

***Infra*-News**



Global PPP/ Infrastructure Yearbook 2005

Developing Public Private Partnerships in New Europe

Charles Lloyd, Partner and Adrian Howcroft, Assistant Director, PricewaterhouseCoopers discuss the European PPP market and the role that the EU should play in developing a pan-European market for PPPs.

The PPP market in Europe

Europe has made progress on many economic and political fronts – not least by becoming a market of 452m people this year. But there is a long way to go before a ‘single market’ or common approach will be developed for Public Private Partnerships (PPPs).

This article looks at progress in the 25 Member States of the “new” European Union and asks what role PPPs can play in the improvement in the quantity and quality of public service provision. In light of the past year’s European Commission Green Paper on *PPPs and Community Law on Public Contracts and Concessions* it also asks what role the EU should play in furthering the development of PPPs in the New Europe.

The need for investment and the role of PPPs

An ‘infrastructure gap’ exists in Europe. This has a negative impact on economic growth and prosperity, affecting the efforts of the EU and Member State governments to reduce the social and economic disparities which exist both between, and within, Member States.

Governments face increasing pressure to improve underfunded or neglected public services but also face restrictions (including those of the Maastricht criteria) on their ability to raise debt. They therefore need to optimise procurement, drawing on private sector services and finance where that is value for money.

The development of PPPs is an approach which many countries have taken to procuring public infrastructure and services. The state of PPP development varies widely between the Member States, but PPPs are now a generally accepted financial tool available to governments.

Defining PPPs

However, as Frits Bolkestein, the EU Commissioner for Internal Markets, has said: “There is no overarching

definition for public-private partnerships. PPP is an umbrella notion covering a wide range of economic activity and is in a constant evolution”.

Models and structures vary between different countries. In the UK, which has undertaken the most PPPs to date, the government defines PPPs broadly, to include:

- the introduction of private sector ownership into state-owned businesses, using the full range of possible structures (whether by flotation or the introduction of a strategic partner), with sales of either a majority or a minority stake;
- the Private Finance Initiative (“PFI”) and other arrangements where the public sector contracts to purchase quality services on a long-term basis so as to take advantage of private sector management skills incentivised by having private finance at risk. This includes concessions and franchises, where a private sector partner takes on the responsibility for providing a public service, including maintaining, enhancing or constructing the necessary infrastructure; and
- selling Government services into wider markets and other partnership arrangements where private sector expertise and finance are used to exploit the commercial potential of Government assets.

There is evidence that, if appropriate and properly procured, PPPs can provide significant improvements over the results that can be achieved from traditional forms of procurement.

PPPs across Europe

The press release that accompanied last summer’s EC Green Paper boldly states that “PPPs are booming”. “Booming” is not a description which many close observers of the European PPP sector would use. Most consider that progress has been a disappointingly slow, and often painful, process. While it is not possible to fully represent the totality of the PPP market in a single diagram, the accompanying

Legend

-  Discussions ongoing
-  Projects in procurement
-  Many procured projects, some projects closed
-  Substantial number of closed projects
-  Substantial number of closed projects, majority of them in operation

¹ Procurement activity in these sectors relates to traditional style concession contracts

	Central Accommodation	Airports	Defence	Housing	Health & Hospitals	IT	Ports	Prisons	Heavy Railway	Light Railway	Roads	Schools	Sports & Leisure	Water & Wastewater (incl solid waste)
Member States														
Austria														
Belgium														
Denmark														
Finland														
France														
Germany														
Greece														
Ireland														
Italy														
Luxembourg														
Netherlands														
Norway (not EU)														
Portugal														
Spain														
Sweden														
UK														
New Member States														
Cyprus														
Czech Republic														
Estonia														
Hungary														
Latvia														
Lithuania														
Malta														
Poland														
Slovakia														
Slovenia														
Applicant Countries														
Bulgaria														
Romania														
Turkey														

Source: PricewaterhouseCoopers

Summary of PPPs by country and sector

Figure provides a high level summary of current PPP activity in the various member states.

It demonstrates a considerable amount of interest in PPPs both as a concept and as a practical tool which governments can use to close their nations' infrastructure gaps. However, in most countries this has not been translated into *closed* projects. It is not just the New Member States that are only starting to develop PPPs; some of the original Member States are also at early stages of the learning curve.

There are many reasons for this, but primarily there is a generally poor level of understanding of PPPs at both the EU and Member States level. PPP projects and procurements are complex, new and quite different from traditional forms of public procurement. While the general concepts concerning PPPs are not difficult to grasp, the development and implementation of individual projects can be time and resource consuming. Often the public sector does not have access to the necessary skills required and, by definition in the case of early projects, it will not have relevant practical experience. They therefore need to develop new skills and capabilities in order to undertake PPP procurements effectively. This requires an investment on behalf of the public sector.

There is also a need for better sharing of knowledge and experience between different parts of the public sector and between countries. This will help to ensure efficiency in the development of PPP approaches and processes, and consistency in procurement.

For PPPs to be undertaken, and for programmes of PPPs to develop in an efficient and effective way, a number of conditions should be present:

- Demonstrable, strong, clear long-term political will;
- A good understanding at a political and policy level of what PPPs are, where they are appropriate and how to use them;
- An understanding, at all relevant levels of government (national, regional and local), of how PPPs should be structured and procured;
- A public sector institutional capability and capacity which is able to develop and undertake complex projects and procurements; and
- A suitable 'enabling environment' or 'framework' covering legislative, regulatory, commercial and financial requirements.

PPPs will not happen on their own. The governments of Member States need to decide what use they wish to make of them, to identify appropriate projects and to ensure that they have the capabilities to procure them in an efficient and effective way. Many governments have still to grasp fully the scale of their role and the need to make an up-front investment to ensure that the above conditions are satisfied.

Combining EU funding with private finance

There are very few examples of projects which combine EU grant funding with private finance. Governments have generally chosen to co-finance EU grants with public

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funds, PPP procurements and grant funded projects have been kept separate. Contrary to the perceptions of some governments, there appear to be no reasons why PPP approaches cannot be combined with EU grant funding; indeed the EU has stated that encouraging greater use of private sources of funding should be supported.

It appears that a mix of: uncertainty as to how such projects should be procured; the additional complexity of combining the procurement requirements of PPPs with those for grant funded projects; and the lack of precedents have all combined to make governments wary of undertaking such 'hybrid' procurements.

Accession has resulted in New Member States receiving increased levels of EU grant funding. Co-financing requirements, together with the debt restrictions which some New Member States face, may mean that some governments will need to use private finance as a source of co-financing in order to ensure that EU funds can be fully absorbed. There is a role for the EU to work alongside governments to develop appropriate project structures and procurement methods to facilitate such projects and work that PwC is now doing for the World Bank is one important step in this process.

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A role for the EU?

Just as the EU does not have an agreed PPP definition, neither does it have a discernable overall policy regarding PPPs. However, the EU's many directives and market interactions have an impact on the development of PPPs in Europe.

We believe the EU needs to adopt a more structured, comprehensive approach to the development of PPPs. Key steps would be :

- to improve understanding of PPPs in the EU institutions, the Commission should set up a cross-EU PPP Group, supported by a small central unit, to coordinate activities affecting PPPs and assess the impacts which EU actions have on their development;
- the EU should address the poor level of public sector institutional capacity and knowledge about PPPs in many Member States by funding several initiatives, including studies on the actual benefits PPPs can deliver, the provision of training, and the secondment of private sector specialists and civil servants to, and between, the PPP units of Member States;
- the EU should clarify the way that its directives, regulations and legislation interact with PPP procurements although, since PPPs are hard to define and vary greatly across Europe, a legislative approach from the Commission is neither practical nor desirable; and

- as the EU is open to private finance being used as a form of co-financing, it should assist Member States to address the challenging issues involved in combining EU funding with private sector finance and PPPs, helping Member States to implement pilot projects, from which practical guidelines can be produced.

Conclusions

Given the scale of the infrastructure and investment gap that the governments of Europe are facing and the constraints that they face in developing and financing their needs, an increased use of PPP approaches is desirable and inevitable. It is important that governments fully appreciate what they need to do to ensure that the PPPs which they undertake will be successful. To do this they need to invest in the understanding and capability to develop and procure such projects in ways which maximise the overall benefits to the public sector and the public at large.

References

- PPPs and Community Law on Public Contracts and Concessions. European Commission, COM(2004) 327 final
- Developing PPPs in New Europe. PricewaterhouseCoopers (2004) - A pdf file of the report and the 2-page Executive Summary can be downloaded at: [http://www.pwc.com/Extweb/service.nsf/docid/6FDD654BE69A4B3385256BDC00527C30/\\$file/pwc_PPP_report_final.pdf](http://www.pwc.com/Extweb/service.nsf/docid/6FDD654BE69A4B3385256BDC00527C30/$file/pwc_PPP_report_final.pdf)

author profiles



PRICEWATERHOUSECOOPERS 

Charles Lloyd

Partner
 PricewaterhouseCoopers

+44 (0) 207 583 5000

@ charles.lloyd@uk.pwcglobal.com



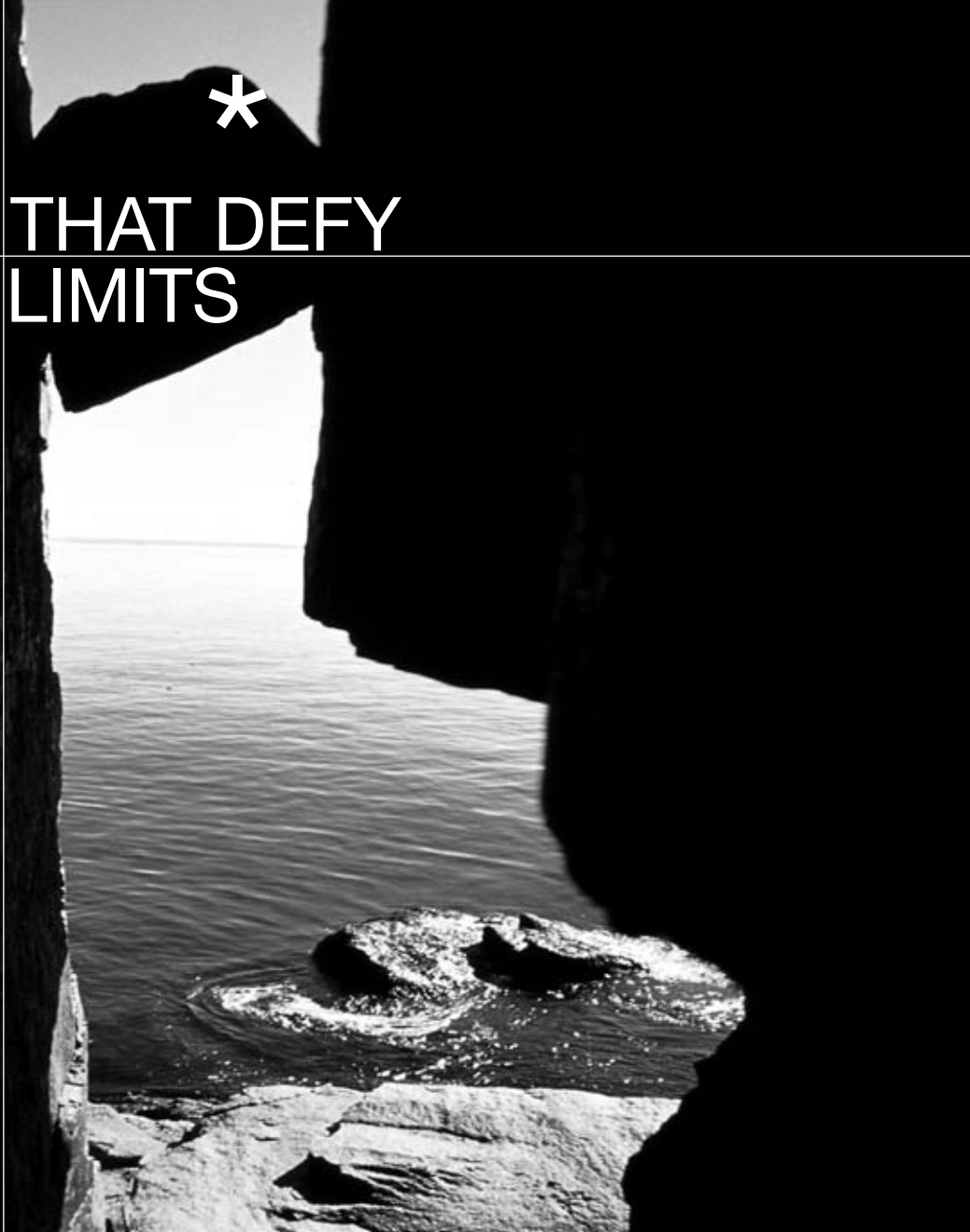
Adrian Howcroft

Assistant Director
 PricewaterhouseCoopers

+44 (0) 207 583 5000

@ Adrian.howcroft@uk.pwcglobal.com

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Jon Sibson, UK Leader, jon.sibson@uk.pwc.com **Charles Lloyd, European Leader**, charles.lloyd@uk.pwc.com

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