

PUBLIC-PRIVATE PARTNERSHIP'S ASCENT AND FALL IN EUROPE

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Abstract: *Collaborations between public and private have appeared in Europe since ancient times, presenting in different ways from one nation to another, and being the source of the current "public-private partnership" arrangement. This study aims to emphasize the significance of "public-private partnership" for a certain area. In this research, I used the qualitative technique to examine and understand the global experience in developing public-private partnerships. The method was effective in showing how "public-private partnerships" have changed throughout Europe. There is no standard definition of "public-private partnership" that can be found in all studies because there isn't one that everybody in Europe acknowledges. Presenting the development of "public-private partnerships" throughout Europe and emphasizing their ascent and fall, is the primary output of this study. Additionally, this study aimed to demonstrate the current status of this kind of cooperation throughout Europe and the interest that European nations have shown in "public-private partnerships". The market for "public-private partnerships" in Europe has been expanding gradually since 1990. Since then, Great Britain has dominated the market for public-private partnerships for a considerable amount of time. This is a country where interest in this kind of cooperation has grown. In this study, we attempted to draw interest in the time when Great Britain was the front-runner and the point at which other states overtook it. The recent development of public-private partnerships in Europe was given also special attention by presenting the states who are paving the way in implementing PPP projects together with the governments that have only recently concentrated on doing so.*

Keywords: *Public-private partnership, Europe, Cooperation, Projects*

JEL Codes: *O16, P45, R11*

1. Introduction

The "public-private partnership" as it stands now does not originate from ancient times but has its roots in earlier types of "public-private sector cooperation" that first surfaced on the European continent several centuries ago. In contrast to conventional procurement methods, "public-private partnerships" have demonstrated the capacity to reduce whole-life costs, lessen the financial load on the public sector, enhance the management of risks and maintenance services, and foster long-term partnerships that foster transparency and responsibility. Because of

the extended contractual period and collaboration among the public and business organizations, "public-private partnership" projects have more complex structures. The United Kingdom, which has been one of the biggest global markets for "public-private partnerships", is one country in Europe where over time, "public-private partnerships" have been utilized in many different contexts. It has only been in recent years that France and Germany have surpassed the United Kingdom as the continent's top user of this kind of partnership. Across Europe, "public-private partnerships" can be found in several sectors, depending on the needs of the nations in which they were born, including transportation, defense, the environment, education, health, television, culture, and leisure. Using these collaborations with private actors, the European Union consolidates its resources to address Europe's most pressing issues, bolsters competitiveness to furnish superior employment opportunities, and stimulates higher levels of private investment in technology development and research (E.C., 2023).

2. Theoretical background

Determining the meaning of "public-private partnership" is challenging since it is a contextual concept that relies on the activity sector as well as the institutional and legal environment. There are numerous attempts to define "public-private partnerships" in the literature; these definitions are united by the emphasis they place on PPP as a substitute for traditional long-term public service delivery methods. One of the earliest descriptions of "public-private partnerships" as they exist nowadays describes them as an agreement between two or more parties that permits them to collaborate toward mutually beneficial objectives and in which there is a certain level of shared risk-taking, resource investment, authority, and responsibility - sharing, and mutual profit (Roehrich, J.K. et al., 2014). Another definition that helps us better understand the above-mentioned term is the one that characterizes the "public-private partnership" as "a long-term agreement wherein a private company and a government agency work together to supply a public good or service, with the private company bearing the majority of the risk and management duties and receiving payment based on the quality of the work" (World Bank, 2020). These definitions make clear that the government, local public administration, and the private sector, which includes non-governmental groups, are the primary players.

"Public-private partnerships" aim to achieve is to apply creative resource usage and management expertise to obtain the best possible outcomes for all parties engaged in attaining their goals that would not have been possible without the other parties. (DESA, 2016). The public sector's duties and responsibilities change at different phases of the project involving public-private collaboration. The public sector's first issue in a "public-private partnership project" is evaluating and choosing appropriate "public-private partnership" initiatives (Wang, NN et al., 2020). Contrary to privatization, which transfers responsibility to the private partner, "public-private partnerships" do not include a transfer of ownership; instead, the public sector continues to be accountable for delivering the public service (Nastase C. et al., 2022). Although the nature and outcomes of "public-private partnerships" are similar

to those of traditionally awarded projects, there are some distinctions in project management and the contracts that are created (CCE, 2018). In these kinds of "public-private partnerships", the private sector participates in a couple of the several phases or aspects of the procedure used to make policy, such as establishing an agenda, negotiation, putting resources into place, monitoring, and/or enforcement. When public actors are unable to complete a task, private actors can complete it more quickly or effectively (Marx A., 2019).

The institutional quality and competence of local governance determine the adoption of "public-private partnership". "Public-private partnerships" are hindered by several factors, like a deficiency of institutional backing, mistrust between the governmental and private spheres, and inadequate public sector project planning. Establishing trust is crucial for its successful implementation. "Public-private partnership" success is also influenced by suitable rules, clear legislation, open procurement practices, and clearly defined roles for all parties involved. To optimize the advantages of infrastructure and provide the best possible socio-economic results, the market environment must be open and transparent. Public and business sectors' access to information fosters predictability, builds trust, and guarantees that private investments are aligned with the public interest (Yang F. et al., 2022). Because of the pressing need for long-term planning to deal with urbanization, population increase, and environmental deterioration, many governments in industrialized and developing nations place a high value on "public-private partnership". Numerous countries have demonstrated insufficient financing or resources, even when it comes to safeguarding public health during pandemics. This adds credence to the idea that PPP is a wise development strategy. Mutual benefits result from partnerships where the "private sector" (like in the case of the worldwide COVID-19 epidemic) occasionally needs financial assistance and government support (Jayasena N.S. et al., 2022).

The primary advantages of "public-private partnerships" for the state involve reduced government spending, the promotion of innovation and expertise, efficient project management and enhanced project efficacy, the general encouragement of economic growth (both local and central), and, above all, the augmentation of the quality-price ratio. (UNDP, 2021). In addition to providing budget accuracy by establishing both the present and future prices for infrastructure projects, this kind of contract encourages the private sector to finish tasks under budget and on time. Additionally, it provides support to the public sector to satisfy the growing demand for development infrastructure (World Bank, 2022). By using a "whole life" strategy, it is possible to guarantee long-term advantages by combining the conception, financing, construction, management, and maintenance parts of a project into one contract. Sharing risks and allocating them to the part most capable of managing them has a big advantage. (CCE, 2018). The "public-private partnership" faces a variety of risks, some of which are as follows: technical risk, which stems from errors in engineering and design; construction risk, which arises from improper construction methods, cost overruns, and construction delays; operational risk, which results from longer-than-expected costs associated with operation and maintenance; revenue risk, which stems from the inability to extract resources, volatility in prices and demand for goods and services sold, and insufficient revenue; financial and fiscal risk, which results from inadequate coverage of sources of income and financing

costs; political force and regulatory risk, which arises from changes in legislation or hostile and/or inconsistent government policies; and natural force, which is a major risk (UNECA, 2021). While the public sector is better suited to anticipate, reduce, and amortize some risks, the private sector is more suited for others. If both sectors can identify financial hazards ahead of time, none of the sectors will be able to predict the risks associated with natural disasters, even though both can mitigate their consequences. The government and concessionaires, who are stakeholders in "public-private partnership projects", must share the risks equally. This will result in varying perspectives, capacities, and goals. To attain the intended outcomes, risk distribution across the public and commercial domains is crucial (Bashar et al., 2021). To guarantee that government budgetary risks are adequately managed, a thorough risk-sharing model should be created for each PPP project, and each project contract should include the proper distribution of danger to both the public and private sectors (UNECA, 2021). Developing a "public-private partnership" concept and targeted programs for PPP development, which would specify precise guidelines for dividing up partner responsibilities and risks, would be the first step toward mitigating these risks, which are inevitably connected to improving the "public-private partnership" mechanism's effectiveness. (Anopchenko, 2019).

3. Analysis and discussions

To analyze and interpret the global experience in implementing public-private partnerships, I employed the qualitative technique in this research. The technique worked well to illustrate how "public-private partnerships" have evolved in the European region.

According to the environment, culture, and legal system, "public-private partnerships" have developed as a form of cooperation in many European states. (ENISA, 2023). As indicated by the European Center of Expertise "in the area of public-private collaborations, 1749 initiatives carried out through public-private partnerships, with a total value of 336 billion euros, benefited from financial closure on the European market of such partnerships between 1990 and 2016". The market for "public-private partnerships" had a significant ascent in volume before the global financial crisis, but a significant fall in new projects of this kind began in 2008 (CCE, 2018).

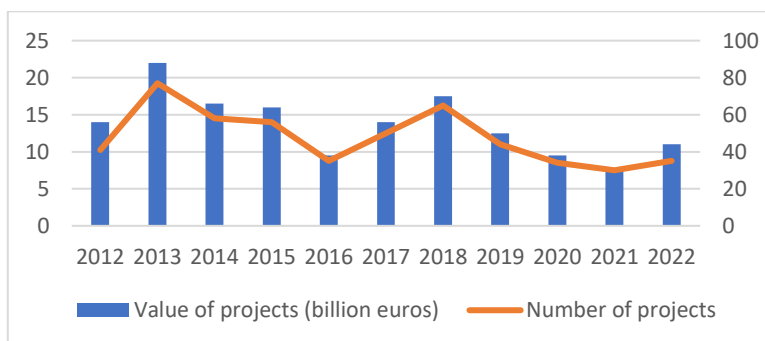


Figure No. 1: The public-private partnership market's development in Europe between 2012 and 2022

Source: processing after EIB, 2022, 2023

The European market for “public-private partnerships” saw alternating growth between 2012 and 2022, with an ascent and fall in the number of projects., which is highlighted in Figure No. 1

By paying close attention to the "public-private partnerships" recent development, we can see that 40 transactions totaling 8.0 billion euros in value reached financial closure in 2021 (EIB, 2022), while 45 "public-private partnerships" deals with a combined value of 9.8 billion euros were completed financially in 2022 (EIB, 2023). The market's value fell by 13% in 2021 compared to 2020, about €9.2 billion (EIB, 2022). In 2022, however, the market experienced a growth of 17%, or €8.4 billion, over 2021 (EIB, 2023). Demand-driven "public-private partnerships" accounted for just 8% of deals to financial close in 2012; by 2021, demand/revenue concluded deals had climbed to 68% from 61% in 2020, representing a considerable increase (EIB, 2022). By 2022, 70% of all deals will be driven by demand or revenue and have reached a financial closure (EIB, 2023). Despite the volatility and unpredictability of construction pricing, the consequence of COVID-19 was less severe than anticipated, as evidenced by a small decrease in the amount of "public-private partnership" contracts finalized in the year 2021 and the rise in terms of quantity and worth of "public-private partnership" initiatives in 2022.

In Europe, "public-private partnerships" are mostly available in the United Kingdom, France, Spain, Portugal, and Germany, nations that have carried out projects with a combined value of 90% of the market from 1990 to 2016. 13 of the 28 EU member states have each implemented fewer than five "public-private partnerships projects", despite some states carrying out a large number of these projects — the United Kingdom, for example, carried out over 1,000 projects worth roughly €160 billion during the period, followed by France with 175 projects worth roughly 40 billion euros (CCE, 2018), as illustrated in Figure No. 2

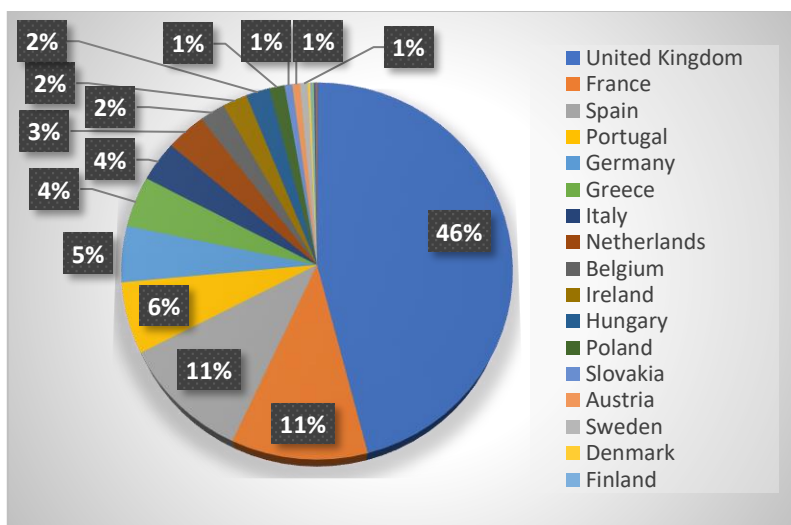


Figure No. 2: The EU market for public-private partnerships across its member states between 1990 and 2016

Source: processing after CCE, 2018

The European market for “public-private partnerships” has shifted between 2018 and 2022. The UK fell out of first place, with Germany and France taking its place. In contrast to the previously examined time more of these partnerships were formed by nations like Lithuania, Poland, Serbia, and Croatia, whereas Spain saw a decline in these kinds of alliances, as shown in Figure No. 3

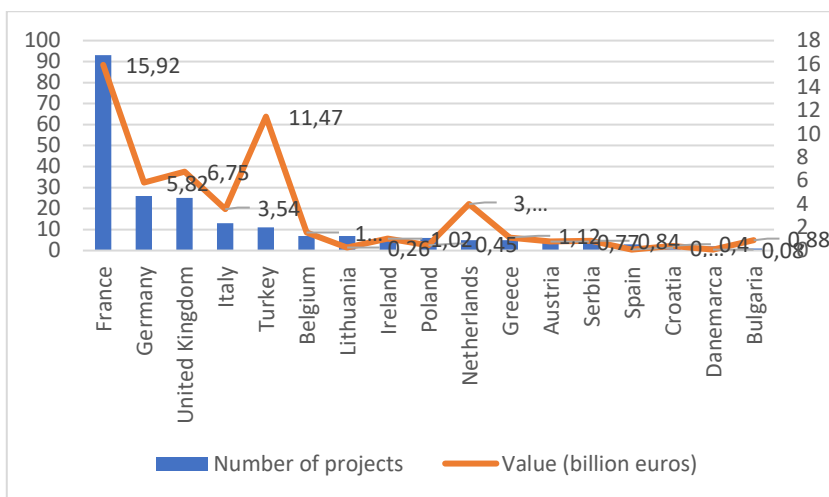


Figure No. 3: The development of public-private partnerships in Europe, broken down by nation between 2018 and 2022

Source: processing after EIB, 2023

Regarding the total number of closed deals in the European “public-private partnership sector”, the United Kingdom and France have become the front-runners over the past five years (EIB, 2023). At least one “public-private partnership” agreement was completed in 13 different nations in 2021 contrasted with 11 in the year 2020, and five countries finalized at least two deals in 2011 as in 2020 (EIB, 2022). Nine nations completed two or more contracts in 2022, and fifteen countries completed one or more “public-private partnership” transactions (EIB, 2023). In terms of overall value, Italy accounted for the biggest “public-private partnership” market in Europe in 2021, with €2.2 billion, up from €473 million in 2020. The €2.1 billion “Pedemontana Lombarda Motorway Concession” is the reason for the exceptionally significant value of projects in Italy. With 17 completed deals, France constituted the largest “public-private partnership” market in terms of overall projects, which is the same as in 2020. In terms of value, however, France ranked second with a total of €1.4 billion instead of €2.4 billion in 2020 (EIB, 2022). With an overall value of €4.2 billion in 2022 instead of €1.6 billion in 2021, France emerged as the biggest market in Europe for “public-private partnerships”. Additionally, the country closed 21 transactions in 2022 as compared to 18 in 2021, making it the market with the greatest quantity of initiatives. With a total of EUR 2.0 billion, Turkey

ranked as the second-most valuable market for "public-private partnerships" (EUR 1.4 billion in 2021). With four completed transactions, Germany ranked second among "public-private partnerships" markets in terms of the total number of finished transactions. (EIB, 2023).

The entire amount of 64 "public-private partnership projects" on the European market that were successful in reaching a financial close in 2016 was 10.3 billion euros. The majority of the projects were aimed at the transportation industry, which accounted for one-third of all "public-private partnership" investments in 2016. This was followed by the industries providing health services and education. (CCE, 2018). The transportation industry will continue to receive the majority of investment between 2018 and 2022, with two more sectors — the environment and television — joining it, depending on the number of projects and their total value (measured in billions of euros). Transport is the largest industry in 2021, accounting for EUR 6.0 billion in transactions, up from EUR 5.8 billion in 2020. Out of the 12 projects that reached financial close in 2020, 16 reached financial close in 2021. The environment sector, which had nine closed projects with a total value of EUR 866 million in 2021 as contrasted with EUR 658 million in 2020, featured four projects totaling EUR 385 million in district heating, and all of them were located in France. Regarding the quantity and value of projects completed, this sector is the second most active. Within the education sector, from 11 projects in 2020 to 5 in 2021, fewer projects reached financial close, and the total value dropped from €866 million in 2020 to €391 million in 2021. The telecom industry completed three projects in 2021, each of the three deals happening in France, as opposed to four in 2020, with a total value of EUR 427 million, down from EUR 1.1 billion in 2020 (EIB, 2022). With transactions of EUR 5.2 billion (compared to EUR 6.0 billion in 2021), in 2022, the transportation industry remained the largest by value. The number of projects grew, with 17 transportation projects, up from 16 in 2021, reaching financial close in 2022. This comprises four ports as well as four highways. Five thermal efficiency projects for a total of €576 million, all located in France, were among the ten environmental projects totaling €1.3 billion that were halted. Three projects with a total value of EUR 231 million (EUR 427 million in 2021) were closed in the telecommunications sector, and the number of financially closed projects in the education sector climbed from five to eight, with an overall value of EUR 910 million. By the number of current projects, the transportation sector remains the largest in 2021. The environment, education, health, media, and other sectors follow in order, and this hierarchy will be maintained in 2022 (EIB, 2023).

Institutional investors, including insurance firms and pension funds, provided loans through various financing models in 14 out of the 40 deals that concluded financially in 2021 (whereas they provided debt in 10 out of 43 transactions in 2020) (EIB, 2022). In 2022, institutional investors, including insurance companies and pension funds, provided finance through various financing structures in 17 out of 45 agreements that were completed financially (EIB, 2023). While three nations concluded acquisitions with institutional investors in 2020, seven nations profited from institutional investor activity in 2021 (EIB, 2022), and eight nations won from institutional investor participation in 2022 (EIB, 2023).

In terms of initiatives, the countries with the most activity in the year 2021 are France with 53 projects, Belgium with 25 projects, and Italy with 19 projects (EIB, 2022).

France leads the group of countries with the most continuing projects (2022) with 50, Italy comes in second with 32, and Greece comes in third with 28. The remaining countries are listed in the order shown in Figure No. 4

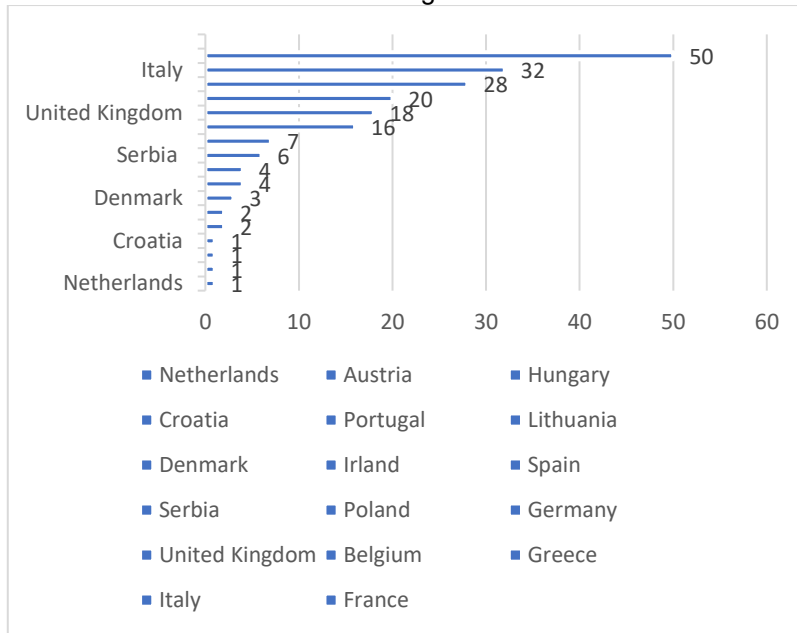


Figure No. 4: Ongoing projects at the level of 2022
 Source: processing after EIB, 2023

Greece has established a strong network over the last three years, showcasing its ability to combine EU financing with initiatives involving public-private partnerships and its success in obtaining them. In Greece, projects related to education and the environment make up half of the total. Five of the nine environmental initiatives deal with water management. “Public-private partnership” models are still utilized in many industries around the UK, including energy-from-waste, care facilities, and student housing, even though the central government of the UK has stopped accepting PFI and PF2 applications for new projects.

4. Conclusions

Examining Europe's progress in "public-private partnerships" is pertinent because of the interest in “public-private cooperation” that has been on this continent since the Roman Empire's era. This interest has taken on various forms until it reached its current state. However, in many states, this form has changed in response to local cultures, legal systems, and environmental factors. The term "public-private partnership" lacks a universally recognized definition but there are some interpretations that exist. The three main points that these definitions emphasize are the size of the contract, the sharing of risks, and the roles of the parties in these

projects. In addition to its many advantages, "public-private collaboration" carries many dangers that, if not effectively managed, could fail.

About this kind of cooperation, it should be mentioned that there have been instances where the "public-private partnership" has experienced an ascent due to governmental and financial backing, as well as a fall. In 2007, it achieved its peak in terms of the adoption of these partnerships. The impact of the economic crisis led to a discernible drop in the quantity of new "public-private partnership" initiatives. There was a period of oscillation during which the number of projects increased and decreased. If, up until 2016, the United Kingdom, France, Spain, Portugal, and Germany accounted for 90% of the European market for "public-private partnerships", then after that year, the market changed, with France and Germany taking the lead and the United Kingdom losing its top spot. Apart from the UK, Spain's market for "public-private partnerships" also showed signs of a downturn. However, certain nations are benefiting from the growth of these kinds of alliances, including Lithuania, Poland, Serbia, and Croatia. Greece, which has lately established a strong network in this area, is a successful example of a "public-private partnership". The following are some of the primary industries in which "public-private partnerships" had their start on the European scene: infrastructure, education, defense, health, transportation, and the environment.

Despite the consequences generated, the influence of COVID-19 on the "public-private partnership" was not as profound as anticipated. Events that might affect how "public-private partnerships" develop in Europe include the uncertainty brought on by the possibility of a new financial and economic crisis on the continent and the instability generated by wars on a worldwide scale that also has an impact on the European market. Future studies on novel variables that may impact the growth or decline of "public-private partnerships" in Europe are therefore yet possible.

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