AVOIDING THE “RHETORIC OF Public Private Partnership” – Germany and Italy compared

USEACT CASE STUDY

Interventions to “reuse” urban areas: management, partnerships, funding, functions

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Designing, managing and funding successful Public Private Partnership and proactive community participation

Summary abstract

With reference to the urban development/regeneration sector, there is some ambiguity in defining PPP, since many (and very different) forms of PPP are possible. Each situation has its own distinctive area of scope, its drives and the expected outputs. As pointed out by some scholars, PPPs may “translate into advanced forms of concession and procurement in some cases, or, on the opposite end, a private business could intervene to stand for a weak and unresolved local government, assembling the sparse and contradictory requests issued by the public authorities concerned in an all-encompassing frame for action”. In spite of a widespread rhetoric of the PPP, presented as an innovative tool universally suitable to support PA in reaching its target and reducing the public financial burden, real urban development “PPP experiences” are not so satisfactory from the “outcome” point of view. Critical positions with regard to PPP initiatives are very common since many “on the field researches” put in light their rare success, the extremely long time spans, the often rising costs and the room for opportunistic behaviors. This case study, which make use of recent academic research findings, present the rather “negative” experience of PPP-projects in Italy and, through a comparison with the German approach, proposes a more “cautious” interpretative framework for the PPP issue in the urban development sector.
Setting Keys and challenges

The “German way” to PPP

PPP models, in the urban regeneration sector, can be categorized in principle as follows, but the choice (and the specific form or “mix”) depend on the specific situation (see Tab.1)

In general, European Union has been promoting the PPP concept in many sectors (see for example the 2006 Green Paper on PPP) but Germany is a good example of a “cautious way” in utilizing PPP in the urban development/regeneration sector.

Cooperation between the public sector (it determines aims and fields of activity) and private developers (they carry in schemes) is clearly not new in Germany for urban development, but in general, “the role of private players tended to be limited regarding integrated urban development planning activities” (until recently urban development was regarded as the exclusive responsibility of the public sector).

Germany, however, tried to “adapt” to urban regeneration previous PPP experiences in the public construction sector (transport infrastructures or public buildings), starting from the “framework” established in 2004 by governmental bodies (German Ministry of Public Transport, Construction and Urban Development) to provide guidelines aimed at appraising and improving the recourse to PPP.

A standardized “PPP procurement process” is established, consisting of five phases (need assessment and identification of measures; preparation and conception; tender and award; implementation and contract management; exploitation). A PPP suitability test is also required, to verify if the PPP option is more efficient than a conventional procurement (see for example the UseAct case study dedicated to the Leipzig redevelopment projects).

Such a PPP procurement process, that focuses “tender” and “contract management”, shows rather clearly that cooperation between public and private sector is reflected, in the German approach, “more in a contractual relationship than in a “constant cooperation” or in a “pre-agreed” joint-venture”.

In particular, “the institutionalized PPP structure (“PP Company”) is barely used in Germany, whereas PPP purchaser model, letting/Leasing model and PPP owner model are the most frequent ones” (see also the UseAct case study dedicated to Hamburg HafenCity).

German researchers frequently point out that, in the field of urban development, the usefulness and “profitability” of public-private companies (Institutionalized PPP model) are about the same of that “public” corporations. So far, the institutionalized form of PPP is not to be considered
as a generally “preferable” solution. In fact, conflicts of aims within the PPP-companies often reduce operational efficiency and efficacy of these companies (see below the case of many Italian low-success cases of so called “Companies for Urban Renovation - STU”).

However, also in cases of “tenders” and “pure contractual relationships”, what is recognized as a peculiar need in the complex field of urban development PPP, is to start, from the preliminary stages, “to generate a spirit of cooperation and a climate of partnership as well to institutionalize the initial commitment (conferences, working parties, cooperation rounds). Cooperative drafting of models, goals, plans, are tools that allow positive outcomes independently from the chosen PPP frame.

Procedures and actions

The “enthusiastic” but not successful Italian way to PPP

A research carried out by Codecasa and Ponzini about outcomes of PPP in Italy let the authors to put in evidence several structural limits affecting the majority of strategic approaches to private involvement and to affirm that “PPP substantially hold no promises for the achievement of cost reduction and content innovation”.

Fig 1, published by the authors, is referred to five urban regeneration “PPP” projects in Italy.

Taking in consideration the combination of PPP forms and the project’s progress can provide a valuable tool in assessing the relevance of PPPs as a strategic option for the local government.

In general, as requirements for a sound management of PPP, the following conditions referred to strategic targeting (1,2) and “relational framework” (3,4), are identified for public administrations:

1. To “frame projects” in longer-term perspectives and agendas.
2. Function of collective steering and goal setting, for financing, regulating and designing projects, together with “interface task units” inside public administrations,
3. New methods of “process management” to involve private subjects and to govern the network of organizations and update its composition (e.g. better awareness and control of the phasing of contact formation and deal setting)
4. Trust relations and actual transparency and continuity of the negotiation process”.

The PPP projects scrutinized by Codecasa and Ponzini are described in terms of “strategic target” and “relational framework”. Of the five cases discusses, only the case of Ravenna seemed to fit, at a first glance, all the “requirements” which should bring to an “effective” PPP framework (see fig.2).

The authors, however, point out that, as a matter of fact, after 13 years since its conception, also the Ravenna project remains, as many other ones in Italy, an all-public investment, assembled “by a dynamic local government, without a functioning arrangement with the private actors”. In general, “municipalities seem, in fact unable to ensure either the design of innovative solutions (Milan, Genoa, Trento, Parma) or the take off (Ravenna) of urban
regeneration, failing to deliver both the main promises of PPP”, state the authors.

This gap between goals and action cannot however be attributed with certainty to an un-favourable environment for public decision-makers. All the projects have been developed, in fact, “in the frame of a long-lasting and balanced relationship between the elected officers and the administrative staff involved in the operations”.

So far, it may be not true that, in general, “PPPs suffer from a lack of strategy-making and dynamism in public sector organizations, since public action geared towards private business cooperation requires advanced accounting, management and steering skills that cannot be easily developed”.

1 The problem could rather be linked to “how to afford accountability for urban regeneration within an inter-organizational environment”. “Most local governments could regard this aspect, in principle, as secondary but the drive towards better accountability comes at odds at the time to secure a private actor’s long-term commitment to a project”, affirm the scholars.

Ravenna’s case, for instance, seems to show “how easily even a consistent approach to strategy-making and deal-setting leaves room for shifting involvements, which delay or even threaten the delivery of the operation agreed upon”.

A basic question arises: “to what extent private sector organizations are capable of significant contributions in urban policy-making?” “Even when public administrations engage in a long-term programme (such as in Ravenna), the other actors could be unable to participate or follow”.

A further research carried by Stanghellini and Copiello, within the CoUrbit Project (Interreg CADSES), dedicated to the “Italian way” to PPP in the “urban development” sector, reached similar results.

The research shows that in 8 of 12 cases of PPP, “the private-public partnership is based on the creation of a corporate company (mainly in the form of Urban Regeneration Companies – Società di Trasformazione Urbana STU), following the experience gained by the French “Société d’Economie Mixte”. However, the use of joint stock companies “raises strong doubts about whether they are a real collaboration among local authorities and private entrepreneurs”.

In many cases, the involvement of private partners into the PPcompany “was foreseen upon setting up the company, without any real involvement after the initial phase. Public authorities often have been forced to recapitalize the company, sometimes with severe difficulties”. In case of institutionalized PPP, the public sector shows difficulties in evolving from the role to operator to organizer, regulator and controller.

In the majority of cases, the “remaining” subjects (mainly public or public-
owned bodies) try to develop the project anyway, without the possibility to fit
the EU Commission basic requirements for PPPs (project financing methods,
relevant role of the economic operator, adequate share of risks between
public and private partners).

On the other hand, the implementation of public administration-controlled
“special purpose vehicle”, that allow an optimal risk management (“ring
fence”) in case of failure, is frequent, even without a true “PPP frame”. In 12
of 15 analyzed projects, partnership among public (sic!) subjects is adopted.
Institutionalized partnerships among several public bodies represent a
“steady feature” in Italian Urban regeneration interventions. This solution
allows reducing the conflicts among different public administrations, which
frequently are also landowners in the “target area”. In the numerous
examples where municipalities are not owners of all the areas, negotiations
among public entities (area-owners) mostly concerns the contents of the
planning scheme.

Cases whit “initial” PPP, frequently involve private partners holding relevant
parts of the area to be regenerated. On the other hand, when the property is
mostly public, the involvement of private partners takes places trough
“project financing”.

In case of “negotiated” partnership, the conditions are in fact established by
the private partners (often private land owners, e.g.). They deal with the
public authorities (not always organized to adequately manage the process),
in a “bilateral monopoly” arena. This framework frequently brings to
unsatisfactory results for both counterparts and often induces, in Italy, lacks
of transparency and “legitimation” together with high risk of disputes about
the rent and cost/benefit distribution. It also tends to induce a “spatially
fragmentation” of the interventions. Moreover, this approach is difficult to
start in “low-land value” areas, without substantial support of public funds.

In Italy, on the other hand, purely “contractual” PPPs (“launched” and
managed by Public Administrations, as it is recurrent in Germany) are not
frequent; in this cases, the decisions are often carried out “by technical
committees (in charge of the selection processes) who secretly (sic!) manage
the comparison of the competitors”. Lack of transparency and public
participation coupled with outcomes not responding to the initial public
expectations are frequent in these cases.

Fig. 3 shows the distribution of the Italian cases (hierarchical chart, from
public-public partnership to joint company) scrutinized by Stanghellini and
Copiello for the CoUrbit Project.

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2 Stanghellini & al.
3 Stanghellini & al.
Lessons learned and utility

Together with a more careful use of the word PPP (all-embracing meanings should be avoided), a reconsideration of the “innovative” character and of the “efficiency” of PPPs in urban regeneration is probably needed.

First of all, it should be avoided to generically consider previous “agreements” between public and private partners as a precondition to fund project: the presence of preliminary agreements between the public and private sectors is frequently used as a selection criterion on these occasions, but this approach could be not bring to optimal solution, particularly in some contexts and countries.

More attention should be also paid to solutions that apparently show only “very limited” PPP contents (e.g. contract/tenders) but that, in reality, work effectively. These options can stimulate improvements of the managerial capability of the public administration and can anyway allow, when soundly managed (if useful also trough one-subject public owned companies), strong involvement of private providers.

Institutionalized PPPs should be in particular considered just as a possible answer, never a target in itself and should not be “pushed” at institutional level.

Finally, adopting formal sound appraisals aimed at evaluating the convenience (and the costs) to utilize PPP and at rationally selecting the best options, is a good manner to improve the consciousness of the public administration about the rationale (and the limits) of the tool.

Bibliographic and further sources


Tab. 1 Different PPP models in the urban regeneration sector

<table>
<thead>
<tr>
<th>PPP model</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>PPP purchaser model</td>
<td>The client (Public Administration – P.A.) plans to acquire ownership of the buildings immediately after the construction phase.</td>
</tr>
<tr>
<td>PPP FM leasing model</td>
<td>P.A. wishes to rent the buildings and want to secure the possibility of acquisition through a “purchase option” (future involvement of the third part is uncertain).</td>
</tr>
<tr>
<td>PPP letting model</td>
<td></td>
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<tr>
<td>PPP contracting model</td>
<td>The main emphasis is on the refurbishment or on partial construction of assets already owned by the P.A.</td>
</tr>
<tr>
<td>PPP owner model</td>
<td></td>
</tr>
<tr>
<td>PPP concession model</td>
<td>Construction and operations can be “refinanced” by fees paid by (future) third party users or investors.</td>
</tr>
<tr>
<td>PPP company (institutional) model</td>
<td>P.A. requires close involvement in decisions taken by the private subjects and to share risks.</td>
</tr>
<tr>
<td>Case</td>
<td>Strategic framework (community stakes, project contents administrative and political goals)</td>
</tr>
<tr>
<td>----------------------------------------------------------------------</td>
<td>------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Milan, recovery of the depot areas of the National Railway Group</td>
<td>Resolution of a long-standing dispute between a major landlord and the local government for unlocking key urban areas</td>
</tr>
<tr>
<td>Genova: Technology Village, Erzelli Hill</td>
<td>Finding a location for industries and services in the emerging economic sectors of the city’s economy (research institutes, districts for high tech)</td>
</tr>
<tr>
<td>Trento—former Michelin plants</td>
<td>Securing a large dismissed industrial site to a consistent development scheme for the local community. Asking the private for a high-profile proposal</td>
</tr>
<tr>
<td>Parma—station area, and Pasubio</td>
<td>Finding alternate techniques for financing public assets: real estate projects as compensation for the financing of an asset of public concern and public procurement</td>
</tr>
<tr>
<td>Ravenna—City Darsena Project</td>
<td>Implementing a long-term public strategy: financing the take-off and regeneration of an industrial area</td>
</tr>
</tbody>
</table>

Source: Codecasa & al. 2011, p. 659

Fig. 2 How Italian projects fit the recognized PPP requirements
<table>
<thead>
<tr>
<th>Project contents framed in a long-range view?</th>
<th>A place for a public steering function?</th>
<th>Presence of process management?</th>
<th>Project developed over trust-based relations?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Milano</td>
<td>Only in early phases</td>
<td>Only in early phases</td>
<td>✓</td>
</tr>
<tr>
<td>Genova</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Trento</td>
<td>✓</td>
<td>✓</td>
<td>Only in early phases</td>
</tr>
<tr>
<td>Parma</td>
<td>✓</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Ravenna</td>
<td>✓</td>
<td>✓</td>
<td></td>
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</tbody>
</table>

Source: Codecasa & al. 2011, p.660

Fig.3: Distribution of the 15 Italian “PPP” cases examined by Stanghellini and Copiello

Source: Stanghellini & Copiello, p.148

Stanghellini & al, p.107