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Ten years of PPP in Belgium: an overview

Martijn VAN DEN HURK, Steven VAN GARSSE & Koen VERHOEST (*)

ABSTRACT

It has been more than ten years since Public-Private Partnership [PPP] began a strong revival in Belgium. On the brink of the 21st century, one could notice the first indications in that direction. As of 2013, PPP has developed into a well-embedded method for numerous infrastructure projects. Particularly the financial and budgetary aspects of this specific type of cooperation appear to have played an important part in this process.

PPP is continuously evolving across the globe, and so it is in Belgium. We have listed a number of developments of the past decade. To what extent did PPP in itself change? Do contemporary motives for PPP differ from their predecessors? And what does the Belgian context look like compared to ten years ago? The conclusion includes a short summary of our findings.

Keywords: PPP, general government debt, investment policy

JEL Classification Code: H11, H83, H49, H54.

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1 Introduction

Public-Private Partnership (PPP) has gone through a strong revival in Belgium. The first indications of that development could be noticed on the verge of the 21st century. As of 2012, PPP has become a well-embedded method for numerous infrastructure projects. Particularly the financial and budgetary aspects of this specific type of cooperation appear to have played an important part in this process. In this article, we first give some insights in the history, development, and changes of PPP in Belgium. In section 3, then, we explain why governments are using PPP structures. Consequently, section 4 deals with the institutional administrative context for PPP, PPP-related instruments, and the impact of the recent economic and financial crisis on PPP. Finally, section 5 comprises a brief summary of our findings on PPP in Belgium.
Before we address the changing nature of PPP in Belgium over the past ten years, we would like to take a brief look at its history in the longer term. As of recent, PPP has been prominently present in the landscape of infrastructural projects. It is often considered to be a fashionable or new phenomenon in the world of infrastructure development. Nonetheless, if we are to find the roots of PPP, we must go back to a rather distant past: partnership between public and private parties is an abundant phenomenon throughout history (Van Gestel et al., 2011). Wettenhall (2005) draws a number of parallels between the distant and recent past. In so doing, he points out the example of the Dutch East India Company, which once was a partnership between public and private actors that traded with former East India (Indonesia nowadays) during the colonial era, back in the seventeenth century. Other historical examples are treasury management as it existed over the course of several ages, the rise of public companies in the last quarter of the twentieth century and the deployment of mercenary armies in Africa during the civil wars at the end of the twentieth century (for more examples, see Grimsey & Lewis, 2007, pp. 41-47). A final example is the exploitation of railways and phone lines in the nineteenth century, which was done by means of concessions:

[P]rocess[es] where the authorities charged a third party, mostly one or several private parties, to assure a service in the general interest and/or to build a work at its own expense and risk whereupon the third party earns its revenue from the exploitation of the work or the provision of services. (Van Garsse, 2007)

In short: given the rich public-private past, PPP can hardly be considered something new. Rather, it should be considered a time-honoured type of cooperation that has been reshaped time and time again by both public and private actors so that they would be able to apply it to new types of projects.

It is generally believed that PPP, in its current shape, came into being somewhere in the eighties of the twentieth century, in the United Kingdom to be precise. Under the pressure of Thatcherism, and thus the desire to considerably push back public expenses, rose the longing for more and better involvement of private parties in the development of public services and works (see HM Treasury, 2006; Pollitt, 2005; Savas, 2000; Yescombe, 2007). This public-private discourse spread to other Anglo-Saxon countries and to Continental Europe (see Deloitte, 2009).

**Breakthrough in Belgium**

It was in 1999 that PPP was mentioned in Flemish policy documents for the first time (Goosemans & Stienlet, 2006; Government of Flanders, 1999). Once Yves Leterme took office as Prime Minister, Flemish PPP gained momentum, since the new Government aimed at spreading investment costs and at a public budget with less investment expenses. PPP suited well in these plans. In 2003,
the Flemish Parliament adopted the *PPP* Act, which was aimed at supporting public-private initiatives in Flanders as much as possible (Flemish authorities, 2003). It implied, among other things, that *PPP* was embedded in the Flemish Knowledge Centre, and a number of judicial facilities was created to enable the development of real estate projects through *PPP* (Leterme, 2004). In addition, Flemish public investment companies, such as the Participation Company Flanders (*PMV*), were granted a role in the implementation of the region’s *PPP* policy. Examples of Flemish *PPP* projects include Brabo 1 (tramway system in the surroundings of the city of Antwerp), the Sports Facilities Plan (catch-up movement in the field of sports facilities) and Via-Invest Flanders (investment program concerning missing links in the road infrastructure system) (Leterme, 2006; Peeters, 2007, 2008). At the local level, it is mainly small-scale projects that have been and are being developed, such as swimming pools and other sports facilities (Van Gestel et al., 2009), and brownfield development (see *SERV*, 2007, pp. 36-38).

*PPP* has gained foothold in Wallonia as well, be it in a rather limited way compared to Flanders. In Wallonia, attention is paid to, *inter alia*, social housing and inner-city restructuring (Voets et al., 2011). In the Contrat d’Avenir (Contract for the Future), Walloon authorities have described *PPP* as an instrument that can yield a lot of benefits while using only limited resources (Moïses & Jaminet, 2006). Neither the Walloon Region, nor the French-speaking Community has a dedicated and legally embedded Knowledge Centre for *PPP* (1). For the time being, the number of “traditional” *PPP* projects (*DBFM*, et cetera) is rather limited as compared to the Flanders Region. One recent example is the tender of a tram route in Liège. Nonetheless, the Walloon Region has a lot of *sui generis* structures, such as *SOFCO* (Société wallonne de financement complémentaire des infrastructures). This government company is sometimes considered to be a *PPP* (2).

With regard to the Brussels Capital Region, we can mention the concession project Aquiris (water treatment), among other things, and concrete plans for the use *DBFM* for the renovation of tunnels. Furthermore, we can refer to the Eupen *DBFM* operation for school infrastructure for the German-speaking Community.

Finally, at the federal level, a certain number of *PPP*-related developments are visible. Examples include the Liefkenshoek railway tunnel in Antwerp and the Diabolo project (railway tunnel and radical station renovations) in Zaventem, which led to a considerable decrease in travel time to and from the airport. In addition, important progress was achieved in the field of *PPP* prisons (Infrastructure Investor, 2010).

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1. In practice “la Cellule d’informations financières” (CIF) took up a similar role.
The public-private past, as well as recent Belgian experiences with PPR, demonstrate the ambiguity of PPR. Indeed, PPR seems to be a catch-all term that is used in many different ways across the globe. The International Monetary Fund (2004) and the European Commission (2004), for example, use different definitions. In Flanders, the definition from the PPR Act is used: “PPR projects are projects that are realised by public and private parties, jointly and in a partnership, to create surplus value for these parties” (Flemish authorities, 2003). The Flemish PPR Knowledge Centre adds that both types of parties preserve their own identity and responsibility, and that the surplus value can be of a financial, operational or social nature. Also, there would be a difference between PPR and other types of contracts between public and private actors—such as contracting-out and privatization—because both parties make room for creativity and try to cooperate in a way “that they can both do what they are best at” (2012c). It goes without saying that this definition is still rather vague: basically it allows every type of cooperation that creates surplus value to be a PPR.

In spite of the large definition mentioned above, PPR in practice often turns out to be narrowed down to a technique to realise infrastructure projects (Van Garsse & Verhoest, 2008). Many of the aforementioned examples are DBFM projects. Nevertheless, Verhoest (2004) noticed a number of international trends towards widening the concept of PPR. First of all, partnerships last ever longer, given the fact that the life cycle approach has increased in popularity (widening of the time aspect). Secondly, an increase in the number of involved (new) actors in PPR is noticeable, such as citizens and companies (widening of the social space aspect). Thirdly, areas other than infrastructure are increasingly subjected to PPR, such as health care, education and cultural heritage (widening of the policy area aspect). Fourthly and finally, different types of PPR prosper nowadays, whereas in the past PPR mainly concerned concessions and DBFM contracts (widening of the appearance aspect). An example of this is the rise of PPR in

<table>
<thead>
<tr>
<th>Region/entity</th>
<th>Sector(s)</th>
<th>Investment (mil. €)</th>
<th>Estimated Availability/Annual payments (mil. €)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal government</td>
<td>Prisons and rail road (3)</td>
<td>1,687</td>
<td>9 50 113 113</td>
</tr>
<tr>
<td>Flanders</td>
<td>Sport, public infrastructure, housing, transportation (4)</td>
<td>2,480</td>
<td>25 53 77 144</td>
</tr>
<tr>
<td>Brussels</td>
<td>Waste water</td>
<td>360</td>
<td>50 50 50 50</td>
</tr>
<tr>
<td>Wallonia</td>
<td>Roads and water (5)</td>
<td>1,014</td>
<td>135 213 162 130</td>
</tr>
<tr>
<td>German-speaking Community</td>
<td>Schools</td>
<td>146</td>
<td>N/A N/A N/A N/A</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>5,687</td>
<td></td>
</tr>
</tbody>
</table>

(1) This table includes the most important (recent) PPR project/programmes in Belgium. It excludes local PPR projects.

(2) Figures exclude other ‘alternative finance schemes’. Examples of such schemes include the VIPA mechanism and Service Invest BEVAK in Flanders. It also excludes urban renewal/projects.

(3) Closed projects: Diabolo, several prisons and Liefkenshoekrailwaytunnel.

(4) Closed projects, based on “Verslag van de Vlaamse Regering Alternatieve financiering van Vlaamse overheidsinvesteringen 9 november 2012, 52 (2012-2013) - Nr.1”, 40-42.

(5) Investments made by Sofico (as stated sometimes considered to be a PPR, but see footnote 5). Figures exclude similar structures (for example SPGE - Société de production et d'épuration des eaux and SOWAER - Société wallonne des aéroports) and schemes in social housing. It also excludes the project in Liège (at this moment in tender stage).
area development (Flemish ppp Knowledge Centre, 2009), as well as the rise of innovative types of contracts that would allow for better cooperation. In other words: over the course of years, ppp has come to mean a lot more than just DBFM and concessions. The concept is of a rather dynamic character, which makes it difficult to define it an unequivocal manner.
3 Motives for PPP

There are many motives for PPP, as will be shown later. Some of those motives stand out above other motives, but a decade of PPP Belgium has proven that dominant motives can, slowly but surely, make place for other motives.

Provided that it is correctly applied, PPP can bring about numerous advantages that other implementation types cannot offer. In this regard, PPP allows for the incorporation of private management knowledge in public initiatives without the need to privatise (Van Garsse & Verhoest, 2008; Verhoest, 2004). In addition, PPP provides the opportunity to import specific private knowledge (e.g. on efficiency) in public bodies. Other advantages are, for instance, that innovative techniques can be applied more often, and that competition between private partners and public divisions intensifies. It can be added that PPP implies that private partners actively go for quality: they are indeed co-responsible and the project is usually aimed at the longer term.

ESA neutrality

In spite of the potential motives mentioned above, it would appear that the choice for a PPP policy in Belgium was initially made for other reasons, namely reasons based on financial-budgetary considerations. The Flemish Coalition Agreement of 1999 leaves no question about that: “Taking into account the limited budgetary resources […] a system of public-private partnership (PPP) and alternative financing must be developed” (Government of Flanders, 1999, p. 49). Indeed, private capital would evidently provide a welcome addition to limited public resources. Moreover, project would preferably be structured in a way that they would be ESA neutral: investments or other long-term debts in government-related infrastructure, “with the exception of the due payments in the concrete year, have no impact on the budget outturn and public debt” (Ducatteeuw, 2005, p. 2). In short: the public investment capacity increases without increasing the debt position at the same time (Flemish PPP Knowledge Centre, 2012a), and authorities can spread the payment of the investments over the time of use.

ESA neutrality has occupied a prominent position in the Belgian PPP arena over the past decade (De Braekeleer, 2006; Ducatteeuw, 2005). What is more, with regard to quite a few projects, ESA neutrality was a conditio sine qua non—Blanken (2008) would speak of a crucial role of the macro economic motive. Nevertheless, other motives played a role as well, be it a rather modest one. These include the desire to realise projects more rapidly, and the pursuit of a final product of better quality for the same price. A final motive for PPP brings us to a physical policy challenge in Belgium: historical underinvestments have led to a qualitatively insufficient infrastructure patrimony (Voets et al., 2011).
Other motives

The Belgian Court of Audit has condemned the dominance of ESA neutrality as a motive for PPP:

Because of budgetary restrictions, in particular because of the imposed precondition [by Europe] of ESA neutrality, the Government of Flanders considered alternative financing or PPP the only possibility to realise the policy objectives more rapidly with regard to many projects. Therefore, there is a risk that insufficient attention is paid to other types of surplus value. (Rekenhof, 2009, p. 12).

According to the Court of Audit, off-balance-sheet financing should not be the only motive for PPP, and there seems to be a growing consensus about that. Merely judging the ESA neutrality as a means to approve or reject investment projects would lead to suboptimal results. That is why “when looking for new formulas to realise investment objectives, one should increasingly take into account both the financial, the operational, and the social surplus value of those formulas” (Rekenhof, 2009, p. 86).

The evolution as desired by the Court of Audit would eventually occur: aspects other than ESA neutrality seem to increase in importance. In this respect, we think about value for money, the life cycle approach, and austerity measures with regard to preparation costs (Grimsey & Lewis, 2005, 2007). Operational surplus value can be found, among other things, in increased efficiency and transparency, risk limitation for both public and private parties, and evaluation measures (ex-ante and ex-post). A number of other matters that have received increased attention are the confidence between public and private actors (see, for example, Spackman, 2002), faster project realisation and scope widening. These changes may lead to social, or societal, surplus value.

It seems that on the one hand, ten years of PPP in Belgium have been dominated by ESA neutrality, whereas on the other hand, PPP has developed into a concept that is much more than simply off-balance-sheet financing. The latter is exemplified by the fact that Flanders has been using an integrated value for money scan for some time now: a standardised instrument that allows to examine the diverse surplus values of a PPP project in an early stage (Peeters, 2011, pp. 43-44; Flemish PPP Knowledge Centre, 2012b). Moreover, it has been explicitly mentioned in the latest government coalition agreement that PPP action will only be undertaken if value for money is likely to be achieved through PPP.
The Belgian context: state-of-the-art

We have shed a light on a number of ppp-related developments in Belgium. Hitherto, no attention was paid to the political-administrative context of the country, nor to specific problems and challenges as they have occurred. It is in this section that we discuss the success of ppp in Belgium: what has been achieved so far and which obstacles have been encountered?

Institutions and ppp

The Belgian ppp market is of a small-scale, fragmented nature. This has emanated from the complexity of the political-administrative landscape. In this landscape, numerous levels of power have led to a fragmentation of skills, resources and practices. Furthermore, the size of local and regional public bodies is relatively small, and so is the size of the private market. These circumstances have influenced the Belgian ppp practice. Many projects initially are too small, for instance, and clustering is often required to optimise the return of a project and to attract private partners (see Van Garsse & Verhoest, 2008, p. 42). Moreover, the administrative fragmentation has led to the fact that there neither is a real Belgian ppp model, nor a united policy.

Instruments

An instrument that is frequently considered to enable the further development of ppp policy is standardisation. This measure made its first appearance in the United Kingdom, and several countries have followed in the same vein (HM Treasury, 2007; Ministry of Waterways and Public Works, 2012). In Flanders, too, steps have been taken towards standard contracts, procedures, project contents, and project structures (Delpo et al., 2009; Van Garsse et al., 2009). Still, standardisation is an everything but obvious phenomenon. This is certainly the case in Belgium, if only because of the complex political-administrative context. Generally speaking, there has long been a need to tailor ppp projects, although experiences as they were gained in different projects did lead to some sort of cross-pollination.

With regard to the evaluation of ppp, the Public Private Comparator [ppc] and the Public Sector Comparator [psc] are usually used for the ex-ante evaluation. The first instrument substantiates whether a ppp type of project realisation creates surplus value compared to a classical project realisation, whereas the latter takes place at a later stage, as it comprises a benchmark for the evaluation of the offers made by private partners (Court of Audit, 2009, p. 9). Both comparison instruments are only used on a small scale in Belgium, mainly because both are particularly controversial instruments: the results of these tests can often be manipulated in favour of decisions that have actually already been made. It is partly for that reason that a qualitative model for ex-ante evaluation has been developed in Flanders, which is the surplus value (value for money) test and associated score card as mentioned before.
Financial-budgetary crisis

Like any other country Belgium is not able to avoid the financial-budgetary crisis. As a consequence, PPP projects that are merely realised on the basis of ESA neutrality have become much less obvious than before. On the one hand, Eurostat has increased its attention for a sufficient transfer of risks, and certain stricter rules can be observed as well: projects will not be considered to be ESA neutral as rapidly as they were before. On the other hand, the financial crisis has made it more difficult to transfer risks to the private sector, and preconditions for long-term financing particularly appear to be difficultly reconcilable with the requirements to achieve ESA neutrality. Finally, the cost price of private financing in PPP has risen, so that ESA neutral PPP types are financially less attractive than they used to be.

Nonetheless, a crisis may also provide for opportunities. Whereas ESA neutrality has become less obvious and less attractive, opportunities open up for other motives for PPP. This can lead to projects that initially focus on cooperation and synergy, rather than on ESA neutrality. As a result, more room becomes available for motives related to general surplus value instead of merely financial and budgetary motives (Peeters, 2011, p. 46). Other consequences are that other PPP types receive more attention (DBM, DBF, territorial development, mixed projects, et cetera), and that the advantages of PPP, as well as the professionalism as exercised in PPP, are increasingly used or pursued to tackle and manage classical projects with more efficiency and in a more well-considered manner. By way of illustration, reference can be made to the increasing professionalisation of project and risk management, and the pursuit of life cycle optimisations in maintenance.
Conclusion

All in all, PPP is slowly but surely acquiring a more solid position in the Belgian landscape of infrastructure projects. However, a rather noteworthy observation would be that we see a policy that ‘matures’. Initially, Flanders took the lead in implementing PPP, and DBFM projects were developed in particular. Throughout the years, PPP has proven to be a dynamic phenomenon and as of today, new markets/policy areas are opened up, PPP types other than DBFM are developed. PPP has become a rather normal phenomenon, and the benefits of PPP are increasingly pursued in classical projects. Finally, it seems that the dominance of ESA neutrality as a motive for PPP will be dropped in the future in favour of other motives. The current financial crisis and developments at the European level will play an important part in this gradual change.
Literature


