



Executive Summary

The need for investment and the role of PPPs

An 'infrastructure gap' exists in Europe. This has a negative impact on economic growth and the prosperity of the citizens of Europe. It also affects the efforts of the EU and Member State governments to reduce the significant social and economic disparities which exist both between, and within, Member States. Governments have limited financial resources to devote to increased capital expenditure and improving public services and face restrictions (including those of the Maastricht criteria) on their ability to raise debt.

The development of PPPs is an approach which some countries have taken to procuring public infrastructure and services. The state of PPP development varies widely between the Member States, but PPPs are established as one of the tools which are available to governments.

PPPs

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. However, there should be no presumption that PPPs are a panacea or that they are appropriate in all circumstances.

PPPs are often complex and generally take longer to procure than traditional projects. Transactions costs, for both the public and private sector, also tend to be higher. There is generally a poor level of understanding of PPPs, at both the EU and Member States level. As PPPs are a new means of procurement,

public sector officials do not have experience of implementing such projects. 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 a need for better sharing of knowledge and experience between different parts of the public sector. This will help to ensure efficiency in the development of PPP approaches and processes and consistency in procurement.

PPPs and the EU

Although there are a number of EU statements and reviews concerning PPPs, there is no discernable EU PPP policy. The majority of EU activity in this area has concerned TENs, where the EU has a direct interest in using PPPs to assist delivery of the network.

Little actual progress concerning the development of PPPs has been made, and there is considerable uncertainty as to how PPPs interact with EU legislation and regulations. This uncertainty has had a negative impact on the development of PPPs, especially where Member States have sought to incorporate EU requirements within their own developing PPP policies.

There have been recent developments concerning the Eurostat accounting treatment for PPPs¹ and a Green paper on PPPs and public procurement and concessions has been published. Further guidance in other areas is required and there is a need for the EU to take a more joined up approach to the PPP market.

¹ Eurostat press release (STAT/04/18)
11 February 2004

Combining EU funding with private finance

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

Developing PPPs – our recommendations

Given the actual, and potential, impact which the actions and regulations of the EU can have on the development of PPPs in the New Europe, serious consideration needs to be given as to how the EU should coordinate its activities in this area. Our recommendations are as follows:

Improving knowledge and understanding of PPPs at the EU level

The Commission should set up a cross-EU PPP Group whose role would be to coordinate EU activities which affect the PPP market and assess the impacts which EU actions, or inactions, have on the development of PPPs. This should be supported by a small Central Unit which would act as a knowledge unit and centre of excellence for PPPs within the EU.

Institutional capacity, information and training

The EU should address the poor level of information, public sector institutional capacity and knowledge about PPPs which exists within many Member States, and the EU itself. It should fund a number of initiatives, including comparative studies on the actual benefits which PPPs can deliver and the development and provision of practical training and encourage the secondment of civil servants (and advisers) to and between PPP units of Member States.

EU approach to PPP development

PPPs are hard to define and vary greatly in nature. It is therefore unlikely that developing a legislative approach to PPPs will be either practical or desirable. The approach taken by the EU should be one of interpreting and clarifying the way that existing (and future) rules and regulations interact with PPP procurements and their development. Additional legislation should be resisted.

Co-financing using private finance and PPPs

Combining PPP approaches with grant funding provides a considerable challenge. The EU should assist Member States to address the issues involved in combining EU funding and grant requirements with private sector finance and PPP approaches. A taskforce should be set up to identify and address the issues involved and the EU should assist Member States to select and implement pilot projects. The experience gained in doing so should be disseminated and practical guidelines produced so that maximum benefits are gained from the lessons learned.

Conclusions

A PPP market exists in Europe. There is evidence that properly procured PPPs can provide benefits to the governments and citizens of Member States. The EU needs to ensure that it responds appropriately to the development of this market in a proactive, rather than a reactive way. To do so the EU needs to have a better collective understanding of PPPs and the issues surrounding them. Despite a number of initiatives and reports on PPPs there has been little real progress and considerable uncertainty persists. A more holistic approach to the development of PPPs is required.