the stock exchange or over the counter, if it is not a listed company. However, Law 3389/2005 sets restrictive conditions for the financing of the Special Purpose Vehicle through a share capital increase as the consent of the public body or even the competent Minister is required.

The key features of this form of funding are:

- The stronger engagement of active stakeholders in the economic success of the entire partnership venture creates conviction to foreign financiers that PPP is an attractive and safe investment.
- The value of the funds granted is shown in the balance sheet of the active participants in the partnership process, deductively and the value of their

participation in the capital of the SPV appears only in the consolidated financial statement. The economic display of the results in this case is completely different from what would be if the traditional method of executing public or private works was adopted.

- Own funds are available without a time limit for the purposes of the partnership without the obligation to return them, except for the reduction of the share capital, over a certain period, as is the case for foreign capital.
- Equity funds have no secure return for these donors. PPP equity fund sponsors expect returns based on company profits of the special purpose company, depending on their share. As these are not secured, since they depend on the successful or non-management of the object of the partnership, they are assumed to be the most financially and financially riskier to any other sponsor. Because of this risk, the return on equity is greater than the return on investment of foreign capital.
- The way of disinvestment of own funds is different from the case of foreign capital. The equity fund will receive its funds by clearing the Special Purpose Vehicle. However, at regular intervals, it receives dividends from the Special Purpose Vehicle, which has expectations of a return on its investment. In accordance with international practice, equity capital at a ratio of between 5% and 25% of the total amount of funding required by the partnership process and the funds ultimately flowing from the different types of financing.

5.1.2 Funding based on Foreign Funds²²

Financing with foreign funds covers the largest amount of funding, if not all, of the needs of a PPP. It comes from the money market and the capital market. Financial institutions and, in particular, banks provide the contractor with the necessary funds for the construction of the project or other infrastructure and for the procurement of the equipment. The provisions of Law. 3389/2005 facilitating bank financing (bankability) is the early involvement of banks in financing the bidding stage, flexible financing scheme and both sides withdraw funding requirements, flexibility in the final allocation of the risks and finally, the facility for obtaining, maintaining and transferring bank collateral.

The main features of financing with foreign funds are:

- The funds are granted for a specific period, which does not necessarily coincide with the duration of the contract
- The financier claims and receives a specific return, usually in the form of interest, based on the agreements agreed in the financing agreement, regardless of the successful or non-fulfillment of the financial plans of the Special Purpose Vehicle. As foreign capital is the most secure, the performance associated with it is the smallest. Similarly, foreign-based funding does not cover the greater part of the risks posed during the cartel.
- Funding based on foreign capital has a significant impact on the balance sheet of the Special Purpose Vehicle as these funds are presented in the Company's liabilities. The Special Purpose Vehicle, in the event of a claim by its shareholders to repay their funds, (a company's solution) is required to cover these funds as a matter of priority.
- Funding based on foreign capital is characterized by rigorous credit assessments and financial analyzes by financial institutions - Banks.

²² Private Public Private Partnerships and Concession Agreements, 454

The main types of financing based on foreign capital used internationally for PPPs are as follows:

*Consortial Credit*²³

In this case, it is agreed between the bank and the Special Purpose Vehicle, or even between the bank and the public entity, to grant a specific capital for a certain period. Because the amount of funding for such projects is too high, banks often resort to joint ventures to achieve the spread of credit risk.

The partnership has as its main contractor a bank, which is contracted with the Special Purpose Vehicle or the public sector, having the universal right of representation and the other banks of the joint venture. Usually bank loans are flexible in the particularities of each partnership about the possibility of adjusting specific terms, such as for example the duration of the loan, the method of repayment or the rate of interest, whenever it is necessary. At the same time, banks have increased rights of control and supervision of the partnership process and the fulfillment of their investment objectives. The European Investment Bank is involved in the form of bank loans to co-finance such as public-private partnerships. Law 3389/2005 has incorporated international practice through Article 27.

*5.1.2.1 Bond loans*²⁴

The raising of capital from the capital market usually takes the form of bond loans. In the case of PPPs, the bond issuer is the special purpose vehicle. The practice presents three types of bond loans, which are also mentioned by Law 3389/2005 in Article 28.

- A bond loan in which the bondholder has the right to claim repayment of his capital and the right to demand payment of the interest as agreed (at regular

²³ Private Public Private Partnerships and Concession Agreements, 457

²⁴ Private Public Private Partnerships and Concession Agreements, 457

intervals or in the form of zero coupons). This category also includes income bond loans, as well as bond loans with a right to profit.

- A bond loan with convertible bonds in which the bondholder can convert his bond into a share of the issuing company and acquire the rights of the shareholder of the special purpose entity. In this way, foreign financial capital is converted into equity.
- Bonded bond issuance, in which the bondholder has the right instead of demanding the repayment of the bond, request the issuance of other rights, such as other bonds, shares, other securities of the issuer itself or other companies.

Article 28 (2) of the Law provides for the issuance of a convertible bond or for the issuance of a convertible bond, the registration of the public body and the prior approval of the Minister of Economy and Finance and the co- Ministers.

5.1.2.2 Lease²⁵

The leasing is a financial mechanism for the Special Purpose Vehicle by allowing it to access capital goods, movable or immovable property, premises and equipment but without being forced to liquidate directly or to borrow to acquire such objects. The Special Purpose Vehicle pays a rent as consideration for the concession of the use of the objects, retaining the right to acquire them at the end of the finance lease.

5.1.2.3 Funding from public institutes²⁶

Typically, the private sector is responsible for financing the partnership process, assuming financial and credit risk. However, part of the funding may be taken over by the public sector. This participation may be in cash or in kind. In the latter case, it may take the form of exchanges, such as, for example, the supply of immovable property by

²⁵ Private Public Private Partnerships and Concession Agreements, 457

²⁶ Private Public Private Partnerships and Concession Agreements, 457

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use (in whole or in part), the granting of immovable property rights, the assignment of rights to exploitation of works, etc. The rights granted to a Special Purpose Vehicle may not extend beyond the expiry of the partnership agreement. Law 3389/1005 leaves open the possibility for the Public Sector to participate in the financing scheme in many places.

In the partnership process, the public sector involved in the partnership may be the sponsor as the contractor of the Special Purpose Vehicle or any other public sector. Public sector, as funders, are also allowed to participate in the exploitation of the object of the partnership and enjoy returns on their investment, as is the case with the private operator. However, in any case, the involvement of the public sector in any form must be clearly identified in the relevant notice to protect the basic principles of transparency and free competition.

Public sector involvement in funding provides guarantees to stakeholders and third parties that the PPP has the support of the public sector and interest. The positive from this participation is that the public entity can achieve greater and immediate liquidity, if required, through taxation. The bottom line, however, is that fiscal indicators are affected.

5.1.3 Funding based on capital inflow from the holding of the partnership object²⁷

Exploiting the object of the partnership, facilities and infrastructures, as well as the revenue generated by their exploitation, is a source of funding.

5.1.3.1 Factoring²⁸

Funding through receivables, as provided for in Law 1905/1990, is based on the sale of existing or future receivables to another company, which liquidates the receivables, finances the sales company (in this case the Special Purpose Vehicle) and enters its position about the rights of the creditor. The Special Purpose Vehicle through receivables collection collects prematurely the value of receivables as a consideration of their sale. Additional services (e.g. legal and accounting issues) may also be provided by the company that purchases and prepares its claims.

The point of distinguishing for this type of financing is whether the buyer (factoring company) takes over the risk of insolvency of debtors. If it absorbs the consequences of the risk of non-recovery of the claim, then the contract concerns genuine factoring. Otherwise, in which factoring does not take responsibility for the solvency of the debtor, then the contract concerns non-genuine factoring. Law 3389/2005 and Article 25 sets certain conditions for the use of this type of financing. It is also permitted to assign to a foreign or domestic special purpose entity for securitization pursuant to article 10 of Law 3156/2003.

²⁷ Private Public Private Partnerships and Concession Agreements, 457

²⁸ Private Public Private Partnerships and Concession Agreements, 458

5.1.3.2 *Asset Securitization*²⁹

The asset securitization of claims was introduced in Greece through articles 10 of Law 3156/2003. For a company to be funded through asset securitization, it should initially be the holder of liquidated and outstanding claims or assets vis-à-vis third parties, which give rise to a stable and predictable flow of payments when they become due.

The claim company, which may have any legal form (SA, LLC, etc.), sells and transfers these claims to another company of a specific (or otherwise exclusive) purpose, wholly independent of the vendor. Thus, the sales company draws up the funds necessary to finance it that are equivalent to the value of its receivables, which are thus converted from accounting assets into cash. The Special Purpose Vehicle then proceeds to issue bonds or other securities on the capital market to raise funds from investors, which correspond to the selling price of those receivables. When these requirements become overdue, a flow of payments is created that satisfies and secures the repayment of the (securitized) investors. The requirements arising from the exploitation of the object of the cartel and the liquidation thereof are essentially the source of financing the cartel. It is worth highlighting the key features of this form of funding:

- Two Special Purpose Vehicles should be set up in a PPP. One will assume the obligations of the partnership while the other will be the acquirer of the claims from the partnership process, performing their securitization as described in Law 3156/2003. The two Special Purpose Vehicles have a different activity and are separate and independent of each other, both legally and economically. None of the two can carry out both activities, namely the partnership and the securitization. The second Special Purpose Vehicle is limited to raising the purchase capital of the receivables through the issue of bonds / securities. After the completion of the repayment of the investors, the purpose of the Special Purpose Vehicle is completed and usually dissipated.

²⁹ Private Public Private Partnerships and Concession Agreements, 458

- The participation of the Special Purpose Vehicle that is responsible for the asset securitization ensures the isolation of claims from the remaining assets of the seller and funded company. These claims have as their main purpose the repayment of securities issued under the securitization procedure and cannot be used to satisfy the remaining lenders of the funded company.

Furthermore, the fact that the receivables are no longer shown in the assets of the first Special Purpose Vehicle and has assumed the obligations of the cartel since it is not the issuer of the securities, and the independent form of the Special Purpose Vehicle of the asset securitization results in favorable accounting, Tax and supervisory consequences for the Special Purpose Vehicle which came for the sale company and releases it from any risk and burden on its liabilities.

5.1.3.3 Securitization of property claims³⁰

Securitization in this form is not significantly different from asset securitization. In the securitization of property claims, the business that wishes to finance project, transfers to a Special Purpose Vehicle instead of claims, the rights (ownership or usufruct) on its property. The price is repaid by issuing a bond from the buyer special purpose vehicle. The repayment of the investors is caused by the liquidity caused by the exploitation of the securitized real estate, which is caused either by the exploitation and letting of the real estate or by the sale of the property. As with asset securitization, two Special Purpose Vehicles are needed, the first for the partnership process and the second for the securitization process. In some cases, the transferor agrees to lease the immovable property that he has transferred and, through these lease payments, to cover the repayment of the bonds, referring to the "sale and lease back".

³⁰ Private Public Private Partnerships and Concession Agreements, 458

5.1.3.4 Reverse leasing³¹

Funding in this form includes the transfer of the real rights of the Special Purpose Vehicle to the movable or immovable property owned by the leasing company. The latter provides financial funds in exchange for the acquisition of ownership. At the same time, however, the Special Purpose Vehicle leases real estate or movable property itself and uses them.

5.1.3.5 Exploitation of movable and immovable property through the partnership process³²

This form of financing is based on the exploitation of the movable and immovable property acquired, contributed or created by the sectors involved after the expiry of its duration. The exploitation of these things may be based on the sale and transfer of the rights in the realm and the maintenance of their right to manage and exploit them for the purposes of the contract.

5.1.3.6 The cost of using the partnership object³³

The price paid by different persons for the use of partnerships and services is an important source of funding. This form is particularly important as it allows the dynamic restructuring of the financial scheme during the partnership. Sources of such funding are as follows:

³¹ Private Public Private Partnerships and Concession Agreements, 458

³² Private Public Private Partnerships and Concession Agreements, 458

³³ Private Public Private Partnerships and Concession Agreements, 459

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- The public authority's fee for the use of facilities allocated to it as a public institute as well as for additional services such as security, maintenance, equipment, etc.
- Availability payments made to the Special Purpose Vehicle for the availability of facilities in social services such as health, education, culture, etc.
- The fee for the use of facilities or services shared by the end users themselves and the public (shadow tolls where the developer pays the contractor depending on the frequency of use of the project).
- Substantially the public subsidizes the use of facilities or services, particularly in the case of public utilities.
- The fee paid in full by end users

5.2 Other ways of Financing PPP ³⁴

In addition, new ways of financing PPP projects are being used in Greece. For the most part, projects use funding through NSRF programs, either through the European Investment Bank or the new Jessica program, or through private funds. Through these programs, private investment is strengthened, there is legal, technical and financial assurance of projects, there is transparency in the financing of projects as well as institutional participation, and finally the market is more adapted to the needs of the market.

Specifically, there are the following mixing parameters of European funds and PPP projects:

- PPP projects with availability payments - Jessica & European Investment Bank
- PPP projects with availability payments - NSRF
- PPP projects with availability payments - NSRF & Jessica
- Rewarding PPP projects – NSRF
- Rewarding PPP projects - Jessica & European Investment Bank

5.2.1.1 National Strategic Reference Framework ³⁵

It is the Regional Operational Programs (ROP) of the National Strategic Reference Framework (NSRF) 2007 - 2013, which are co-funded by the European Union in the framework of the Structural Funds actions for the social and economic cohesion and aim at enhancing the competitiveness of the Greek economy. This program strengthens enterprises operating throughout the country and intends to implement investment projects in the sectors of Manufacturing, Tourism, Trade and Services, which aim at:

- Modernizing the operation and business administration
- The modernization of the production process
- Upgrading the quality of the services provided

³⁴ www.sdit.gr

³⁵ <http://2007-2013.espa.gr/en/Pages/staticWhatIsESPA.aspx>

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- Ensuring business operations with more environmentally friendly methods
- The enrichment, diversification and development of the services provided in the tourism sector
- The development of Innovation
- In the introduction of Information Technology

5.2.1.2 *European investment bank*³⁶

The European Investment Bank (EIB) is jointly owned by the EU countries. It seeks to:

- boost Europe's potential in terms of jobs & growth
- support action to mitigate climate change
- promote EU policies outside the EU.

What the EIB does?

The Bank borrows money on capital markets and lends it on favorable terms to projects that support EU objectives. About 90 % of loans are made within the EU. None of the money comes from the EU budget.

The EIB provides 3 main types of products and services:

- Lending – about 90 % of its total financial commitment. The Bank lends to clients of all sizes to support growth and jobs, and this support often helps to attract other investors.
- 'Blending' - allowing clients to combine EIB financing with additional investment.
- Advising and technical assistance - maximizing value for money.

The EIB makes loans above EUR 25 million directly. Where smaller loans are involved, it opens credit lines for financial institutions that then lend funds to creditors.

³⁶ <http://www.eib.org/>

5.2.1.3 *Jessica*³⁷

JESSICA stands for Joint European Support for Sustainable Investment in City Areas. This initiative is being developed by the European Commission and the European Investment Bank (EIB), in collaboration with the Council of Europe Development Bank (CEB). Under new procedures, Member States are being given the option of using some of their EU grant funding, their so-called Structural Funds, to make repayable investments in projects forming part of an integrated plan for sustainable urban development. These investments, which may take the form of equity, loans and/or guarantees, are delivered to projects via Urban Development Funds and, if required, Holding Funds. JESSICA is not a new source of funding for Member States, but rather a new way of using existing Structural Fund grant allocations to support urban development projects.

The benefits of using JESSICA are:

- Recycling of funds – if JESSICA funds have been invested, by UDFs, in eligible project expenditure before the expiry date of the Structural Fund programming period (n+2, i.e. by the end of 2015) then any returns/receipts generated from that investment can be either retained by the UDFs or returned to Managing Authorities for reinvestment in new urban regeneration projects. For those Member States facing a prospect of reduced EU grant funding in the next programming period, JESSICA offers the opportunity to create a legacy for the current funds;
- Leverage – a significant implied advantage of JESSICA is its potential ability to engage the private sector, thereby leveraging both further investment and, perhaps more critically, competence in project implementation and management. Private sector investment can, in some instances, meet the requirements for the Member State's match-funding contribution (Regulations require that Member States contribute, alongside the Structural Funds, to their Operational Programs. This percentage of "own funds" can be different in each

³⁷ www.sdit.gr

Member State.). Even though JESSICA allows grant receipts to be “transformed” into repayable investment, they are not repayable to the European Commission and should therefore not be regarded as public sector debt;

- Flexibility – JESSICA provides a flexible approach, both in terms of broader eligibility of expenditures and in the use of JESSICA funds by way of either equity, debt or guarantee investment;
- Expertise and creativity – Member states, managing authorities, cities and towns will benefit from expertise of the banking and private sector. JESSICA could also act as a catalyst in urban areas to enhance the investment market and therefore complement other initiatives or sources of funding that may already exist in the Member State. Involvement of the private sector, however, will still need to take account of “State Aid” rules.

6 PPP in Greece

6.1 General Information³⁸

The PPP market in Greece started with the signing of the first contract on 15.4.2009 under the Law 3389/2005 on the financing, design, construction, maintenance and technical management of six Fire Station and a Fire Department.

The European Bank (50%) and Eurobank (50%) has invested for the specific project. The contract price for the study, financing, construction, maintenance, technical management and insurance of infrastructure amounts has come in 25.4 million Euro (Net Present Value) of 27.5 million Euro compared to 31.5 million Euro of the original budget of the project. The Fire Stations are located in the region of Thessaloniki, Kalavrita, Giannitsa, Alexandroupoli, Veria, Gargalianoi and Lefkada. All seven projects are completed in early 2011, when they will be made available to the Fire Department and will begin to pay the first state payment to the private sector.

The project that is currently entering its final stage is the first of the 52 PPP projects totaling € 5.7 billion, involving the creation of 327 new infrastructure, mostly for social purpose, across the country. Just for information, 15 contests have been launched, with a total budget of 1.5 billion euros. In April 2009, the contractor of the second PPP project - the administrations of the region of Corinth and Trikala, was awarded, following the tender, the construction company J&P Avax with an offer of 56.1 million Euros. The second PPP concerns the construction and maintenance of the buildings that will host the regions of Trikala and Corinth. The duration of this contract is set at 26 years, during which the public sector will pay to the company the rents that have been agreed for the use of the property.

Greece, in the light of developments over the past years, has a dominant position in the wider region of Southeastern Europe and the Mediterranean. Ten of the largest foreign companies engaged in PPP projects in Greece, participating in the relevant

³⁸ www.sdit.gr

competitions. Until 2010, a total of 50 companies have participated in PPP projects. This number is gradually increasing. While in the beginning 5 formats of companies have submitted files of interest expression, this number has increased in the most recent contests in the 11 formats of companies.

The participation of the European Investment Bank in the financing of the first public-private partnership project was a very important issue for two main reasons. First of all, it helped secure more favorable borrowing conditions for the contractor than the Public Sector. And also, it has been confirmed that the procedures implemented for the implementation of the PPP project are in line with international practice. However, the public sector makes all necessary adjustments in order to facilitate the possibility of financing PPP projects.

In addition, executives from Egypt, Cyprus, Jordan, Latvia, Ukraine, Bosnia, Croatia and Bulgaria have worked with the Special Secretariat for Public Private Partnerships and other government agencies to acquire know-how on best implementation practices PPP projects. At the same time, many of the neighboring countries have "copied" the Greek model of institution development by adopting laws and setting up Special Units to promote PPPs.

The recognition of our country's position in the new institution is characterized by the fact that the World Bank at its conference in mid-December 2009 presented Greece as the fastest growing PPP project in the world. The World Bank is already considering using our country as a case study in a global initiative to promote PPPs in developing countries. In this context, in May 2010, cooperation between Special Secretariat for Public Private Partnerships and the World Bank began in order to prepare the necessary material.

PPPs emphasize the faster creation of necessary social infrastructures, particularly in the Greek region, as the overwhelming majority of projects that are being launched are related to projects in the region. It is especially important that the implementation of PPP projects, thanks to the actions that have taken place in previous years, will contribute substantially to economic activity in the future, in a difficult period for the Greek economy.

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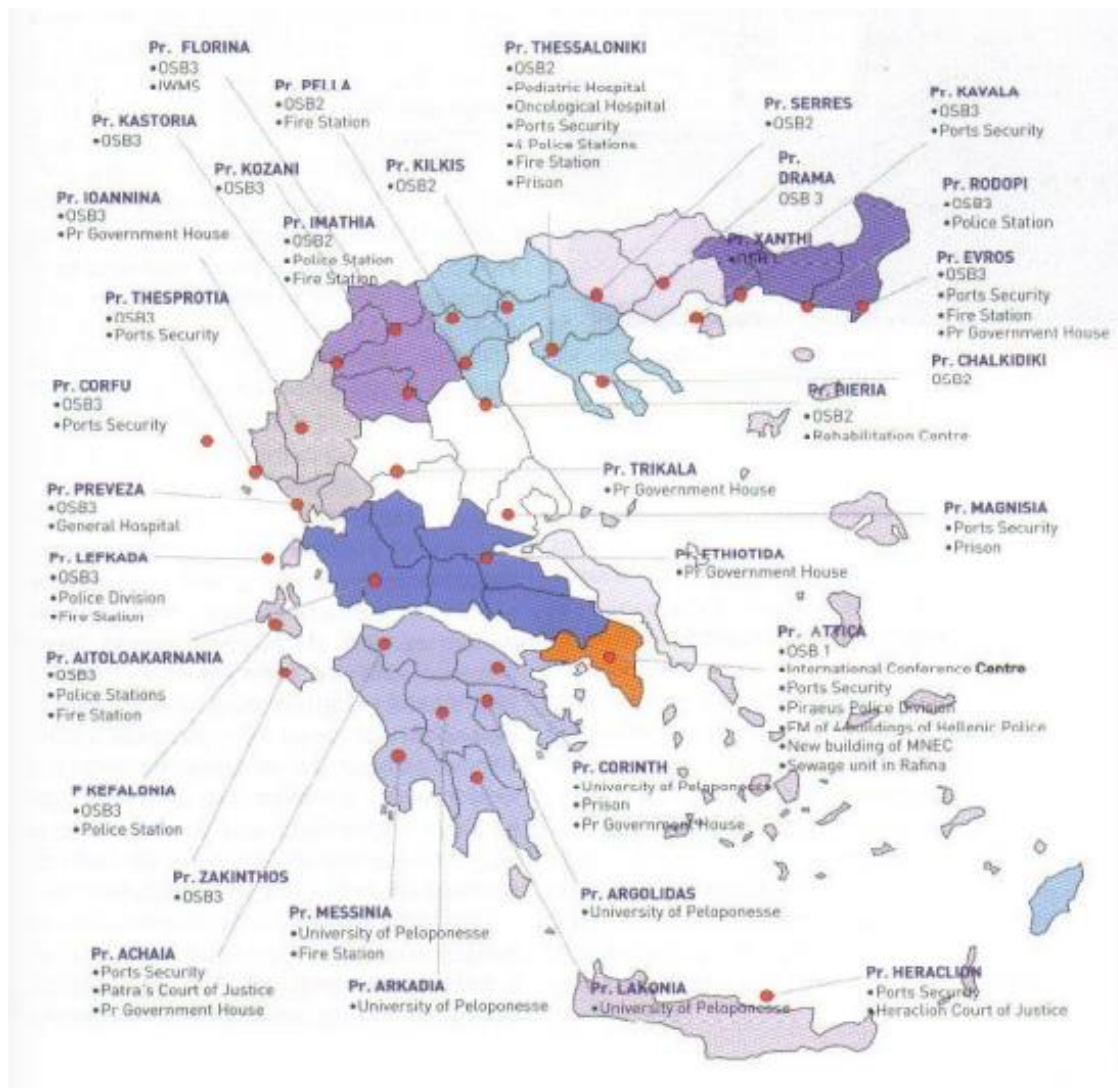


Figure 4: Map of PPPs in Greece

The following table represents all the PPPs Projects that have been constructed with the financial help of European Resources that have been already mentioned in a previous chapter.

Corporate Governance in Public-Private Partnerships

Project Title	Contract Duration	Total Project Cost	Senior Lenders	SPV Sponsors	VAT Provider	Grantor
Design, build, financing, maintenance and facilities management of 7 fire station buildings	25 years (23 years, 2 years construction)	25,9	EIB - Eurobank	Fire Brigades Partnership S.A. (Gantzoulas S.A. 100%)	Eurobank	School Buildings Organisation SA
Design, financing, construction and facility management of 14 school buildings in the region of Attica	27 years (25 years operation, 2 years construction)	58,0	EIB - National Bank of Greece (JESSICA)	Attica Schools S.A. (ATESE S.A. 100%)	Alpha Bank	School Buildings Organisation SA
Design, financing, construction and facility management of 10 school buildings in the region of Attica	27 years (25 years operation, 2 years construction)	52	EIB - National Bank of Greece (JESSICA)	JPA Attica Schools Construction and Management (J&P - AVAX 100%)	Alpha Bank	School Buildings Organisation SA
Attica Urban Transportation-Telematics System	12 years (10.5 years operation, 18 months construction)	19,4	National Bank of Greece (commercial lender and JESSICA funds provider)	Advanced Transport Telematics (INTRASOFT INTERNATIONAL - INTRAKAT 50%-50%)	National Bank of Greece	Athens Urban Transport Organisation
Implementation of an Integrated Automatic Fare Collection System in the Athens urban transportation	12 years (10 years, 2 years construction)	69,8	EXPORT-IMPORT BANK OF KOREA	Hellas Smarticket S.A. (TERNA ENERGY - LG CNS)	National Bank of Greece	Athens Urban Transport Organisation

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Broadband development in rural areas of Greece (Lot 1)	17 years (15 years, 2 years construction)	68,8	-	OTE RURAL NORTH (OTE S.A.)	-	Information Society SA
Broadband development in rural areas of Greece (Lot 2)	17 years (15 years, 2 years' construction)	100	National Bank of Greece	RURAL CONNECT BROABAND NETWORKS (INTRAKAT - INTRACOM HOLDINGS - HELLAS ON LINE)	National Bank of Greece	Information Society SA
Broadband development in rural areas of Greece (Lot 3)	17 years (15 years, 2 years' construction)	96,0	-	OTE RURAL SOUTH (OTE S.A.)	-	Information Society SA
Design, financing, construction, maintenance and operation of the facilities for the integrated waste management system in the Region of Western Macedonia	27 years (25 years, 2 years' construction)	49,0	EIB – Investment Bank of Greece (JESSICA)	EPADYM S.A. (AKTOR Concessions - HELEKTOR)	National Bank of Greece	DIADYMA SA
Digital recording, archiving and provision of court minutes at district courts, courts of appeal and local courts of the country	5 years and 9 months (5 years, 9 months' construction)	6,7	-	Profile Digital Services S.A. (Profile Systems and Software	-	Ministry of Justice, Transparency and Human Rights

Table 4: Greek PPP market: European Resources & PPP: Funding Mixture ³⁹

³⁹ www.sdit.gr

6.2 The public works concession contract

The public works concession is internationally known as BOT (= Build, Operate, Transfer) but in some cases as BOOT (Build, Own, Operate, Transfer). The term is particularly relevant since it shows, at first glance, the content of this contract and its 'sequence' of execution. As already mentioned, it is a legal act (usually an administrative contract), which is usually sanctioned by a legislative act and by which a contracting authority confers on a Contracting Authority / concessionaire (usually a legal entity governed by private law) the designing, constructing and maintaining a public project, with its own (in whole or in part) funding, clerical staff, business risk and liability, always under the administrative supervision and control of the concessionaire and for a fee, which consists of the concession of the exploitation of the constructed project and, in particular, the financial consideration arising from the exploitation of the project and is normally paid by its users. This form, where the exchange is purely exploitation of the work, is usually found in smaller works (e.g. motorways, small bridges, irrigation channels, etc.) or locally significant works (e.g. drainage of a lake, dam construction etc.) or works whose operation is not directly related to the performance of a public service (e.g. construction and operation of electricity units on islands not connected to the national network). This is in practice the most frequent case of a mixed concession contract, as the project concessionaire often provides a service to the user since the work he has performed. This category includes contracts for the construction and operation of railways, underground trains, cable cars, motorways, car parks, large bridges, tunnels, canals, airports, ports or other transport terminals (transport service). Concessions for the construction and management of prisons (police service), etc.

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Project Title	Contract Duration	Total Project Cost	Senior Lenders	SPV Sponsors	VAT Provider	Grantor
Rio-Antirio Bridge	42 years (34 years, 8 years construction)	740 mil	European Investment Bank (with Greek Banks)	<ul style="list-style-type: none"> • VINCI construction Grands Projects • AKTOR Concessions SA • J&B AVAX • ATHINA S.A • PROODE UTIKI S.A • PANTEX NIKI A.E 	GEFYRA SA Bank of America NA The Bank of Tokyo-Mitsubishi	GEFYRA SA
Attiki Odos	23 years (15 years operation, 7 years construction)	1,24 mil	Attiki Odos SA European Union European Investment Bank	<ul style="list-style-type: none"> • AKTOR Concessions SA • J&P AVAX SA • ETETH SA • Piraeus Bank/ ATEbank 	Piraeus Bank SA/ ATE Bank	Attiki Odos SA

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Athens International Airport (BOOT PPP)	30 years (25 years operation, 5 years construction)	2,220 mil	EU Cohesion Fund)	HOCHTIEF	European Investment Bank (with Greek Banks)	Athens International Airport SA
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Table 5: Public Works Concession- The major PPP Projects⁴⁰

⁴⁰ www.sdit.gr

7 Case Study of Athens International Airport

7.1 Athens International Airport

7.1.1 General Information⁴¹

Athens International Airport is located between the towns of Markopoulo, Koropi, Spata and Loutsa, about 20 km to the east of central Athens. The airport is named after Eleftherios Venizelos, the prominent Cretan political leader and Prime Minister of Greece, who contributed significantly to the development of Greek aviation and the Hellenic Air Force in the 1930s.

The first plan to transfer the airport from Elliniko to another location has already begun with the Dictatorship, when the expansion of Athens started, causing the encirclement of the old airport and the physical space for further development wasn't available. The idea was maintained after the Post-Conflict, and in 1976 a study was submitted to the Greek Government which suggested that Spata should be the ideal location for a new airport. In the late 1970s, the studies were completed and the first preliminary work began, but in 1979, due to the then global oil crisis, it was provisionally postponed and canceled in December 1981.

In the early 1990s, it was now obvious that Elliniko could not serve the increased needs of the passengers of the future - unless it expanded. At that time, some of the resources required for the construction of the 2nd and 3rd Community Support Framework were found, and its construction was decided through a public consortium, with private companies contributing to its financing. On 31 July 1995, following the international tender, the German company Hochtief (39.97%) was selected for the construction and subsequent co-ownership with the Greek State (55%). On the 5th of

⁴¹ www.aia.gr

September of the following year, the foundation ceremony was held by Prime Minister Konstantinos Simitis.

The construction of the airport was completed 51 months later in September 2000, five months earlier anticipated. After a five-month test, the airport was inaugurated on March 27, 2001, again by Mr. Kon. Simitis.

In 2001, the operation was a landmark year for the entire Greek airline. During these years, it has become the focus of positive reports on its performance and capabilities. It has been awarded several times by international organizations, responsible for the aerospace industry, for its innovative applications and quality services. The technical characteristics and control system, the organization and the administration that follow are a guarantee of good and optimal performance. It is not the subject of this work to refer to technical parameters of the airport, but they have decisively contributed to its full and complete qualitative elements.

The milestones of the construction and operation of the new Athens airport, which have gone through many and various issues of controversy and conflict, were:

- 1995 Airport Development Agreement Signature
- 1996 foundation ceremony
- 1997 start of construction
- 2000 (September) work completed
- 2000 (October) start of the 5-month trial
- 2001 (March) Start of Airport Operation

The new airport in Athens has highlighted a series of major issues concerning Greece and Southeastern Europe, which already involve society and the economy and are expected to intensify in the immediate future.

7.1.2 PPP Concession ⁴²

The new Athens airport is the result of cooperation between the Greek state and the private initiative. "Athens International Airport SA" is a private limited liability company responsible for the construction and operation of the "Eleftherios Venizelos" Airport, as it was named, for a total period of 30 years.

Athens International Airport S.A. (AIA) was established in 1996 as a Public-Private Partnership with a 30-year concession agreement. Ratified by Greek Law 2338/95, the concession agreement grants the right to use the airport site for the "design, financing, construction, completion, commissioning, maintenance, operation, management and development of the airport". Athens International Airport is a privately managed company, with the Greek State holding 55% of shares, while the private shareholders collectively hold 45%.

Athens International Airport is a pioneer international Public-Private Partnership, being the first major greenfield airport with the participation of the private sector. The cost for the development of the airport was financed mainly from bank loans - with European Investment Bank being the major lender, while the remaining funding was provided through private shareholders equity and EU and Greek State grants.

The ownership of Athens International Airport is divided between the Hellenic Republic (Greek State) and Private Sector in a 55% - 45% stake following a PPP scheme for the airport company. Currently, private investors include the Copelouzos Group (5%) and PSP Investments of Canada (40%), following purchase of Hochtief's shares.

⁴² www.aia.gr

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Cooperation (the BOOT contract) is between the Hellenic Republic (55%) and the private consortium (45%) led by the German Construction Company Hochtief. The partners are:

- Hochtief AirPort GmbH (36,125%) ,
- ABB Calor Emag Schaltanlagen AG (5%) ,
- H.Krantz-TKT GmbH (3,75%) και
- Flughafen Athen-Spata Projektgesellschaft mBH (0,125%)

Those companies joined their forces and they carry out a project that worth 2.096 billion.

Nowadays, this concession, which is one of the largest and most important public and private partnerships, expires in 2026. In addition, the State has transferred to Hellenic Republic Asset Development Fund (HRADF) the right to extend the existing concession by 20 additional years (until 2046 on 18 March 2017). However, if the current contract expires in 2026, the management of the airport will be 100% paid to the Greek State. Revenue for the Greek government over a 20-year period is expected to reach 1,5 billion euros, of which 400 million in 2017. The agreement also provides for the reduction of landing fees and the abolition of the first refusal right that PSP (Public Sector Pension) has so far held for 30% of the share capital currently held by Hellenic Republic Asset Development Fund.

Due to the current concession agreement, Athens International Airport SA is a privately managed company, which has as main shareholders the Greek State and the Avi Alliance group. The Avi Alliance Group became the main private shareholder in 2013 after the sale of the shares of Hochtief AG to Hochtief Airport FmbH (a 26.67% shareholder) at World Airport Partners GmbH & Co. KG, which is a full subsidiary of the Public Sector Pension Investment Board (PSP Investments). PSP Investments is a Canadian company, established and operating under the laws of the State of Canada. In addition, Hochtief Airport GmbH was renamed Avi Alliance GmbH, and its other

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shareholder, Hochtief Airport Capital Co. & KGaA (which held 13.33% of the company's shares) was renamed AviAlliance Capital GmbH & Co. KGaA.

7.1.3 Companies

7.1.3.1 Hochtief ⁴³

HOCHTIEF is one of the world's most relevant building and infrastructure construction groups, focusing on complex projects in the transportation, energy, and social and urban infrastructure segments as well as contract mining. We draw on our expertise in developing, financing, building, and operating gained in over 140 years of experience. Thanks to our global network, HOCHTIEF is on the map in the world's major markets.

7.1.3.2 AviAlliance ⁴⁴

AviAlliance is an airport management company headquartered in Düsseldorf, Germany. The company was founded in 1997 as Hochtief AirPort, a subsidiary of the international construction service provider Hochtief. Since 27 September 2013, the company has been owned by a subsidiary of the Public Sector Pension Investment Board. As an airport manager, AviAlliance acquires shareholdings in private airports and — working together with the other shareholders - operates these as independent commercial enterprises.

7.1.3.3 Hellenic Republic Asset Development Fund (HRADF) ⁴⁵

According to the Law 3986/2011, the Hellenic Republic Asset Development Fund (HRADF) exploits the private property of the State, which has been entrusted to it, according to the country's international obligations and the Medium-Term Fiscal Strategy.

⁴³ http://www.hochtief.com/hochtief_en/0.jhtml

⁴⁴ https://www.avialliance.com/avia_en/1.jhtml

⁴⁵ <http://www.hradf.com/>

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In close cooperation with the Greek Government, HRADF promotes the implementation of privatizations in the country, having full responsibility for the application of the respective policy.

The privatization program is already in progress and its mission is the maximization of development, by attracting direct investments in infrastructures, energy, real estate and other sectors, while at the same time try to achieve other important benefits, such as job creation, infrastructure modernization and promotion of the necessary reforms.

The Hellenic Asset Development Fund was established on 1st July 2011, with a six-year duration, which can be extended with the decision of the General Assembly of its unique shareholder, which is the Hellenic Corporation of Assets and Participations (HCAP).

The assets which were included in the Medium-Term Programs have already been transferred to the Fund and they can be summarized in three categories:

1. Land Development
2. Infrastructure
3. Corporate

In the framework of ensuring absolute transparency conditions the Fund publishes quarterly reports and policies and has internal procedures and policies, published tender Regulation and internal and external auditors.

It is managed by experienced professionals from the banking and business sectors, as well as consultancy and legal services, aided by a Council of Experts, while it recruits experienced international consultants for each project. It uses the most developed project management systems and has adopted a very simple organizational structure, to facilitate the immediate decision making process. The organizational structure is consisting of the following members:

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- Lila Tsitsogiannopoulou, Chair of the BoD
- Antonios Leousis, Chief Executive Officer
- Angelos F. Vlachos, Member of the Board
- Andreas Trokkos, Observer
- Jean Pierre Philippe, Observer

7.1.4 Funding ⁴⁶

The construction of Athens International Airport was financed by a European Investment Bank (EIB) loan of €997m (45% of total funds), €312m (14%) of commercial bank loans (a consortium led by Vereinsbank), €250m (11%) of European Union grants, €150m (7%) of grants from the Greek State, €134m (6%) of shareholder loans as well as a range of smaller amounts from other sources.

Economic Sources	Amount in million Euro
European Investment Bank (EIB)	997 (45%)
Commercial Bank Loans	312 (14%)
Airport Development Tax "Spatosimo"	300(13%)
European Union Grants	250 (11%)
Greek State Grants	150 (7%)
Equity	134 (6%)
Shareholder loan	45 (2%)
Loan for the freight station	17 (1%)
Other Sources	14 (1%)
Total Amount	2,219 (100%)

Table 6: Financial data of the Athens International Airport

⁴⁶ www.aia.gr

7.1.5 Shareholder Structure⁴⁷

The Shareholder Structure of Athens International Airport is shown in the following table:

Shareholder	Number of Shares
Hellenic Republic Asset Development Fund (HRADF)	9,000,000 (30%)
AviAlliance GmbH	8,000,004 (26,667%)
Greek State	7,500,000 (25%)
AviAlliance Capital GmbH & Co. KGaA	4,000,002 (13,333%)
Copelouzos Dimitrios	599,997 (2%)
Copelouzou Kiriaki	299,999 (1%)
Copelouzos Christos	299,999 (1%)
Copelouzou Eleni-Asimina	299,999 (1%)
Total	30,000,000 (100%)

Table 7: Shareholder Structure of Athens International Airport

⁴⁷ www.aia.gr

7.1.6 Board of Directors ⁴⁸

The Athens International Airport is owned by Private Companies, unlike the other airports in the country that they operated by Civil Aviation, The Greek State.

The nine-member of the Board of Directors elected by the General Meetings of the Shareholders with a two-year term of office is responsible for the management and administration of all corporate matters and affairs and has specifically delegated authority to the Managing Director and the members of the Management respectively. The Greek State advises the company on the appointment of four members (also indicating the Chairman), who represent the majority of ordinary shares other than those held by the Greek State, appoint four directors, also indicating the Vice-President. The Ninth Director is appointed by the President of the European Investment Bank in the absence of such an agreement. The Chief Executive Officer, responsible for the day-to-day management and operation of the Company's activities, has been proposed by private shareholders and has participated in all meetings of the Board of Directors without the right to vote. Meetings of the Board of Directors are held on a monthly basis and are supported by a competent, expert and experienced Secretary of the Company, who advises the members of the Board of Directors to ensure that the statutory and regulatory requirements are adhered to, as well as to provide guidance to the Board of Directors Senior executives.

The schedule of matters reserved for the decision of the Board and its Committees include without limitation:

- The approval of the overall long-term strategy, corporate goals and formal Business Plan
- Approval of annual operating and capital budgets
- Ensuring the integrity of the Company's accounts and financial reporting systems
- Approval of major Pricing Policies
- Approval of major contract awards

⁴⁸ www.aia.gr

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- Delegation of powers related to administration, management and representation of the Company.

In order to allow an effective discharge of its duties, the Board has established appropriate Board Committees which have an advisory capacity. These are:

- The Audit Committee,
- The Personnel Committee,
- The Finance Committee
- The Investment Committee.

Board committees possess specialized knowledge, discuss issues in their remit in depth and make recommendation to the Board.

The Annual ordinary General Meeting of the Shareholders approves the actions and decisions of the Board of Directors during the previous corporate fiscal year and releases the Board of Directors from any liability from the year in accordance with the Law 2190/1920 and the Company's Articles of Association.⁴⁹

More specifically, the concession agreement that has been signed gives the following data for the composition of the Board of Directors. First, there are nine members in the Board of Directors and they have the following distribution. The Chairman of the Board of Directors, Dr. Dimitrios Dimitriou, is appointed by the Greek State. The Chief Executive Officer, Dr. Ioannis Paraschos, is appointed from private investors. Four of its members are appointed by the public, four of the individuals (such as the Vice-Chairman of the Board of Directors, Holger Linkweiller that his primary work is in Athens International Airport S.A., Gerhard Schoeder that his primary company is AviAlliance GmbH, Charalampos Kakavas that his primary company is Tsakos Energy Navigation Limited, Prof. Charalampos Pampoukis, Panayotis Pavlopoulos, Dr. Evangelos Peter Pongias that his primary company is AviAlliance GmbH, Nikolaos Protonotarios that his primary company is Athens International Airport SA), and one by the European Union, Dr. Jacques F.Poos.

The role of the ninth member, which is chosen by mutual agreement of the other members from the list of three persons submitted by the European Commission and the

⁴⁹ Corporate Responsibility 2015, 12

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Greek Technical Specifications (GTES) to the Board of Directors, is critical. In the event of a crisis among the shareholders, the ninth in the first phase is chosen by the other members to achieve unanimity.

Board of Directors meetings are clearly defined - one every month - and many hours, always with the logic of reaching agreements with extensive substantive discussions.

The management is practiced with the most modern methods. Rigid economic control, technocratic integrity, staff assessment, teamwork, use of IT, the legal integrity of the respective service, the existence of a special department for environmental protection, procurement committees, etc., are operating and renewed continuity. Entrepreneurs who participated in the Board of Directors expressed the view that it is of an important educational nature and that all those who have a management role should be trained.

Board of Directors	
Dr. Dimitrios Dimitriou	Chairman of the Board of Directors
Holger Linkweiler	Vice- Chairman of the Board of Directors
Dr. Jacques F. Poos	Member of the Board of Directors
Charalampos Kakavas	Member of the Board of Directors
Prof. Charalampos Pampoukis	Member of the Board of Directors
Panayotis Pavlopoulos	Member of the Board of Directors
Dr. Evangelos Peter Pougias	Member of the Board of Directors
Nikolaos Protonotarios	Member of the Board of Directors
Gerhard Schroeder	Member of the Board of Directors

Table 8 : Members of the Board of Directors

7.1.7 Organizational Structure ⁵⁰

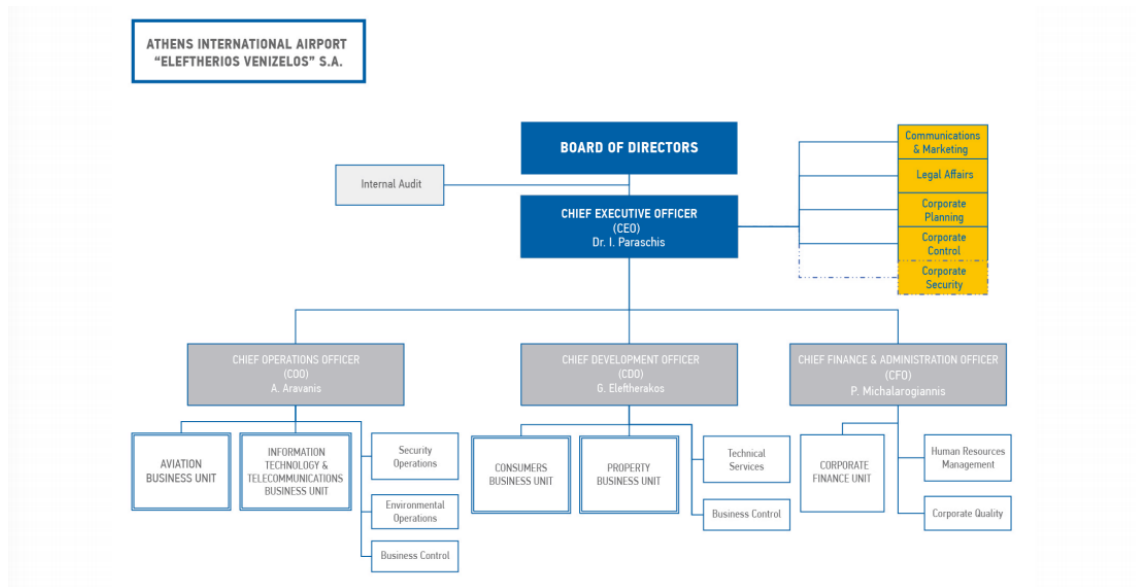


Figure 5: The Organizational Structure of Athens International Airport ⁵¹

The organizational structure is described in detail in the above table. As we see, Chief Executive Officer (CEO) is Dr. Ioannis Paraschis and the Chief Officers of Athens International Airport are Aravanis Alexandros as Chief Operations Officer, Eleftherakos Georgios as Chief Development Officer and Michalagiannis Panagiotis as Chief Financial Officer.

It is important to mention that there are directors in many sectors of the operation in Athens International Airport such as: Information Technology & Telecommunications Business Unit, Property Units, Corporate Planning, Security Services, Consimers Business Unit, Communications & Marketing, Legal Affairs and Secretary to the Board of Directors, Human Resources, Technical Services, Aviation Business Unit.

⁵⁰ www.aia.gr

⁵¹ www.aia.gr

7.2 Principles of Corporate Governance at Athens International Airport ⁵²

As stated in a previous chapter, the Principles of Corporate Governance will follow their analysis and comparison with the way they are presented at Athens Airport.

The corporate governance framework established at Athens International abides by the provisions of the company's constitutional documents, i.e. the Articles of Association (as per provisions of the Airport Development Agreement and Law 2338/1995- Government Gazette A' 202.14.9.1995) and includes a number of specific processes and procedures which aim at forging a robust governance structure and approach in line with the principles set forth in the applicable legislation.

- The main task of the Board of Directors is to elect the CEO, but also to choose how it is supervised and whether the management is effective in the success of the business. At Athens International Airport, the composition of the Board is composed of 9 members, where the President is appointed by the Greek State. The CEO, however, is nominated by private investors who appear to follow the principles of Corporate Governance. Four members of the Board are appointed by the Greek State, four members from the Shareholders and one from the European Commission.
- Management has the responsibility, under the supervision of the Board of Directors, to promote a moral and honest way of governance to maximize the value of shareholders' shares.
- Management, under the supervision of the Board of Directors, is responsible for the development and creation of strategic plans for the company in question to identify and counteract the resulting risks. At the Athens International Airport, both the Board of Directors and the Management are committed to maintaining a sound system of internal controls to safeguard the Company's assets and ensure that significant risks are identified and adequately managed. For this purpose, Athens International Airport has adopted the most contemporary risk management practice, often referred to as enterprise risk management (ERM),

⁵² Corporate Responsibility 2015, 11-18

and aims to deal with risks from broader scope, depth, and perspective, including strategic, operational and financial risks; such approach undoubtedly constitutes an advancement as compared to the “traditional” risk transfer approach of managing the insurance portfolio and resolving claims to protect the company’s value.

- The Board of Directors and management must fully agree with the appropriate strategy development strategy. In addition to the requirements of the aforementioned ERM, Athens International Airport has implemented the organizational arrangements recommended by the Institute of Internal Auditors (IIA) which may be summarized as follows:
 - ❖ The operational managers who design and implement detailed procedures to monitor and supervise the execution of these procedure by their employees.
 - ❖ The role and responsibilities of the Corporate Control function, assigned to Risk Management responsibilities, which includes greater visibility with wider focus and value. Its scope has been extended to include the creation of a more general Risk Management Framework to manage the Company’s most significant risks, to assist the management in developing processes and controls to manage risks and monitoring the timely remediation of potential deficiencies. Its scope also includes the operational business continuity planning. In line with industry best practices, a holistic risk management process has been adopted that identifies airport processes that are of major importance to the Company and the impact to its operations and provides a framework for building operational resilience, through effective contingency and recovery measures for responding, resuming and restoring operations at pre-defined levels. Finally, the interests of the shareholders are optimized through a thorough and balanced assessment of the benefits and costs associated with the aforementioned system of established controls.

- ❖ Management's integrated and coordinated approach to risk is also conducted through the activities of the Finance function that monitors financial risks and financial reporting issues, the Security/Safety departments which monitor the respective risks and hazards and the Regulatory and Legal Compliance Coordination function which in turn monitors specific risks such as non-compliance with applicable laws and regulations. This systematic and disciplined approach enhances and optimizes the strategic decision-making capability of the company.
- ❖ The Internal Audit Function provides shareholders with the assurance on the adequacy of the Company's overall risk management processes. The Statutory Auditor provides assurance on the adequacy of controls impacting the accuracy of the financial statements and is accountable to the Audit Committee.

The Company maintains and continuously updates a system of policies and procedures, ensuring that Management directives are staggered and corporate objectives are achieved. The Company invests in management systems that enhance controls and serve its commitment to providing high quality, state-of-the-art services. Where necessary, these systems shall be certified in accordance with applicable standards. In this respect, AIA maintains the certification against the ISO9001:2008 standard for Quality Management and as of 2015 the ISO20000-1:2011 standard for IT Service Management for its IT&T Business Unit. Furthermore, AIA holds a certification against the ISO 14001 standard (release 2004+Cor1:2009) for its Environmental Services Department. Under the AIA governance framework, and in particular in relation to Corporate Responsibility (CR), related issues (such as environmental, safety, human resources issues) are regularly reported by the Management to the Board of Directors. Furthermore, the Audit Committee, within its capacity to monitor the adequacy of internal and external controls, reviews the independence and quality of the parties hired by Management to provide CR Assurance services.

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- It is the principle of Corporate Governance to publish the financial statements of each company. For this job, the management is responsible, which is of course controlled by the Board of Directors together with the Audit Committee. On an annual basis, Athens International Airport issues and publishes various reports covering all aspects of activities and performance. Furthermore, Athens International Airport has developed a reporting system which not only supports Management in its strategic decision-making but also fosters effective communication within the Company as well as with external parties.
- Another principle of Corporate Governance is the recruitment of an independent Financial Manager (accountant), who is appointed by the Board of Directors together with the Audit Committee. At Athens International Airport, the activities of the Risk Management and Internal Audit functions are complementary in close cooperation with each other and a common definition and risk framework. The Board of Directors regularly reviews the principal risks to the business and the effectiveness of the System of Internal Controls in managing these risks including financial, operational and compliance controls as well as the Risk Management Process. To this end, the Board of Directors, through the Audit Committee, receives regular reports from the Company's Internal Auditor and Statutory Auditor in respect of the adequacy of the internal control system. This committee is also responsible for supervising and monitoring the performance and independence of the Internal Audit department as well as the selection, performance, objectivity, and independence of the Statutory Auditor. It has supervisory powers to strengthen business ethics and anti-fraud controls. Finally, the Audit Committee monitors the compliance of the Company's Compliance with Legal and Regulatory requirements.
- As is well known, Corporate Governance is related to whether the business operates properly within legal, institutional and cultural factors. Thus, the core principles of Corporate Governance are stated to be the responsibility of the Board of Directors together with the Corporate Governance Committee as it

plays an important role in the composition of the Board of Directors as it plays a key role in selecting the most capable and best members of the Board of Directors. In the case of Athens International Airport, it is not entirely logical, since it is a PPP Project and for this reason, it is the contracting parties (Shareholders and Greek State) determine the composition of the Board of Directors.

- It is the responsibility of the Board of Directors, through its Compensation Committee, to adopt and supervise an implementation indemnity philosophy, set performance targets and determine the compensation of the CEO and senior management. Compensation policies and goals should be aligned with the company's long-term creation strategy to create incentives for innovation and generate long-term value for shareholders without undue risk. These policies and the resulting compensation should be clearly transferred to the shareholders.
- The company should aim to establish long-term relationships with shareholders and give them the right to intervene in an appropriate manner in the Board of Directors and in management. Athens International Airport is practicing continuous monitoring to provide assurance that controls and other planned actions are carried out properly and to identify key exceptions requiring quick and effective review and management action. Scheduled periodic audits performed both by external auditors and the Company's Internal Audit department aim to further assure the adequacy of the internal control environment. Furthermore, enhanced IT solutions that Athens International Airport has developed, such as data measurement techniques applied to the compilation of indicators for corporate use, facilitate the continuous monitoring process. Continuously reinforcing the Business Units' role, Athens International Airport's Value Based Management (VBM) methodology measures the performance against predefined targets on both financial and non-financial metrics and parameters (e.g. systems' efficiency, quality of services, safety of operations, environmental responsibility, personnel safety, training, etc.).

Athens International Airport aims at being acknowledged as a role model responsible Company within the markets it operates and to influence others in their effort to follow a path of sustainability. Our corporate values (Accountability, Team Spirit, Respect, Effectiveness, Customer Focus) are embedded in all aspects of our operation and development. Athens International Airport applies a Code of Business Conduct, developed in line with global best practices, which urges employees to conduct business activities in accordance with corporate values, thus aiming to maintain the Company's good reputation and trust and to reinforce stakeholders' confidence. The Code is a management tool that safeguards an all-embracing work environment where no discrimination, victimization and harassment may occur. The Code provides a framework that allows employees to express their concerns on possible violations in good faith, while protecting them from any retaliation. The Code promotes Management Responsibility with respect to corporate standards of conduct through an annual reconfirmation process. Integral to the Code of Business Conduct, the Code of Relations with Business Partners ensures that all business partners are treated with fairness and integrity and that employees interfacing with them abide by a strict framework of principles and rules. Both Codes are under the responsibility of the Human Resources department. A Code of Acceptance & Reconfirmation process is integrated in the relevant online awareness program and is being completed on an annual basis by all AIA employees.

- In choosing decisions, the Board of Directors must consider all the requirements of the parties involved, such as employees, consumers, suppliers and all other parties, to create long-term contracts in a fair manner. For this Principle, Athens International Airport has developed a prevention of fraud which is a crucial element of Athens International Airport's Policies and strict compliance to the relevant rules must be secured by involved employees, Management members and members of the Board of Directors. Management and employees are expected to behave in an honest and fair way, in line with the provisions of

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Athens International Airport's Code of Business Conduct for compliance, integrity and avoidance of conflict of interest, thus promoting fraud avoidance. Athens International Airport aims to protect its employees, financial interests, clients, providers and the people who live and act at the airport community by carrying out a fair and balanced policy that develops and maintains an anti-fraud culture. Athens International Airport is committed to deter, prevent and investigate fraud and corruption and to apply appropriate corrective and/ or disciplinary measures as required working in a collaborative way to seek remedy wherever possible. Athens International Airport has established an Anti-Fraud Policy, aiming to ensure that a system of internal controls is in place for securing adequate containment of fraud risk; an internal framework is provided for all employees to report suspected acts of fraud or other similar irregularities; and a mechanism is in place for undertaking formal investigation of such irregularities and designing specific actions to rectify identified control gaps.

7.3 Other Corporate Governance Mechanisms at Athens International Airport

7.3.1 Board of Directors

As mentioned above, the Board of Directors has a vital role for the company, as it is responsible for the management and strategy that the company should follow to create long-term value creation.

More specifically, we will analyze the structure that the board should have since it has the most important role for the progress of the business and we will compare it with the Board of Directors of Athens International Airport. Although no one Board of Directors is right for every company.⁵³

7.3.1.1 Board Composition

7.3.1.1.1 Size

Board size tends to be correlated with company revenue.⁵⁴ In order to determine the appropriate board size, directors should consider the nature, size, and complexity of the company as well as its stage of development. For this reason, small companies (<\$10 billion) tend to have 7 directors, on average and large companies (>\$10 billion) tend to have 12 directors, on average. The larger boards often bring the advantage of a greater mix of skills, backgrounds and experience, while the smaller boards may be more consistent and may be able to handle issues and challenges more quickly and more appropriately.⁵⁵

At the Athens International Airport, the Board of Directors consists of nine members who elected by the General Meeting of Shareholders with a two-year term of

⁵³ Principles of Corporate Governance 2016, 11

⁵⁴ <https://www.gsb.stanford.edu/sites/gsb/files/publication-pdf/cgri-quick-guide-05-board-directors-structure-consequences.pdf>

⁵⁵ Principles of Corporate Governance 2016, 11

office, bears the responsibility for the management and administration of all corporate matters and affairs and has in this respect delegated specific authorities to the Chief Executive Officer and the members of Management respectively.⁵⁶

7.3.1.1.2 Composition ⁵⁷

The composition of a board should reflect a variety of thinking, backgrounds, skills, experiences and expertise and a range of tenures that are appropriate to the current and anticipated circumstances of the company and that collectively enable the Board of Directors to perform its oversight function effectively.

- **Diversity:** Various backgrounds and experiences in corporate boards, including those of directors who represent the board range of society, enhance the performance of the board and promote the creation of long-term shareholder value. Boards should develop a framework for the proper identification of the candidates, allowing the nominating/corporate governance committee to examine women, minorities and others with different backgrounds as candidates for each open board set.
- **Tenure:** Directors with a range of tenures can contribute to the efficiency of a board. Recent additions to the board can offer new perspectives, while directors who have served for many years bring experience, continuity, institutional knowledge, and insight into the company's business and industry.

In the following table, we will try to analyze the Board of Directors of the Athens International Airport at the terms of diversity between the members.

⁵⁶ Corporate Responsibility Report 2015, 12

⁵⁷ Principles of Corporate Governance 2016, 11

Board of Directors at Athens International Airport	
Professor (Em.) Panagiotis Roumeliotis	He is a Professor at Panteion University of Athens from 2013 until now and also, he was a chairman of BoD at Piraeus Bank and also a Minister of Economy
Holger Linkweiler	He is a Managing Director of AviAlliance GmbH and the Chairman of the Administrative Council of Tirana International Airport.
Dr. Jacques F. Poos	He is a Former Member of the College of Quaestors of the European Parliament, Former Deputy Prime Minister and Foreign Minister of Luxembourg.
Dr. Dimitrios Dimitriou	He is an Assistant Professor in Democritus University of Thrace and he was a Chairman and CEO at Athens Urban Transport Authority.
Charalampos Kakavas	He is a member of the Tripartite Audit Committee of OPAP S.A. and a Mathematician- IT Engineer.
Dr. Evangelos Peter Pougias	He is an Executive Director Commercial and Property Activities of AviAlliance GmbH and a Member of the Board of Directors of Budapest Airport Zrt.
Nikolaos Protonotarios	He is an Electrical Engineer.
Gerhard Schroeder	He is a Managing Director of AviAlliance GmbH, Chairman of the BoD of Budapest Airport Zrt, Vice-Chairman of the Supervisory BoD of Flughafen Dusseldorf and Hamburg GmbH

Dr. rer. pol. Hans-Georg Vater	He is a Member of the Supervisory Board of Klockner & Co. SE.
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Figure 6 : Experience of the Board of Directors of Athens International Airport

7.3.1.1.3 Independence

Director independence is critical to effective corporate governance by providing an objective independent judgment that represents the interests of all shareholders is at the heart of the board's supervisory function. Therefore, the majority of members of the board directors should be independent in accordance with the applicable rules and regulations and as determined by the board.

- Definition of "independence": An independent director should not have any relationships that may affect or adversely affect the director's ability to exercise independent judgment. Many boards have developed their own standards for assessing independence in line with stock market definitions, in addition to examining the views of institutional investors and other relevant groups.
- Assessing independence: When assessing the independence of a director, the board should consider all relevant facts and circumstances, focusing on whether the director has a direct or indirect relationship with the company, senior management or other directors that may affect actual or perceived independence. This includes relationships with other companies that have important business relationships with the company or with not-for-profit organizations that receive significant support from the company. Although it has been suggested that the long-term board service may be considered to affect the director's independence, long-term tenure, by itself, should not exclude a director from being considered independent.⁵⁸

The Board of Directors consists of executive directors and non-executive directors. Executive directors are full-time employees of the company and, therefore, have two relationships and sets of duties. They are working on the top-ranked business, which

⁵⁸ Principles of Corporate Governance 2016, 11

usually deals with policy matters or operational business areas of major strategic importance. Large companies tend to have executive directors responsible for finance, IT/IS, marketing and other important areas of a company management.

Executive directors are usually recruited by the board of directors. They are the top incomes in the company, with payment packages consisting of a few fees and marginal benefits and part pay performance. Most large companies now bind their executive directors with fixed-term contracts, which are often traded every 12 months. The chief executive officer (CEO) and the finance director (in the US, chief financial officer) are almost always executive directors.

Non-executive directors are not employees of the company and do not participate in their day-to-day running. They usually have full-time jobs elsewhere, or may sometimes be prominent individuals from public life. Non-executive directors usually receive a flat fee for their services and are employed by a service contract (civil contract such as that used to hire a consultant).

Non-Executive Directors should provide a balancing influence and help to minimize conflicts of interest and their role summarized as:

- to contribute to the strategic plan
- to examine in detail the performance of the executive directors
- to provide an external perspective on risk management
- to deal with people issues, such as the future shape of the board and resolution of conflicts.

Most non-executive directors should be independent. Factors to be taken into account when assessing their independence include their business, financial and other commitments, other shareholdings and directorships and involvement in businesses linked to the company. However, holding shares in the company does not jeopardize independence. Non-executive directors must have high ethical standards and act with integrity and probity. They have to support the executive team and watch their behavior, demonstrating a willingness to listen, question, debate, and challenge.⁵⁹

⁵⁹http://www.accaglobal.com/content/dam/acca/global/PDFstudents/2012s/sa_oct12f1fab_governance.pdf

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In the following table, we will try to analyze the Board of Directors of the Athens International Airport in executive or non-executive member and in independent member. According to Annual Report 2015 of Athens International Airport, Professor (Em.) Panagiotis Roumeliotis is the Chairman of the Board of Director which automatically makes him an executive member of the Board of Directors. Mr. Holger Linkweiller is the Vice-Chairman of the Board of Directors of Athens International Airport and he is a non-executive and independent member of the Board of Directors since he is a Managing Director of AviAlliance GmbH and also a Chairman of the Administrative Council of Tirana International Airport and Member of Supervisory Board of Flughafen Dusseldorf GmbH. Dr. Jacques F. Poos is Member of the Board of Directors and he is non-executive and independent member since he is a Former Member of the College of Quaestors of the European Parliament, Former Deputy Prime Minister and Foreign Minister of Luxembourg, Member of the Council of the Luxembourg Central Bank, Governor of the Asia-Europe Foundation and finally Member of the Board of Bank of China (Luxembourg) S.A.. Dr. Dimitrios Dimitriou is a member of the Board of Directors and, he is the CEO of the Athens International Airport, so he is an executive and independent member of the Board of Director. Mr. Charalampos Kakavas is a Member of the Board of Directors and he is an independent member because he is a member of the Tripartite Audit Committee of OPAP S.A. and a Mathematician- IT Engineer. Dr. Evangelos Peter Pongias is a Member of the Board of Directors and he is a non-executive and independent member of the Board of Directors because he is an Executive Director Commercial and Property Activities of AviAlliance GmbH and also a Member of the Board of Directors of Budapest Airport Zrt. Mr. Nikolaos Protonotarios is also a member of the Board of Directors and he is a non-executive and independent member. Mr. Gerhard Schroeder is a Member of the Board of Directors and he is a non-executive and independent member because he is a Managing Director of AviAlliance GmbH, Chairman of the Board of Directors of Budapest Airport Zrt., Vice-Chairman of the Supervisory Board of Flughafen Dusseldorf and Hamburg GmbH and finally a Former Member of the Supervisory Board of Lufthansa Technik Budapest Ltd.. Finally, Dr. rer. pol. Hans-Georg Vater is a Member of the Board of Directors and a Member of the

Supervisory Board of Klockner & Co. SE. and he is non-executive and independent member of the Board of Directors.⁶⁰

Board of Directors of Athens International Airport	
Professor (Em.) Panagiotis Roumeliotis	Executive and Independent Member
Holger Linkweiler	Non-Executive and Independent Member
Dr. Jacques F.Poos	Non-Executive and Independent Member
Dr. Dimitrios Dimitriou	Executive and Independent Member
Charalampos Kakavas	Non-Executive and Independent Member
Dr. Evangelos Peter Pougias	Non-Executive and Independent Member
Nikolaos Protonotarios	Non-Executive and Independent Member
Gerhard Schroeder	Non-Executive and Independent Member
Dr. rer. pol. Hans-Georg Vater	Non-Executive and Independent Member

Figure 7 : Members of the Board of Directors at Athens International Airport (Executive-Non-Executive, Independent Members) ⁶¹

7.3.1.1.4 Characteristics - Experience

Every director must have integrity, strong character, sound judgment, an objective mind and the ability to represent the interests of all shareholders and not the interests of constituencies.

Directors with relevant business experience and leadership experience can provide the board with a useful insight into business strategy and significant risks and understanding of the challenges faced by the business.

At Athens International Airport, the 9 members of the Board of Directors are remarkable people who have demonstrated their value and their ability to manage the airport properly. These are professionals with many years of experience in management and strategy, but also in the proper exploitation of the business. They are also people

⁶⁰ Annual Report 2015, Athens International Airport

⁶¹ Annual Report 2015, Athens International Airport

who put the interests of their shareholders above their own, have a strong character and a practical spirit.

7.3.1.1.5 Election ⁶²

Directors should be elected by a majority vote for terms that are consistent with long-term value creation. Boards should adopt a resignation policy according to which a director who does not receive a majority vote tenders his or her resignation to the board for its consideration. Although the final decision to accept or reject the resignation will be on the board, the board and its nominating/ corporate governance committee should critically consider why the director did not obtain a majority vote and whether the director should continue to serve. Among other things, they will have to consider whether the vote has resulted from concerns about a policy issue that affects the board or with concerns about the particular director and the basis for these concerns.

At the Athens International Airport, the Board of Directors which consists of nine members is elected in a specific manner. The Greek State advises the Company on the appointment of four members (also indicating the Chairman), while the shareholders representing most of the ordinary shares other than those owned by the Greek State, appoint four directors, also indicating the Vice Chairman. The ninth director is appointed either following an agreement between the Greek State and the shareholdings holding the majority or in the case of non-achievement of such an agreement, by the Chairman of the European Investment Bank.

7.3.1.1.6 Time commitments ⁶³

Serving as a director of a public company requires considerable time and attention, certain roles, such as committee chair, board chair and lead director, carry an additional time commitment beyond board and committee service. Directors must

⁶² Principles of Corporate Governance 2016, 11

⁶³ Principles of Corporate Governance 2016, 11

spend time and meet as often as necessary to discharge their responsibilities properly. While there may not be a need for a set limit on the number of external boards on which a director or committee member may serve – or for any limitations in other activities a director may pursue outside of his or her board rules – each director should be committed to the responsibilities of board service, and each board should monitor the time constraints of its members considering their circumstances.

At the Athens International Airport, the nine-member Board of Directors as we mentioned before, are elected by the General Meeting of Shareholders and they have a two-year term of office, which means that they have the responsibility for the management and administration for all corporate matters and affairs.

7.3.1.1.7 Board Meetings - Number and Scheduling

The Board meets on a regular basis in personal meetings of no less than four (4) times a year and conduct additional special meetings and conference telephone meetings, if necessary, to complete regular scheduled meetings. As far as possible, the meetings of the Board should be planned in advance.⁶⁴

At the Athens International Airport, Boards Meetings are held on a monthly basis and are supported by a competent, qualified and experienced Company Secretary who advises Board members with a view to ensuring that statutory and regulatory requirements are met as well as providing guidance on Board matters to senior management.

⁶⁴ <http://ir.cebglobal.com/phoenix.zhtml?c=113226&p=irol-govguidelines>

7.3.2 Chairman VS CEO

As mentioned above, the Chairman and a CEO plays a vital role for the company as it is responsible for the management and strategy that the company should follow to create long-term value creation.

It is very important to separate these two positions, and in the case of Athens airport the chairman and the CEO are two different people, Mr. Dimitrios Dimitriou and Mr. Ioannis Paraschis respectively.

In theory, an independent chairman improves the ability of the board of directors to oversee management. The roles of chair and chief executive officer should not be exercised by the same person. There must be a clear division of responsibility between the head of the company. The distribution of responsibilities between the chair and the chief executive officer should be agreed by the Board and set out in a statement of position or authority. The chief executive officer should not go on to become chair of the same company.⁶⁵ Separation eliminates conflicts in the areas of performance appraisal, executive compensation, succession planning and the recruitment of new directors. It also allows the CEO to focus exclusively on strategy, operational, and organizational issues while the chairman focuses on the supervision of the management, board leadership, and governance-related issues.⁶⁶

The separation of the chair and CEO roles increases the board's independence from management and therefore lead to better monitoring and supervision. In this way, a company clearly separates the roles of the board and management and gives one director clear authority to speak on behalf of the board and to hold meetings of the Board of Directors. Because the CEO manages the company and the chair leads the board in overseeing (hiring, compensating, and replacing as needed) the CEO on behalf of shareholders, holders of this view see a conflict of interest if one person occupies

⁶⁵ Corporate Governance Principles and Recommendations with 2010 Amendments,13

⁶⁶ David F. Larcker, Brian Tayan, Chairman And Ceo

both the CEO and chair roles, which is most common argument which is based on agency theory.⁶⁷

However, the separation of the chairman and CEO roles is not clearly positive. Mandating separation can be artificial, especially when the company already has an efficient dual chairman/CEO in place. Separation can lead to overlapping leadership, impair decision making, and create internal confusion, especially in times of crisis. It can also make the recruitment of a new CEO difficult if qualified candidates expect to hold both titles. This is particularly true when the new CEO is an external tenant.⁶⁸

On the other hand, stewardship theory is considered to be that the benefits of separating the chair and CEO roles are not so clear-cut. Stewardship theory is based on the principle of “unity of command” and argues that having clear and indisputable power centered in one person is essential to effective management. Unity of command creates clear lines of authority in which management (and the board) can respond more effectively. In a business environment where strong, directive, stable, and unconfused leadership is critical to organizational success, this legitimacy is an important message to stakeholders about who is accountable.⁶⁹

The chairman should be an independent director ⁷⁰ as in the case of Athens International Airport. The Chairman is responsible for the leadership of the board and for the efficient organization and conduct of the board’s functioning. The Chairman should facilitate the effective contribution of all directors and promote constructive and respectful relations between directors and between board and management. When the Chairman is not an independent director, it may be beneficial to consider the appointment of a lead independent director. The role of chair is demanding and requires the considerable time commitment. The chair’s other positions should not be such that they are likely to hinder effective performance in the role. Also, the independent

⁶⁷ Tonello Matteo, Separation of Chair and CEO Roles

⁶⁸ David F. Larcker, Brian Tayan, Chairman And Ceo

⁶⁹ Tonello Matteo, Separation of Chair and CEO Roles

⁷⁰ Corporate Governance Principles and Recommendations with 2010 Amendments, 18

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Chairman can direct the board's attention to issues that are most in need of critical review and oversight.⁷¹

On the other hand, the CEO is responsible for developing the company's long-term strategic plans, and for reasons, CEO has a lot of power, so the main reason for an independent chair is to reduce this power.⁷²

Finally, it is important to note that, there is no systematic economic advantage in splitting the CEO and Chairman positions.

⁷¹ Robert C. Pozen, *Before You Split that CEO/Chair*, 2006

⁷² Robert C. Pozen, *Before You Split that CEO/Chair*, 2006

8 Conclusions

It is clear that good Corporate Governance can be a critical component in building a healthy market and attracting long-term investment funds. Greek businesses, in order to be able to distinguish themselves in the international competitive environment, they have to reorganize the internal organizational and operational structures according to international accepted corporate governance practices. Any changes and adjustments beyond the legislation should be promoted by businesses themselves for their own benefit. In any case, when companies decide to raise capital from the stock exchange and acquire a minority, they are effectively required to protect shareholders by creating appropriate corporate governance mechanisms.

The main objective of Corporate Governance is the transparency and individuality of the values of the strategy. The goal may be to invest in credibility and trust, transparency in decisions, the identity of values and strategy. The goal may be to create value for shareholders, market participants, and society on a long-term and sustainable basis.

If the company applies accessible and transparent governance, it takes more qualitative decisions, becomes more competitive and more efficient, and therefore more sustainable. Shareholders are more willing to continue investing in the company while drawing awareness to the participants' offense on the basis of wage costs. Instead, they will have to compete as a country in Europe that has institutional growth and the rule of law as a capital market compatible and recognizable by international investors. And the Corporate Governance can make the most of the attractiveness of an investment proposal.

The implementation of the Corporate Governance principles ensures the framework of cooperation between the Board of Directors of each company and the Shareholders in order to create a long-term value and to achieve a recovery. This is happening because of the Corporate Governance that traditionally considered in the relations between the management of a company, the management committee, the Shareholders and other functions, such as workers and its representatives.

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It also covers the way in which the objectives of the company are defined but also the ways that should follow to achieve them and the control of the adherence to the rules. In conclusion, Corporate Governance is a subset of the framework governing the capital market and in particularly listed companies. The new rules are part of the wider effort to regain investor confidence, to the regular operation of the capital market and to safeguard the system.

On the other hand, the introduction of PPP in the procurement of public works and services has fundamentally changed the philosophy that existed until then in the market. Traditionally, public projects are carried out exclusively by public organizations and government expenses because they reflect public service profits to citizens. The involvement of the private sector was in the circumstances of their recruitment to provide specific services. They were not considered to be a business transaction and they were not aimed at maximizing profit but in contrast, they were aimed at a better coverage of the needs of citizens for essential public assets. With the presence of PPPs, the goal was not changed, but the way it was approached, while the finding of limited public funds was insufficient to meet the needs of society. Thus, the public sector has been adapted to meet the ever-increasing demands of citizens in market laws. The plethora of examples from their application in other countries showed that it was a system that could work and meet modern requirements.

Thus, with the public procurement procedures known so far, the public organization is able to supply projects, services or goods by individuals, and also the relationship between the public operator and the individual is the customer-supplier relationship. The individual/supplier undertakes to carry out the work assigned to him/her, in compliance with the specifications and within the time frame assigned by the public operator/customer. The risk assumed by the public operator is the risk that each supplier assumes. The public body is responsible for supervising and monitoring the execution of the project according to the specifications that set out and the payment of the individual during the implementation of the project and, at the latest, on receipt thereof. Public contracts, while tight timetables are foreseen, may result in delays in

their execution. These delays also entail overruns in the cost of these contracts, which are ultimately taken over by the Public Sector.

PPPs are differentiated from traditional contracts because they are financed by private funds. With the partnership with the private operator, the public sector aims at the final result, i.e. the provision of services to citizens (end-users) by the individual. Infrastructure construction is only a small prerequisite for the provision of services and, therefore, standards set by the public sector are performance and/or operational specifications. The private sector will be repaid either by the public sector or by the end-users, when the project or service is going to start, that is, after the delivery of the infrastructure to be used and the payment is partial, it extends throughout the duration of the contract. The contract is of a long-term nature and is directly linked to the quality of the services provided by the private sector, which the private sector should guarantee up to the last year of his contract. Low-quality services and infrastructure on the part of a private sector also entail reduced pay for him.

With the implementation of the partnership system, the public sector seeks to exploit the know-how and flexibility of the private sector with the ultimate goal is to optimize the services that are provided to citizens. Know-how and flexibility are available not only during the construction of the infrastructure of a project but also throughout the construction of the infrastructure of a project but also throughout the duration of the partnership, which is generally long-term. Thus, citizens can benefit from the advantages of the private sector in all project construction by the private sector.

Furthermore, the time for completion of the infrastructure and the start of the provision of services is generally significantly slower than the time required for a "traditional" public contract: The private sector since it will not be paid until the start of the operation of the infrastructure has every reason to complete the construction as soon as possible. In the case of a public contract, the public sector monitors its execution but does not make partial deliveries, since what matters is the final outcome of the project and compliance with the performance standards.

Finally, in the case of PPPs, due to the payment of the private sector when the operation of the infrastructure is ready, and not during construction or receipt, it

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partially allocates the cost of constructing infrastructure to future public sector budgets, avoiding short-term disbursements and it is possible to launch and execute a larger number of projects. However, allocating the cost to future budgets should not serve as a reason for choosing the partnership against traditional public procurement: Future cost should be properly budgeted to ensure future, and in the long-term, the inflow of conventional consideration. Private security should, therefore, be created in the private sector, which will ultimately reduce the cost of managing the risk it takes.

In this study, an attempt was made to analyze the feasibility of Corporate Governance in PPP projects. As further discussed in the previous chapters, Corporate Governance is usually in large private companies that are listed on the Stock Exchange with the main objective of maximizing the Shareholders' profits. In the case of Athens International Airport, which is an independent business as it is a concession PPP project but does not cease to be part of the public sector, there is a different approach to how to conduct the Corporate Governance. Based on the official website of Athens International Airport, there is and is applied the Corporate Governance in its management but the process of election and assignment of the Board of Directors has some variations from the usual way. As is well known, the Public Sector together with the Private elects its eight members, and one is elected by the European Union. Regarding this particular mode of selection, we would say that it would be good to have transparency as, as is well known, every member especially selected by the Public Entity is easy to choose without the proper qualifications and for that reason, there is a big possibility to create another scandal in the Greek State.

Based on the financial data of the Athens International Airport has been a large increase in revenue (beyond the audience that visits our country, the airport attracts many major airlines to use the airport as a middle position for long overseas trips and many those using the airport as a base aircraft in Western Europe and thus profits increase due to rental places) makes us assume that Corporate Governance operates properly and will target in the increase in shareholders' profits.

The only negative that we can complain about the synthesis of the Board of Directors is that it is a purely male-dominated area, which runs counter to the basic idea

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of equality in the composition of the Board of Directors, which should be from different fields knowledge, regardless of sex, religion, and color.

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Corporate Governance in Public-Private Partnerships