

## **Public-Private Partnerships; How to make them work?**

**11 October 2006**

Speech of Commissioner Danuta Hübner

Ladies and gentlemen,

I am very pleased to meet you today at this working breakfast. Not surprisingly, the theme I would like to address in my brief speech is how to attract and raise private capital for joint investment projects and create a fruitful cooperation between public and private operators.

Between 2007 and 2013 the European Union will invest 350 billion euros in new regional policy programmes. In some Member States, these resources will amount to around 4-5 per cent of GDP and to a significantly higher share of capital investment. This is the largest investment programme in Europe since the Second World War. Therefore there are strong and legitimate expectations that it will create an economic boost that will stimulate growth and make a major contribution to convergence.

A large part of the resources will be devoted to developing and modernizing economic infrastructures, in particular transport, environment, energy and telecommunications. However, given the

size of the investment necessary for the co-financing of the investment made by the regional policy it would be unwise to rely only on public expenditure. It would put a strain on domestic public finances, especially in the economies which need to speed up real convergence while, at the same time, contain potential macroeconomic risks. Moreover, the public sector alone tends not to have the capacity to deliver large-scale infrastructure projects and meet quality standards in terms of service provision. We must, therefore, mobilise other sources of finance, expertise and know-how. Public Private Partnerships (PPPs) are a key instrument in support of this objective.

In many countries, deregulation and privatisation have been important elements of structural reform policies. As a result, many services, which were previously provided by the state or public entities, are now being provided by the private sector. Today Public Private Partnerships do not only cover road infrastructure but provide for a wide range of public services, like telecommunication, water plants, financial services to SMEs, innovative financing, general public services, education and research. There are plenty of contractual arrangements which can include private investments, but from the point of view of the regional policy we should focus on seeking private partners who add funding and share the risk.

In other words, Public Private Partnerships should not only be driven by limitations in public funds to cover investment needs but also by efforts to increase the quality and efficiency of public

services. PPPs present a number of advantages if it can be demonstrated that they will achieve additional value compared with other approaches and if there is an effective implementation structure. It must be remembered, however, that these schemes are also complex to design, implement and manage. This often prevents regional and local authorities from entering PPP projects and opting for a more straightforward approach involving public capital only.

In addition, successful PPPs require an effective legislative and control framework at the national level and the recognition by each partner of the objectives and needs of the other. The legitimate question arises where we draw the line between successful and useful PPP arrangements and those which do not lead to the expected benefits.

Therefore in 2003 DG REGIO issued Guidelines for Successful Public–Private-Partnerships which were designed as a practical tool for PPP practitioners in the public sector. They focus on four key conditions which public authorities should meet in implementing PPP projects:

- ensuring open market access and fair competition;
- protecting the public interest and maximising value added;
- defining the optimal level of grant financing both to realize a viable and sustainable project, but also to avoid any opportunity for windfall profits from grants;
- assessing the most effective type of PPP for a given project.

The generally positive experience with PPP projects and the need to further increase the leverage effect of the new regional policy led the Commission to reinforce the provisions fostering the use of PPP in the new programming period. In particular, the Commission has decided to introduce more financial flexibility to the rules allowing Member States to co-finance entire priorities (under operational programmes) by private capital. This means that - unlike in the current 2000-2006 period when this provision applies to individual projects or small groups of projects – the total cost of the investment plan covering, for example, the entire water treatment sector under "Environment" operational programme could consist only of EU capital and private capital delivered under PPP schemes.

In addition, in order to promote greater efficiency in the use of transfers under EU cohesion policy, the Commission, the European Investment Bank (EIB) and the European Bank for Reconstruction and Development have set up a special facility that offers expertise free of charge to national authorities in preparing projects for Commission approval. The facility, known as JASPERS, will be able to help in the preparation of projects involving PPP where Member States request it.

The Commission itself has an important role to play in providing guidelines and promoting good practice in this area. More work is required to inform the authorities about the potential of PPP which

is why JASPERS with the assistance of DG REGIO will draft a guidance paper on how to set up PPPs in the context of Cohesion Fund investment projects. In parallel the Commission is preparing a new regulatory framework for PPPs in the area of public procurement law aimed at further clarifying legal issues and ensuring legal certainty both for the private and the public sector.

The latter approach reflects the fact that currently general public procurement rules apply to public markets contracts but only general principles of community law apply to concessions such as service concessions. The Commission has published an interpretative Communication on concessions in 2000; a public procurement directive in 2004 which introduced the competitive dialogue, and a green paper on PPPs in 2004. Results of the public consultation on the green paper, published in November 2005, showed that the majority of consulted parties has expressed a clear demand for further clarification. The Commission (DG MARKT) has therefore engaged an impact assessment that should lead to a decision in spring 2007 whether to legislate on concessions or to update the Interpretative Communication of 2000.

Our expectations are that the new legal framework both in terms of Public Procurement Law and regional policy along with JASPERS will encourage the beneficiaries of Member States to make wider use of public private partnership.

Let me conclude by saying that the most obvious challenge for successful PPPs is to identify the circumstances in which it is superior to traditional public procurement of infrastructure investment. Public private partnerships are just one way to deliver public infrastructure and services. Neither are they a panacea for effective governance at national, regional or local levels. They do, however, bring into the projects business culture oriented towards efficiency, quality and economic viability.

The design of proper legal framework and of contractual arrangements is crucial to make public private partnerships live up to their potential. This is the role for Member States while it is up to the regions and cities to use these arrangements in practice. The latter can also benefit from sharing PPP experiences across Europe with the aim of decreasing the relative high transaction costs often associated with public private partnership projects.

In this respect I would like to draw your attention to our new initiative 'Regions for Economic Change' which will bring regions together in small groups around specific themes relevant to economic modernisation and the renewed Lisbon agenda. These networks should ensure cross-fertilisation of ideas and dissemination of best practices – including public private partnerships.

Since we are here to discuss PPP I would like to use this opportunity to launch the debate and leave you with some

questions. How do you do see efficient public private partnerships, in particular applied to regional policy projects? What are the major barriers for successful implementation of PPP and what should be done in order to remove them? What should be the role of public authorities and how we – the Commission - can assist them in preparation and implementation of PPPs?

Thank you for your attention and I am looking forward to a good and fruitful discussion,