Can Public Private Partnerships (PPPs) lever investment to get Europe out of economic crisis?

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EUROPE'S POLITICAL ECONOMY PROGRAMME

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The EPC's Programme on Europe's Political Economy

The Europe's Political Economy (EPE) programme monitors and analyses current economic, social and environmental issues which are topical in the EU policy debate. The current focus is on five long-running themes:

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- *Climate change, resource efficiency and energy, including a focus on climate change mitigation and adaptation, as well as resource efficiency. Energy policy and its importance not only for climate change but also for competitiveness and security continues to play a major role.*

Table of Contents

Foreword *iv*

Executive summary *v*

Introduction – The project 1

1. The context 3

2. The analysis 9

3. Conclusions and recommendations 15

Annexes *20*

Bibliography *25*

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EUROPEAN POLICY CENTRE

Foreword

Europe, alongside much of the developed world, is in a deep economic crisis, with a number of countries under continuing pressure from market forces with regard to their public finances. But it is not only a short term crisis: European decision-makers have recognised that it will be necessary to improve long term economic performance to address the underlying causes of the crisis.

To achieve such a step-change in economic performance, investment is crucial. Investment carries the promise of increased productive capacity in future, be it through investment by firms in capital goods or public and private investment in enhancing infrastructure and human capital. The investment needs are enormous: for networks in transport, energy and broadband alone, the European Commission estimates an investment need of between EUR 1.5 trillion to EUR 2 trillion to meet the policy goals of the Europe 2020 strategy for smart, sustainable and inclusive growth.

But the crisis clearly limits the availability of public investment. In a time where public finances are severely under strain and with a limited EU budget, private sector investment has to be a key driving force to achieve these ambitious goals. Political expectations with regard to the role of the private sector are very high, which is why there is a renewed interest in Public Private Partnerships (PPPs) as one of the vehicles which can potentially trigger such an increase in investments.

This report produced by the European Policy Centre with input and support from EIB, and input from other stakeholders, focuses on analysing stakeholder perceptions of the role that PPPs could play in responding to Europe’s current challenges. It shows that there might be additional scope in the developments of PPPs but also where the limitations might lie.

There certainly is scope to up our game in developing PPPs, especially in countries where the use of such instruments has been limited in the past. There is also important potential offered by the Europe 2020 Project Bonds Initiative (PBI), the Pilot Phase of which was launched by the EC and EIB in November 2012.

But a number of barriers will have to be overcome if Europe wants to maximise the joint use of public and private investment, not least through the PBI. Procurement authorities will need to accommodate PBI solutions in tender documents, and evaluation. Project sponsors will need to be prepared to grasp the new opportunities offered by PBI. The investors (insurance companies and pension funds) will need to commit to acquiring new skills in project risk analysis. Most importantly, Europe's decision makers will need to show leadership if the PBI is to move from the status of an experimental pilot to a sustainable part of the financing mix for Europe's infrastructure needs. Overcoming these barriers will require actions and commitment at both EU and national level with an important role for EU institutions, including the EIB, to encourage this step change.

But PPPs, and the PBI, are clearly not the silver bullet which delivers all the investment needed. The EPC report thus also calls for the development of new instruments to encourage public-private cooperation and to leverage private investment to achieve European objectives, going further than the innovative financial instruments currently being developed. While some of the proposals might prove to be controversial, there is clearly a need to have this broader discussion.

The EPC is grateful for the welcome EIB has given to the Report as a starting point for a wider discussion on what role PPPs, and other models of public-private cooperation can and should play in addressing Europe's investment needs. The EPC gratefully recognises the input from EIB and other stakeholders. The responsibility for the content of the report and its conclusions lies with the EPC alone.

Hans Martens
Chief Executive, European Policy Centre

Executive Summary

This report was produced by the European Policy Centre (EPC) in the context of a research project supported by the European Investment Bank (EIB). It analyses stakeholder perceptions of the role that Public Private Partnerships (PPPs) could play in responding to Europe's current challenges and tries to determine what stakeholders consider to be the future role for PPPs at EU level.

Our interviews clearly show that most stakeholders agree with the over-arching objective of 'involving the private sector' – for investment, but also to benefit from specific expertise. PPPs are clearly seen as an important vehicle to address some of Europe's investment needs – necessary to boost Europe's growth in the medium to long term - which public investment alone will not be able to meet.

The research identified a number of areas where stakeholders saw a need to support public authorities in developing, designing and bringing forward PPP solutions. Stakeholders' proposals include establishing an *ex ante* obligation for relevant EU policymakers to consider private sector involvement, offering more advice and guidance at EU and member state level, building capacity at local and regional level and implementing the Europe 2020 Project Bonds Initiative:

Recommendation 1: In areas where public-private cooperation can potentially add most value, for example research funding, transport including the TEN-T network, elements of structural/cohesion funding and the Connecting Europe Facility, an ex ante obligation should be imposed on project promoters who seek EU financial support to explore (for example as part of project appraisal criteria or in impact assessments) the possibilities that exist to leverage private funding, including identifying the potential for PPPs.

Recommendation 2: An expert EU advice unit should not only focus its work on the strategy/policymaking level but also give more practical advice on whether/how to go ahead with concrete projects. EPEC (the European PPP Expertise Centre of the EIB) could fulfill this function, through an extension of its mission and its resources.

Recommendation 3: National governments should establish a central PPP guidance and strategy unit in member states where such a unit does not yet exist. Such a unit would be responsible for providing regional and local authorities and other public sector organisations with cross-government strategic direction, and clarifying national rules on how PPPs interact with domestic budgetary processes. Here, the EIB (especially the EPEC) could help to disseminate good practice and help with the initial setting-up period if required.

Recommendation 4: Training to build the necessary skills must be made broadly available, especially in regions/local authorities where there is little experience of PPPs. Such training should be organised at EU level (e.g. a European expert academy) and, for countries in receipt of Cohesion Funds and regions with European Structural Fund Convergence Programmes, this training should be financed by European funds.

Recommendation 5: While there are limitations to the Europe 2020 Project Bonds Initiative, it has the potential to boost PPPs in a number of countries and should thus be introduced as quickly as possible while at the same time addressing stakeholders' misconceptions about what EU project bonds are and what they aim to do.

Most stakeholders see PPPs as a useful instrument to leverage private finance if the right conditions are met – especially in the difficult current economic context, which is characterised by severely limited availability of public finance and a lack of capital/infrastructure investment. But they also see limitations: PPPs are not a silver bullet that can meet all of Europe's investment needs. Europe will need to go beyond the traditional model of PPPs to harness the full potential of public-private cooperation. This will involve building on pre-existing models of public-private cooperation and developing new models if Europe is serious about fulfilling the policy objectives of the 'Europe 2020' strategy, meeting its investment needs and addressing the economic crisis.

Recommendation 6: In many EU policy areas, public-private cooperation has proven to be successful. The EU should build on this cooperation by expanding funding dedicated to it in the implementation of the next MFF. The Innovation Union should move beyond the pilot phase focused on only one area (healthy, active ageing), to a range of areas critical for Europe's economic future (including, for example, energy), built around public-private cooperation and a clear focus on encouraging markets for new commercially-viable products, services and processes.

Recommendation 7: While they are an important component, PPPs alone cannot deliver the private-sector investment required to achieve Europe's policy objectives. In addition to PPPs and other existing forms of public–private cooperation, European decision-makers must develop new types of financial/policy instruments which can deliver a broad range of EU-level policy objectives, including large-scale cross-border networks and investment in the member states most affected by the crisis. The European Commission should create a taskforce involving institutions/the EIB, private sector, academics/experts and stakeholders to identify the gaps where current policy instruments are insufficient and develop concrete proposals to be implemented in the next MFF.

But the development of public-private cooperation – whether PPPs or other forms – still faces a significant barrier: there are a number of misconceptions about what they are and how they function, which can confuse decision-makers and lead to both unrealistic expectations and a mismatch between the policy objective and the financial instrument. If the EU wants to encourage more public-private cooperation, this needs to be addressed.

Recommendation 8: To ensure a realistic understanding of the wide range of new financial instruments currently in the EU debate, the Commission should produce a simple, easy-to-use guide/glossary, aiming to describe the nature and functioning of financial instruments and different types of public-private cooperation in a manner which is accessible to all decision-makers.

Recommendation 9: The European Commission needs to clarify how financial engineering will work in the next MFF and set out the policy objectives for which specific financial instruments are to be used and what impact this will have on the grant-based budget lines.

Recommendation 10: To enhance transparency and to address the common perception that PPPs are simply a tool for off-balance-sheet borrowing, EU countries should be encouraged by the European Commission through the new economic governance structures to provide an overview of the liabilities and commitments which have been made under PPP contracts, alongside public debt. This information – or the gaps in the information available in certain countries – should be published as part of EU macroeconomic surveillance. More generally, there should be greater transparency on the future fiscal implications of all infrastructure investments – whether PPPs or conventionally-funded.

INTRODUCTION – The project

This report has been produced by the European Policy Centre (EPC) in the context of a research project supported by the European Investment Bank (EIB). It analyses stakeholder perceptions of the role that Public Private Partnerships (PPPs) could play in responding to Europe's current challenges, in particular to help Europe exit the crisis and achieve the objectives of smart, sustainable and inclusive growth enshrined in the 'Europe 2020' strategy.

By putting stakeholder perceptions into the current policy context, the paper tries to identify where stakeholders see PPPs as a potential solution to current policy challenges, and whether they consider that there is an added value in public-private cooperation through and/or beyond PPPs. Rather than carrying out an empirical and academic assessment of PPPs, the project seeks to use stakeholder perceptions as the basis of a forward-looking assessment, to determine what future role PPPs might play at EU level in the current economic context.

The perceptions of different European stakeholders involved in PPPs helps to shed light on the role allocated to PPPs in current European political discourse and looks into whether political expectations are in line with the opportunities, potential drawbacks and barriers of using PPPs. Such an analysis is useful for making recommendations on how to facilitate public-private cooperation and improve the instruments designed in order to achieve EU policy objectives.

To achieve its aims, the project was built on three main activities:

- Desk research conducted by the EPC;
- interviews with relevant stakeholders ranging from the private sector and trade unions to representatives of the EU institutions. These interviews aimed to bring together the perceptions of different stakeholders as regards the benefits and drawbacks of PPPs, as well as on the way forward; and;
- two workshops presenting and contrasting the results of the interviews as well as discussing the potential for PPPs in Europe and the strategic framework for future successful usage.

The project took place in a difficult economic and political context, at a time when Europe faces significant short and longer-term challenges, which potentially undermine the sustainability of its economic, social and environmental model. Pre-existing challenges, such as demographic change, the impact of globalisation and the necessary green and knowledge-based transformation of the economy, have been aggravated by the economic crisis.

Its impact has been clear in two areas: Firstly, the significant increase in public debt (combined with Europe's ageing population) have called into question EU countries' ability to continue to provide equal access to affordable basic public services, which lie at the heart of the European welfare state.

Secondly, the financial crisis and the public sector's high level of debt have considerably limited Europe's ability to carry out the strategic public investments required to boost economic activity and accelerate the exit from the economic crisis, as well as to enhance Europe's long-term competitiveness.

Against this background, it is now urgent for Europe to identify innovative financial solutions to help protect its welfare states through the delivery of quality and affordable public services, boost its long-term growth prospects and enhance its competitiveness through investment in strategic projects. PPPs appear to be one possible instrument for the European Union to help overcome these challenges, contribute to meeting investment needs and bring additional advantages, such as increased efficiency, on-time delivery, innovation and public sector reforms. However, opinion on the benefits of PPPs is not unanimous.

Within this context, this project assesses the extent to which PPPs can respond to expectations formulated at the highest political level with regard to the possible involvement of the private sector. The report summarises the key findings of the project and makes concrete recommendations on what stakeholders suggest should be the way forward for PPPs in Europe.

Chapter 1 reviews the context in which the research project took place. It presents the characteristics of PPPs, current policy drivers and the role played by PPPs in current political debate at EU level.

Chapter 2 presents an analysis of the current policy position and looks into the potential for PPPs. It analyses the scope of such an instrument and the barriers which may hinder its development.

Finally, the conclusions of the paper make concrete policy recommendations to overcome the barriers to PPP use. Moreover, the recommendations set out solutions that go beyond PPPs and which could better serve decision-makers' policy objectives.

Chapter 1

THE CONTEXT

1.1 What is a Public Private Partnership (PPP)? 3
1.2 Policy drivers: involving the private sector 5
1.3 Public Private Partnerships in the current EU policy debate 6

1.1 WHAT IS A PUBLIC PRIVATE PARTNERSHIP (PPP)?

To assess PPPs in the context of the current policy debate, it is necessary to first define and characterise PPPs. The issue of definition is crucial, as it shows how the political and public debate uses the notion of PPPs to label different forms of cooperation between the public and private sectors.

Our research shows that there is neither a common definition of what PPPs are, nor a single model implemented in Europe. PPPs can take different forms and have different characteristics according to country and sector. But despite the lack of a common definition, when it comes to explaining what constitutes a PPP, there are some common elements that are recognisable as characteristics of PPPs.

In its communication on the development of PPPs[2], the European Commission adopts the following definition: 'PPPs are forms of cooperation between public authorities and the private sector that aim to modernise the delivery of infrastructure and strategic public services. In some cases, PPPs involve the financing, design, construction, renovation, management or maintenance of an infrastructure asset; in others, they incorporate the provision of a service traditionally delivered by public institutions'.

In its green paper on PPPs, the European Commission states that a PPP generally includes the following elements:

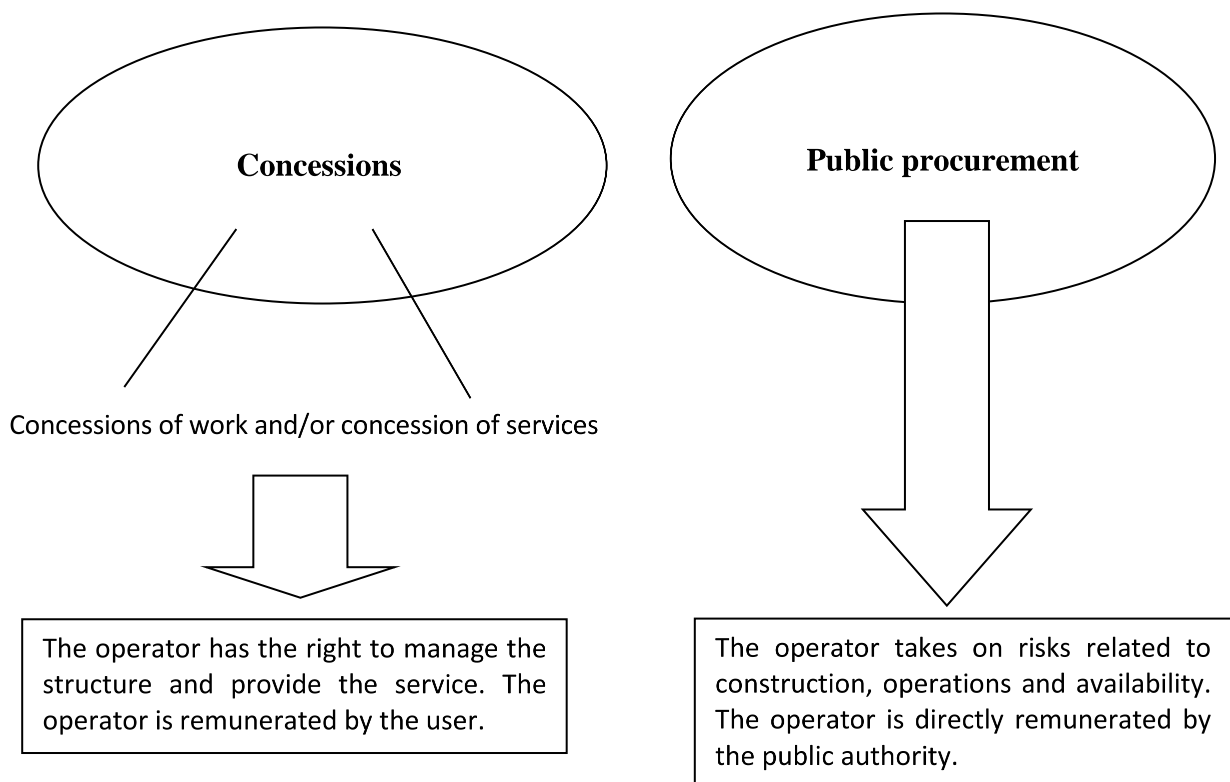
- 'The relatively long duration of the relationship, involving cooperation between the public partner and the private partner on different aspects of a planned project (…);
- The method of funding the project, in part from the private sector, sometimes by means of complex arrangements between the various players (…);
- The important role of the economic operator, who participates at different stages in the project (…);

[2] European Commission, (2009), *Mobilising private and public investment for recovery and long term structural change: developing Public Private Partnerships*, COM (2009) 615 final, p.2.

- The distribution of risks between the public partner and the private partner, to whom the risks generally borne by the public sector are transferred (…)' [3].

As regards EU legislation, the existing EU legislative framework has remained broad in order to be able to incorporate all the forms that PPPs may take across Europe. However, EU legislation makes a clear distinction between two types of PPP, as shown in Figure 1. The concession model, sometimes separated into public works and public service concessions but more often of mixed type, is an agreement through which the operator manages the structure on behalf of the public authority and provides the service directly to the user, who partially or entirely remunerates the private operator. The public procurement model implies that the operator generally takes on the construction, operational and availability risks, such as upkeep and maintenance, and is remunerated directly by the public sector.

Figure 1: Classification of PPPSs in the EU legislative framework



This project analyses the potential of PPPs so it is based on the definition and classification adopted by the European Union. In short, in this report, a PPP is considered to be a project based on a long-term, risk-sharing contract between public and private parties, enshrined either in a project agreement or a concession contract. Although general, this definition excludes service outsourcing, project refinancing or any kind of privatisation involving asset sales and regulation rather than procurement or contracting processes.

[3] European Commission, (2004), *Green paper on public-private partnerships and community law on public contracts and concessions*, COM (2004), 327 final, p.3.

Variation in PPP usage across the EU

In addition to the diversity of PPP models, it is also important to note that the maturity of the PPP market varies between countries and sectors. The use of PPPs has been spreading out from transport into other sectors over time and they are now developed in areas like public buildings and equipment (schools, hospitals, prisons) and the environment (water/waste treatment, waste management).

However, while the number of PPPs has been rising by volume and value in recent years, spreading from the UK to continental Europe, their macroeconomic significance differs widely across Europe. The UK is well-known for being the country where the use of PPP procurement is the most widespread, followed by Spain, France, Germany, Portugal and Italy. In other countries, in particular in Eastern and Central Europe, the macroeconomic importance of PPPs remains small in comparison to traditional public procurement[4].

1.2 POLICY DRIVERS: INVOLVING THE PRIVATE SECTOR

A study on public private partnership is particularly timely given the difficult economic context, which has triggered debate over which actors should be involved in the recovery and what would be the best exit strategies to ensure long-term growth. Different policy options have been explored at European level, in particular for eurozone countries, but the recovery from the crisis has been uneven.

While the strongest economies, like Germany, are growing again, countries such as Greece are struggling. The accumulated disadvantages, such as high levels of public debt, ageing populations, lack of innovation and a lack of structural reform, will require immense efforts to recover from. Without EU action, divergence in the euro zone is likely to persist or even deteriorate in the medium to long term.

Europe has a key role to play in making full use of its Single Market by supporting European companies that invest in these economies. Not only does it matter for the recovery of the weakest member states, but also for the economic performance of the EU as a whole. Therefore, euro-area leaders called at an extraordinary summit held on 21 July for 'a comprehensive strategy for growth and investment in Greece'[5]. To this end, the euro area countries supported the European Commission's decision to target EU structural funds on competitiveness and growth, job creation and training and committed themselves to mobilising EU funds and institutions such as the EIB towards this goal, in a bid to re-launch the Greek economy.

The recent financial and economic crises have significantly changed the way Europe considers the role of the private sector with regard to the financing of public infrastructure and delivery of public services. While PPPs were already important before the crisis, the challenges and financial constraints Europe is now facing are considered to be too big to rely solely on the public sector, whose capacity to finance strategic investment has been substantially reduced. Not only does the public sector face a high public debt burden – which motivated the austerity programmes that most member states have embarked upon – but many governments are also suffering from reduced tax revenues as a result of reduced economic activity.

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[4] See: F. Blanc-Brude, H. Goldsmith and T. Välilä, (2007), *Public-Private Partnerships in Europe: An update*, Economic and Financial Report, EFR 2007-03, EIB.

[5] Council of the European Union, *Statement by the heads of state and government of the euro area and EU institutions*, July 2011, p. 2.

In such a difficult economic context, member states are often tempted to freeze all kinds of public investment, instead of investing in long-term economic capacity. While exiting from the crisis must go hand-in-hand with fiscal consolidation, boosting economic activity will also be necessary to return to sustained economic growth. Investing in innovative projects which have the potential to deliver long-term benefits will be a precondition for achieving the objectives of the 'Europe 2020' strategy. According to the Commission's preliminary analysis: 'Fostering Europe's transformation into a knowledge-intensive, low-carbon and highly competitive economy requires adequate modern and flexible energy, transport and ICT infrastructure networks. Huge investments, from both the public and private sectors, are needed to meet that infrastructure challenge. Commission preliminary estimates point to investment needs of between €1.5 trillion and €2 trillion in total for the three sectors.' [6]

In addition to public budget constraints, private sources of funding and private sector investments have also fallen significantly, with access to bank financing being more difficult due to capital and liquidity constraints. In this context, the use of PPPs became more difficult during the financial crisis, as shown by the reduced number of deals having been signed in the EU - 136 in 2007 compared to 118 in 2009 - and a fall in the total value of PPPs by almost 50% by 2009 compared to 2007[7]. Since then, there has been some evidence of a recovery: while the number of deals was only 112 in 2010, their total value was 163 million euro, which is still down compared to pre-crisis levels but up significantly from just 91m euro in 2009.[8]

Against such a background it becomes important to verify the potential that stakeholders see in using PPPs to address challenges, and what can be done to eliminate national and European barriers that are hampering the development of 'value for money' public private partnerships.

1.3 PUBLIC PRIVATE PARTNERSHIPS IN THE CURRENT EU POLICY DEBATE

As mentioned above, cooperation between the public and the private sectors, and particularly PPPs, have clearly become more and more central to EU political discourse in recent months and the EU has increasingly been referring to the need to leverage private finance in its recent strategic frameworks. The Europe 2020 strategy states that investing in growth will require the mobilisation of private finance, and that 'Europe must also do all it can to leverage its financial means, pursue new avenues in using a combination of private and public finance, and create innovative instruments to finance the needed investments, including public-private partnerships (PPPs)'[9].

The Multiannual Financial Framework (MFF) proposed by the Commission also puts strong emphasis on the role of the private sector in leveraging investment and the importance of working together to develop innovative financial instruments in order to maximise the impact of the EU budget. In the same vein, the Commission suggests that 'guarantees and risk-sharing arrangements can allow the financial sector to provide more equity and lend more money to innovative companies, or to infrastructure projects'[10].

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[6] European Commission, (2011), *A Budget for Europe 2020: the current system of funding, the challenges ahead, the results of stakeholders consultation and different options on the main horizontal and sectoral issues*, Staff Working Paper, SEC (2011) 868 final, p.15.
[7] See: A. Kappeler and M.Nemoz, (2010), *Public-Private Partnerships in Europe – Before and During the Recent Financial Crisis*, Economic and Financial Report, EFR 2010-04, EIB.
[8] For data on PPPs, please see EPEC's Market Updates at www.eib.org/epec
[9] European Commission, (2010), *Europe 2020 – A strategy for smart, sustainable and inclusive growth*, COM (2010) 2020, p.20.
[10] European Commission, (2011), *A Budget for Europe 2020* - Part I -, COM (2011) 500 final, p.9.

More specifically, the Commission proposes to have recourse to new types of financial instrument, which will aim to facilitate the use of PPPs and mobilise private finance. The MFF mentions that these instruments have the following objectives:

- To foster the capacity of the private sector to deliver growth, job creation and/or innovation (…).
- To build infrastructure by making use of PPP schemes to reinforce EU competitiveness and sustainability in the transport, energy and ICT sectors.
- To support mechanisms that mobilise private investment to deliver public goods, such as climate and environmental protection, in other areas.

However, despite increased references to PPPs, it is unclear what their exact role will be and how this will be operationalised. Moreover, the respective roles of the public and private sectors, as well as the distribution of risk, are often not clear.

The case of EU project bonds

Europe 2020 project bonds, announced for the first time by European Commission President José Manuel Barroso during his 2010 'State of the Union' speech, are one of the tangible elements of the policy debate on cooperation between the private and the public sectors. Project Bonds represent the first example of a new financial instrument scheduled to be fully deployed in the next MFF. The Commission proposes to use a pilot phase during the remaining period of the current Multiannual Financial Framework 2007-2013 to test the project bond concept.

The objective of the EU Project Bond Initiative is to secure investment through PPPs for infrastructure projects of high strategic European interest. The role of the EIB and the Commission will be to contribute through the EU budget to supporting such projects by absorbing some of the risk which would otherwise fall on senior lenders. This will improve the credit rating of senior debt and promote investment from private capital market investors, such as pension funds or insurance companies. The resulting increase in funding capacity should lead to lower funding costs and faster implementation of more infrastructure projects financed by the private sector. The EIB's role is to 'help to develop and continually expand a pipeline of PPP projects on the basis of a clearly defined eligibility framework'[11]. The EIB will contribute with its rich experience of financing infrastructure projects, conducting the financial appraisal, pricing the guarantee or loan and monitoring the projects. The Commission will also be responsible for the project eligibility framework, and it will encourage greater synergies between EU grants and specialised financial instruments.

The consultation paper on Europe 2020 Project Bonds Initiative indicates that particularly well-suited projects for such bonds are those in the transport and energy sectors, but also some broadband projects in the ICT sector. The paper also sets out that the PPP financing model is already well-established in the transport area, where it would require little adaptation. Some renewable energy projects may also qualify, but in this area some obstacles may result from untested technologies used in the underlying infrastructure, or from uncertain operating costs. The beneficiaries of this initiative will need to present cost-effective projects that are economically and technically feasible, and they must also have to appear capable of becoming financially viable. It is yet to be decided whether EU candidate members and other pre-accession countries will be eligible, or whether the initiative will only concern the EU-27.

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[11] European Commission, (2011), *Stakeholder consultation paper on the Europe 2020 Project Bonds Initiative*, p.8.

In essence, EU project bonds are intended as an instrument to facilitate the use of PPPs, by providing guarantees which will enhance the credit rating of the senior debt. EU project bonds should thus not be confused with EU infrastructure bonds (bonds which raise financing for a particular EU project) or with Eurobonds (common guaranteed government bonds to finance public borrowing). The Commission highlights that financial instruments like project bonds do not carry a higher degree of risk than grants, because the EU budget can never run a deficit, so the only risk is attached to the EU's budgetary contribution. While the EU Project Bond Initiative can succeed in opening up additional capital markets for PPPs and delivering higher private-sector infrastructure investment, it is unlikely that they can deliver the scale of investment identified by the Commission. They are thus a useful addition to the policy landscape but they will not be sufficient.

Chapter

2

THE ANALYSIS

2.1 Policy linkages 9
2.2 What scope for PPPs? 10
2.3 What barriers to PPP development? 13

2.1 POLICY LINKAGES

This first part of the analysis looks at the EU's strategic objectives, investigating how PPP solutions are presented as a response to policy aims. Moreover, it presents a comparison of the policy positions taken by the EU in its different strategic frameworks, which provides us with more information on the exact role the EU wants PPPs to play in leveraging investment to get Europe out of the economic crisis. It also aims to assess whether the EU's approach is coherent and comprehensive.

This part focuses, on the one hand, on what instruments are foreseen by the Commission to achieve the objectives of the Europe 2020 strategy, and, on the other hand, on assessing the role foreseen for PPPs for each of these objectives. To this end, a table has been drawn up in Annex 1 to illustrate and highlight whether there is coherence between the two. The table contains:

- The Europe 2020 flagship initiatives for which the use of PPPs might be relevant.[12] It also presents the objective of each initiative (First column).
- The delivery mechanisms proposed by the European Commission in the MFF to achieve the flagship initiatives (Second column).
- The financial instruments the Commission intends to use for each delivery mechanism presented in the second column and whether the use of PPPs is foreseen (Third column).

The table shown in Annex 1 allows some conclusions to be drawn regarding the current policy position of the European Commission towards the role of PPPs in delivering the objectives of the Europe 2020 strategy.

[12] The three other flagship initiatives of Europe 2020, which are not selected in the table, are: Youth on the Move; An agenda for new skills and jobs; and the European Platform against Poverty. These three initiatives have not been selected for our analysis, as the usage of PPPs would only have an indirect impact on achieving their objectives, which mainly have a social dimension.

On the one hand, there is a clear and coherent link between the Europe 2020 flagship initiatives and their delivery mechanisms, with the Commission establishing at least one delivery mechanism for each initiative. On the other hand, the link between the delivery mechanism and the financial instruments seems to be much less precise and consistent.

It is also apparent that there is only one explicit reference to PPPs in the MFF (regarding the delivery of the Common Strategic Framework for Research and Innovation) and that each flagship initiative analysed above is earmarked for delivery through the mobilisation of private finance and innovative financial instruments. However, while more private finance is envisaged, it is unclear which delivery mechanism is supposed to mobilise it. The extent to which PPPs can play a role in achieving this objective is also uncertain.

The common denominator appears to be willingness to involve the private sector in the delivery of public services and goods. Depending on policy objectives, the EU's long-term strategy focuses on leveraging private investment, bringing in private expertise or helping the private sector to invest in the public interest. It therefore seems obvious that PPPs, as defined in part 1.3, cannot respond to all the objectives of the current policy agenda. However, they certainly represent part of the solution. In this respect, it is relevant to first assess the scope for further development of PPPs before turning to other possible solutions.

2.2 WHAT SCOPE FOR PPPs?

Analysis of the EU's current position shows that political support is strong and expectations are high with regard to the role of private investment, and in particular, the contribution PPPs can make. However, so far, reference is mostly made to accessing private investment and finances, and PPPs are often submerged in discussions about innovative financial instruments.

In addition, the Commission has not detailed the exact objectives that PPPs are supposed to deliver and – Europe 2020 project bonds aside – it is yet to outline what mechanisms will be used to generate additional private financing or investment. It is therefore difficult to describe EU expectations in more concrete terms: Are they about generating large-scale private investment in publicly desirable pan-European infrastructure? Are they about financing key large-scale European projects such as the European Institute for Innovation and Technology (EIT)? Or are they about encouraging national, regional and local authorities to use PPPs if/when they represent the best option?

Clearly, the EU will need to clarify its position to ensure that PPPs can deliver the desired investments and for the EU budget to reach a maximum catalytic effect, in particular as regards meeting the targets of the Europe 2020 strategy. This requires more consistent analysis of the scope for PPPs: while PPPs can be useful in certain conditions, it is important to recognise that they are not a silver bullet and are not necessarily suitable for all sectors and every type of project.

Galileo is a case in point. The EU originally planned for a consortium of companies to bear two thirds of the €3.4 billion development cost. But due to difficulties in agreeing on organisational issues and the private sector's doubts over the commercial viability of the project, the private sector withdrew from the negotiations in 2007. The Commission thus had to admit that a PPP was not the best solution for this project, given that the high level of technological risk was liable to produce significant cost overruns with little potential to generate revenue from commercial exploitation. Therefore, the

programme is now entirely owned, sponsored and funded by the EU, as indicated by the MFF: 'The EU is the sole owner of the Galileo project and a sufficient budget for its future needs is proposed (...)'[13].

The Galileo case demonstrates that political support for PPPs must be underpinned by evidence, with all projects needing to be assessed on a case-by-case basis. Generally, evidence has shown that PPPs tend to have been more successful in sectors where service outputs are described objectively and are capable of being monitored and verified.

PPPs tend to work well both for primary – i.e. power, water and transportation – and social infrastructure projects such as education, health care and elderly care. But they are unlikely to work in projects where rapid technological change over the life of the contract, for example, makes it difficult for the public sector to specify outputs, or the private sector to quantify risks. This explains why in the IT sector, a number of PPPs are not considered to have been successful[14].

To benefit from the potential inherent in PPPs, the EU needs to assess objectively their costs and benefits, and take them into account when encouraging their development. Experience has shown that PPPs can have a wide range of benefits. These include:

- access to private capital;
- a long-term timeframe for investment;
- increased on-time and on-budget delivery of projects;
- to spread the cost of financing over the lifetime of the asset and reduce immediate pressures on public sector capital;
- to maximise input of private-sector skills and expertise;
- to improve customer service orientation;
- to force public authorities to be explicit about required outcomes;
- to enable user payments for the service;
- to commit funding to the long-term maintenance of assets;[15]
- to align private-sector activities with policy objectives; and
- to improve risk-sharing between both parties.

There is one further issue which arises with regard to PPPs that can be perceived as a benefit by public authorities: the ability to commit capital to projects without it showing up as public borrowing. This is especially attractive at a time of austerity as regards public budgets, where traditional means of increased public borrowing will run into hard budget constraints, often making PPP 'the only game in town'.

From an economic perspective, PPPs are used in this manner for the wrong reasons, as the public-sector organisation must still commit to a long-term payment which is a public liability. Any capital investment represents a long-term commitment (as the asset will also need to be maintained) and the impression of 'off-balance-sheet borrowing' can hinder the development of PPPs.

[13] European Commission, (2011), *A Budget for Europe 2020* - Part I -, COM (2011) 500 final, p.21.

[14] European PPP Expertise Centre (EPEC) (2011), *The Guide to Guidance*, *How to prepare, procure and deliver PPP Projects:* http://www.eib.org/epec/resources/guide-to-guidance-en.pdf

[15] Recently, this has also been highlighted as a negative effect of PPPs, as it limits savings that can be made in the short term. However, the question of whether running down assets is a sustainable strategy in the long term must be posed.

To address this accusation head on, such liabilities should be monitored: each member state should have an overview of the liabilities and commitments made under PPPs and the EU should use its new economic governance tools to encourage all member states to report these. Not only would this ensure that PPPs are not pursued for the wrong reasons explained above, it would also provide a more accurate picture of public-sector liabilities[16], helping to change the perception of PPPs as a means of borrowing off the balance sheet.

While PPPs can undoubtedly offer a range of benefits, many stakeholders also point to perceived drawbacks, risks and costs. First among these is the question of value for money. An example of a negative perception of the value for money of PPPs can be found in a UK House of Commons Select Committee Report, which concludes that 'at present, PFI deals look better value for the private sector than for the taxpayer'.[17] The report also stipulates that 'the taxpayer's position is made worse by poor transparency of investor and contract information alongside patchy public sector commercial skills'[18].

The report also reflects a perception that PPPs have higher borrowing costs than the public sector and that the economic crisis might have aggravated the situation: 'Private finance has always been more expensive than government borrowing, but since the financial crisis the difference between the costs has widened significantly. [...] The difference in finance costs means that PFI projects are significantly more expensive to fund over the life of a project. This represents a significant cost to taxpayers. We have not seen clear evidence of savings and benefits in other areas of PFI projects which are sufficient to offset this significantly higher cost of finance'.[19]

At EU level, a distinction must be made between countries where sovereign debt can still be financed cheaply and those countries in the middle of a sovereign debt crisis, where financing public debt has become prohibitively expensive. But even in those countries where the cost of public borrowing is lower than the cost of private finance, such comparisons are misleading.

Unlike private finance, where lenders always face a risk of credit default, in cases where lenders assess there is no risk attached to lending to governments: this explains the cost difference. There is therefore a need for policymakers and others involved in PPPs to better compare what is comparable in order to get an accurate idea of value for money, taking into account how and what risk has been transferred from the public to the private sector.

Many of the perceived drawbacks associated with PPPs are, at closer inspection, hard to maintain. For example, PPPs are often criticised when the same payments are still due even if circumstances have changed – for example when a school has fewer pupils than envisaged. While this is understandably frustrating, the reality is that if the school had been built through traditional procurement, the capital would already have been spent, so the PPP case is no worse. Equally, increasing costs due to ongoing changes in specifications can occur under both PPPs and traditional procurement. Arguably, PPPs actually have an advantage here as they make the cost of changes more explicit after the contract has been concluded.

[16] While this step is necessary to address some of the misgivings about PPPs, it should be highlighted that this is, to some extent, unfair treatment of PPPs compared to traditional procurement. Traditional procurement also incurs liabilities, for example, the cost of maintaining public assets, or the cost of depreciation. Ideally, all public-sector budgets should also account for the value of their assets and the costs associated with them.

[17] House of Commons, Committee of Public Accounts (2010), *Lessons from PFI and other projects,* p. 5.

[18] Ibid., p.5.

[19] House of Commons (2010), *Private Finance Initiative, Seventeenth Report of Session 2010-12*, p.3.

Many drawbacks and risks are more of a perception than a reality. The table below aims to sketch out issues of perception and/or those representing real barriers to PPP usage:[20]

Elements revealing an issue of perception	Elements reflecting an existing barrier
	High transaction costs
Lack of transparency in the bidding process.[21]	
Long-term limited flexibility and risk of disagreement between public and private parties.[22]	
Loss of democratic control[23], potential for negative public reaction to profit.	
Loss of management control by the public sector.	
	Need for public sector capacity and skills that may not be available.

The issues listed above can hinder the development of PPPs and highlight some persistent barriers to their use which will need to be addressed at all levels, i.e. at local, national and European level, if Europe wants to maximise the benefits of PPPs.

2.3 WHAT BARRIERS FOR PPP DEVELOPMENT?

As mentioned earlier, the maturity of the PPP market varies widely among EU member states. Some countries have accumulated a lot of experience regarding the functioning of PPPs, while others must face up to a significant lack of information, which may be one reason for the failure of some partnerships and for the reluctance to commit to new PPPs. Using a procurement model as complex as a PPP requires a high level of skill, both from the private and public parties. Obviously, such expertise can be acquired through experience (at a cost), but guidance, training and assistance are also necessary to build capacity, not least to be in a position to assess objectively which projects are suitable.

The success of PPPs also relies on political will and commitment. There is still strong political resistance to developing PPPs in some sectors and countries, which may be based on ideology or the public sector's fear of losing management control over delivery. This fear is clearly not justified, as services are often routinely delivered according to contracts agreed between the public and the private sectors under traditional procurement.

In this context, governments, through effective communication, can play an important role in convincing the public sector of the benefits of PPPs. For the EU, this process can be supported through information, research etc. but this is only likely to be effective if there is high-level political commitment within the member state.

Governments also need to provide stability throughout a project's whole life cycle. Policy changes in various regulatory areas may for instance bring uncertainty and add unexpected costs. Even more problematic is the issue of governance. Countries in political and economic crisis may find it particularly difficult to attract investment from private sector actors, who may doubt the ability of the public sector

[20] The costs/risks mentioned by participants are sometimes real barriers to using PPPs, which nevertheless loom larger in people's minds than in reality. In this case, the cost appears in both columns.
[21] Can also be an issue in traditional procurement, but arguably for PPPs more significant parts of the bids are protected by commercial confidentiality.
[22] Again, also an issue (albeit frontloaded) under traditional procurement.
[23] While it is undoubtedly true that PPPs commit future governments to pay for current expenditure, public borrowing raises similar issues.

to honour its financial commitments. This makes it difficult to envisage increased use of PPPs in countries with weak economies and weak governance structures.

Transaction costs – defined as the cost of establishing and maintaining a partnership – are also a major challenge. They encompass the whole life cycle of a project and reflect, for example, payments for advisory services related to the legal, financial and technical aspects of the project. Such payments generate costs for both sides, the private and public parties.

For the public sector, setting up the bidding process, assessing the results, selecting the winning bidder and negotiating the contract are examples of costs during the preparation phase. The construction and operational phases also generate costs, such as monitoring performance or possible renegotiations during the project's lifespan.

For the private sector, transaction costs include participating in the bidding process and negotiating the contract for the winning bidder. Research has shown that small projects are associated with relatively higher transaction costs than bigger projects, suggesting that a minimum project size is required for it to be financially viable.

The investment required upfront can dissuade the private sector, in particular SMEs[24], from participating in PPPs, and the skills and resources required can dissuade public authorities from taking part, especially if they have few resources and few potential PPP projects.

[24] However, it is doubtful whether this is worse under PPPs than it is under traditional procurement: in the case of large-scale infrastructure projects, the most likely outcome is a large company or a number of large companies taking responsibility for overall delivery with a wide range of sub-contracted SMEs.

CONCLUSIONS AND RECOMMENDATIONS

The recent financial and economic crisis has significantly changed the way Europe considers the role of the private sector with regard to the financing of public infrastructure and the delivery of public services. Public investment alone will not be able to provide the huge investment that is necessary to boost Europe's growth in the medium to long term.

In this context, different policy options have been explored at European level to attract and facilitate private finance, and the EU has increasingly been referring to the role of Public Private Partnerships (PPPs). This gives rise to a number of key questions: what do stakeholders and policymakers think about PPPs and other forms of public-private cooperation? Are perceptions and expectations in line with the potential of PPPs? And in how far is it necessary to address misconceptions and overly-high expectations?

Our interviews clearly show that most stakeholders agree with the overarching objective of 'involving the private sector' - through investments, but also to benefit from their specific expertise. This in turn implies some sort of cooperation between the public and private sectors, which is often labelled as a PPP. However, as we clarified at the beginning of this paper, PPPs only represent a specific type of interaction, and they are only one form of involving the private sector and leveraging its investments for public policy goals.

This suggests a definition problem at European level – stakeholders have no common understanding of what PPPs are and how they function. What makes them different from traditional procurement? Who pays for the services in the end, and how? What type of investment is most suitable for PPPs? What is the role of the EIB? How do PPPs relate to other forms of public-private cooperation?

In addition, we found evidence of confusion over the wide range of financial instruments currently in the policy debate: What are project bonds? How do they relate to PPPs? How do they differ from existing proposals on Eurobonds or bonds potentially aiming to finance a particular element of EU infrastructure, such as Galileo? How do publicly-backed infrastructure funds contribute? How do these instruments relate to and compare with public investment financed by traditional public borrowing? These definition issues matter: they can confuse decision-makers and lead both to unrealistic expectations and a mismatch between the policy objective and the financial instrument. If the EU wants to encourage more public-private cooperation, addressing such confusion is of critical importance.

Recommendation: To ensure a realistic understanding of the wide range of new financial instruments currently being debated at EU level, the Commission should produce a simple, easy-to-use guide/glossary, aiming to describe the nature and functioning of financial instruments and different types of public-private cooperation in a manner which is accessible to all decision-makers.

While there is a clear drive towards aiming to leverage more private investment, coupled with high expectations, the current EU position with regard to the role of public-private cooperation, and in particular PPPs, lacks clarity for many stakeholders: it is unclear what specific contribution PPPs are expected to make to the achievement of European policy objectives and how far they are expected to help to deliver the 'Europe 2020' strategy.

Concretely, in the proposals on the next Multi-Annual Financial Framework, public-private cooperation plays a prominent role but in many areas, such as the Connecting Europe Facility (CEF), the proposals are yet to be fully articulated, leading to confusion about how they will work in practice.

Recommendation: The European Commission needs to clarify how financial engineering will work in the next MFF and set out the policy objectives for which specific financial instruments are to be used and the impact that this is expected to have on grant-based budget lines.

Our research found a number of areas where stakeholders have identified a need to help public authorities to develop, design and bring forward PPP solutions. One concrete and detailed proposal already on the table is the Project Bonds Initiative. This initiative can help to make potential PPP projects financeable through the capital markets and, indeed, to contribute to the development of financial markets, especially in countries/regions where there is a limited track record of PPP usage. Usage in the pilot phase is likely to concentrate in countries which have established PPP mechanisms in place. But between 2014 and 2020 other countries, and especially the new member states, could also potentially experience increased usage of PPPs, supported by Project Bonds.

However, there are also limits to what project bonds can achieve: for example, they are unlikely to work well in countries where sovereign debt ratings are poor and where high levels of risk and uncertainty characterise the investment climate. There is also persistent confusion about what project bonds are and what they can achieve, leading to a mismatch between the perceptions of many stakeholders and the instrument proposed. The recommendations made above should help to address these issues.

In particular, it should be made clear that project bonds are neither an instrument to introduce EU-level borrowing or finance EU projects such as Galileo, nor will they alone deliver all the required large-scale private investment in EU-wide networks.

Recommendation: While there are limits to the Project Bonds Initiative, it has the potential to boost PPPs in a number of countries and should thus be introduced as quickly as possible, while at the same time addressing stakeholders' misconceptions about what EU project bonds are and what they aim to do.

In many cases where public private cooperation could potentially add value, there is still a lack of consideration of how to potentially involve the private sector at the outset. For EU-funded activities in relevant policy areas, formal *ex-ante* consideration of the scope for private participation should be obligatory, accompanied by a support structure which can provide advice and guidance.

Recommendation: In areas where public-private cooperation can potentially add most value, for example research funding, transport including the TEN-T network, elements of structural/cohesion funding and the Connecting Europe Facility, an ex-ante obligation should be put on project promoters who are seeking EU financial support to explore (for example as part of project appraisal criteria or in impact assessments) the possibility of leveraging private funding, including identifying the potential for PPPs.

To provide advice and guidance on PPPs specifically, stakeholders have identified a need for public authorities to have access to advice which goes beyond advice on PPP policy. In particular, practical advice with potential PPP projects (Are they suitable for PPP solutions? What needs to be in place? Where can you access the required expertise? When/how can other public authorities and institutions be involved?) would provide invaluable help, especially in countries where the use of PPPs has so far been limited.

Recommendation: An expert EU advice unit should not only focus its work on the strategy/policymaking level but also give more practical advice on whether/how to go ahead with concrete projects. EPEC (the European PPP Expertise Centre of the EIB) could fulfill this function, through an extension of its mission and its resources.

At the same time as providing support at EU level, many stakeholders also identify a need to provide strategic direction on PPPs at member-state level.

Recommendation: National governments should establish a central PPP guidance and strategy unit in member states where such a unit does not yet exist. Such a unit would be responsible for providing regional and local authorities and other public sector organisations with cross-government strategic direction, and clarifying national rules on how PPPs interact with domestic budgetary processes. Here, the EIB (especially the EPEC) could help to disseminate good practice and help with the initial setting-up period if required. Stakeholders also see a clear need to build capacity at local/regional level, where many PPPs are implemented. This is especially important in territories where there is little experience of PPPs. Providing local and regional decision-makers with the skills required is essential. For those areas with little experience of developing PPP projects themselves, this should include 'shadowing' of PPP projects in other regions/countries.

Recommendation: Training to build the necessary skills must be made broadly available, especially in regions/local authorities where there is little experience of PPPs. The training should be organised at EU level (e.g. a European expert academy) and, for countries in receipt of Cohesion Funds and regions with European Structural Fund Convergence Programmes, this training should be financed from European funds.

Most stakeholders do see PPPs as a useful instrument to leverage private finance if the right conditions are met – especially in the difficult current economic context, which is characterised by severe limits to the availability of public finance and a lack of capital/infrastructure investment. But there are also criticisms, not all of which are fully borne out in reality: for example, some stakeholders see PPPs as non-transparent, but PPPs can potentially be more fiscally transparent than conventional procurement, given that PPPs are a clear contractual commitment regarding the future costs of maintaining the asset.

However, in certain countries, PPPs must overcome their image as expensive off-balance-sheet borrowing. Indeed, many stakeholders consider PPPs to be implemented for the wrong reasons - as 'the only game in town', given public budget constraints, if public authorities want to take forward large-scale infrastructure investment.

Recommendation: To enhance transparency and to address the common perception that PPPs are simply a tool for off-balance sheet borrowing, EU countries should be encouraged by the European Commission through the new economic governance structures to provide an overview of the liabilities and commitments which have been made under PPP contracts, alongside public debt. This information - or the gaps in the information available in certain countries - should be published as part of EU macroeconomic surveillance. More generally, there should be greater transparency on the future fiscal implications of all infrastructure investments – whether PPPs or conventionally funded.

While stakeholders see PPPs as an important element in achieving European policy objectives, they also see limits, as PPPs cannot be applied to all projects. Other public-private solutions will also have to contribute to protecting Europe's welfare states, boosting its long-term growth prospects and enhancing its competitiveness through investment in strategic projects and infrastructure. Therefore, the EU will have to follow a two-fold strategy consisting of on the one hand addressing barriers to

PPP use at all levels, i.e. at local, national and European level, and on the other hand going beyond the traditional model of PPPs and harnessing the full potential of public-private cooperation.

Here, in a range of areas new and for the most part successful instruments have been developed in recent years which provide opportunities for public-private cooperation and allow for increased exchange of know-how and expertise, boosting innovation. Successful examples include the Risk Sharing Finance Facility, the European Technology Platforms, EIF funding of venture capital funds or actions taken forward under the Innovation Union.

Recommendation: In many EU policy areas, public-private cooperation has proven to be successful. The EU should build on this cooperation by expanding funding dedicated to it in the implementation of the next MFF. The Innovation Union should move beyond the pilot phase focused on only one area (healthy, active ageing), to a range of areas critical for Europe's economic future (including, for example, energy), built around public-private cooperation and a clear focus on encouraging markets for new commercially-viable products, services and processes.

There is also a gap between the expectations of policymakers and stakeholders and the ability of PPPs to deliver: classic Public-Private Partnership instruments cannot completely fulfill policymakers' expectations, for example where the public sector cannot clearly articulate the outputs it requires from a project, or where uncertainties about the risks involved undermine the ability of the private sector to assess, price and manage risk.

Similarly, traditional PPPs may not work in those countries most affected by the eurozone crisis and/or where financial sectors are relatively undeveloped. If Europe is serious about fulfilling the policy objectives of the 'Europe 2020' strategy, meeting its investment needs and addressing the economic crisis, EU policymakers must also consider new actions and instruments. Potential policy instruments which could be developed include:

- EU infrastructure/asset bonds backed up by European guarantees to provide investment in large-scale European projects or crucial (cross-border) infrastructure projects, spreading the repayment of initial capital costs over time. However, the political and legal feasibility of such bonds is currently limited, given EU budget rules and member-state opposition to EU-level borrowing.

- The development of European public-private cooperation to create the framework conditions needed for private investors to invest in large-scale pan-European infrastructure, and to address network market failures, for example by developing joint public-private investment plans and timelines which specify what both sides will bring to the table. Here, the aim would be to facilitate additional investment in private assets which generate market returns in areas where networks need to shift from national to European provision (e.g. energy transmission/ smart grids).

- The facilitation of private investment in Europe's weakest economies to address Europe's economic divergence. PPPs might be part of the solution here, but they can be difficult to implement in countries with weak governance structures or distressed credit ratings. Potentially, one way to give the private sector more incentive to make new investments is to provide public insurance against certain risks (at EU or member-state level in the country where investment originates), especially where these are connected to currency regime change risks.

Recommendation: While they are an important component, PPPs alone cannot deliver the private-sector investment required to achieve Europe's policy objectives. In addition to PPPs and other existing forms of public–private cooperation, European decision-makers must develop new types of financial/policy instruments which can deliver a broad range of EU-level policy objectives, including large-scale, cross-border networks and investment in the member states most affected by the crisis. The Commission should create a taskforce involving the EU institutions/the EIB, the private sector, academics/experts and stakeholders to identify the gaps where current policy instruments are insufficient and develop concrete proposals to be implemented in the next MFF.

Annex 1 – Policy linkages

Europe 2020 flagship initiatives	MFF 2014-2020 proposal – Which delivery mechanisms?	What financial instruments?
1. Smart growth: Innovation Union “The aim of this is to **re-focus R&D and innovation policy** on the **challenges facing our society**, such as climate change, energy and resource efficiency, health and demographic change. **Every link should be strengthened** in the innovation chain, from 'blue sky' research to commercialisation.” (European Commission, (2010), *Europe 2020 - A European Strategy for smart, sustainable and inclusive growth*, COM(2010) 2020, p.10)	**The Common Strategic Framework for Research and Innovation** The Commission proposes to bring together the existing instruments (the 7th Framework Programme, the innovation part of the Competitiveness and Innovation Framework Programme and the European Institute for Innovation and Technology) under **a single Common Strategic Framework for Research and Innovation**, which will be called ‘Horizon 2020’. “The CSF option is the one devised **to promote the Europe 2020 agenda and the flagships on Innovation Union, Digital Agenda, Industrial Policy, Resource-efficient Europe, Agenda for New Skills and New Jobs, and Youth on the Move.** It addresses the specific needs of the diverse research players and replies to the strong demand for new actions in the fields of industrial and basic research.” (European Commission, (2011), *A Budget for Europe 2020: the current system of funding, the challenges ahead, the results of stakeholders consultation and different options on the main horizontal and sectoral issues*, Staff Working Paper, SEC (2011) 868 final, p.38)	“The financial crisis has had a major impact on the capacity of European businesses and governments to finance investment and **innovation projects.** To accomplish its objectives for Europe 2020, a regulatory environment that renders financial markets both effective and secure is key. (…)The European Investment Bank and the European Investment Fund can contribute to backing a "virtuous circle" **where innovation and entrepreneurship can be funded profitably** from early stage investments to listing on stock markets, **in partnership with the many public initiatives** and schemes already operating at national level.” (European Commission, (2010), *Europe 2020 – A European Strategy for smart, sustainable and inclusive growth*, COM(2010) 2020, p.10) “In terms of creating more innovation, the main message is that the EU should support all stages in the innovation chain, with the appropriate instruments that are fit for purpose. In this context, there is frequent mentioning of the need to include more support for closer to the market activities (such as demonstration, piloting and market replication) and to **improve the framework for public-private partnerships**.” (European Commission, (2010), *Europe 2020 - A European Strategy for smart, sustainable and inclusive growth*, COM(2010) 2020, p.10) “The quality, efficiency and consistency of implementation of the CSF will be enhanced through a major externalisation, building on the progress achieved in current programmes. The executive agencies established under the current programmes will be expanded to realise economies of scale. **Further use** will be made **of Public-Private Partnerships with industry** and **Public-Public Partnerships with Member State programmes**, including

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	The Common Strategic Framework for Cohesion Policy In the area of cohesion policy**, a Common Strategic Framework** will bring together the European Regional Development Fund, the European Social Fund, the European Agricultural Fund for Rural Development, the European Maritime and Fisheries Fund, and the Cohesion Fund. This is intended to "ensure greater coherence between the sources of funding and a **much sharper focus on Europe 2020**". (European Commission, (2011), 'A Budget for Europe 2020 - Part II - Policy Fiches - Communication from the Commission, p.24)	by using new possibilities foreseen under the revised Financial Regulations. These partnerships will rest on the strong commitment from all sides to pool resources in order to boost investments in strategic areas and overcome fragmentation of effort." (European Commission, (2011), *A Budget for Europe 20*20 - Part II – Policy Fiches - Communication from the Commission, COM(2011) 500 final, p. 85) "Increased use of **innovative financial instruments** will leverage private research and innovation investments, including venture capital investments for innovative, high-tech companies, in particular SMEs." (Ibid, p. 85) "Cohesion policy interventions will be enhanced as the most important instrument to tackle **research and innovation capacity building** at regional level, including the development of **research infrastructures**, through funding allocations based on pre-defined envelopes for eligible regions". (European Commission, (2011), *A Budget for Europe 2020* - Part II - Policy Fiches - Communication from the Commission, COM (2011) 500 final, p.86) "In addition to grant funding, it is proposed that cohesion support for enterprises and projects expected to generate substantial financial returns will be delivered primarily through **innovative financial instruments**". (European Commission, (2011), *A Budget for Europe 2020* – Part II – Policy Fiches – Communication from the Commission, COM(2011) 500 final, p.27)

2. Smart growth: Digital Agenda for Europe "The aim is to deliver sustainable economic and social benefits from a **Digital Single Market** based on fast and ultra-fast internet and interoperable applications, with broadband access for all by 2013, access for all to much higher internet speeds (30 Mbps or above) by 2020, and 50% or more of European households subscribing to internet connections above 100 Mbps." (European Commission, (2010), Europe 2020 –A European Strategy for smart, sustainable and inclusive growth, COM(2010) 2020, p.12)	**The Common Strategic Framework for Research and Innovation.** (see above) **The Common Strategic Framework for Cohesion Policy** (see above) **The Connecting Europe Facility** The European Commission proposed the establishment of the '**Connecting Europe Facility'**, which will ensure public intervention for those **investments in infrastructure** which the market alone is unable to provide. The priorities in this context are the areas of **energy, transport and ICT**. "The common infrastructure facility would finance infrastructure projects with high EU added value, not only 'hard' infrastructure, but also 'soft and smart' infrastructure and governance structures to realise **the transport "Core Network", the energy "priority corridors" as well as digital infrastructure.** The facility would target projects with high European value added, such as cross-border interconnections or the deployment of EU-wide systems, which must be implemented by 2020." (European Commission, (2011), A Budget for Europe 2020, Communication from the Commission, COM(2011) 500 final, p.80)	"The **Connecting Europe Facility** (…) will provide tools for attracting private sector funds from both within and beyond the EU. Project financing will thereby complement and enhance the use of EU funds". (European Commission, (2011), *A Budget for Europe 2020* - Part II - Policy Fiches - Communication from the Commission, COM(2011) 500 final, p.56) "The **Connecting Europe Facility** offers opportunities for using **innovative financing tools** to speed up and secure greater investment than could be achieved only through public funding. The Commission will work closely with the EIB and other public investment banks to combine funding of these projects. In particular, the Commission will promote the use of **EU project bonds** (…)".(European Commission, (2011), *A Budget for Europe 2020* - Part I - Communication from the Commission, COM(2011) 500 final, Part I, p.15)
3. Sustainable growth: Resource-efficient Europe "The aim is to support the shift towards a **resource efficient and low-carbon economy** that is efficient in the way it uses all resources. The aim is to decouple our economic growth from resource and energy use, reduce CO2 emissions, enhance competitiveness and promote greater energy security." (Ibid., p.14)	**The Common Strategic Framework for Research and Innovation** (see above) **The Common Strategic Framework for Cohesion Policy** (see above) **The Connecting Europe Facility** (see above)	See above reference to the financial instrument for each of the delivery mechanisms.

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4. Sustainable growth: An industrial policy for the globalisation era “Industry and especially SMEs have been hit hard by the economic crisis and all sectors are facing the challenges of globalisation and adjusting their production processes and products to a low-carbon economy. The impact of these challenges will differ from sector to sector, some sectors might have to "reinvent" themselves but for others these challenges will present new business opportunities. The Commission will work closely with stakeholders in different sectors (business, trade unions, academics, NGOs, consumer organisations) and will draw up a framework for **a modern industrial policy, to support entrepreneurship, to guide and help industry to become fit to meet these challenges, to promote the competitiveness of Europe’s primary, manufacturing and service industries and help them seize the opportunities** of globalisation and of the green economy. The framework will address all elements of the increasingly international value chain from access to raw materials to after-sales service “(Ibid., p.15)	**The Common Strategic Framework for Research and Innovation** (see above) **The Common Strategic Framework for Cohesion Policy** (see above) **The Connecting Europe Facility** (see above) **The Competitiveness and SMEs Programme** The Commission proposes to create the **‘Competitiveness and SMEs Programme’**, the successor to the non-innovation part of the current ‘Competitiveness and Innovation Framework Programme’ (CIP) to promote the competitiveness of EU industry, in particular SMEs.	See above reference to the financial instrument for each of the delivery mechanisms. “Financial instruments for growth will facilitate SME access to funding through the use of **innovative financial instruments**. These instruments will take full advantage of the new equity and debt platforms to provide **both equity and loan guarantee facilities**. (…) The instruments (…) will include: (1) An **equity facility** for growth phase investment, which will provide, which will provide commercially-oriented reimbursable equity financing primarily in the form of **venture capital** (VC) through financial intermediaries to SMEs. Two measures are envisaged: - **Investments in VC funds** which operate **across borders** within the EU and are focused on investing in growth-oriented enterprises, thereby supporting the development of an EU-wide VC market. - A **“fund of funds”** (or “European fund”) **investing across borders in VC funds** which subsequently invest in enterprises, in particular in their international expansion phase. (2) A **loan facility**, providing **direct or other risk sharing arrangements** with financial intermediaries to cover loans for SMEs. The facility would generate a high leverage effect and would provide the cross-border lending or multi-country lending that could not easily be achieved through facilities at national level”. (European Commission, (2011), *A Budget for Europe 2020* - Part II - Policy Fiches - Communication from the Commission, p.18)

Annex 2 – Interview programme – List of interviewees

	Name of the institutions/organisations participating in the interview
1	European Investment Bank
2	Marguerite Fund
3	European Investment Bank
4	European Investment Bank
5	European Parliament
6	European Social and Economic Committee
7	Committee of the Regions
8	European Institute of Public Administration
9	Manchester Business School
10	University of Greenwich
11	European Trade Union Confederation
12	BUSINESSEUROPE
13	Suez Environment
14	TEN- T EA
15	OECD
16	Danish Chamber of Commerce
17	Ernst & Young
18	Cabinet of Commissioner Kallas – European Commission
19	DG MARKT – European Commission
20	DG EMPLOYMENT – European Commission
21	European Investment Bank
22	DG ENER – European Commission
23	DG REGIO – European Commission
24	Council of the European Union
25	DG BUDG – European Commission

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Web sites

EIB – Risk Sharing Finance Facility: http://www.eib.org/products/loans/special/rsff/?lang=en

EPEC: http://www.eib.org/epec/

European Commission - Europe 2020 Project Bonds Initiative:
http://ec.europa.eu/economy_finance/financial_operations/investment/europe_2020/index_en.htm

UK Parliament: http://www.parliament.uk/