

**International Economy**

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**EUROPEAN EXPERIENCES
OF IMPLEMENTATION OF PUBLIC-PRIVATE
PARTNERSHIP SCHEMES****Abstract**

The progress in the market of public-private partnership in European countries was analyzed. The experiences of public-private partnership implementation in the leading countries of Europe are studied. It has been proven that in order to achieve socio-economic welfare of a country it is acceptable to apply the public-private partnership mechanism in the integration of interests of both public and private sectors of economy.

Key words:

Public-private partnership (PPP), public sector of economy, private sector of economy, public-private partnership scheme, concession, leasing, rent.

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Introduction

In the world practice, functional efficiency of the market economic system is determined by organic combination of both public and private sectors of economy. In Ukraine, during the years of reforms, the public sector has substantially declined with the private sector gradually taking over management of life-supporting objects. The process of privatization meant overcoming the total monopolism in the public sector, and, by its ideology, was supposed to provide the development of competition in making final goods and services, that could increase economic power and public welfare of the country. As practice shows, this reform has not led the country to the economical upturn; on the contrary, to a considerable degree it has resulted in its decline. But in spite of the unsuccessful attempts in privatization, among the priority trends in alteration of socio-economic relations in Ukraine today is further reformation of public property for its integration in the system of market relations. Unfortunately, under these circumstances, due to the lack of budget funding, the state is unable to provide the efficient operation of numerous meaningful infrastructural objects, as well as backbone industries on the whole (HCS, transport, energy, health care etc.). In these terms it is reasonable to apply to strategic partnership with a private sector and to form a system of relations which could provide rational combination of free competition with the measures of government control to maintain the interests of society. It means that the successful solution to this problem depends not only on introduction of privatization but also on the search of the newest forms of collaboration of the public and private sectors of economy, which do not allow a private sector company to take over the entire ownership. The effective and efficient method of providing the high-quality operation of state property is activation in the market of partnership relations of the state and business, namely development of mechanism of public-private partnership. In fact, the experiences of the developed countries show that the adjusted system of public-private partnership plays a considerable role in socio-economic development of a country.

In Ukraine public-private partnership is just developing, especially underdeveloped are institutions and institutional backing for partnerships between the state and business. In this connection, it is necessary to study the experiences of foreign countries having applied the public-private partnership mechanism over a long period of time.

Great attention to problems and prospects of public-private partnership development was paid by such scientists-economists as Bard In., Bondarenko Ye., Varnavskiy V., Geets' V., Gumenyuk A., Danasarova S., Danilishin B., Linder S., Levchenko A., Levitin A., Miller A., Mikheev V., Pavlyuk K. and others. However, modern economic market transformation processes which take place in Ukraine require research and practical workers to improve the exist-

ing schemes of public-private partnership development, and this stipulated the choice of the research and defined its goals.

Setting the task

The goal of this research is to define the essence of public-private partnership; to divide the schemes of public-private partnership according to the practical scheme basing on foreign experiences of countries having the long-term practice of implementation of public-private partnership. On the bases of foreign experiences, to find out necessary conditions for efficient and successful implementation of public-private partnership projects in Ukraine.

Research results

Studying co-operation between the public and private sectors of economy, we should notice that the concept «public-private partnership» (PPP) is becoming increasingly used in the Ukrainian scientific and business spheres. The term public-private partnership came from western terminology. Here we should notice that in the economic theory «public» is contrasted with «private» and, accordingly, includes everything that belongs to a state, namely state, municipal and local branches of power, together with public organizations which actually represent the society. It should be noted that the close translation of the word «public» into Ukrainian can raise associations which are not connected with a state, there being no problems with translation of the concept «private», under which a private partner providing their economic resources for profit maximization in their joint production is understood. For example, a corporate public enterprise can be owned either by the state or by a business, so the concept «public» does not clearly identify a partner.

In this connection in Ukrainian economic researches as well as in practice, the term «state-private partnership» is used widely instead of «public-private partnership», but from the point of close translation the latter would be more appropriate. Since we are studying the experiences of foreign countries practicing public-private partnership, in our research we will also use this term.

Referring the work of one of the leading scientists Stephen Linder, HARVARD LAW REVIEW interprets public-private partnership as institutional agreement that embodies a collaborative arrangement between public bodies and private sector, according to which common property (joint venture), in which the state has one or more private partners, is established [1].

International consulting «Deloitte» determines public-private partnership as a contract agreement between a government agency and a private company allowing the latter to increase its role in providing public services.

The well-known information TV channel BBC stated that any collaboration between public bodies at different levels and private companies are referred to a public-private partnership [2].

The European legal group determines a public-private partnership as a system of contractual relations that are formed between the state and private partners for the sake of mutually beneficial collaboration on the long-term basis for obtaining social and economic results [3].

The above-mentioned definitions are well-known, they can be used in broad or narrow meaning, and nevertheless they do not represent the complete essence and nature of a public-private partnership.

The term «public-private partnership» in the most possible meaning reflects the essence and nature of co-operation between the state and private sectors; it is the necessary form of relations in the model of the mixed form of economy, therefore it requires active participation of public institutions rather than efforts of the state and business in being equal partners.

Taking the above mentioned into consideration, we can consider that a public-private partnership is collaboration between the state, legal persons and public institutes in different spheres of public activity to implement projects that are socially important and prior for the state. This collaboration requires political and institutional support, pooling of funds, just and efficient distribution of risks between partners, transparency and equality of rights to provide efficient economic development.

There is a great variety of public-private partnership schemes in the modern world practice. This is primarily caused by the fact that a partner, whether the state or a business, when implementing a project, tend to describe public-private partnership schemes by the indicators, which allow to identify the mechanisms of partnership by the spheres of distribution, which can considerably simplify and facilitate the work on a project at the stage of selection of a certain collaboration mechanism. For example, according to the legal criterion, public-private partnership schemes can be divided by the type of contract between the state and private sectors.

Taking into account the basic differences between the public-private partnership (PPP) and other similar projects (programs), the World Bank discriminates PPPs schemes depending on the type of participation of private sector. In the database of the World Bank PPPs schemes are generalized in the four groups [4]:

1) Management and Lease Contracts. In this form of relations a private sector takes over the management of a project for a fixed agreed period, while ownership and investment decisions remain with the state.

2) Concessions – in this scheme of co-operation a private company takes over the management of project for an agreed period during which it also assumes significant investment risk. The basic forms of concessions according to the World Bank database are: rehabilitate, operate, transfer – ROT; rehabilitate, lease or rent, transfer – RLT; build, rehabilitate, operate, transfer – BRO. In practice, concession can be implemented in every infrastructural industry. Concession as PPP scheme differs from other contractual schemes: a concessionaire has a right to get sales income and/or cash payment as compensation according to the concession agreement [12].

Concession is the type of mutual relations between the state and a business that is becoming increasingly used. This form of partnership is long-term by nature; it can be concluded up to 40 and even 60 years, allowing the PPP parties to elaborate the development strategy as well as to make long-range planning which enables the participants to distribute the risks, which in turn increases viability of these agreements.

3) Greenfield Projects. On the basis of this group of schemes, a private partner or a public-private joint venture builds and operates a new facility for the period specified in the project contract. The Greenfield projects include the followings schemes of partnership: build, lease, transfer – BLT; build, operate, transfer – BOT; build, own, operate – BOO; merchant; rental.

4) Sale of assets (Divestitures). According to this scheme, a private company buys an equity stake in a state-owned enterprise through an asset sale, public offering, or mass privatization program. The World Bank classifies divestitures in full (when the government transfers 100% of the equity in the state-owned company to private entities) and partial (when the government transfers part of the equity in the state-owned company to private entities). The state may be entitled to manage the facility in both cases [4].

The classification offered by the World Bank in a larger measure benefits for projects connected with infrastructural facilities, which make the bulk of the programs realized with the help of the public-private partnership schemes.

It should be noted that all above-studied schemes of PPPs are legalized in the form of contracts which must be concluded on the competitive basis and the following determinant criteria for competitive selection must be taken into account: the final price of services for the end-user, government funding and the ability of a business to implement the project efficiently. At the end of the contract period the parties to the public-private partnership can pass a resolution on transferring the proprietary right to the private entity.

The government chooses the scheme depending on the spheres and the nature of services, which actually are the subject of a public-private partnership.

During the last years the domains of application of different forms of partnership between the state and a private business have been increasing noticeably, and the schemes of partnerships and their modification have been developing considerably. Although the concession agreements were initially used in the construction of motorways, parking places, centralized heating systems, today they are used in such sectors as national defence, education, cable television, some types of public transport etc. As Table 1 shows, in a number of European countries private sector companies design, build, and then manage publicly important objects on the basis of public-private partnership. During the implementation of public-private partnership projects within its organizational-legal schemes, various mechanisms of collaboration between public bodies and private enterprises are involved. They are differentiated depending on the part of ownership transferred to a private entity, investment obligations of the parties, principles of risks distribution between partners, responsibility for different types of work, e.g. construction, operation or management.

For a better understanding of the importance and potential of the efficient PPP market development in Ukraine, foremost, we should study the experiences of foreign countries having influential achievements in PPP implementation and define the positive and negative effects. That is, we must understand how efficient the application of PPP scheme is, and what results of this type of collaboration have been obtained in those countries.

According to the World Bank database, the developed European countries have been widely implementing PPP projects. This is testified by the fact that in 2010, 44 PPP projects were financially closed in Great Britain, so Great Britain has been the most active PPP market lately among the EU countries; then we have France (19 agreements) and Germany (14 agreements) (fig.1). On the whole the four countries together have approximately 68% all of the implemented PPP projects in Europe for 2010. A great deal of the implemented PPP projects in the mentioned above countries, in turn, testifies the long-term evolution in the relations between the state and business, which being a result of harmonious combination of efforts and interests provide steady and stable economic development.

Fig.1 shows that in the countries of Eastern Europe in 2010 six PPP projects were financially closed, which is four more projects compared to 2009, respectively. Nevertheless, the total value of the projects made in 2010 in these countries was lower than in 2009 (€150 million compared to €2 billion in 2009) [4].

Table 1.

**Level of public-private partnership development
in the developed European countries***

Sector of application	Motorways	Railways	Airports	Ports	PCS	Hospitals	Schools	Prisons	Defence	Housing building	Information technologies	Sport and recreation	Waste processing
Countries													
Great Britain	■	▲	■		■	■	■	■	■	■	■	■	■
Spain	■		○	■	◆	●	○					○	
France	■	◆	●	●	■	●	○	●	○				■
Germany	◆	◆	■		▲	○	◆	●	◆		●		▲
Italy	▲		●	●	●	◆		○		○		●	●
Netherlands	◆	◆		○	◆	○	●	○	○	○			
Sweden	○	○				○			○				

○ – discussion about potentially possible PPP projects ongoing

● – measures for project preparation are taken

◆ – small number of active and closed projects

▲ – substantial number of active projects

■ – substantial number of closed projects

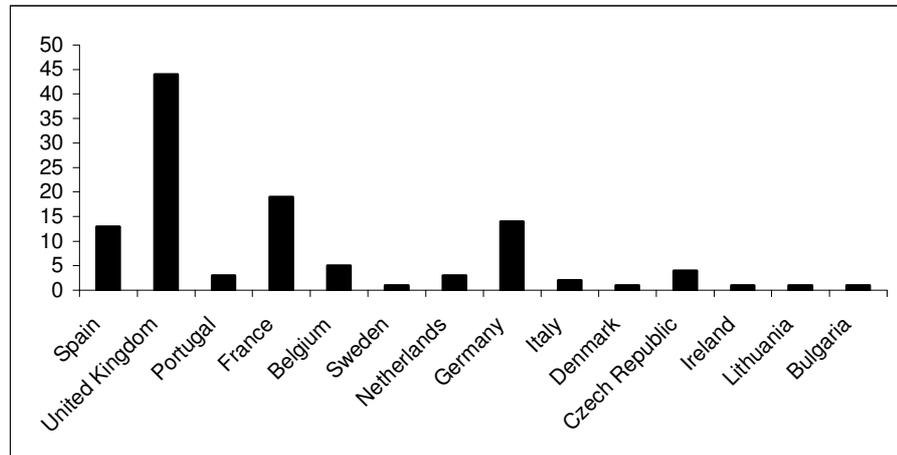
*Source: compiled by the author on the bases on the data from [5, p. 43; 6; 7, p.5]

When studying the markets of public-private partnership in the European countries, and relying on the above-mentioned data (table 1; fig.1), the author thinks it is expedient to study the experiences of the countries which have influential achievements in PPP implementation, namely Great Britain, France and Germany.

Great Britain is one of the pioneer countries in the adoption of the existing schemes of public-private partnership. In this country the implementation of PPP schemes began from the projects of national importance (for example construction of the Channel Tunnel, railway tracks etc.). PPP was considered to be an alternative to privatization, namely as the way of taking skills, knowledge and resources from businesses into the sector of public services.

Figure 1.

Profile of European countries by the number of the implemented PPP projects in 2010



Actually Great Britain started introducing PPP in 1981 from the construction of London docks on the basis of the deregulated and socially oriented approach to the planning policy. In 1992 Private Finance Initiative (PFI) was established in order to make public services more efficient. PFI was introduced by the British government in order to involve the private sector into extensive provision of public services [5].

Private financial initiative is legally drawn up within a typical service contract and is financed by representatives of a private sector. Thus public authorities settle accounts with a private entity only after the construction is completed and infrastructure facility is fully equipped. An important duty for business representatives is to maintain the facility during the operation life, which is stipulated in an agreement (on the average 25 years). In practice when implementing joint projects, the concession scheme of partnership relations of the state and a business is mainly applied.

Every year in Great Britain about several dozens of public-private partnership agreements are made. In 2009–2010 the lion's share of PPP projects in the United Kingdom was in the sector of public medical services.

The most popular areas where projects are implemented according to the PFI program in Great Britain are: transport, health care, defence and education. About 930 public-private partnerships worth a total of £66 billion have been es-

established on the basis of the PFI scheme according to the calculations of International Financial Services London (agency that in 2010 became a member of City UK) [7].

Unfortunately we cannot claim that all British PPP projects are successful. In British experience of PPP implementation some projects have failed to be implemented. One example is the Underground reconstruction project, when «Metronet», a private company taking part in the project, went bankrupt within less than five years after the contract was signed. £500 million was spent on the contract preparation, and the incidental annual subsidies rose to £1,1 billion» [8].

We should note that in spite of single unsuccessful cases of implementation of PPP projects; however it is necessary to consider the successful result in collaboration between the state and business. Moreover, by now no clear legal-normative texts have been passed in the field of private financial initiative which actually represents the system of relations of public-private partnership in Great Britain. The collaboration between the state and private entities is grounded, mainly, on the existing government directions.

Today, one of largest operating projects of public-private partnership is modernization of Royal London Hospital and Royal Hospital of St. Bartholomew. The construction was completed in 2006. The BOT scheme was exemplary for project implementation (for 42 years). £1,07 billion was budgeted for this project [7, p. 14].

On the whole, implementation of the private financial initiative program furthered the increase in rates and volumes of construction in Great Britain, budget expenses being practically steady. Government policy in Great Britain for implementation of PPP models is successful enough, which can be testified by the largest number of the implemented PPP projects in the world, a clear position of the public body, which is the motivating stimulus for private capital attraction, the presence of the stable system of legislation etc. We should notice that the researches carried out by British Association of International Financial Services testify that Great Britain has the most developed in the world format of relations of public-private partnership [6].

Studying the experience of PPP in the Federal Republic of Germany, we should note that during the last years the institute of public-private partnership has been developing rather dynamically. The collaboration between the state and business in Germany can be found in different spheres of activity, the PPP schemes are commonly introduced in transport (autobahns, bridges, tunnels, ports, air fields), municipal engineering (water-supply and drainage system, sewage systems, illuminations of the streets) and in energy industry (production of electric power, heat, gas production). Besides, the forms of PPP are used in the construction of administrative buildings, militia stations, hospitals or specialized medical centers (for example, in Germany the center of proton therapy built on

the basis of PPP mechanism has recently started operating), preschool institutions, schools and others.

It should be noted that the subject analysis of the 91 implemented projects conducted by German scientists (after the contracts between the state and private entities were made) showed the average efficiency of PPP compared to the traditional forms of co-operation of the state and business at 14,6%. It was proven that the degree of efficiency depends on the volumes of capital investments, allowing to define the optimum volume of PPP projects beforehand.

Thus, with the volume of investment outlay of €10 million investments saving accounted for 12%, for the projects having limits within €25–50 million – 13,2%, but for large projects worth of €50 million the saving accounted for 16,2% (thus, implementation of larger projects has the biggest economic effect) [9].

The development of public-private partnership in Germany started at the end of the second millennium, when the government made a decision to attract resources from the private sector in order to save budgetary funds (which was caused by the deficit). During the first half-year of 2010, in Germany 153 PPP projects worth a total of €5,85 billion were at different stages of implementation (€3,95 billion - in the sector of surface construction and €1,9 billion - in the sphere of travelling, underground construction and construction of engineering services) [9].

The German Law on Stimulation of public-private partnership, which was adopted within the program for PPP development support, is the advantage. This legal document facilitates tax burden of PPP projects, regulates ownership rights on partnership objects, and determines the procedure for joining efforts of the private sector and the state.

It should be noticed that in the Federal Republic of Germany Institute of public-private partnership has been operating since 2004. Its main tasks are to co-ordinate different sectoral structures and create the proper ground so that specialists in different fields could contact, to collect and process information, to create the open database with main issues, to popularize PPP, and consult the interested potential partners. This body includes: political organizations, educational and scientific institutions, private companies (bank, insurance, leasing), consulting firms, and independent experts [9].

In spite of the existing positive dynamics in German PPP market, we can note that in the first half-year of 2010 there was a recession in business activity in the partnership relations between the state and business due to the effects of the world financial-economic crisis of 2009. In this period there was a downturn in many industries of national economy together with decrease in the resources offerings on the credit market.

It should be noted that the German government prefer those PPP schemes which secure the final right of ownership for the state (concession, leas-

ing, management contracts, BOT, DBFO/M). This testifies that a private partner is temporarily entitled to maintain the facility during the agreed period (10–30 years). That means, a private partner is mainly entitled to operate it, and is liable for provision of high-quality services to end-users.

Thus, peculiarities of PPP schemes in Germany are determined by the federal mechanism principle and financial independence of federation, lands, and difficult public systems of financing and beneficial terms for tax implications in this sector.

Speaking of France, the evidence of the development of public-private partnership widely used in transport and public utilities goes back to the second half of XIXth century. During this period, a number of railway stations, tramlines, water supply systems have been built with the attracted economic resources of private sector. Attraction of private capital took place on the basis of long-term concession agreements, on completion of which the objects of PPP were transferred to the state.

Even today, the concession scheme remains one of the most widely used forms of public-private partnership in France. This is exemplified by two large companies which were partners in the PPP in 1995, namely Lyonnaise des Eaux and Veolia Environment, on the basis of concession agreements controlled approximately 62% of water supply systems, 36% of sewage systems, 75% of city central heating, 60% of waste processing, 36% of collection of waste [10, p. 375].

In the modern period of PPP market development, the «Society of mixed economy» (Societe of d'Economie of Mixtes, SEM), operates in France. It was created in 1983 to provide effective development of concession relations between the state and business. At that time SEM operated in three areas: land development, settlement and services.

At this stage of PPP development in France, SEM accounts for more than 40 types of work and services. They include: land development, construction and maintenance of public facilities, operation of parking places, collection and processing of waste. The main feature is that SEM makes a public-private partnership agreement in the terms of stiff competition which positively affects future partner relations between the state and business.

Today we can outline the two most powerful projects of public-private partnership in France. The first one is connected with construction of 125 km motorway of Ruen-alenson (A 28), the central part of Kale-bayonn motorway, which links Spain with Western Europe and Great Britain. In 2005 an agreement was made for implementation of the project on concession terms (DBFO) for 62 years. The budget for this project accounts for €900 million. The other project has to do with construction of the railway line Perpignan–Figeyros that links the railway systems of Spain and France. The construction was completed in 2009. The concession (DBFO) is for 50 years. The budget of the project account for

€1,1 billion (10% is private capital, 50% are governments of Spain and France, 40% accounts for loan) [2, p. 14].

Having got the successful experience, in 2008 the government of France declared the plans for construction of 2000 km of railway lines by 2020 and 2500 km after 2020 on the basis of concession. The government of France also emphasized, that they are going to apply the public-private partnership mechanism in the building of 18 prisons and 30 units of health care [2, p. 14].

Thus, to summarize the research, we should say that the legislative control over public-private partnerships in France has several key moments: 1) contracts must contain information of the public importance of a partnership object; this shows that state interests always are above those of a private entity, so a state partner occupies a senior position than a private partner; 2) infrastructural buildings which actually are a partnership object, being financed, designed, built and managed by a private partner, after the partnership contract time remain with the state; 3) to counterbalance the rights of the state-partner, the French judicial system protects rights of private investors (for example, they contract out of, or if the decisions adopted by the state have a negative influence on the project income, or in case of force majeure circumstances).

Conclusions

Resuming the public-private partnership schemes in the leading European countries, we can fix the following.

Firstly, in spite of the substantial number of the existing schemes of public-private partnership, the basic mechanism for collaboration between the state and private entities is concession. It is mainly applied in transport and public service infrastructures. However, the public-private partnership market has been increasingly developing lately, embracing other sectors: social, educational and medical.

Secondly, the experiences of the leading European countries show that public-private partnership can effectively operate both at the state and local levels. So, when speaking about objects of transport infrastructure or energy industry, we mean that the projects of state importance are priority-driven. Still when implementing public-private partnership schemes in a social or public service sector, the regional socio-economic significance of PPP projects is evident.

Thirdly, the main reasons of unsuccessful implementation of public-private partnership projects can be a low purchasing power of potential buyers of PPP's products, poor projects financing, the absence in some countries of controlling bodies over PPP projects implementation at every stage, neglect of increase in expenditures of future periods etc.

Fourthly, one of main conditions for efficient public-private partnership projects is a worked-out legislatively legal base for relations of this kind. The legislation can be applied both at national and at sectoral levels.

Fifthly, when developing public-private partnership projects, implemented at the national level, it is very important to make provision for the institutional basis of the new format of relations between the state and business, as well as framework, administrative and tax preferences, introduced for the sake of improvement of public administration. Besides, the existing PPP schemes require a completely new approach to the risks controlling system.

Nowadays, in Ukraine there are no examples of the successfully implemented large projects of public-private partnership. Nevertheless, the country needs the developed partnership mechanism between the state and business in implementation of transit potential of Ukraine, preparation to Euro-2012 and bringing energy, housing and social infrastructure to European standards. Therefore the above-mentioned aspects are extremely important for Ukraine, where the public-private partnership concept as a perspective socio-economic institute is supported at the high state level.

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